

SECURITIES AND EXCHANGE COMMISSION
Metro Manila, Philippines

SEC FORM 17-Q
QUARTERLY REPORT PURSUANT TO SECTION 11 OF THE REVISED
SECURITIES ACT AND RSA RULE 11(a)-1(b)(2) THEREUNDER

- 1. For the quarterly period ended **30 September 2010**
- 2. SEC Identification Number **39652**
- 3. BIR Tax Identification No. **004-844-938**
- 4. **Medco Holdings, Inc. ("Medco")**
(formerly Mindanao Exploration and Development Corp.)
Exact name of registrant as specified in its charter
- 5. **Metro Manila, Philippines**
Province, country or other jurisdiction of incorporation or organization
- 6. (SEC Use Only)
Industry Classification Code
- 7. **31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue,**
Makati City, Metro Manila, Philippines **1229**
Address of principal office
Postal Code
- 8. Registrant's telephone number, including area code: **(632) 811-0465 to 67**
- 9. Securities registered pursuant to Sections 4 and 8 of the RSA

<u>Title of each class</u>	<u>Number of shares of common stock</u> <u>outstanding and amount debt</u>
<u>Common</u>	700,000,000 shares

10. Are any or all of these securities listed on the Philippine Stock Exchange. Yes [/] No []

11. Check whether the registrant:

(a) has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports).

Yes [/] No []

(b) has been subject to such filing requirements for the past 90 days.

Yes [/] No []

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

See Attachment A

Item 2. Management's Discussion and Analysis or Results of Operation.

2010- Third Quarter Financial Highlights

Consolidated revenues for the third quarter of 2010 decreased by 26% compared to the prior year's third quarter figure. During the quarter under review, revenues consisted of fees and other commissions (62%), interest income from short-term placements (18%), and other income (20%).

The decline in consolidated revenues was mainly due to the 29% decrease in interest income from short-term placements. Interest income contracted because of the substantial reduction in the deposit placements of the Company's subsidiary due to the payment of advances to its affiliate and withdrawals for its working capital requirement. Furthermore, interest rates for short-term placements also decreased in the third quarter of 2010 versus the rates prevailing in last year's third quarter.

On the other hand, consolidated expenses increased significantly by 2061% compared to last year's third quarter. This was the result of the provision for the impairment loss in the investment of the Company's subsidiary in Export and Industry Bank, Inc. amounting to P218 million. The expenses were composed mainly of impairment loss in investment (95%), salaries & wages (2%), representation & entertainment (0.9%), professional fees (0.6%) and other expenses (1.5%).

In the balance sheet as at the end of this quarter, total assets declined significantly by 50% as compared to as at the end of last year. The decline was mainly due to the provision for the impairment loss in the investment of the Company's subsidiary in Export and Industry Bank, Inc. There was also a significant decrease of 79% in the loans and receivables account which was a result of the collection of accrued interest from deposit placements. On the liabilities side, accounts payable and accrued expenses decreased by 15% due to the payment of liabilities accrued on December 31, 2009.

There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons during the reporting period.

The Company is not aware of any trends, events or uncertainties that would materially affect its liquidity and its operations as a whole. In view of the booking of the aforementioned impairment loss provision by the Company's subsidiary that has resulted in the said subsidiary's inability to meet the prescribed capital requirement for an investment house, the subsidiary has filed a request with the Commission for the cancellation of its investment house license. Despite of this development, the Company does not anticipate any liquidity problem within the next twelve (12) months. The Company has no default or breach of any note, loan, lease or other indebtedness or financing arrangement. There are also no past due trade payables.

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at September 30, 2010 consisted of P40.7 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

2009-Third Quarter Financial Highlights

Consolidated revenues for the third quarter of 2009 decreased by 27% compared to the previous year's third quarter figure. Consolidated revenues for this quarter consisted mainly of fees and other commissions (46%), interest income from short-term placements (19%), and other income (34%).

The decline in the consolidated revenues was mainly due to the smaller unrealized foreign exchange gain of only P51,864 from the revaluation of US and Hong Kong Dollar placements booked during the quarter versus the P2.3 million recorded during the comparable quarter of last year. This was because the US and Hong Kong dollar exchange rates for this quarter appreciated vis-à-vis the peso by 0.23% only relative to the December 31, 2008 rates. On the other hand, the said foreign currencies gained against the peso by 13% as of September 30, 2008 compared to the December 31, 2007 exchange rates.

Consolidated expenses, on the other hand, decreased by approximately 25% relative to the previous year's second quarter. The expenses for this quarter were comprised of salaries and wages (40%), representation (19%), professional fees (12%), occupancy (8%), Utilities (4%), and other expenses (17%).

The decrease in the consolidated expenses was mainly due to the non-incurrence of interest expense during this quarter as there was no outstanding bank loan anymore. In the third quarter of last year, interest expenses accounted for 21% of the total expenses.

With respect to the balance sheet as at the end of the quarter under review, there was no significant change in the total assets as compared to the previous year. The decrease in the loans and receivables account resulted from the collection of interest receivable from deposit placements which was accrued as at the end of December 31, 2008. On the other hand, the transactions from related parties, net of the due to and due from, increased due to the advances obtained from the affiliates for working capital requirements. On the liabilities side, accounts payable and accrued expenses decreased by 22% due to the payment of liabilities accrued as of December 31, 2008.

There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons during the reporting period.

The Company is not aware of any trends, events or uncertainties that would materially affect its liquidity and its operations as a whole. The Company does not also anticipate any liquidity problem within the next twelve (12) months. The Company has no default or breach of any note, loan, lease or other indebtedness or financing arrangement. There are also no past due trade payables.

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at September 30, 2009 consisted of P50.6 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

2008-Third Quarter Financial Highlights

Consolidated revenues for the third quarter of 2008 declined by 3% compared to last year's third quarter figure. During the quarter under review, revenues consisted of fees and other commissions (33%), unrealized foreign exchange gain (29%), interest income from short-term placements (19%), dividend income (13%), and other income (6%).

