

# COVER SHEET

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 S.E.C. Registration Number

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(Company's Full Name)

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(Business Address: No. Street City / Town Province)

MARIE ARABELLA D. VERON
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 Contact Person

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 Company Telephone Number

1	2		3	1
Month	Day		Month	Day

  
 Fiscal Year

SEC 17-A
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 Form Type

3rd Wed. of June  

Month	Day		Month	Day

  
 Annual Meeting

INVESTMENT COMPANY
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 Secondary License type, if applicable

C	F	D
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 Dept. Requiring this Doc.

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 Amended Articles Number/Section

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 Total No. of Stockholders

Total amount of Borrowings  

Domestic		Foreign

To be Accomplished by SEC Personnel concerned

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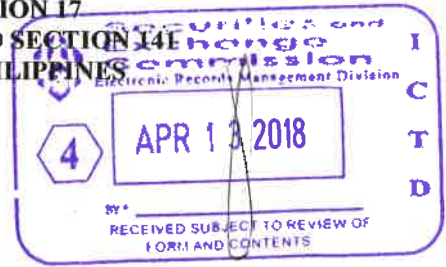
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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES



- 1. For the fiscal year ended: **December 31, 2017**
- 2. SEC Identification Number: **CS201300728**
- 3. BIR Tax Identification No.: **008-447-745**
- 4. Exact name of issuer as specified in its charter:  
**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**
- 5. Province, Country or other jurisdiction of incorporation or organization  
**Metro Manila, Philippines**
- 6. Industry Classification Code  (SEC Use Only)
- 7. Address of principal office Postal Code  
**18<sup>TH</sup> Flr., PSBank Center, Paseo de Roxas corner Sedeño St. , Makati City** **1226**
- 8. Issuer's telephone number, including area code: **(632) 891-2860**
- 9. Former name, former address, and formal fiscal year, if changed since last report: **Not Applicable**
- 10. Securities registered pursuant to Section 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding (Par Value P100.00)
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<b>Common Stock</b>	<b>10,942,000 shares</b>
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- 11. Are any or all of these securities listed on a Stock Exchange?

Yes  No

Stock Exchange :	<b>Philippine Stock Exchange</b>
Class of Securities :	<b>Common Shares</b>

- 12. Check whether the issuer:

(a) has filed all reports required to be filed by section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Section 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (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 ninety (90) days.

Yes  No

- 13. State the aggregate market value of the voting stock held by non-affiliates of the registrant.  
**Not Applicable**

## **PART I – BUSINESS AND GENERAL INFORMATION**

### **Item 1. BUSINESS**

#### **Description of Business**

The First Metro Philippine Equity Exchange Traded Fund, Inc. (the Fund) was registered with the Securities and Exchange Commission (“SEC”) on January 15, 2013 as an open-end investment company under Republic Act No. 2629, otherwise known as the Investment Company Act and as an “Exchange Traded Fund” (“ETF”) under SEC Memorandum Circular No. 10, Series of 2012 otherwise known as the SEC Rules and Regulations on Exchange Traded Funds (the “SEC ETF Rules”). The Fund is engaged primarily in the business of investing, reinvesting, and trading in, and issuing and redeeming its shares of stock in creation units in exchange for a basket of securities representing an index.

As a licensed ETF, it offers to and through qualified trading participants (the “Authorized Participants”), on a continuous basis, shares in the Fund which are issuable and redeemable in creation units. The Board approved during its meeting on December 11, 2015, the reduction of the number of shares comprising one creation unit from 200,000 to 50,000 shares. Shares of the Fund may be directly redeemed in exceptional circumstances as approved by the SEC. In December 13, 2016, the Board approved to reduce further the number of shares per creation unit from 50,000 to 10,000 shares. Shares of the Fund may be directly redeemed in exceptional circumstances as approved by the SEC.

The Fund aims to provide returns which would reflect the performance of the Philippine equities market by investing in a basket of securities which are included in the PSEi of the PSE (the “Underlying Index”). The portfolio of the Fund is to be rebalanced and reconstituted every six (6) months in order to adjust to the current composition of the PSEi. Price volatility of the constituent shares of stock can affect the market value of the assets of the Fund and cause the Fund’s Net Asset Value (“NAV”) to vary.

The Fund is the only mutual fund traded on the Philippine Stock Exchange (PSE) and the shares of the Fund is listed on the ETF Board of the PSE. The shares of the Fund may be bought and sold on the secondary market at the quoted market price in the PSE through the Trading Participants of the PSE which may require payment of brokerage commissions, stock transaction tax and/or other fees and charges (e.g. clearing house fees). However, shares of the Fund may be issued and redeemed only through Authorized Participants in creation units. Investors who are interested in creating or redeeming shares in creation units may contact any one of the Authorized Participants or request his or her existing registered broker/Trading Participant to place such an order with any of the Authorized Participants. Interested investors should be aware that the Authorized Participants and the Trading Participants are required to comply with Philippine general laws, rules and regulations including any “know-your-customer” requirements under existing regulations.

First Metro Investment Corporation (First Metro) is the Fund Sponsor. As Fund Sponsor, First Metro organized the Fund and has provided the initial capital of the Fund totaling ₱750 million.

The product being sold by the Fund is its shares of stock, being a mutual fund company. As of December 31, 2017, the registrant’s total sales were ₱291.60 million.

#### **Contributions to Sales/Revenues**

The Fund generates its revenue from trading activities, disposal of investment securities and changes in the fair values of financial instruments at FVPL, dividend income from equity securities and interest income from cash and cash equivalent.

The following are the details of the Fund's revenue generating activities:

	2017	%	2016	%	2015	%
<b>INVESTMENT INCOME / (LOSS)</b>						
Trading gains / (losses) – net	257,270,680	93.22%	10,265,605	35.92%	(66,068,329)	156.80%
Dividend income	18,709,748	6.78%	18,315,092	64.08%	23,932,467	(56.80%)
Interest income	554	0.00%	509	0.00%	739	0.00%
<b>TOTAL REVENUE / (LOSS)</b>	<b>275,980,982</b>	<b>100.00%</b>	<b>28,581,206</b>	<b>100.00%</b>	<b>(42,135,123)</b>	<b>100.00%</b>

Revenue / (loss) of the fund mainly came from the trading gains / (losses) which represents 93.22%, 35.92% and 156.80% of the total revenue for 2017, 2016 and 2015, respectively. Dividend income contributed 6.78%, 64.08% and (56.80%) to the revenue of the Fund in 2017, 2016 and 2015, respectively. Interest and miscellaneous income have minimal contribution to the fund.

### Distribution Methods of Products and Services

First Metro Asset Management, Inc. ("FAMI") acts as the Fund Manager and Principal Distributor. FAMI aims to initially market the Fund and list the same in the PSE. FAMI will continue to perform all the functions of a Fund Manager with regard to the Fund as described under the SEC ETF Rules and in its Prospectus. As Principal Distributor, FAMI will market to and accept orders of the shares of the Fund in creation units from the Authorized Participants as described in the body of the Prospectus.

The Fund's Authorized Participants are First Metro Securities Brokerage Corporation ("FMSBC") and IGC Securities, Inc. ("IGC"). A creation fee, inclusive of documentary stamp tax and other charges, of approximately eighty basis points (0.80%) of the total value of the Creation Order or a redemption fee, inclusive of other charges, of approximately eighty basis points (0.80%) of the total value of the Redemption Order is charged by an Authorized Participant to each investor who places a Creation or Redemption Order. FMSBC is also the appointed Market Maker of the Fund. There are no fees charged by and payable to the Market Maker.

The Fund appointed HSBC Securities Services ("HSBC") as Custodian. As Custodian, HSBC shall hold in safe custody the assets of the Fund in accordance with the terms and conditions contained in the Custodian Agreement. HSBC shall charge an annual safe custody fee as per the agreed Tariff Schedule between FAMI and HSBC.

The Fund designated Interactive Data Corporation as Indicative Net Asset Value ("INAV") Calculator. The INAV Calculator shall provide INAV calculations every one (1) minute during the Trading Day, which shall be disclosed in the websites of the Fund and the PSE as well as the PSE's ETF Board.

The total fee payable by the Fund to FAMI is a monthly fee equivalent to fifty basis points (0.50%) per annum of the average NAV of the Fund, computed on a daily basis. The NAV of the Fund is the aggregate value of the Fund's assets as determined by the market value of its underlying securities holdings, including any cash in the portfolio, interest receivables, dividend receivables, less liabilities such as taxes, accrued fees and expenses computed after the close of trading hours of the PSE.

Up to 30,000,000 shares of the Fund shall be continuously offered to the public through the Authorized Participants who directly transact with the Fund for Creation Orders. The shares of the Fund may also be bought and sold in the secondary market, in board lots, through the PSE, and investors who wish to trade the shares of the Fund may contact his or her Trading Participant. The Fund's investments shall be guided by investment guidelines and restrictions, which are set out in detail in the body of its Prospectus.

An application for listing of the shares of the Fund (comprising of all issued and outstanding, and unissued shares of the Fund) was approved on October 9, 2013 by the Board of Directors of the PSE, subject to the fulfillment of certain listing conditions. All issued and outstanding shares of the Fund shall be listed on the ETF Board of the PSE, while unissued shares of the Fund shall be subject to shelf listing in accordance with the PSE ETF Rules.

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

### **Competition**

The competitive environment for the Fund's products includes not only the products and services offered by the other Mutual Fund players, but all other investment instruments that the target market has access to. The Philippine mutual fund industry is still a relatively young industry compared to those of other countries. However, it is growing at a fast rate.

As of December 31, 2017, First Metro Philippine Equity Exchange Traded Fund, Inc. is the only Fund in exchange traded fund category.

### **Principal Suppliers and Major Clients**

The Fund has no raw materials for its business nor has any major existing supply contracts.

### **Dependence to a Single Customer or Few Customers**

First Metro Securities Brokerage Corporation (FMSBC) and IGC Securities (IGC) are the Authorized Participants (AP) of the Fund. The Authorized Participant is a registered broker-dealer and Trading Participant that entered into an Authorized Participant Agreement and participates in the creation and redemption of Shares of the Fund. As of December 31, 2017, FMSBC and IGC own 54.50% and 0.01% of the Fund's outstanding shares of stock at broker level, respectively.

### **Transactions with and/or Dependence on Related Parties**

Parties are related if one party has the ability, directly or indirectly, to control the other parties 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.

The Fund's related parties also include key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members.

As fund manager of the Fund, FAMI is entitled to the following, pursuant to the Management and Distribution Agreement (the Agreement) dated April 1, 2015. The Agreement shall take effect for a period of two years and shall continue in effect from year to year, unless otherwise terminated or amended by the parties in accordance with specified terms and conditions.

The Fund shall pay an annual management fee of 0.50% of the average NAV of the Fund. The NAV shall be determined by computing the total value of the Fund's assets less its liabilities.