The unrealized foreign exchange gain amounting to P2.3 million this quarter resulted from the revaluation of Hong Kong dollar placements of the Company's subsidiary. The exchange rate at the end of the third quarter of 2008 went up to P6.0413 to a Hong Kong dollar compared to the P5.3078 exchange rate as of the end of December 31, 2007. Last year's figure for the same quarter reflected an unrealized foreign exchange loss of P1.8 million.

In spite of the gain from the foreign exchange transactions, we still noted a decline in the consolidated revenues. The decrease was mainly due to the decline in the interest income account which resulted from the reduction in the deposit placements of the Company's subsidiary due to withdrawals for its working capital requirement and the reduction in the interest rate earned by its dollar-denominated deposits.

Consolidated expenses, on the other hand, decreased by approximately 23% relative to the previous year's third quarter. The expenses for this quarter were composed of salaries and wages (32%), interest expense (21%), representation & entertainment (15%), professional fees (9%) and other expenses (23%).

The major components of expenses decreased substantially in the quarter under review compared to last year's comparative period. Salaries & wages decreased by 19%, representation & entertainment went down by 27%, and interest expense declined by 15%. This was the result of the cost-cutting measures which the Company has been implementing continuously in recent years.

With respect to the balance sheet as at the end of the third quarter of 2008, there was no significant change in the total assets as compared to the previous year. The decrease in the loans and receivables account resulted from the collection of interest receivable from deposit placement which was accrued on December 31, 2007. On the liabilities side, the due to affiliate account also decreased by approximately P3 million, or 3%, due to the payment made for the pre-operating expenses of the newly created companies of Lippo China Resources. On the other hand, the accounts payable and accrued expenses account went up by 22% because of the funds borrowed for the Company's working capital requirement.

There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons during the reporting period.

The Company is not aware of any trends, events or uncertainties that would materially affect its liquidity and its operations as a whole. The Company does not also anticipate any liquidity problem within the next twelve (12) months. The Company has no default or breach of any note, loan, lease or other indebtedness or financing arrangement. There are also no past due trade payables.

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at September 30, 2008 consisted of P55 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

Furthermore, aside from those cited above, there were no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. The Company is also not aware of any events that will cause a material change in the relationship between costs and revenues.

ASSESSMENT OF FINANCIAL RISK EXPOSURE

The Company is exposed to a variety of financial risks which result from both its operating and investing activities. The Company's risk management is closely coordinated with its Board of Directors, and is focused on ensuring that short to medium-term cash requirements are met on time and in minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Company does not engage in the trading of financial assets for speculative purposes nor does it write options. The significant financial risks to which the Company is exposed to are described as follow:

Currency Risk

Most of the Company's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates mainly arise from its U.S and Hong Kong Dollar denominated bank deposits.

To mitigate the Company's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Interest Rate Risk

The Company is exposed to interest rate risk on its bank placements and loans payable which are subject to variable interest rates. It tracks interest rate movements and makes adjustments in the mix of its financial assets and liabilities as deemed necessary.

Liquidity Risk

The Company's management sees to it that maturing funds are available to service scheduled cash outlays and that a minimum level of borrowing facilities is in place to cover its contingent needs.

Credit Risk

With respect to credit risk arising from financial assets of the Company, which are comprised of cash and receivables, in case of default of the counterparty, the maximum exposure is equal to the carrying amount of the instruments. The Company regularly monitors the financial position and credit standing of its counterparties and incorporates this information into its credit risk controls.

DISCLOSURE FOR FINANCIAL INSTRUMENTS

As of September 30, 2008, the financial instruments included in the balance sheets are the loans and receivables account and available-for-sale financial assets.

Loans and Receivables- P3,519, 413 or 0.7% of the total assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company places money with a counterparty with no intention of trading the receivables.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is an objective evidence that the Company will not be able to collect all amounts due from it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows.

Available-for-sale Financial Assets- P32,809,061 or 7% of the total assets

This account is composed primarily of an 18.18% investment in shares of Manila Exposition Complex, Inc. (MECI) and a 10% investment in I-Mart corporation with costs amounting to P31,268,750 and 45,000,000, respectively. These investments were previously reported in the balance sheet using the equity method but were subsequently reclassified as Available-for-Sale Financial Asset in 2005 as a result of the adoption of PAS 39.

In 2004, the Company provided a 100% allowance for impairment loss amounting to P45 million on its investment in I-Mart Corporation as a result of the latter's cessation of business.

All financial assets within this category are initially recognized at fair value plus transaction costs and subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in equity, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in the income statement when they are sold or when the investment is impaired.

In the case of impairment, the cumulative loss previously recognized directly in equity is transferred to the income statement. On the other hand, if in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in income statement, the impairment loss is reversed through the income statement.

The Company has no investment in foreign securities as at September 30, 2008.

PART II - OTHER INFORMATION

Not applicable.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Medco Holdings, Inc.

By:



DIONISIO E. CARPIO, JR.
President



MA. LOURDES B. BATHAN
Principal Accounting Officer

**Third Quarter Top Five (5) Performance Indicators
September 30, 2010, 2009 and 2008**

		Medco Holdings, Inc. (Consolidated)			Medco Asia Investment Corp (Major Subsidiary)		
		2010	2009	2008	2010	2009	2008
1. Revenue Growth	$\frac{\text{Revenue Y1-Y0}}{\text{Revenue Y0}}$	-25.90%	-27.44%	-2.65%	-39.75%	-17.92%	40.23%
2. Net Loss Growth	$\frac{\text{Net Loss Y1-Y0}}{\text{Net Loss Y0}}$	3249.26%	-24.47%	-24.47%	13029.06%	52.89%	-84.19%
3. Return on Equity	$\frac{\text{Net Income}}{\text{Ave. Stockholders' Equity}}$	-94.14%	-2.86%	-3.75%	-215.06%	-0.52%	-033%
4. Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.22x	0.28x	0.96x	7.21x	10.23x	10.97x
5. Debt-to-Equity- Ratio	$\frac{\text{Total Liabilities}}{\text{Stockholders' Equity}}$	4.48x	0.70x	1.96x	0.94x	0.30x	.037x

Note:

Y1= Current year

Y0= Previous year

MEDCO HOLDINGS, INC. AND SUBSIDIARY

**Financial Statements
September 30, 2010 and 2009**

MEDCO HOLDINGS, INC. AND SUBSIDIARY
Consolidated Balance Sheets
September 30, 2010 and December 31, 2009

	<u>2010</u>	<u>(Audited)</u> <u>2009</u>
<u>ASSETS</u>		
Cash and cash equivalents (Note 7)	P 40,772,505	P 49,792,328
Available-for-sale investments (Note 8)	31,743,437	31,743,437
Loans and receivables - net (Note 9)	78,386	369,419
Due from related parties (Note 13)	691,152	691,998
Equity investment- net (Note 10)	148,746,260	366,881,400
Other assets (Note 11)	<u>8,611,199</u>	<u>8,011,985</u>
TOTAL ASSETS	P <u>230,642,939</u>	P <u>457,490,567</u>

LIABILITIES AND EQUITY

LIABILITIES

Accounts payable and accrued expenses (Note 12)	P 4,092,558	P 4,800,738
Due to related parties (Note 13)	<u>184,447,930</u>	<u>185,645,909</u>
	<u>188,540,488</u>	<u>190,446,647</u>

EQUITY

Equity attributable to equityholders of the parent		
Capital Stock - P1 par value		
Authorized, Issued & outstanding- 700,000,000 shares	700,000,000	700,000,000
Additional paid-in capital	25,498,912	25,498,912
Fair value losses in available-for-sale financial assets	(408,353)	(408,353)
Deficit	<u>(720,021,847)</u>	<u>(573,761,154)</u>
Total equity attributable to equityholders of the parent	5,068,712	151,329,405
Minority interest	<u>37,033,739</u>	<u>115,714,515</u>
	<u>42,102,451</u>	<u>267,043,920</u>

TOTAL LIABILITIES AND EQUITY	P <u>230,642,939</u>	P <u>457,490,567</u>
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MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 and 2009

	<u>JULY TO SEPTEMBER</u>		<u>JANUARY TO SEPTEMBER</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
REVENUES	P 1,187,587	P 2,071,340	P 4,178,861	P 5,639,602
EXPENSES	<u>4,323,589</u>	<u>3,410,830</u>	<u>229,120,331</u>	<u>10,601,812</u>
LOSS BEFORE MINORITY				
SHARE IN NET INCOME	(3,136,002)	(1,339,490)	(224,941,470)	(4,962,210)
MINORITY SHARE IN NET INCOME	<u>(453,871)</u>	<u>(63,739)</u>	<u>(78,680,777)</u>	<u>(601,744)</u>
LOSS BEFORE FINAL TAX	(2,682,131)	(1,275,751)	(146,260,693)	(4,360,466)
LESS: PROVISION FOR TAX	<u>-</u>	<u>(6,495)</u>	<u>-</u>	<u>(6,495)</u>
NET LOSS	(2,682,131)	(1,282,246)	(146,260,693)	(4,366,961)
DEFICIT AT BEGINNING				
OF YEAR/QUARTER	<u>(717,339,716)</u>	<u>(571,182,022)</u>	<u>(573,761,154)</u>	<u>(568,097,307)</u>
DEFICIT AT END OF QUARTER	P <u>(720,021,847)</u>	P <u>(572,464,268)</u>	P <u>(720,021,847)</u>	P <u>(572,464,268)</u>
LOSS PER SHARE	P <u>(0.0038)</u>	P <u>(0.0018)</u>	P <u>(0.2089)</u>	P <u>(0.0062)</u>

MEDCO HOLDINGS, INC. AND SUBSIDIARY
STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010, 2009, and 2008

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital Stock- P1par value			
Authorized, issued and outstanding- 700,000,000	P <u>700,000,000</u>	P <u>700,000,000</u>	P <u>700,000,000</u>
Additional Paid-In Capital	<u>25,498,912</u>	<u>25,498,912</u>	<u>25,498,912</u>
Fair value losses in available-for-sale financial assets	<u>(408,353)</u>	<u>(597,152)</u>	<u>-</u>
Deficit			
Balance, beginning of year	(573,761,154)	(568,097,307)	(558,892,131)
Net loss	<u>(146,260,693)</u>	<u>(4,366,961)</u>	<u>(6,020,921)</u>
Balance, end of quarter	<u>(720,021,847)</u>	<u>(572,464,268)</u>	<u>(564,913,052)</u>
Total equity attributable to equityholders of the parent	5,068,712	152,437,492	160,585,860
Minority interest	<u>37,033,739</u>	<u>116,189,794</u>	<u>117,584,469</u>
Total Equity	P <u><u>42,102,451</u></u>	P <u><u>268,627,286</u></u>	P <u><u>278,170,329</u></u>

MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010, 2009, AND 2008

	<u>2010</u>		<u>2009</u>		<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Net loss before tax and minority interest	P (224,941,470)	P	(4,962,210)	P	(6,414,502)
Adjustments for:					
Depreciation	13,585		12,075		9,996
Interest income	(765,506)		(1,074,416)		(1,473,765)
Interest expense	5,150		6,379		2,963,761
Unrealized foreign exchange loss (gain)	872,111		(52,050)		(2,284,759)
Impairment loss on investment	218,135,140		-		-
Decrease(increase) in:					
Receivables	291,033		588,882		1,135,176
Other assets	(612,798)		(500,565)		(722,861)
Increase (Decrease) in accounts payable and accrued expenses	<u>(708,180)</u>		<u>(1,211,840)</u>		<u>5,283,154</u>
Cash generated from operations	(7,710,935)		(7,193,745)		(1,503,800)
Cash paid for income taxes	-		-		-
Net Cash Used in Operating Activities	<u>(7,710,935)</u>		<u>(7,193,745)</u>		<u>(1,503,800)</u>
CASH FLOWS FROM INVESTING ACITIVITIES					
Interest received	765,506		1,074,416		1,473,765
Net decrease (increase) in available-for-sale securities	<u>-</u>		<u>398,002</u>		<u>-</u>
Net Cash Provided by Investing Activitites	<u>765,506</u>		<u>1,472,418</u>		<u>1,473,765</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Interest paid	(5,150)		(6,379)		(2,963,761)
Net increase (decrease) in due to a related party	<u>(1,197,133)</u>		<u>527,479</u>		<u>(3,265,167)</u>
Net Cash Provided by (Used in) Financing Activities	<u>(1,202,283)</u>		<u>521,100</u>		<u>(6,228,928)</u>
EFFECTS OF FOREIGN EXCHANGE REVALUATION					
OF CASH AND CASH EQUIVALENTS	<u>(872,111)</u>		<u>52,050</u>		<u>2,284,759</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,019,823)		(5,148,177)		(3,974,204)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>49,792,328</u>		<u>55,788,802</u>		<u>59,186,798</u>
CASH AND CASH EQUIVALENTS AT END OF QUARTER	P <u><u>40,772,505</u></u>	P	<u><u>50,640,625</u></u>	P	<u><u>55,212,594</u></u>