The above fees accruing during each calendar month shall be paid to FAMI during the first week of the succeeding month. The Fund started to accrue management fees expense when it was listed with the PSE on December 2, 2013.

On September 5, 2013, the Fund entered into a stock transfer agency agreement with MBTC-TBG for a monthly fee amounting to ₱0.02 million. Transfer Agency fee as of December 31, 2017 and 2016 amounted to ₱0.11 million and ₱0.55 million, respectively.

The following table shows related party transactions included in the financial statement

31-Dec-17			
	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Ultimate parent company</b>			
Cash in banks		452,110	Savings account with 0.25% interest rate
Financial assets at FVPL		54,958,800	Investments in equity securities
Purchases	11,705,918		
Sales	963,365		
Dividend income	462,470		Dividend income from investment
Interest income	554		Income from cash in banks
Stock transfer agency fee****	109,758	47,207	Fee paid to stock transfer agent every month
<b>Other related parties</b>			
Financial assets at FVPL*		35,013,200	Investments in equity securities
Purchases	10,005,165		
Sales	3,015,940		
Dividend income*	105,750		Dividend income from investment
Management fee**	6,672,251	560,910	0.50%; Monthly fee based on average NAV
Brokers' commission***	396,558		Incurred for purchases and sales of equity securities
Due to brokers***		-	Cash component on stock redemption or subscriptions, settled at T+3
Directors' and officers' fees	301,500	-	Per diems given to directors and officers during board meetings

\* GT Capital

\*\* FAMI

\*\*\* FMSBC

\*\*\*\* MBTC-TBG

#### Terms and conditions of transactions with related parties

Outstanding balances at year-end are unsecured and settlement occurs in cash. There are no provisions for amounts due from related parties. There have been no guaranties provided or received for any related party receivables and payables.

Details of investments in the Fund by related parties are set out below:

	Number of shares held at January 1	% interest held at January 1	Number of shares acquired during the year*	Number of shares disposed during the year	Number of shares held at December 31	% interest held at December 31
2017						
First Metro	2,703,523	35.34	740,185	70,862	3,372,846	30.82
First Metro Trust	-	-	-	-	-	-
FMSBC	41,579	0.54	1,084,669	1,009,840	116,408	1.06
FMSALEF	411,189	5.38	1,285,334	814,723	881,800	8.06
FMSALBF	50,000	0.65	1,213,530	551,500	712,030	6.51
OWN	25,000	0.33	125,980	104,600	46,380	0.42
Directors and officers	1,507	0.02	150	1,100	557	0.01

### **Effective or Existing or Probable Governmental Regulation**

The Fund is governed by the provisions in its prospectus that incorporated relevant investment rules and regulations by regulators such as the Investment Company Act, SEC ETF Rules, and the SEC, among others.

The Fund's investment activities are guided by the following limits/conditions:

- investments in margin purchases of securities, commodity futures contracts, precious metals, unlimited liability investments, short-selling of currencies and securities are not allowed.
- it shall not incur any further debt or borrowing.
- it shall not participate in underwriting or selling activities in connection with the public distribution of securities except for its own capital stock.
- investment in any company for the purpose of exercising control or management or to invest in the securities of other investment companies and real estate companies is prohibited.
- purchasing or selling of securities other than capital stocks of the Fund from or to any of its officers or directors or the officers and directors of its investment adviser/s, manager or distributor/s or firm/s of which any of them are members is prohibited.
- it shall not invest in lending operations.

### **Compliance with US Foreign Account Tax Compliance Act (FATCA) Regulations**

Pursuant to SEC Memorandum Circular No. 8, series of 2014, the following actions were undertaken to comply with the US Foreign Account Tax Compliance Act (FATCA) requirements, as follows:

- 1) Metrobank, being the Lead FFI of an Expanded Affiliate Group (EAG), has identified First Metro and its subsidiaries that are qualified as Foreign Financial Institutions (FFI);
- 2) Metrobank, being the Lead FFI, has created FATCA accounts for First Metro and the covered subsidiaries;
- 3) First Metro has created a FATCA Compliance Ad Hoc Committee last December 27, 2013 to oversee the FATCA implementation requirements for First Metro and its subsidiaries;
- 4) First Metro, through its Compliance Division, has registered last January 6, 2014 with the US IRS for FATCA purposes, including the covered subsidiaries. The IRS issued a Global Intermediary Identification Number (GIIN) for each of the following FFI:
  - a. First Metro Investment Corporation
  - b. First Metro Securities Brokerage Corporation
  - c. PBC Capital Investment Corporation
  - d. FMIC Equities, Inc.
  - e. Resiliency (SPC), Inc.
  - f. First Metro Asset Management, Inc.
  - g. First Metro Save and Learn Dollar Bond Fund, Inc.
  - h. First Metro Asia Focus Equity Fund, Inc.
  - i. First Metro Philippine Equity Exchange Traded Fund, Inc.
  - j. First Metro Save and Learn Equity Fund, Inc.
  - k. First Metro Save & Fixed-Income Fund, Inc.
  - l. First Metro Save and Learn Balanced Fund, Inc.
  - m. First Metro Consumer Fund on MSCI Philippines IMI, Inc.
- 5) First Metro and its subsidiaries has conducted initial runs for search of US Indicia in their databases;

- 6) First Metro has adopted the Metrobank template for Letters to Depositors and the Certification, Consent and Waiver Form for identified US Indicia accounts;
- 7) First Metro is finalizing the establishment of the policies and procedures to identify US Indicia and tag the same in the company's systems for the pre-existing accounts and on-boarding procedures for new accounts;
- 8) First Metro is rolling out training awareness on FATCA for all its employees, including the covered subsidiaries; and
- 9) First Metro, through its Compliance Division, has continuously coordinated with its parent bank Metrobank and the Association of Bank Compliance Officers or ABCOMP to raise issues and queries on FATCA implementation.

### **Research and Development Costs**

The Fund has not undergone, and therefore has not incurred costs, into any research and development activities during the last five years.

### **Compliance with Environmental Laws**

The Fund is not required to comply with any environmental laws.

### **Employees**

The Fund has no employees because all aspects of its operations and administration are subcontracted with third parties; hence, it has no risks as far as labor problems are concerned.

### **Major Risks Involved**

Various risk factors can affect the market value of the assets of the Fund and cause the Fund's net asset value to vary. Consequently, there are instances when redemption prices of redeemed shares may be less than the prices at which the shares were originally purchased. Investors who redeem their shares during this time may not recover the full cost of their investment.

The Fund has identified the following major risks involving each of its businesses and other operations:

**Market Risk.** The Fund's investments in equity securities may decline in value due to factors affecting securities markets generally, or particular countries, segments, economic sectors, industries or companies within those markets. The value of a security may decline due to general economic and market conditions which are not specifically related to a particular issuer, such as real or perceived adverse economic conditions or changes in interest or currency rates. Fluctuations in the value of securities in which the Fund invests will cause the NAV of the Fund to fluctuate. Historically, the markets have moved in cycles, and the value of the Fund's securities and other financial instruments may fluctuate drastically from day to day.

**Stock Market Risk.** Investing in shares of stock is generally riskier than investing in fixed-income securities, hence investors' money or principal may even be lost. The risks inherent to equity ETFs are related to the volatility of the stock market. Changes in prices of equity securities that compose the Fund's investment portfolio may substantially vary in a short span of time. The performance of the companies whose shares are included in the portfolio of the Fund is very much dependent on the people behind those companies. Added to that, stock prices are sensitive to political and economic conditions that normally change from time to time.

**Index Risk.** The Fund is subject to the risk that the Underlying Index may underperform other segments of the equity market or the equity market as a whole.



The Fund aims to track the PSEi, which is rebalanced every six (6) months. The returns of the Fund may be affected by such rebalancing, and the Fund is subject to the risk that it may not accurately track the returns of the PSEi.

**Liquidity Risk.** Although the Underlying Index shall be comprised of securities included in the main index of the PSE, in certain circumstances, it may be difficult for the Fund to purchase and sell particular investments within a reasonable time at a fair price. In addition, the ability to assign an accurate daily value to certain investments may be difficult, and the Fund Manager may be required to fair value the investments.

**Tracking Error Risk.** The tracking error is the divergence of the Fund's performance from that of the index it tracks. Tracking error may occur because of differences between the securities held in the Fund's portfolio and those included in the index, pricing differences, transaction costs, the Fund's holding of cash, differences in timing of the accrual of dividends, changes to the Underlying Index or the need to meet various new or existing regulatory requirements. This risk may be heightened during times of increased market volatility or other unusual market conditions. Tracking error also may result because the Fund incurs fees and expenses, while the index it tracks does not.

**Early Closing Risk.** An unanticipated early closing of the PSE may result in a shareholder's inability to buy or sell shares of the Fund on that day.

**Trading Halt Risk.** Secondary market trading in the shares of the Fund may be halted or suspended by the PSE because of market conditions or other reasons. If a trading halt or suspension occurs, a shareholder may temporarily be unable to purchase or sell shares of the Fund.

**Trading Risk.** Shares may trade below their NAV. The NAV of the shares of the Fund will fluctuate with changes in the market value of the Fund's holdings. In addition, although the shares of the Fund are listed on the PSE, there can be no assurance that an active trading market for shares of the Fund will develop or be maintained.

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 NAVPS of the shares when issued, may differ significantly from the price at which the shares will trade on the PSE.

**Interest Rate Risk.** Interest rate movements may have direct impact on the prices of assets of the Fund. Some assets are more sensitive to changes in interest rates while other assets may not. It is expected that interest rate movements may have negative influence of the Fund's assets.

**Inflation Risk.** Inflation risk is the risk that inflation may erode the real value of an investment by the Fund.

**Non-Diversification Risk.** The Fund is considered non-diversified and can invest a greater portion of its assets in securities of individual issuers than a diversified fund. As a result, changes in the market value of a single security could cause greater fluctuations in the value of the shares of the Fund than would occur in a diversified fund.

**Passive Investment Risk.** The Fund is not actively managed and the Fund Manager does not attempt to take defensive positions in declining markets. Therefore, the Fund may be subject to greater losses in a declining market compared to a fund that is actively managed.

**Absence of Operating History.** The Fund is a start-up company and may also be affected by risks associated with companies that do not have operating histories. However, people and companies

behind the Fund have actual experience and a track record in mutual funds and other financial institutions.

The investors should be aware that their investment in exchange traded funds is not guaranteed by the Philippine Deposit Insurance Corporation. The Fund Manager is also not permitted by law to guarantee any yield to the investors of the Fund.

**Risk of Dilution.** Because the Fund is an Open-end Investment Company, investors may effectively subscribe to any amount of Shares of the Fund. As such, investors face the risk of the percentage of their stockholding in the Fund being diluted as more investors subscribe to the Shares. The influence that the investors can exert over the control and management of the Fund decreases proportionally.

**Geographic Concentration Risk.** The Fund's investments are primarily in shares of stock of publicly listed domestic corporations. Funds that are less diversified across countries or geographic regions are generally riskier than more geographically diversified funds. A fund that focuses on a single country or a specific region is more exposed to that country's or region's economic cycles, currency exchange rates, stock market valuations and political risks, among others, compared with a more geographically diversified fund.

**Delay in Issuance of ETF Shares Risk.** In the event that the authorized capital stock of the Fund has been fully subscribed, the Fund will have to apply for an increase in its authorized capital stock with the SEC in order to accommodate additional creation orders. Due to the corporate actions and regulatory approvals that have to be complied with to increase the authorized capital stock of the Fund, there may be a delay in delivery of the Shares of the Fund to Authorized Participants which made such creation orders.

**Securities Lending Risk.** The Fund bears the risk of loss of investing cash collateral and may be required to make payments to a borrower upon return of loaned securities if invested collateral has declined in value. Furthermore, because of the risks in delay of recovery, the Fund may lose the opportunity to sell the securities at a desirable price, and it may not have the right to vote securities while they are being loaned.

**Regulation and Taxation Risk.** The Fund is subject to a number of national and local laws and regulations. These include industry laws and regulations relating to investment and publicly-owned companies, the PSE and applicable taxes. The Fund cannot assure prospective investors that changes in laws or regulations, including those related to investment and publicly-owned companies, the PSE and applicable taxes, will not result in the Fund or the investors in the Fund having to incur substantial additional expenditures in relation to the Fund's investments or investments in the Fund.

**Risks Relating to the Philippines.** Substantially all of the Fund's Component Securities are shares of companies based in the Philippines, which exposes the Fund to the risks associated with the country, including the performance of the Philippine economy. Factors that may adversely affect the Philippine economy include: (1) decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally; (2) 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; (3) exchange rate fluctuations; (4) inflation or increases in interest rates; (5) levels of employment, consumer confidence and income; (6) changes in the Philippine government's fiscal and regulatory policies; (7) 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; (8) natural disasters, including but not limited to tsunamis, typhoons, earthquakes, floods, fires and similar events; (9) political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and (10) 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 the performance of the Fund.

***Dependence on the Services of Third Parties.*** The Fund relies on the services of third parties such as the Authorized Participants, Principal Distributor, Fund Manager, Custodian, Stock and Transfer Agent, and INAV Calculator, among others, to run its operations. The loss of services of any of these third parties could materially impair the Fund's operations and performance, and the Fund may not immediately be able to replace such third party within a reasonable period of time, which could materially and adversely affect the Fund's operations and performance.

The Fund also relies on the PDTC as the securities depository of its shares. The PDTC may determine to discontinue providing its service with respect to the shares at any time by giving notice to the Fund, the Fund Manager, the Custodian and the Fund Sponsor and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, the Fund, the Fund Manager and Principal Distributor, the Custodian and/or the Fund Sponsor shall take action either to find a replacement for the PDTC to perform its functions at a comparable cost or, if such a replacement is unavailable, to terminate the Fund.

## **Item 2. DESCRIPTION OF PROPERTIES**

The Fund does not own any properties (such as real estate, plant and equipment, mines, patents, etc.).

## **Item 3. LEGAL PROCEEDINGS**

There are no pending material legal proceedings to which First Metro Philippine Equity Exchange Traded Fund is a party since its inception in 2013.

## **Item 4. SUBMISSION OF MATTER TO A VOTE OF SECURITY HOLDERS**

There are no matters submitted during the calendar year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

## PART II – OPERATIONAL AND FINANCIAL INFORMATION

### Item 5. MARKET PRICE OF AND DIVIDENDS ON ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

#### Market Information

The Fund shares were traded in the Philippine Stock Exchange (PSE). Below is the history of NAVPS of the Fund for the first quarter of 2018 and the years 2017, 2016 and 2015.

Year		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2018	High	137.1606	-	-	-
	Low	120.0840	-	-	-
2017	High	121.6214	132.2690	125.5525	129.7393
	Low	112.8597	117.5979	118.3453	122.5688
2016	High	120.9464	128.1615	133.0333	127.3776
	Low	99.4088	115.0240	124.4970	108.3009
2015	High	128.9745	131.9776	124.8478	119.6726
	Low	116.8363	119.3489	111.0169	109.4533

#### Holder

As of December 31, 2017 there are 827\* account holders of the Fund's outstanding common stock. Shown below are the top twenty (20) shareholders, including the number of shares and percentage of ownership held by each as of the same date.

No	Name of Owner	No. of Shares Held	Percent to Outstanding Shares
1	First Metro Securities Brokerage Corp.	5,963,078	54.50%
2	The Hongkong And Shanghai Banking Corp. Ltd. -Clients' Acct.	1,640,210	14.99%
3	COL Financial Group, Inc.	936,948	8.56%
4	MBTC -Trust Banking Group	671,673	6.14%
5	First Integrated Capital Securities, Inc.	354,985	3.24%
6	BPI Securities Corporation	281,647	2.57%
7	The First Resources Management & Securities Corp.	263,378	2.41%
8	Citibank N A	96,010	0.88%
9	BDO Nomura Securities Inc.	94,369	0.86%
10	BDO Securities Corporation	75,439	0.69%
11	Maybank ATR Kim Eng Securities, Inc.	59,274	0.54%
12	RCBC Securities, Inc.	47,088	0.43%
13	PNB Securities, Inc.	42,668	0.39%
14	R. Nubla Securities, Inc.	41,992	0.38%
15	Investors Securities, Inc.,	37,405	0.34%
16	Solar Securities, Inc.	29,040	0.27%
17	Papa Securities Corporation	18,736	0.17%
18	Abacus Securities Corporation	16,225	0.15%
19	Venture Securities, Inc.	14,200	0.13%
20	United Coconut Planters Bank-Trust Banking	12,815	0.12%

\*Total number of shareholders is derived from Authorized Participants' records as well as PDTC's PCD Nominee report.

## Dividends

The Board of Directors of the Fund may decide to declare dividends from the unrestricted retained earnings of the Fund at a time and percentage as the same Board may deem proper and in accordance with law.

The Fund may declare or pay dividends but limit those dividends to come from the Fund's accumulated undistributed net income, determined in accordance with PFRS and including profits or losses realized upon the sale of securities; or from the Fund's earned surplus so determined for the current or preceding fiscal year.

As provided for in the Fund's By-Laws, the Board of Directors may make arrangements with its stockholders whereby the amount of unrestricted retained earnings not declared as cash dividends and/or other distributions may be reinvested in the Fund's basket of securities in lieu of cash dividends to be paid to the stockholders. The arrangement with shareholders shall be such that the aforementioned amount of unrestricted retained earnings dividends to be reinvested in the Fund's basket of securities shall be declared as stock dividends in accordance with law and valued at the NAVPS of the Fund at the time said stock dividends are paid.

The Board of Directors of the Fund intends to declare, as cash dividends, a minimum of ten percent (10%) of the amount of the unrestricted retained earnings derived from the cash dividend income of the portfolio of the Fund based on the latest audited financial statements of the Fund; Provided, that the Board shall pass the appropriate Board resolution covering any dividend declaration, and such dividend declaration shall be disclosed to the SEC, the PSE and the Fund's website.

## Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The Fund's Statement of Financial Position and Statement of Comprehensive Income as of and for the years ended December 31, 2017, 2016 and 2015 are presented below.

### Statements of Financial Position

	As of December 31			Increase (Decrease)			
	2017	2016	2015	2017 vs. 2016		2016 vs. 2015	
				Amount	%	Amount	%
<b>ASSETS</b>							
Cash in banks	₱12,064,183	₱4,161,350	₱2,907,564	₱7,902,832	189.91%	₱1,253,786	43.12%
Financial assets at fair value through profit or loss (FVPL)	1,407,701,912	859,772,130	1,337,424,578	547,929,782	63.73%	(477,652,448)	(35.71%)
Receivables	1,059,715	680,484	1,042,939	379,231	55.73%	(362,455)	(34.75%)
	<b>₱1,420,825,800</b>	<b>₱864,613,964</b>	<b>₱1,341,375,081</b>	<b>556,211,836</b>	<b>64.33%</b>	<b>(₱476,761,117)</b>	<b>(35.54%)</b>
<b>LIABILITIES AND EQUITY</b>							
<b>Liabilities</b>							
Accounts payable and accrued expense	₱1,271,854	₱1,159,692	₱961,591	₱112,162	9.67%	₱198,101	20.60%
<b>Equity</b>							
Capital stock	1,094,200,000	765,000,000	1,180,000,000	329,200,000	43.03%	(415,000,000)	(35.17%)
Additional paid-in capital	92,152,483	8,502,216	85,665,585	83,650,267	983.86%	(77,163,369)	(90.98%)
Retained earnings (deficit)	233,201,463	89,952,056	74,747,905	143,249,407	159.25%	15,204,151	20.34%
	<b>1,419,553,946</b>	<b>863,454,272</b>	<b>1,340,413,490</b>	<b>556,099,674</b>	<b>64.40%</b>	<b>(476,959,218)</b>	<b>(35.58%)</b>
	<b>₱1,420,825,800</b>	<b>₱864,613,964</b>	<b>₱1,341,375,081</b>	<b>₱556,211,836</b>	<b>64.33%</b>	<b>(₱476,761,117)</b>	<b>(35.54%)</b>

## Statements of Comprehensive Income

	Years Ended December 31			Increase (Decrease)			
	2017	2016	2015	2017 vs 2016		2016 vs 2015	
				Amount	%	Amount	%
<b>INVESTMENT INCOME (LOSS)</b>							
Trading gains (losses)	₱257,270,680	₱10,265,605	(₱66,068,329)	₱247,005,075	2406.14%	₱76,333,934	115.54%
Dividend income	18,709,748	18,315,092	23,932,467	394,656	2.15%	(5,617,375)	(23.47%)
Interest income	554	509	739	45	8.84%	(230)	(31.12%)
	275,980,982	28,581,206	(42,135,123)	247,399,776	865.60%	70,716,329	167.83%
<b>EXPENSES</b>							
Management fees	6,672,251	5,586,013	7,313,760	1,086,238	19.45%	(1,727,747)	(23.62%)
Custodian and transfer agency fees	933,074	1,051,710	513,419	(118,636)	(11.28%)	538,291	104.84%
Information technology expenses	342,970	762,082	494,540	(419,112)	(55.00%)	267,542	54.10%
Directors' and officers' fees	301,500	373,000	366,215	(71,500)	(19.17%)	6,785	1.85%
Regulatory and filing fees	489,306	347,216	392,813	142,090	40.92%	(45,597)	(11.61%)
Brokers' commissions	396,558	166,167	406,242	230,391	138.65%	(240,075)	(59.10%)
Taxes and licenses	536,165	35,159	54,985	501,006	1424.97%	(19,826)	(36.06%)
Miscellaneous	228,993	208,201	128,824	20,792	9.99%	79,377	61.62%
	9,900,817	8,529,548	9,670,798	1,371,269	16.08%	(1,141,250)	(11.80%)
<b>NET INVESTMENT INCOME (LOSS) BEFORE FINAL TAX</b>	266,080,165	20,051,658	(51,805,921)	246,028,507	1226.97%	71,857,579	138.71%
<b>PROVISION FOR FINAL TAX</b>	322,434	127,447	248,244	194,987	152.99%	(120,797)	(48.66%)
<b>NET INVESTMENT INCOME (LOSS)</b>	₱265,757,731	₱19,924,211	(₱52,054,165)	₱245,833,429	1,233.84%	₱71,978,376	138.28%

### 2017

#### Financial Position (December 31, 2017 vs. December 31, 2016)

The total resources of the Fund soared by 64.33% or ₱0.56 billion from ₱0.86 billion at the beginning of the year to ₱1.42 billion as of December 31, 2017. Liabilities increased as well by ₱0.11 million or 9.67% during the year.