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
September 30, 2010, 2009 AND 2008
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 Incorporation and Nature of Business

Medco Holdings, Inc. (the Parent Company) is registered with the Securities and Exchange Commission (SEC) as a holding company. The Parent Company's shares of stocks are listed at the Philippine Stock Exchange (PSE). The registered office of the Parent Company and subsidiaries (the Group) is located at the 31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City.

The Parent Company is 46.04% owned by Citivest Asia Limited, which is a wholly owned subsidiary of Lippo China Resources Limited (LCR or the Ultimate Parent).

The Group holds a 10.31% interest in Export and Industry Bank, Inc. (EIB) while the Parent Company holds a 64.54% interest in Medco Asia Investment Corporation (MAIC) and a 2.45% interest in EIB. MAIC was registered with the SEC on April 7, 1995 primarily to conduct business as an investment house.

Presently, MAIC holds 99.99% interests in Outperform Holdings, Inc. (OHI) and in Safeharbor Holdings, Inc. (SHI). Both OHI and SHI are registered with the SEC as holding companies and have not yet started commercial operations as of September 30, 2010.

1.2 Status of Operations

The accompanying financial statements have been prepared assuming that the Group will continue as a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Group incurred recurring net losses of P146,260,693, P4,360,466 and P6,020,921 for the third quarters ended September 30, 2010, 2009 and 2008, respectively. The Group reported deficits of P720,021,847, P572,464,268, and P564,913,052 as of September 30, 2010, 2009, and 2008 respectively. Although the Group has incurred a deficit as of September 30, 2010, management believes that the Group will be able to achieve positive business operations in the future. Consequently, the accompanying financial statements have been prepared assuming that the Group will continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of the Group's financial statements are summarized below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. These financial statements have been prepared on the historical cost basis, except for the revaluation of available-for-sale financial assets. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1 (Revised 2007), *Presentation of Financial Statements*. The Group presents all items of income and expenses in a single statement of comprehensive income. Two comparative periods are presented for the statement of financial position when the Group applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or reclassifies items in the financial statements.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine peso, the Group's functional currency (the currency of the primary economic environment in which the Group operates), and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Group are measured using its functional currency, the currency of the primary economic environment in which the Group operates.

2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS

(a) Effective in 2009 that are Relevant to the Group

In 2009, the Group adopted the following revisions and amendments to PFRS that are effective for annual period beginning on or after January 1, 2009:

PAS 1 (Revised 2007)	:	Presentation of Financial Statements
Various Standards	:	2008 Annual Improvements to PFRS

Discussed below are the effects on the financial statements of the revised and amended standards.

- (i) PAS 1 (Revised 2007), which is effective from January 1, 2009, requires an entity to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate statement of income and a statement of comprehensive income. Income and expense recognized in profit or loss is presented in the statement of income in the same way as the previous version of PAS 1. The statement of comprehensive income includes the profit or loss for the period and each component of income and expense recognized outside of profit or loss or the “non-owner changes in equity,” which are no longer allowed to be presented in the statement of changes in equity, classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). A statement showing an entity’s financial position at the beginning of the previous period is also required when the entity retrospectively applies an accounting policy or makes a retrospective restatement, or when it reclassifies items in its financial statements.

The Group’s adoption of PAS 1 (Revised 2007) did not result in any material adjustments in its financial statements as the change in accounting policy only affects presentation aspects. The Group elected to present a single statement of comprehensive income (see Note 2.1).

- (ii) 2008 Annual Improvements to PFRS. The FRSC has adopted the *2008 Improvements to Philippine Financial Reporting Standards* which became effective for the annual periods beginning on or after January 1, 2009. Among those improvements, the following are the amendments relevant to the Group:
- PAS 28 (Amendment), *Investments in Associates*. Where an investment in associate is accounted for in accordance with PAS 39, only certain rather than all disclosure requirements in PAS 28 need to be made in addition to disclosures required by PAS 32 and PFRS 7. The Group’s application of this amendment resulted in revisions on the relevant disclosures for investment in associates measured at fair value under PAS 39.

- PAS 36 (Amendment), *Impairment of Assets*. Where fair value less cost to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. Appropriate disclosures were made in the Group's 2009 financial statements.

Minor amendments were also made to several other standards; however, management assessed that those amendments do not have material impact on the Group's financial statements.

(b) *Effective in 2009 that are not Relevant to the Group*

The following amendments, interpretations and improvements to published standards are mandatory for accounting periods beginning on or after January 1, 2009 but are not relevant to the Group's operations:

PAS 32 and PAS 1 (Amendments)	:	Financial Instruments: Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
PFRS 1 and PAS 27 (Amendments)	:	PFRS 1 – First-time Adoption of PFRS and PAS 27 – Consolidated and Separate Financial Statements
PFRS 2 (Amendment)	:	Share-based Payment
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
PFRS 8	:	Operating Segments
Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 13	:	Customer Loyalty Programmes
Philippine Interpretation IFRIC 16	:	Hedges of a Net Investment in a Foreign Operation
2008 Annual Improvements		
PAS 16 (Amendment)	:	Property, Plant and Equipment
PAS 20 (Amendment)	:	Accounting for Government Grants and Disclosure of Government Assistance
PAS 27 (Amendment)	:	Consolidated and Separate Financial Statements
PAS 28 (Amendment)	:	Investment in Associates
PAS 29 (Amendment)	:	Financial Reporting in Hyperinflationary Economies