The changes in total assets and liabilities were primarily due to the movements in the following accounts:

**a) Cash in banks**

Cash in banks went up significantly by ₱7.90 million or 189.91% from ₱4.16 million in December 31, 2016 to ₱12.06 million in December 31, 2017. This account represents the Fund's savings and checking accounts in local banks and earns interest up to 0.25% in 2017 and 2016.

**b) Financial assets at FVPL**

Financial assets at FVPL consist of quoted equity securities held for trading amounting to ₱1.41 billion and ₱0.86 billion as of December 31, 2017 and 2016, respectively. This account went up by ₱0.55 billion or 63.73% due to additional investment in equity securities relative to subscription of shares made during the year.

**c) Receivables**

Loans and receivables consist of dividends and other receivables. This account increased by ₱0.38 million or 55.73% from last year's balance of ₱0.68 million due to the increase in securities held therefore leading to higher dividend as of December 31, 2017.

**d) Accounts payable and accrued expenses**

This account is composed of payable to FAMI, custodian fee payable, accounts payable,

accrued expenses and withholding taxes payable. Accounts payable and accrued expenses rose by ₱0.11 million or 9.67% from ₱1.16 million at the beginning of the year to ₱1.27 million as of December 31, 2017.

Payable to FAMI consists of accrued management fees, which went up by ₱0.21 million or 61.73% relative to the growth of Fund's net assets.

Custodian fee payable represents unpaid fees to the Fund's custodian for daily fees charged based on transactions made and for safekeeping services of the Fund's cash and equity securities.

Accrued expenses include professional fee and transfer agency fee.

Accounts payable includes cash component for redemption, unpaid retainer fees, information technology fees and listing fees.

**e) Equity**

*Capital Stock*

The Fund's authorized and issued capital stock are as follows:

	2017	2016
<b>Authorized</b>	<b>30,000,000 shares</b>	30,000,000 shares
<b>Issued</b>	<b>10,942,000 shares</b>	7,650,000 shares

The BOD approved and the stockholders ratified on April 16, 2013 the increase in authorized capital stock of the Fund from ₱1.00 billion (10.00 million redeemable common shares) to ₱3.00 billion (30.00 million redeemable common shares) with a par value of ₱100.00 per share. The increase in authorized capital stock and the registration statement was approved by the SEC on August 29, 2013 and November 27, 2013, respectively.

*Additional paid-in capital* amounted to ₱92.15 million and ₱8.50 million in 2017 and 2016, respectively. The rise of ₱83.65 million was affected by the net subscription position of the fund as of December 31, 2017.

*Retained earnings* as of December 31, 2017 rose to ₱233.20 million from ₱89.95 million in 2016. The ₱143.25 million or 159.25% growth was primarily due to the Fund's net income earned for the year.

**Results of Operations (January 1– December 31, 2017 vs. January 1– December 31, 2016)**

For the year ended December 31, 2017, the Fund posted a net income of ₱265.76 million compared to ₱19.92 million in 2016.

The highlights of the results of operations for the year ended December 31, 2017 are as follows:

**a) Trading and securities gains (losses)**

This account, amounting to ₱257.27 million gains, consists of realized gain of ₱9.13 million from sale of financial assets at FVPL securities and unrealized gain on marking-to-market of ₱248.14 million. The substantial increase of ₱247.01 million was primarily due to higher fair market value of equity securities for the current year.

- b) Dividend income**  
Dividend income earned from financial assets at FVPL amounted to ₱18.71 million and ₱18.32 million in 2017 and 2016, respectively. The ₱0.39 million increase was caused by higher shares held by the fund for the year ended December 31, 2017.
- c) Interest income**  
The increase of 8.84% of this account was principally due to the higher balance of cash in interest bearing bank account this year.
- d) Management fee**  
Management fees amounting to ₱6.67 million and ₱5.59 million in 2017 and 2016, respectively, consist of fees accrued and paid to the Fund's Investment Adviser. The increase of ₱1.09 million or 19.45% pertains to higher asset under management level in 2017.
- e) Custodian and transfer agency fees**  
This account dropped by ₱0.12 million or 11.28%, from ₱1.05 million in 2016 to ₱0.93 million in 2017. The decline was mainly caused by prior year's payment of legal fees for the sales handling of FMETF shares in Japan.
- f) Taxes and licenses**  
This account ballooned by ₱0.50 million compared with last year's balance of ₱0.04 million primarily due to payment of documentary stamp tax in relation to the issuance of 10% stock dividend.
- g) Regulatory and filing fees**  
This account rose by ₱0.14 million or 40.92% due to higher asset under management which is the basis for the listing and filing fees charged by regulatory bodies.
- h) Brokers' commission**  
Brokers' commission amounting to ₱0.40 million was incurred in 2017 relative to purchase and sale transactions equity securities. This account is ₱0.23 million or 138.65% higher compared to last year's amount of ₱0.17 million due to the greater volume of rebalancing trades during the year.
- i) Information technology expenses**  
The decrease of ₱0.42 million or 55% from ₱0.76 million to ₱0.34 million in information technology expenses pertains to the lower amount of accrual in 2017.
- j) Directors' and officers' fees**  
This account pertains to the allowances and per diem of directors and officers during the meetings convened. The decreased of ₱0.07 million or 19.17% from ₱0.37 million last year to ₱0.30 million during the year was due to more meetings held on prior year as compared to the current year.
- k) Miscellaneous expense**  
Miscellaneous expense rise by 9.99% consists of various operational expenses incurred by the Fund.

## **2016**

### **Financial Position (December 31, 2016 vs. December 31, 2015)**

The total resources of the Fund dropped by ₱0.48 billion or 35.54% from ₱1.34 billion at the beginning of the year to ₱0.86 billion as of December 31, 2016. On the other hand, liabilities increased by ₱0.19 million or 20.60% during the year.



The changes in total assets and liabilities were primarily due to the movements in the following accounts:

**a) Cash in banks**

Cash in banks went up by ₱1.25 million or 43.12% from ₱2.91 million in December 31, 2015 to ₱4.16 million in December 31, 2016. This account represents the Fund's savings and checking accounts in local banks and earns interest up to 0.25% in 2016 and 2015.

**b) Financial assets at FVPL**

Financial assets at FVPL consist of quoted equity securities held for trading amounting to ₱0.86 billion and ₱1.34 billion as of December 31, 2016 and 2015, respectively. This account declined by ₱0.48 billion or 35.71% due to the sale of investments made relative to redemption of shares during the year.

**c) Receivables**

Loans and receivables consist of dividends and other receivables. This account went down by ₱0.36 million or 34.75% from last year's balance of ₱1.04 million due to the decrease in securities and assets held as of December 31, 2016.

**d) Accounts payable and accrued expenses**

This account is composed of payable to FAMI, custodian fee payable, accounts payable, accrued expenses and withholding taxes payable. Accounts payable and accrued expenses rose by ₱0.20 million or 20.60% from ₱0.96 million at the beginning of the year to ₱1.16 million as of December 31, 2016.

Payable to FAMI represents unpaid management fees. This account dropped by ₱0.21 million or 37.18% relative to the decrease in management fee expense due to the decline in the Fund's net assets.

Custodian fee payable represents unpaid fees to the Fund's custodian for daily fees charged based on transactions made and for safekeeping services of the Fund's cash and equity securities.

Accrued expenses include professional fee and transfer agency fee.

Accounts payable includes cash component for redemption, unpaid retainer fees, information technology fees and listing fees.

**e) Equity**

**Capital Stock**

The Fund's authorized and issued capital stock are as follows:

	2016	2015
<b>Authorized</b>	<b>30,000,000 shares</b>	30,000,000 shares
<b>Issued</b>	<b>7,650,000 shares</b>	11,800,000 shares

The BOD approved and the stockholders ratified on April 16, 2013 the increase in authorized capital stock of the Fund from ₱1.00 billion (10.00 million redeemable common shares) to ₱3.00 billion (30.00 million redeemable common shares) with a par value of ₱100.00 per share. The increase in authorized capital stock and the registration statement was approved by the SEC on August 29, 2013 and November 27, 2013, respectively.

*Additional paid-in capital* amounted to ₱8.50 million and ₱85.67 million in 2016 and 2015, respectively. The decrease of ₱77.16 million was caused by the net redemption position of the fund as of December 31, 2016.

*Retained earnings* as of December 31, 2016 rose to ₱89.95 million from ₱74.75 million in 2015. The 20.34% growth was due to the net income earned by the fund for the year.

#### **Results of Operations (January 1– December 31, 2016 vs. January 1– December 31, 2015)**

For the year ended December 31, 2016, the Fund posted a net income of ₱19.92 million compared to a net loss of ₱52.05 million in 2015.

The highlights of the results of operations for the year ended December 31, 2016 are as follows:

**a) *Dividend income***

Dividend income earned from financial assets at FVPL amounted to ₱18.32 million and ₱23.93 million in 2016 and 2015, respectively. The ₱5.62 million or 23.47% decline was due to the decrease in shares held by the fund from for the year ended December 31, 2016.

**b) *Trading and securities gains (losses)***

This account amounting to ₱10.26 million gains is comprised of realized gain of ₱24.35 million from sale of financial assets at FVPL securities and unrealized loss on marking-to-market of ₱14.09 million.

**c) *Interest income***

The decline of 31.12% of this account was mainly due to the lower balance of cash in interest bearing bank account this year.

**d) *Management fee***

Management fees amounting to ₱5.59 million and ₱7.31 million in 2016 and 2015, respectively, consist of fees accrued and paid to the Fund's Investment Adviser. The decline pertains to lower asset under management level in 2016.

**e) *Custodian and transfer agency fees***

This account rose by ₱0.54 million or 104.84%, from ₱0.51 million in 2015 to ₱1.05 million in 2016, as a result of the increase in custodian fee from 1.25 to 1.75 basis points of the Fund's net asset value.

**f) *Information technology expenses***

The increase of ₱0.27 million or 54.10% from ₱0.49 million to ₱0.76 million in information technology expenses pertains to the accrual of prime portal services in 2016.

**g) *Directors' and officers' fees***

This account pertains to the allowances and per diem of directors and officers during the meetings convened.

**h) *Regulatory and filing fees***

This account slid by ₱0.05 million or 11.61% due to the decline in asset under management which is the basis for the listing and filing fees charged by regulatory bodies.

**i) *Brokers' commission***

Brokers' commission amounting to ₱0.17 million was incurred in 2016 relative to purchase and sale transactions of investments. This account is ₱0.24 million or 59.10% lower compared to last year's amount of ₱0.41 million due to the lesser volume of rebalancing trades during the year.

**j) Taxes and licenses**

Taxes is ₱0.02 million or 36.06% lower as compared with last year due to the decrease in local taxes paid in 2016.

**k) Miscellaneous expense**

Miscellaneous expense decreased from ₱0.12 million last year to ₱0.21 million this year or a decline of ₱0.06 million or 47.21%. This account consists of various operational expenses incurred by the Fund.

**Plan of Action**

FAMI is the principal distributor of the Fund's shares of stock. It is licensed by SEC to act as the Investment Company Adviser/Manager, Administrator and Principal Distributor. It intends to increase its marketing network and accredit sub-dealers or agents to sell the Fund's share.

**Subsequent Events**

On March 16, 2018, the Board of Directors approved the issuance 10% stock dividend. On the same date, the BOD also approved the "ten-for-one" stock split, reducing the par value from ₱100.00 to ₱10.00. The reduction in par value will increase the fund's outstanding stock and authorized shares from 30 million to 300 million shares. Both are still subject for approval and ratification of the shareholders in the upcoming annual stockholders' meeting on May 2018.

**Other Matters**

The Fund Manager is not aware of any event and/or uncertainties that:

- will have a material impact on liquidity
- will trigger direct or contingent obligation that is material to the Fund including any default or acceleration of obligation
- will have an impact on all material off-balance sheet transactions, arrangement, obligations and other relationships of the Fund
- is a significant element of income or loss that did not arise from the Fund's continuing operations
- there are no material commitments for capital expenditures during the past year and in the subsequent year.

## DISCUSSION OF KEY PERFORMANCE INDICATORS

First Metro Philippine Equity Exchange Traded Fund, Inc. was incorporated on January 15, 2013. The Fund shares were listed with Philippine Stock Exchange (PSE) on December 2, 2013. It offers to qualified trading participants, on a continuous basis, the shares of the Fund which are issuable and redeemable in predetermined creation units.

The Fund has First Metro Asset Management, Inc. (FAMI) as its Investment Company Adviser, Administrator and Principal Distributor.

The Fund started with an initial paid-up capitalization of ₱0.75 billion. The Fund's paid-up capital is now ₱1.19 billion.

- *Net Asset Value Per Share* - Net Asset Value per share was higher from ₱102.6089 (after stock dividend) as of December 31, 2016 to ₱129.7344 as of December 31, 2017, representing 26.44% return on investment over a year. The Fund's average daily net asset value rose by 19.77% or ₱0.20 billion from the 2016 balance of ₱0.99 billion to ₱1.19 billion in 2017.
- *Sales for the year 2017* - The Fund had a total subscription of 3.30 million shares in 2017 including the 0.93 million shares from issuance 10% stock dividend on June 2017. This year's subscription is higher by 2.45 million shares or 288.47% compared to the 0.85 million shares sold in 2016.
- *Redemptions for the year 2017* - The Fund had a total redemption of 0.01 million shares in 2017, lower by 4.99 million compared to 5.00 million shares redeemed in 2016.
- *Net Income vs. Benchmark* - The Fund ended the year 2017 with a net income of ₱265.76 million, a significant increase of ₱245.83 million compared to ₱19.92 million last year.
- *Market Share vs. Benchmark* - As of December 31, 2017 the Fund garnered 1.28% share in the Equity Funds category while 0.48% share among all mutual funds in terms of net assets. On the basis of account holders, the Fund has 827 account holders or 0.42% of the total accounts in the Equity Funds category.
- *NAVPS vs. Benchmark* - The Fund NAVPS is tracked using the PSEi. The Fund's tracking error will not exceed five percent (5%). The highest and lowest tracking error during 2017 are 0.07% and 0.03%, respectively.

The following basic ratios measure the financial performance of the Company for the years ended 2017 and 2016:

PERFORMANCE INDICATORS	2017	2016
Return on average asset <sup>1/</sup>	23.26%	1.81%
Return on average equity <sup>2/</sup>	23.28%	1.81%
Cost-to-income ratio <sup>3/</sup>	3.59%	29.84%
Net asset value per share <sup>4/</sup>	₱129.7344	₱102.6089
Earnings (Loss) per share <sup>5/</sup>	₱27.2908	₱2.4090

<sup>1/</sup> Average assets for year ended December 31 were computed based on the average of the beginning and ending balances, over the net income for the year.

<sup>2/</sup> Likewise, average equity for year ended December 31 was computed based on the average of the beginning and ending balances, over the net income for the year.

<sup>3/</sup> Operating expenses for the cost-to-income ratios do not include provision for probable losses and provision for income taxes.

<sup>4/</sup> Net asset value per share by deducting total liabilities from total assets to come up with the Net Assets and dividing with the outstanding number of shares for the year.

<sup>5/</sup> Net income divided by weighted average number of common shares.

## Item 7. FINANCIAL STATEMENTS

### Statement of Management's Responsibility for Financial Statements

Please refer to Exhibit 1.

### Audited Financial Statements

Please refer to Exhibit 2.

## Item 8. CHANGES IN THE DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

The present auditor of the Fund is Sycip, Gorres, Velayo and Company. The reports of said auditors on the financial statements of the company for the year ended December 31, 2017 contained unqualified opinions.

There are no disagreements with the auditors on any matter of accounting principles or practices, financial statement disclosures, auditing scope or procedures, which disagreements, if not resolved to their satisfaction, would have caused the auditors to make reference thereto in their respective reports on the financial statements for such years.

## PART III – CONTROL AND COMPENSATION INFORMATION

### Item 9. DIRECTORS AND EXECUTIVE OFFICERS

#### Incorporators

- Mr. Hector R. Villanueva
- Mr. Augusto M. Cosio, Jr.
- Amb. Romualdo A. Ong
- Dr. Bernardo M. Villegas
- Mr. Nilo L. Pacheco Jr.

#### Directors

Name of Beneficial Owners	Term Served	Age	Business Experience
Eduardo R. Carreon	5 years	68	Banking/Finance
Eduardo S. Mendiola	2 years and 6 months	61	Finance
Amb. Romualdo A. Ong	5 years	78	International Relations
Bernardo M. Villegas	4 years	81	Economist
Winston L. Peckson	4 years and 10 months	63	Banking/Finance
Abelardo V. Cortez	4 years and 6 months	69	Banking
Michael G. Say	4 years and 6 months	55	Finance

The next set of directors will be elected during its Annual Stockholders' Meeting. Each director holds office until the corresponding Board of Directors' Meeting in the succeeding year, or until a successor is elected, appointed or shall have been qualified.

## Executive Officers

Name of Beneficial Owners	Position	Age	Citizenship	Business Experience
Eduardo R. Carreon	Chairman	68	Filipino	Banking/Finance
Eduardo S. Mendiola	President	61	Filipino	Finance
Marie Arabella D. Veron	Treasurer	57	Filipino	Banking/Finance
Mauro Placente	Asst. Treasurer	51	Filipino	Banking/Finance
Melissa B. Reyes	Corporate Secretary	45	Filipino	Finance/Government
Jonathan T. Tabac	Compliance Officer	63	Filipino	Banking/Finance
Edwin B. Valeroso	Corporate Information Officer	54	Filipino	Banking/Finance

### Mr. Eduardo R. Carreon, Director/Chairman of the Board

Mr. Carreon, 68, Filipino, is President and CEO of CVLF Consultancy and Outsourcing Corporation since 2009. He served in various positions with Maybank Philippines since 1999. He was Consultant (2008-2009), and prior, Senior Vice President of the Enterprise Financial Services (2003-2008). He served as Consultant for Capital Advisors for Private Enterprise Expansion Inc. from 1998-1999. He was also Country Manager for Dow Jones Philippines (1995-1998); General Manager, Philippine Finance and Investment Company, Hong Kong (1979-1981); Assistant Vice President, PCIBank – 1974-1979; and Pro Manager, Citibank from 1970-1973.

Mr. Carreon graduated from the Ateneo de Manila University in 1969 with a Bachelor of Arts degree. He is also an MBA candidate from the Ateneo Graduate School of Business.

### Mr. Eduardo S. Mendiola, President

Mr. Mendiola, 61 years old, Filipino. Mr. Mendiola held various positions in the Bureau of the Treasury prior to his stint as Deputy Treasurer of the Philippines (1994 to 2013).

Concurrently, he is President for the following companies since June 2015: First Metro Save and Learn Equity Fund, Inc. ; First Metro Save and Learn Fixed Income Fund, Inc.; First Metro Save and Learn Balanced Fund, Inc.; First Metro Asia Focus Fund, Inc., First Metro Save and Learn Dollar Bond Fund, Inc. and Paradigm Global Management, Inc.

He finished his BS Statistics at the University of the East. He also completed a Master's in Business Administration from Pamantasan ng Lungsod ng Maynila.

### Amb. Romualdo A. Ong, Independent Director

Amb. Ong, 78, Filipino, has been part of the Board of Directors of FMIC as an Independent Director from the year 2005 to 2012. As a professional, he has over 40 years of experience in Foreign Service/International management. Previously, he has served in the capacity of Philippine Ambassador to Malaysia (2003 to 2004), to China (1994 to 2000), to Russia (1993 to 1994), and to Australia (1986 to 1989). Amb. Ong also held the positions of Assistant Secretary for the Office of ASEAN Affairs, and for ASIAN and Pacific Affairs, Director of the Foreign Service Institute— all under the Department of Foreign Affairs (DFA).

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

Presently, he sits as an Independent Director of PBC Capital Investment Corp. (since 2006), First Metro Save & Learn Fixed-Income Fund, Inc. (June 2009 to present) and First Metro Global Opportunity Fund, Inc. (August 2012 to Present).