PAS 31 (Amendment)	:	Interest in Joint Ventures
PAS 36 (Amendment)	:	Impairment of Assets
PAS 38 (Amendment)	:	Intangible Assets
PAS 39 (Amendment)	:	Financial Instruments
PAS 40 (Amendment)	:	Investment Property
PAS 41 (Amendment)	:	Agriculture
PFRS 5 (Amendment)	:	Non-current Assets Held-for-sale and Discontinued Operations

(c) *Effective Subsequent to 2009*

There are new standards, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2009. Management has initially determined the following, among others, to be relevant to its financial statements to which the Company will apply in accordance with its transitional provisions:

Philippine Interpretation		
IFRIC 14	:	Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14
2009 Annual Improvements		
PAS 1 (Amendment)	:	Presentation of Financial Statements
PAS 7 (Amendment)	:	Statement of Cash Flows
PAS 17 (Amendment)	:	Leases
PAS 18 (Amendment)	:	Revenue

Below is a brief discussion of the possible impact of these interpretations and annual improvements.

- (i) Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14* (effective on or before January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a PAS 19 surplus for defined benefit plans that are subject to a minimum funding requirement. Management does not expect that its future adoption of the amendment will have a material effect on its financial statements as it has a retirement benefit obligation and is not subject to any minimum funding requirements.
- (ii) 2009 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to International Financial Reporting Standards 2009*. Most of the amendments become effective in the Philippines in annual periods beginning on or after January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Group's financial statements.

- PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments. The Group will apply the amendment in its 2010 financial statements but expects to have no material impact in the Group's financial statements.
- PAS 7 (Amendment), *Statement of Cash Flows*. PAS 7 amendment states explicitly that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. The amendment will not result to material impact in the financial statements since only recognized asset are classified by the Group as cash flow from investing activities.
- PAS 17 (Amendment), *Leases*. The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17. Management has initially determined that this will not have material impact since the Group does not enter into a lease agreement in the capacity of the lessor or lessee that includes both land and building.
- PAS 18 (Amendment), *Revenue*. The amendment provides guidance on determining whether an entity is acting as a principal or as an agent. Management will apply this amendment in its 2010 financial statements.

The foregoing annual improvements are not expected to have a material impact on the Group's financial statements.

2.3 Basis of Consolidation

The Group obtains and exercises control through voting rights. The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries as enumerated below after the elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting principles.

The Parent Company accounts for its investment in subsidiaries and non-controlling interest as follows:

(a) *Investments in Subsidiaries and an Associate*

Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. The Group obtains and exercises control through voting rights.

Subsidiaries are consolidated from the date the Parent Company obtains control until such time that such control ceases.

Acquired subsidiaries are subject to the application of the purchase method for acquisitions. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Goodwill (positive) represents the excess of acquisition cost over the Group's share in the fair value of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Associate is an entity over which the Group is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture.

The Group's investments in an associate are accounted for in these consolidated financial statements at cost, less any impairment loss. Impairment loss is provided when there is objective evidence that the investments in subsidiaries and associates will not be recovered. Such impairment loss is measured as the difference between the carrying amount of the investment and the present value of the estimated cash flows discounted at the current market rate of return for similar financial asset. The amount of the impairment loss is recognized in profit or loss. Impairment losses recognized are not reversed.

(b) *Transactions with Non-Controlling Interests*

The Group applies a policy of treating transactions with non-controlling interest as transactions with parties external to the Group. Disposals of equity investments to non-controlling interests result in gains and losses for the Group that are recorded in the profit or loss. Purchases of equity shares from non-controlling interests result in goodwill, being the difference between any consideration paid and the relevant share acquired in the carrying value of the net assets of the subsidiaries.

Non-controlling interests in 2010 and 2009 represent the interests not held by the Group in MAIC.

2.4 Financial Assets

Financial assets, which are recognized when the Group becomes a party to the contractual terms of the financial instruments, include cash and other financial instruments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

All financial assets are recognized on their trade date. All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value, plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs related to it are recognized in profit or loss.

The foregoing categories of financial instruments that are relevant to the Group are more fully described below.

(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 arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. Any change in their fair value is recognized in profit or loss, except for increases in fair values of reclassified financial assets under PAS 39 and PFRS 7 (Amendments). Increases in estimates of future cash receipts from financial assets that have been reclassified in accordance with PAS 39 and PFRS 7 (Amendments) shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the financial asset at the date of the change in estimate.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Loans and Receivables and Due from Related Parties in the statement of financial position. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash.

Impairment loss is provided when there is objective evidence that the Bank will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate.

(b) Available-for-sale Financial Assets

These include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

All financial assets within this category are initially recognized at fair value plus transaction costs and subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognized in other comprehensive income is reclassified from revaluation reserve to profit or loss and presented as reclassification adjustment within other comprehensive income.

Reversal of impairment loss is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

Impairment losses recognized on financial assets are presented under Impairment Loss in the statement of comprehensive income.

For investments that are actively traded in organized financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

2.5 Financial Liabilities

Financial liabilities include interest-bearing loans and borrowings (including accrued interest thereon), accounts payable and accrued expenses and due to related parties.

Financial liabilities are recognized when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognized as an expense in the statement of comprehensive income under the caption Interest and Bank Charges.

Interest-bearing loans are raised for support of long-term funding of operations. They are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Accounts payable and accrued expenses and due to related parties are recognized initially at their fair value and subsequently measured at amortized cost less settlement payments.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through payment, cancellation or expiration.

2.6 Provisions

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of reporting period, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values, where time value of money is material.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

2.7 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the initial issuing of capital stock. Any transaction costs associated with the issuing of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Change in fair value of available-for-sale financial assets comprise gains and losses due to the revaluation of available-for-sale financial assets.

Deficit includes all current and prior period results as disclosed in the statement of comprehensive income.

Non-controlling interest pertains to the initial investment and the equity share in the income and losses of the minority stockholders.