**Dr. Bernardo M. Villegas, Independent Director**

Dr. Bernardo M. Villegas, Ph.D., 81. Filipino, serves as the Senior Vice President of the University of Asia and the Pacific. Dr. Villegas serves as an Educational Consultant for the Parents for Education Foundation Inc. ("PAREF"), and a columnist in the Manila Bulletin. Dr. Villegas also serves as the Dean of the School of Economics of the University of Asia & the Pacific and as Consultant of Bank of Philippine Islands, and Transnational Diversified Inc. He serves as Director of Transnational Diversified Inc. from 2000 to present. He has been the Chairman of Filipino Fund Inc. since June 2012. He serves as a Member of Board of Trustees of The Insular Life Assurance Company, Ltd. and South East Asia Advisory Board of Rolls Royce Group plc from 1995 to 2002. He serves as a Member of the Board of Directors of leading firms in the food and beverage, sugar milling, pharmaceutical, electric power, banking, information technology, construction, agribusiness, trading, transportation and engineering industries. He began to serve in the Board of AMC in 1999. He serves as Director of Filipino Fund Inc. He was President of Philippine Economic Society. He served as Project Director, Philippine Economic History under the National Historical Commission; Member, Preparatory Commission for Constitutional Reforms and Constitutional Commission; Consultant, Productivity Development Center-National Economic Council and Program Implementation Agency. He serves as the Chairman of Center for Research and Communication. He is a Member of the boards of several foundations such as Dualtech Foundation, Pilipinas Shell Foundation and PHINMA Foundation. He is a Member of the board of Trustees of the Makati Business Club. He is Professor of the University of Asia and the Pacific, Manila, Philippines, and a Visiting Professor in Economics, IESE Business School, Barcelona, Spain. His special fields of study are developments economics, social economics, business economics and strategic management. He is a Certified Public Accountant, having been one of the CPA board topnotchers in 1958. He is the Consultant on Strategic Planning and Management.

He also served as Chairman of Filipino Fund Inc. until February 2007, Co-Chairman until November 30, 2007 and served as its President. He served as Chairman, Department of Economics-De La Salle University Manila and Director, Economic Research Bureau and Graduate School of Business-De La Salle University Manila. He has been an Independent Director of Benguet Corp. since June 25, 1998. He has been a Director of Alaska Milk Corp. since August 2008. He served as Director of Bank of Philippine Islands from 1980 to 2000. He served as a Director of the Filipino Fund Inc., from June 1995 to November 30, 2007. He served as a Non-Executive Independent Director of Uniwide Holdings Inc., since September 11, 1994. He served as an Independent Director of Alaska Milk Corp. from 1999 to 2006.

Dr. Villegas holds a Ph.D. in Economics and M.A. in Economics from the Harvard University. He obtained his Bachelor's degrees in Commerce and the Humanities (both Summa Cum Laude) from De La Salle University.

Dr. Villegas is one of the two Independent Directors of the Company.

**Mr. Winston L. Peckson, Director**

Mr. Peckson, 63, Filipino, has thirty-six years of experience in the banking industry. Among his past positions were Head of Treasury Marketing of Philippine National Bank (PNB) from 2009-2010; Vice President and General Manager of the Manila Offshore Branch of ABN-AMRO NV from October 1999-2009; VP and Corporate Treasury Advisor of Bank of America- Manila Branch from 1996-1999; CEO and Director of Danamon Finance Company (HK) from 1991-1996 and Manager Corporate Banking of Lloyds Bank PLC (HK) from 1986-1991, and VP(Commercial) at the Manila Offshore Branch.

Mr. Peckson obtained a Master's Degree in Business Management from the Asian Institute of Management in 1977, and he graduated from the Ateneo De Manila University in 1972 with a Bachelor of Arts Degree, minor in Business Administration.

**Atty. Abelardo V. Cortez, Independent Director**

Atty. Cortez, 69, Filipino, has over 25 years of banking experience in the local and international banking industry, concentrating on treasury, trust and private banking side of the business. Over this period, he held the following posts: Money Market Head- Rizal Banking Corporation (1978 to 1980); Vice President-Treasury Operations, Bank of the Philippine Island (1980 to 1986); Managing Director and CEO, BPI International Finance Ltd. (Hongkong) from 1987 to 1995; Vice President, Head/Private Banking Group- Bank of the Philippine Island (1995 to 1996); Director for Trust and Investments, ATR KimEng Capital Partners, Inc. (1996 to 2011). He was FINEX President in 2007 and Co-Chairman of the country's Capital Market Development Council in 2008. He is at present director/trustee of FINEX Foundation. He was former director of First Metro Asset Management Inc.

Presently, he sits as Independent Director of PBC Capital Investment Corporation (2012-2013) and First Metro Philippine Equity Exchange Traded Fund, Inc. (since October 2014).

In 2008, San Beda College Alumni Association voted him most Distinguished Bedan Award in the field of banking and finance.

Atty. Cortez earned his Bachelor of Laws degree from San Beda College of Law. He completed his collegiate studies at San Beda College, earning a Bachelor of Arts degree, Cum Laude.

Atty. Cortez writes a monthly business column in the prestigious leading business daily, the *Businessworld*.

**Mr. Michael G. Say, Director**

Mr. Say, 55, Filipino, graduated from De La Salle University with a degree in Management of Financial Institutions.

He is currently Chairman of the following companies: Capitalwise Groups Ltd., (2008 to present), Atlantic Archers Achiever Corporation (2004 to present), Chef and Cooks Market Corporation (2009 to present), and Crusade for Better Philippines Inc., Hiratsuka Int'l Corp.

He was the former Chairman for the following companies: Poc and Poc Corporation (2010 to 2016), Chic Uniform, Inc. (2002 to 2013) and Tokagawa Global Corporation (2004 to 2013).

Aside from the Directors of the Fund, the other Executive Officers are:

**Executive Officers**

**Ms. Marie Arabella D. Veron, Treasurer**

Marie Arabella D. Veron, 57 years old, Filipino, Treasurer. Term of office is one year and has served as such from January 29, 2007 up to present. She is currently a Director, Treasurer and First Vice President and Head of Corporate Services and Finance Group of First Metro Asset Management, Inc., Treasurer of First Metro Save and Learn Dollar Bond Fund, Inc., First Metro Asia Focus Equity Fund, Inc., First Metro Save & Learn Fixed-Income Fund, Inc., First Metro Save and Learn Equity Fund, Inc., First Metro Save and Learn Balanced Fund, Inc., First Metro Philippine Equity Exchange Traded Fund, Inc., and Paradigm Global Growth Fund, Inc. She also served as First Vice President and Controller of First Metro Investment Corporation, Treasurer/Director of SBC Properties, Inc. (2003-



2016) and Treasurer of PBC Capital Investment Corporation (2006-present). She was a Manager of MBTC Domestic Subsidiaries, a Senior Auditor of Joaquin Cunanan & Co./Price Waterhouse (1980-1985) and of Philippine International Trading Corporation (1985-1990). Ms. Veron finished her Bachelor of Science Degree in Business Administration, major in Accounting from University of the East. She is a Certified Public Accountant and a Certified Management Accountant.

**Mauro D. Placente, Assistant Treasurer**

Mauro D. Placente, 51, Filipino, is an Assistant Vice President and Financial Accounting Division Head of First Metro Investment Corporation. He joined First Metro Investment Corporation in September 1, 2000. Mr. Placente finished his Bachelor of Science Degree at the National College of Business and Arts. He is a Certified Public Accountant.

**Atty. Melissa B. Reyes, Corporate Secretary**

Melissa B. Reyes, 45, Filipino. Ms. Reyes is Assistant Vice President and Legal Officer of First Metro. She joined First Metro in November 2003. She was also Compliance Officer of FMSBC from 2004-2006. Prior to joining the First Metro group, she was Senior Consultant in the Corporate and Tax Services of J. Cunanan-Pricewaterhouse Philippines (2000-2003). She was previously the Chief Legislative Officer in the Office of Senator Loren Legarda from 1998-2000, and Court Attorney III in the Office of Supreme Court Justice Ricardo J. Francisco from 1997-1998. Atty. Reyes obtained her A.B. Political Science Degree from Ateneo de Manila University, and her Bachelor of Laws degree from San Beda College. She also completed the Trust Course from the Trust Institute of the Philippines in 2012.

**Mr. Jonathan T. Tabac, Compliance Officer**

Mr. Jonathan T. Tabac - 63 years old, Filipino, Compliance Officer. Term of office is one year and has served as such from January 29, 2007 up to present. He is also the Compliance Officer of First Metro Securities Brokerage Corporation, First Metro Save & Learn Fixed-Income Fund, Inc., First Metro Save and Learn Equity Fund, Inc., First Metro Save and Learn Balanced Fund, Inc., First Metro Save and Learn Dollar Bond Fund, Inc., First Metro Asia Focus Equity Fund, Inc., First Metro Philippine Equity Exchange Traded Fund, Inc., Paradigm Global Growth Fund, Inc. and First Metro Asset Management, Inc. (from May 2005 to present). He served as AVP & Compliance Officer of Citystate Savings Bank (2002-2003), Vice President of Maybank Philippines (formerly PNB Republic Planters Bank)-1997-2001 and Chairman of the Board of RPB Provident Fund, Inc. (1997-2001). Mr. Tabac finished BSC-Accounting from University of Baguio. He is a Certified Public Accountant.

**Mr. Edwin B. Valeroso, Compliance Officer**

Mr. Edwin B. Valeroso - 54 years old, Filipino, Vice President. Term of office is two years and has served as such since June 2011. He is First Vice President of First Metro Asset Management, Inc. He was the President of First Metro Save and Learn Balanced Fund, Inc. (Jan 2007 to June 2011), First Metro Save & Learn Fixed-Income Fund, Inc. and First Metro Save and Learn Equity Fund, Inc. (from May 2005 to June 2011), and First Metro Save and Learn Dollar Bond Fund, Inc. (2008 to 2011). He was Vice President and Trustee of Philippine Investment Funds Association (2006-2011) and an Associate Professor Guest Lecturer at De La Salle University-Graduate School of Business (2000-present). He was a Mutual Fund Strategist/Consultant at First Metro Investment Corp. (2004-2005). Mr. Valeroso has a BS Actuarial Mathematics degree from University of Santo Tomas, a Master's degree in Applied Mathematics (major in Actuarial Science) from University of the Philippines, and a Doctor of Business Administration degree from De La Salle University-Manila. He is also an alumnus of the Trust Institute Foundation of the Philippines.

The executive officers were elected on May 27, 2015 and the term of office of each is for one (1) year.

### Significant Employees

No person who is not an executive officer is expected by the Company to make a significant contribution to the business.

### Family Relationships

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among the directors and officers listed above.

### Involvement in Certain Legal Proceedings

The Company is not aware of any event that occurred during the year that is material to an evaluation of the ability or integrity of any of its directors, any nominees for election as directors or executive officers for the past five (5) years.

The Company has no material pending legal proceedings to which the registrant or any of its common affiliates is a party. No member of the Board of Directors is:

1. involved in any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two (2) years prior to that time;
2. involved in or convicted by final judgment in any criminal proceeding, domestic or foreign, or subject to a pending criminal proceeding, foreign or domestic, excluding traffic violations and other minor offenses;
3. 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; and
4. found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation and the said judgment has not been reversed, suspended or vacated.