2.8 Revenue and Expense Recognition

Revenue comprises revenue from rendering of services and is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied, excluding value-added tax (VAT) and trade discounts, if any.

Revenue is recognized to the extent the revenue can be reliably measured; it is probable that the economic benefits will flow to the Group, and the cost incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

- (a) *Commission and fees* – Revenue from professional services provided to subsidiaries of EIB is recognized as the service has been completed.
- (b) *Interest* – Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).
- (c) *Dividends* – Revenue is recognized when the stockholders' right to receive the payment is established.
- (d) *Rental income* – Revenue is recognized on a straight-line basis over the term of the lease (see also Note 2.9).

Costs and expenses are recognized in profit or loss upon utilization of the goods or services or at the date they are incurred.

2.9 Leases

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred. The Group determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.10 Foreign Currency Transactions

The accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

2.11 Impairment of Non-financial Assets

The Group's investments in subsidiaries and associate and goodwill are subject to impairment testing. Goodwill, which has indefinite useful life, are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

2.12 Employee Benefits

(a) Post-employment benefits

Post-employment benefits are provided to employees through a defined benefit plan, as well as a defined contribution plan.

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund. The Group's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for defined benefit post-employment plan is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past-service costs. The DBO is calculated by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Actuarial gains and losses are not recognized as an income or expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately.

Past-service costs are recognized immediately in the profit or loss, unless the changes to the post-employment 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.

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity (such as the Social Security System). The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(b) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period.

2.13 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is provided, using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax assets are to be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit 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 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 end of the reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the statement of comprehensive income. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly to equity are recognized in other comprehensive income or directly to equity.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Group's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. 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 circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Impairment of Available-for-sale Financial Assets

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

As of September 30, 2010, 2009, and 2008, the Group did not recognize any impairment losses in available-for-sale financial assets.

(b) *Operating Lease*

The Group has entered in a lease agreement as lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements.

Rent expense charged to the Group's operations amounted to P959,740.39 in 2010 and P875,167.11 in 2009, and P808,702.11 in 2008 (see Note 13).

(c) *Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.6 and relevant disclosures are presented in Note 18.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) *Allowance for Impairment of Loans and Receivables*

Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

No provision for impairment losses was recognized by the Group in 2010, 2009 and 2008.

(b) *Valuation of Financial Assets Other than Loans and Receivables*

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. The amount of changes in fair value would differ if the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity.

(c) *Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period 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 asset to be utilized.

The Group did not recognize any deferred tax asset as of September 30, 2010 and 2009 (see Note 15).

(d) *Impairment of Non-financial Assets*

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.11. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

The Group recognized an impairment loss in the investment in EIB amounting to P218,135,140 as of September 30, 2010. No impairment losses were recognized by the Group as of September 30, 2009 and 2008.

(e) *Retirement Benefits*

The determination of the Group's 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 are described in Note 16 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, 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.

The estimated retirement benefit obligation of the Group amounted to P 1,950,369

4. SEGMENT REPORTING

4.1 Business Segments

For management purposes, the Group is organized into three major business segments, namely investment banking and investment holding activities. These are also the basis of the Group in reporting its primary segment information.

- (a) Investment banking – principally engaged in activities such as debt and equity underwriting, money market placements, structured financing and corporate financial advisory services.
- (b) Others – consists mainly of investment holding activities of the Parent Company, OHI and SHI.

4.2 Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash and receivables, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of accounts payable and accrued expenses and due to related parties.

The business segment information of the Group as of and for the third quarter ended September 30, 2010, 2009 and 2008 follows:

	2010		
	<u>Investment Banking</u>	<u>Others</u>	<u>Total</u>
Income:			
Commission and fees	P2,580,882	-	P2,580,882
Interest income	763,971	1,535	765,506
Other income	<u>52,315</u>	<u>780,158</u>	<u>832,473</u>
Gross revenues	3,397,168	781,693	4,178,861
Expenses	<u>226,218,124</u>	<u>2,902,207</u>	<u>229,120,331</u>
Operating loss	(P 222,820,956)	(P 2,120,514)	(224,941,470)
Minority interest in net losses of subsidiary			<u>(78,680,777)</u>
Net loss			(P 146,260,693)
Segment assets	<u>P 192,516,327</u>	<u>P 33,311,756</u>	P 225,828,083
Goodwill			<u>4,814,856</u>
Total assets			<u>P 230,642,939</u>
Segment liabilities	<u>P 46,175,137</u>	<u>P 142,365,351</u>	<u>P 188,540,488</u>
	2009		
	<u>Investment Banking</u>	<u>Others</u>	<u>Total</u>
Income:			
Dividend income	P 23,773	P -	P 23,773
Commission and fees	1,720,588	-	1,720,588
Interest income	732,890	750	733,640
Foreign exchange gain	326,702	-	326,702
Other income	<u>763,559</u>	<u>-</u>	<u>763,559</u>
Gross revenues	3,567,512	750	3,568,262
Expenses	<u>5,084,901</u>	<u>2,106,081</u>	<u>7,190,982</u>
Operating loss	(P 1,517,389)	(P 2,105,331)	(3,622,720)
Minority interest in net losses of subsidiary			<u>(538,005)</u>
Net loss			(P 3,084,715)

Segment assets	<u>P 426,810,974</u>	<u>P 26,936,269</u>	P 453,747,243
Goodwill			<u>4,814,856</u>
Total assets			<u>P 458,562,099</u>
Segment liabilities	<u>P 45,078,631</u>	<u>P 143,510,197</u>	<u>P 188,588,828</u>

	2008		
	Investment Banking	Others	Total
Income:			
Interest income	₱1,471,267	₱2,498	₱1,473,765
Other income - net	5,398,550	900,000	6,298,550
Gross income	6,869,817	902,498	7,772,315
Expenses	7,979,875	6,206,942	14,186,817
Loss before income tax	(1,110,058)	(5,304,444)	(6,414,502)
Benefit from income tax	-	-	-
Operating loss			(6,414,502)
Minority interest in income of a subsidiary			(393,582)
Net loss			<u>(₱6,020,920)</u>
Segment assets	₱254,963,654	₱232,773,141	₱487,736,795
Goodwill			4,814,856
Total assets			<u>₱492,551,651</u>
Segment liabilities	₱123,324,663	₱91,056,659	<u>₱214,381,322</u>

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is coordinated with the BOD, and focuses on actively securing the Group's short- to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

5.1 Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates mainly arise from the Group's United States (U.S.) denominated bank deposits. The Group also holds U.S. dollar-denominated short-term investments.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

As of September 30, 2010, the Group's short-term exposure on foreign exchange

The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

With respect to credit arising from financial assets of the Group, which comprise cash and receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of the instruments.

6. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure that the Group continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

As of September 30, 2010 and 2009, the Parent Company has a total authorized capital stock of 700,000,000 common shares at P1 par value per share. As of those dates, all of the shares were issued and outstanding amounting to P700,000,000.

7. CASH AND CASH EQUIVALENTS

This account consists of:

	Group		Parent Company	
	2010	2009	2010	2009
Short-term placements	P 23,128,360	P 28,315,408	P	P -
Cash in banks	17,636,145	21,468,920	1,046,772	1,208,875
Petty cash fund	8,000	8,000		-
	<u>P 40,772,505</u>	<u>P 49,792,328</u>	<u>P 1,046,772</u>	<u>P 1,208,875</u>

Cash accounts with the banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 15 to 90 days and earn annual effective interest ranging from 3.75% to 4.00% in 2010 and 2.50% to 6.00% in 2009.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets consisting of shares of stock are summarized as follows:

	Group		Parent Company	
	2010	2009	2010	2009
Cost				
Quoted	P 1,083,578	P 1,083,578	P -	P -
Not quoted	<u>76,292,533</u>	<u>76,292,533</u>	<u>76,268,750</u>	<u>76,268,750</u>
	77,376,111	77,376,111	76,268,750	76,268,750
Allowance for impairment	<u>(45,000,000)</u>	<u>(45,000,000)</u>	<u>(45,000,000)</u>	<u>(45,000,000)</u>
	32,376,111	32,376,111	31,268,750	31,268,750
Fair value loss	<u>(632,674)</u>	<u>(632,674)</u>	<u>-</u>	<u>-</u>
Market value	<u>P 31,743,437</u>	<u>P 31,743,437</u>	<u>P 31,268,750</u>	<u>P 31,268,750</u>

The investment in available-for-sale financial asset of the Parent Company in 2010 and 2009 pertains to the 18.18% investment (P31,268,750) in Manila Exposition Complex, Inc. and 10% investment (P45,000,000) in I-Mart Corporation. The Group provided a 100% allowance for impairment losses on its investment in I-Mart Corporation as a result of the latter's cessation of business.

The fair value of quoted available-for-sale financial assets have been determined directly by reference to published prices in active markets.

9. LOANS AND RECEIVABLES

This account consists of the following:

	Group		Parent Company	
	2010	2009	2010	2009
Accounts receivable	P40,391,386	P 40,526,608	P 40,391,386	P 40,376,076
Interest receivable		<u>155,811</u>		
	40,391,386	40,682,419	40,391,386	40,376,076
Allowance for impairment	<u>(40,313,000)</u>	<u>(40,313,000)</u>	<u>(40,313,000)</u>	<u>(40,313,000)</u>
	<u>P 78,386</u>	<u>P 369,419</u>	<u>P 78,386</u>	<u>P 63,076</u>

The net carrying amount of these financial assets is a reasonable approximation of their fair value.

10. INVESTMENTS IN SUBSIDIARIES AND AN ASSOCIATE

This account consists of the following:

	% Interest Held	Group		Parent Company	
		2010	2009	2010	2009
At acquisition cost					
EIB	10.31%	P 860,659,849	P 860,659,849	P 478,380,834	P 478,380,834
MAIC	64.54%	-	-	199,995,929	199,995,929
		860,659,849	860,659,849	678,376,763	678,376,763
Allowance for impairment in EIB		(711,913,589)	(493,778,449)	(478,380,834)	(478,380,834)
Allowance for impairment in MAIC		-	-	(131,710,108)	-
		P 148,746,260	P 366,881,400	P 68,285,821	P 199,995,929

In September 2008, MAIC purchased additional three million Class A shares of EIB amounting to P810,000 which increased the Group's ownership interest in EIB from 10.29% to 10.31%. On May 15, 2009, EIB shares were suspended for trading by the Philippine Stock Exchange. As of June 30, 2010, the suspension on EIB's shares has not been lifted yet, thus no quoted market values were available for the investment in EIB from that date onwards. The Group set up an additional provision for the impairment of investment in EIB amounting to P218,135,140 as of September 30, 2010.

Audited financial information on EIB (Parent) for 2009 follows (in thousands):

Assets	P30,647,537
Liabilities	28,415,781
Equity	2,231,756
Net loss	(748,029)

The Parent Company also recognized an impairment on its investment in MAIC amounting to P131,710,108 as of September 30, 2010.

11. OTHER ASSETS

This account consists of the following:

	Note	Group		Parent Company	
		2010	2009	2010	2009
Goodwill		P 4,814,856	P 4,814,856	P -	P -
Creditable					
withholding tax		2,407,047	2,019,915	-	-
Miscellaneous		1,389,296	937,755	917,847	834,007
		P 8,611,199	P 8,011,985	P 917,847	P 834,007

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets of MAIC at the date of acquisition. As of September 30, 2010 and 2009, no impairment was recognized by the Group.

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of the following:

	Note	Group		Parent Company	
		2010	2009	2010	2009
Accounts payable		P 1,662,150	P 1,566,568	P -	P -
Retirement benefit obligation	14.1	1,950,370	1,950,369	220,420	220,420
Other payables		480,038	1,283,801	258,087	496,886
		<u>P 4,092,558</u>	<u>P 4,800,738</u>	<u>P 478,507</u>	<u>P 717,306</u>

The carrying amount of accounts payable and accrued expenses is a reasonable approximation of its fair value.

13. RELATED PARTY TRANSACTIONS AND BALANCES

In the normal course of business, the Group transacts with entities that are considered related parties under PAS 24, *Related Party Disclosures*. The following transactions were carried out with related parties:

13.1 Purchase of Services

The Group leases its office space from Capital Place International Limited – Philippine Branch (CPII), a related party, for a period of one year, renewable upon mutual agreement of the parties.

Total rental charged to operations amounted to P959,740 in 2010, P875,167 in 2009, and P808,702 in 2008 in the consolidated financial statements, and P 234,000 in 2010, 2009, and 2008 in the Parent Company financial statements. Security deposits and advance rentals paid totalling P384,678 as of September 30, 2010 and P239,459 as of December 31, 2009, are included under Other Assets in the statements of financial position.

13.2 Due from Related Parties

This account consists of the following:

	Group		Parent Company	
	2010	2009	2010	2009
Lippo Securities, Inc. (LSI)	P 691,152	P 691,998	P -	P -
MAIC	-	-	50,733,879	53,274,867
	<u>P 691,152</u>	<u>P 691,998</u>	<u>P 50,733,879</u>	<u>P 53,274,867</u>

13.3 Due to Related Parties

This account consists of the following:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
LCR	P175,943,841	P 176,104,942	P141,315,408	P 141,315,408
Solid Payback Holdings, Inc.	3,552,525	3,552,525	3,552,525	3,552,525
LSI	3,336,912	3,341,297	3,336,912	3,341,297
CPIL	<u>1,614,652</u>	<u>2,647,145</u>	<u>1,614,652</u>	<u>1,854,894</u>
	<u>P184,447,930</u>	<u>P 185,645,909</u>	<u>P 149,819,497</u>	<u>P 150,064,124</u>

Due to related parties pertains to the non-interest bearing advances from various affiliates for working capital purposes.

14. EMPLOYEE BENEFITS

14.1 Employee Retirement Benefit Obligation

The Group maintains a non-contributory retirement plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions.

The amounts of retirement benefit obligation recognized in the statements of financial position are determined as follows:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Present value of obligation	P 3,507,650	P 3,507,650	P 850,983	P 850,983
Fair value of plan assets	<u>(779,919)</u>	<u>(779,919)</u>	<u>(228,905)</u>	<u>(228,905)</u>
Unfunded liability	2,727,731	2,727,731	622,078	622,078
Unrecognized actuarial loss	<u>(777,361)</u>	<u>(777,361)</u>	<u>(401,658)</u>	<u>(401,658)</u>
	<u>P 1,950,370</u>	<u>P 1,950,370</u>	<u>P 220,420</u>	<u>P 220,420</u>

As of December 31, 2009, the plan assets consist of the following:

	<u>Group</u>		<u>Parent Company</u>	
Investment in government securities	P	730,806	P	210,063
Deposit in banks		42,400		16,181
Interest receivables		7,683		2,946
Accrued trust fees payable		<u>(970)</u>		<u>(285)</u>
		<u>P 779,919</u>		<u>P 228,905</u>

Actual returns on plan assets were P52,057 and P16,569 in 2009 for the Group and the Parent Company, respectively.

15. TAXES

The net deferred tax assets relating to temporary differences that were not recognized by the Group and the Parent Company as of September 30, 2010 and December 31, 2009 and 2008 are summarized below.

	Group			
	2009		2008	
	Amount	Tax Effect	Amount	Tax Effect
Allowance for impairment	P 55,710,614	P 16,713,184	P 55,710,614	P 16,713,184
Net of operating loss carryover (NOLCO)	38,937,014	11,681,105	53,522,016	16,056,605
Accrued retirement	1,930,951	579,285	1,207,915	362,374
Unrealized foreign currency losses (gain)	382,691	114,807	(2,687,488)	(806,246)
Excess MCIT	103,163	103,163	-	-
	<u>P 97,064,433</u>	<u>P 29,191,544</u>	<u>P 107,753,057</u>	<u>P 32,325,917</u>
	Parent Company			
	2009		2008	
	Amount	Tax Effect	Amount	Tax Effect
Allowance for impairment	P 40,313,000	P 12,093,900	P 40,313,000	P 12,093,900
NOLCO	19,134,288	5,740,101	24,403,926	7,321,178
Accrued retirement	220,420	66,126	55,407	16,622
Unrealized foreign currency losses (gain)	1,380	414	(7,407)	(2,222)
	<u>P 59,669,088</u>	<u>P 17,900,541</u>	<u>P 64,764,926</u>	<u>P 19,429,478</u>

The breakdown of the Group and the Parent Company's NOLCO, which can be claimed as deductions from future taxable income within three years from the year the taxable loss was incurred, is shown below.

Year	Group		Parent Company		Valid Until
	Original Amount	Valid Balance	Original Amount	Valid Balance	
2009	P 3,538,267	P 1,061,480	P 3,538,267	P 1,061,480	2012
2008	20,345,571	6,103,671	7,865,069	2,359,521	2011
2007	<u>15,053,176</u>	<u>4,515,953</u>	<u>7,730,333</u>	<u>2,319,100</u>	2010
	<u>P 35,520,014</u>	<u>P 11,681,104</u>	<u>P 19,133,669</u>	<u>P 5,740,101</u>	

16. LOSS PER SHARE

Loss per share amount for the months ended September 30, 2010, 2009 and 2008 is computed as follows:

	2010	2009	2008
a. Net loss	₱ 146,260,693	₱ 4,366,961	₱6,020,921
b. Weighted average number of outstanding common shares	700,000,000	700,000,000	700,000,000
c. Basic EPS (a/b)	(₱0.2089)	(₱0.0062)	(₱0.0086)

17. COMMITMENTS AND CONTINGENCIES

In addition to those already mentioned earlier, there are other commitments and contingencies that arise in the normal course of the Group's operations which are not reflected in the accompanying financial statements. As of September 30, 2010, management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Group's financial statements.

MEDCO HOLDINGS, INC.and SUBSIDIARY
AGING OF ACCOUNTS RECEIVABLE
As of September 30, 2010

	NO OF DAYS OUTSTANDING				
AMOUNT	1 -30 days	31-60 days	61-90 days	91-120 days	Over 120 days
Various	P 78,386				P78,386