## Item 10. EXECUTIVE COMPENSATION

### Compensation of Directors and Officers

	Per Diem		
	2017	2016	2015
Directors	₱265,000	₱313,000	₱324,215
Executive Officers	36,500	60,000	42,000
Aggregate Annual Per Diem	₱301,500	₱373,000	₱366,215

## Employment Contracts, Termination of Employment and Change-in Control Arrangements

There are no compensatory plans or arrangement with respect to any of its executive officers that can result to the resignation, retirement or any other termination of such executive officer's employment with the Fund, neither from a change in control of the registrant or a change in the named executive officer's responsibilities

## Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

### Security Ownership of Certain Record and Beneficial Owners

The following stockholders own more than 5% of the common voting securities as of December 31, 2017:

Title of Class	Name and Address of Owner	Name of Beneficial Owner	Citizen	No. of Shares Held	Percent to Outstanding Shares
Common	<i>First Metro Securities Brokerage Corporation (FMSBC)</i> 8 <sup>th</sup> Floor PSBank Centre, 777 Paseo de Roxas Ave. cor. Sedeño St., Salcedo Village, Makati City, Philippines 1226	Various Clients	Filipino	5,963,078	54.50%
Common	<i>The Hongkong and Shanghai Banking Corp. Ltd.-Clients' Acct.</i> HSBC Centre, 3058 Fifth Avenue West, Bonifacio Global City, Taguig City 1634 Philippines	Various Clients	Filipino	1,640,210	14.99%
Common	<i>COL Financial Group, Inc.</i> 2403-B East Tower, PSE Center, Exchange Road Ortigas Center, Exchange Rd, Ortigas Center, Pasig, 1605 Kalakhang Maynila	Various Clients	Filipino	936,948	8.56%
Common	<i>MBTC-Trust Banking Group</i> 5/Floor, Metrobank Plaza, Sen. Gil J. Puyat Avenue, Makati City	Various Clients	Filipino	671,673	6.14%

FMSBC is the registered owner of the shares in the books of the Company. The Board of Directors of FMSBC has the right to appoint actual person or persons acting individually or jointly to direct the voting or disposition of the shares held by the corporation. The person who will exercise the voting powers over the shares of FMSBC is Mr. Gonzalo Ordonez or any officers appointed by the Board.

## Security Ownership of Management

Following are the securities owned by directors and officers of the Company as of December 31, 2017:

Title of Class	Name of Beneficial Owners	Amount and Nature of Ownership	Citizenship	Percent to Outstanding Shares
Common Shares	Eduardo R. Carreon	1	Filipino	0.000009%
Common Shares	Eduardo S. Mendiola	1	Filipino	0.000009%
Common Shares	Romualdo A. Ong	1	Filipino	0.000009%
Common Shares	Bernardo M. Villegas	1	Filipino	0.000009%
Common Shares	Winston L. Peckson	1	Filipino	0.000009%
Common Shares	Abelardo V. Cortez	1	Filipino	0.000009%
Common Shares	Michael G. Say	1	Filipino	0.000009%
Common Shares	Melissa B Reyes	550	Filipino	0.005027%

## Voting Trust Holders of 5% or More

There are no persons known to the registrant who owns more than 5% of a voting trust or similar arrangements.

## Changes in Control

The Fund is an open-end investment company engaged in the business of investing, reinvesting and trading in and issuing and redeeming its shares of stock in creation unit in exchange for basket of equity securities representing an index. The fund has an initial paid-up capitalization of ₱750 million that is paid by First Metro. The fund's shares were listed with the Philippine Stock Exchange (PSE) on December 2, 2013. As of December 31, 2017, the majority of the shares are held by First Metro Securities Brokerage Corp.

## Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There has been no material transactions during the year nor is there any material transaction currently proposed to which the Fund was, or is a party, or in which any director or executive officer of the Fund, any nominee for election, any owner of more than five (5%) percent of the Fund's voting shares, or any member of the immediate family of any such director or officer, had or is to have a direct or indirect material interest.

## PART IV – CORPORATE GOVERNANCE

The Board approved the Fund's Corporate Governance Manual on June 19, 2013 to monitor and assess the level of the Fund's compliance with leading practices on good corporate governance as specified in Philippine SEC Circulars. Aside from establishing specialized committees to aid in complying with the principles of good corporate governance, the Manual also outlines specific investor's rights and protections and enumerates particular duties expected from the Fund's Board members, officers and employees. It also features a Disclosure System which highlights adherence to the principles of transparency, accountability and fairness. A Compliance Officer is tasked with the formulation of specific measures to determine the level of compliance with the Manual by the Fund's Board members, officers and employees. To date, the Fund has not encountered any deviation from the Manual's standards.

## External Auditors

The present auditor of the Fund is Sycip, Gorres, Velayo and Company. The reports of said auditors on the financial statements of the company for the years ended December 31, 2017 and 2016 contained unqualified opinions.

In compliance with SRC Rule 68, par. 3 (b)(iv), the signing partner of the auditing firm is rotated every after five (5) years of engagement.

The fees paid for the professional services rendered by SGV & Company for the audit of our Financial Statements for the year 2017 is ₱111,061 while the aggregate fees paid for the 2016 and 2015 is ₱93,631 and ₱61,600, respectively. These cover the following:

- a) the audit of the Fund's financial statements or services that are normally provided by SGV in connection with the statutory and regulatory filings or engagement.
- b) rendering of an opinion based on the examination and overall valuation of the financial statements, on a test basis. It also covers the assistance in preparing First Metro- ETF's annual income tax return based on audited financial statements.

There are no disagreements with the auditors on any matter of accounting principles or practices, financial statement disclosures, auditing scope or procedures, which disagreements, if not resolved to their satisfaction, would have caused the auditors to make reference thereto in their respective reports on the financial statements for such years.

SGV & Co. conducted the audit in accordance with auditing standards generally accepted in the Philippines to obtain reasonable assurance about whether the financial statements are free of material misstatements. Their audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. There are no tax fees paid for the last year for professional services rendered by SGV & Co. for tax accounting compliance, advice, planning and any other form of tax service.

There are no other fees paid for the last year for products and services provided by SGV & Co. other than the services mentioned above.

## PART V - EXHIBITS AND SCHEDULES

### Exhibits

Exhibit No.	Description of Exhibit
1	Statement of management responsibility
2	Audited financial statements
3	Index to Financial Statements and supplementary schedules (A to H)
4	Financial soundness indicators and other ratios

**SIGNATURES**

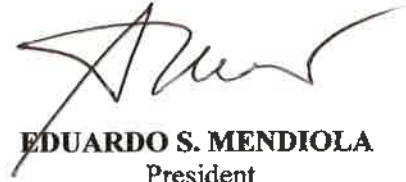
Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of \_\_\_\_\_ on \_\_\_\_\_.

**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED, FUND, INC.**  
Company

By:



**EDUARDO R. CARREON**  
Chairman



**EDUARDO S. MENDIOLA**  
President



**MARIE ARABELLA D. VERON**  
Treasurer



**MELISSA REYES**  
Corporate Secretary

**SUBSCRIBED AND SWORN** to before me this APR 13 2018, affiants exhibiting to me their respective IDs, as follows:

Name	Personal Identification Date and Place of Issue
Eduardo R. Carreon	TIN 160-247-790
Eduardo S. Mendiola	TIN 129-884-568
Marie Arabella D. Veron	EC 7738225 / August 18, 2016 / DFA NCR Northeast
Melissa B. Reyes	UMID No. 0033-6633927-6

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Page No. 66  
Book No. 11  
Series of 2018



**ATTY. MARGARITA ANGELITA ROSLES**  
Notary Public for Makati City  
Until 31 December 2018  
Appointment No. 1284 (2017-2018)  
Ref. No. 89012  
SFP License No. 012099  
PTR No. 2430261-01-01-2017 (Pasig City)  
MCL 2 (Pasig City) No. M-0010807-04-28-15  
4288 C.E. Street, International Plaza Bldg.  
Pasig City, Metro Manila, Philippines

FS FOR FILING WITH SEC

# COVER SHEET

AFTER THE BIR HAS DULY  
STAMPED "RECEIVED."

for  
**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

C S 2 0 1 3 0 0 7 2 8

**COMPANY NAME**

F I R S T M E T R O P H I L I P P I N E E Q U I T Y  
E X C H A N G E T R A D E D F U N D , I N C .  
.  
.

**PRINCIPAL OFFICE ( No. / Street / Barangay / City / Town / Province )**

1 8 / F l o o r , P S B a n k C e n t e r , 7 7 7 P  
a s e o d e R o x a s c o r n e r S e d e ñ o S t  
. , M a k a t i C i t y  
.

Form Type

A A F S

Department requiring the report

C R M D

Secondary License Type, if Applicable

Investment Company

**COMPANY INFORMATION**

Company's Email Address

None

Company's Telephone Number

891-2860

Mobile Number

N/A

No. of Stockholders

782

Annual Meeting (Month / Day)

2nd Wednesday of May

Fiscal Year (Month / Day)

2017/December/31

**CONTACT PERSON INFORMATION**

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Ms. Melissa B. Reyes

Email Address

melissa.reyes@firstmetro.com.ph

Telephone Number/s

(02) 891 2860

Mobile Number

N/A

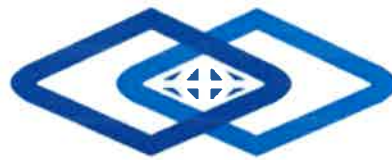
**CONTACT PERSON'S ADDRESS**

18/Floor, PSBank Center, 777 Paseo de Roxas corner Sedeño St., Makati City

**NOTE 1 :** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

**2 :** All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.





FIRST METRO PHILIPPINE EQUITY  
EXCHANGE TRADED FUND

March 16, 2018

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

The management of First Metro Philippine Equity Exchange Traded Fund, Inc. (the Fund) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, in accordance with the prescribed financial reporting framework indicated therein, 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing the Funds' financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders.

SyCip, Gorres, Velayo & Co., the independent auditors, appointed by the stockholders, has audited the financial statements of the Fund in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

**Eduardo R. Carreon**  
Chairman

**Eduardo S. Mendiola**  
President

**Marie Arabella D. Veron**  
Treasurer

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ day of **APR 13 2018**, 20\_\_\_\_ affiants exhibiting to me their Identification Numbers, as follows:

<u>Name</u>	<u>Government ID /Passport No. / Date and Place of Issue</u>
Eduardo R. Carreon	Driver's License No. N10-70-036507
Eduardo S. Mendiola	TIN 129-884-568
Marie Arabella D. Veron	EC 7738225 / August 18, 2016 / Manila

Doc. No. 114  
Page No. 24  
Book No. L  
Series of 2018

**ATTY. ROGELIO J. BOLIVAR**  
NOTARY PUBLIC IN QUEZON CITY  
AN ADM. NOT. COM. NO. NP-0601-12-17 UNTIL 12-31-2018  
IBPO. R. NO. 1038374 JAN. 2017 UP TO DEC. 2018  
PTR O.R. NO. 5522486 C1-3-18  
ROLL NO. 33832/TIN # 129-871-009  
SEC. No. V-0019296 VALID FROM 04/13/2016 UNTIL 04/14/2019/PASIG CITY  
ADDRESS: 3171 MANAYAT ST. CUBAO, Q.C.



## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
First Metro Philippine Equity Exchange Traded Fund, Inc.  
18th Floor, PSBank Center  
777 Paseo de Roxas corner Sedefio Street  
Makati City

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of First Metro Philippine Equity Exchange Traded Fund, Inc. (the Fund), which comprise the statements of financial position as at December 31, 2017 and 2016, and the 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, 2017 and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2017 and 2016 and its financial performance and its cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

#### Basis for Opinion

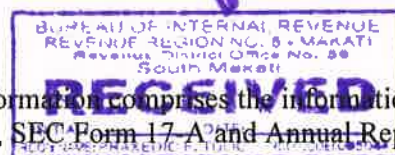
We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, are of most significance in our audit of the financial statements of the current period. We have determined that there is no key audit matter to communicate in our report.

#### Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.



Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

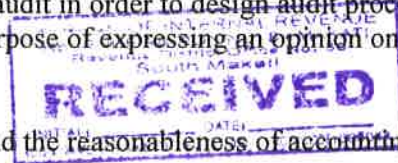
Those charged with governance are responsible for overseeing the Fund's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.





Building a better  
working world

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The engagement partner on the audit resulting in this independent auditor's report is Ray Francis C. Balagtas.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas

Partner

CPA Certificate No. 108795

SEC Accreditation No. 1510-A (Group A),

October 1, 2015, valid until September 30, 2018

Tax Identification No. 216-950-288

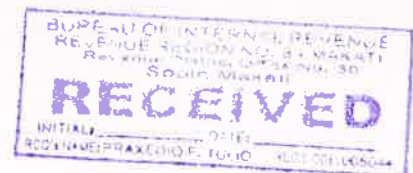
BIR Accreditation No. 08-001998-107-2018,

February 14, 2018, valid until February 13, 2021

PTR No. 6621226, January 9, 2018, Makati City

March 16, 2018

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**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
**STATEMENTS OF FINANCIAL POSITION**



	2017	2016
<b>ASSETS</b>		
Cash in banks (Notes 6 and 14)	₱12,064,174	₱4,161,350
Financial assets at fair value through profit or loss (Notes 7 and 14)	1,407,701,912	859,772,130
Receivables (Note 8)	1,059,715	680,484
	<b>₱1,420,825,801</b>	<b>₱864,613,964</b>

**LIABILITIES AND EQUITY**

<b>Liabilities</b>		
Accounts payable and accrued expenses (Note 9)	₱1,271,854	₱1,159,692
<b>Equity</b>		
Capital stock (Note 10)	1,094,200,000	765,000,000
Additional paid-in capital	92,152,483	8,502,216
Retained earnings	233,201,464	89,952,056
	1,419,553,947	863,454,272
	<b>₱1,420,825,801</b>	<b>₱864,613,964</b>

*See accompanying Notes to Financial Statements.*



**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
**STATEMENTS OF COMPREHENSIVE INCOME**

	2017	2016	2015
<b>INVESTMENT INCOME (LOSS)</b>			
Trading and securities gains (losses) - net (Note 7)	P257,270,680	P10,265,605	(P66,068,329)
Dividend income (Notes 7 and 14)	18,709,748	18,315,092	23,932,467
Interest income (Notes 6 and 14)	554	509	739
	<b>275,980,982</b>	<b>28,581,206</b>	<b>(42,135,123)</b>
<b>EXPENSES</b>			
Management fees (Note 14)	6,672,251	5,586,013	7,313,760
Custodian and transfer agency fees (Note 14)	933,074	1,051,710	513,419
Taxes and licenses	536,165	35,159	54,985
Regulatory and filing fees	489,306	347,216	392,813
Brokers' commissions (Note 14)	396,558	166,167	406,242
Information technology expenses	342,970	762,082	494,540
Directors' and officers' fees (Note 14)	301,500	373,000	366,215
Miscellaneous	228,993	208,201	128,824
	<b>9,900,817</b>	<b>8,529,548</b>	<b>9,670,798</b>
<b>NET INVESTMENT INCOME (LOSS)</b>			
<b>BEFORE FINAL TAX</b>	<b>266,080,165</b>	<b>20,051,658</b>	<b>(51,805,921)</b>
<b>PROVISION FOR FINAL TAX</b> (Note 12)	<b>322,433</b>	<b>127,447</b>	<b>248,244</b>
<b>NET INVESTMENT INCOME (LOSS)*</b>	<b>P265,757,732</b>	<b>P19,924,211</b>	<b>(P52,054,165)</b>
<b>BASIC/DILUTED EARNINGS (LOSS)</b>			
<b>PER SHARE</b> (Note 11)	<b>P27.2908</b>	<b>P2.1650**</b>	<b>(P4.5074)**</b>

\* There are no other comprehensive income items for 2017, 2016 and 2015.

\*\*Weighted average number of outstanding common shares in 2016 and 2015 was recomputed after giving retro-active effect to stock dividends distributed in 2017 (Note 11).

See accompanying Notes to Financial Statements.

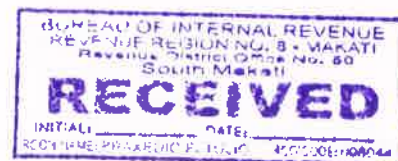


**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
**STATEMENTS OF CHANGES IN EQUITY**

	Number of Shares Outstanding (Note 10)	Capital Stock (Note 10)	Additional Paid-in Capital	Retained Earnings	Total Equity
<b>Balances at January 1, 2017</b>	7,650,000	₱765,000,000	₱8,502,216	₱89,952,056	₱863,454,272
Net investment income	-	-	-	265,757,732	265,757,732
Stock dividends (Note 10)	932,000	93,200,000	29,308,324	(122,508,324)	-
Subscriptions during the year	2,370,000	237,000,000	54,596,918	-	291,596,918
Shares redeemed during the year	(10,000)	(1,000,000)	(254,975)	-	(1,254,975)
<b>Balances at December 31, 2017</b>	<b>10,942,000</b>	<b>₱1,094,200,000</b>	<b>₱92,152,483</b>	<b>₱233,201,464</b>	<b>₱1,419,553,947</b>
<b>Balances at January 1, 2016</b>	11,800,000	₱1,180,000,000	₱85,665,585	₱74,747,905	₱1,340,413,490
Net investment income	-	-	-	19,924,211	19,924,211
Subscriptions during the year	850,000	85,000,000	9,612,146	-	94,612,146
Shares redeemed during the year	(5,000,000)	(500,000,000)	(86,775,515)	(4,720,060)	(591,495,575)
<b>Balances at December 31, 2016</b>	<b>7,650,000</b>	<b>₱765,000,000</b>	<b>₱8,502,216</b>	<b>₱89,952,056</b>	<b>₱863,454,272</b>
<b>Balances at January 1, 2015</b>	7,700,000	₱770,000,000	₱3,026,300	₱126,802,070	₱899,828,370
Net investment loss	-	-	-	(52,054,165)	(52,054,165)
Subscriptions during the year	4,800,000	480,000,000	100,506,620	-	580,506,620
Shares redeemed during the year	(700,000)	(70,000,000)	(17,867,335)	-	(87,867,335)
<b>Balances at December 31, 2015</b>	<b>11,800,000</b>	<b>₱1,180,000,000</b>	<b>₱85,665,585</b>	<b>₱74,747,905</b>	<b>₱1,340,413,490</b>

*See accompanying Notes to Financial Statements.*

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**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
**STATEMENTS OF CASH FLOWS**

	2017	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net investment income (loss) before final tax	₱266,080,165	₱20,051,658	(₱51,805,921)
Adjustments for:			
Net unrealized (gains) losses from changes in fair value of equity securities (Note 7)	(248,137,659)	14,085,724	71,026,766
Dividend income (Note 7)	(18,709,748)	(18,315,092)	(23,932,467)
Interest income (Note 6)	(554)	(509)	(739)
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Financial assets at FVPL	(299,792,123)	463,566,724	(510,343,004)
Receivables	10,000	896	200,002
Increase in accounts payable and accrued expenses	112,162	198,101	154,373
Net cash generated from (used in) operations	(300,437,757)	479,587,502	(514,700,990)
Dividend received	18,320,517	18,676,651	23,100,088
Interest received	554	509	739
Income tax paid (Note 12)	(322,433)	(127,447)	(248,244)
Net cash generated from (used in) operating activities	(282,439,119)	498,137,215	(491,848,407)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of capital stock	291,596,918	94,612,146	580,506,620
Payments for shares redeemed	(1,254,975)	(591,495,575)	(87,867,335)
Net cash provided by (used in) financing activities	290,341,943	(496,883,429)	492,639,285
<b>NET INCREASE IN CASH IN BANKS</b>	<b>7,902,824</b>	<b>1,253,786</b>	<b>790,878</b>
<b>CASH IN BANKS AT BEGINNING OF PERIOD</b>	<b>4,161,350</b>	<b>2,907,564</b>	<b>2,116,686</b>
<b>CASH IN BANKS AT END OF PERIOD</b> (Note 6)	<b>₱12,064,174</b>	<b>₱4,161,350</b>	<b>₱2,907,564</b>

See accompanying Notes to Financial Statements.

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**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**1. Corporate Information**

First Metro Philippine Equity Exchange Traded Fund, Inc. (the Fund) was incorporated on January 15, 2013. The Fund's registration under Republic Act (RA) No. 2629, the *Philippine Investment Company Act*, Securities and Exchange Commission (SEC) Exchange Traded Fund (ETF) Rules, and the Securities Regulation Code is an open-end investment company engaged in the business of investing, reinvesting and trading in and issuing and redeeming its shares of stock in creation units in exchange for basket of equity securities representing an index. The Fund's shares were listed with the Philippine Stock Exchange (PSE) on December 2, 2013.

As a licensed ETF, the Fund offers to qualified trading participants, on a continuous basis, the shares of the Fund which are issuable and redeemable in predetermined creation units. The Board approved during its meeting on December 11, 2015, the reduction of the number of shares comprising one creation unit from the current Two Hundred Thousand (200,000) to Fifty Thousand (50,000) shares. On December 13, 2016, the Board approved to reduce further the number of shares per creation unit from Fifty Thousand (50,000) to Ten Thousand shares. Shares of the Fund may be directly redeemed in exceptional circumstances as approved by the SEC.

The Fund is majority-owned by First Metro Investment Corporation (First Metro or the Parent Company) and its ultimate parent company is Metropolitan Bank & Trust Company (MBTC). First Metro Asset Management, Inc. (FAMI), a majority-owned subsidiary of First Metro, serves as the fund manager and principal distributor of the Fund. Metropolitan Bank & Trust Company - Trust Banking Group (MBTC-TBG) serves as the Fund's stock and transfer agent. First Metro Securities Brokerage Corporation (FMSBC) serves as the Fund's market maker. The Fund's authorized participants are FMSBC and IGC Securities, Inc.

The registered office address of the Fund is at 18th Floor, PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City.

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**2. Summary of Significant Accounting Policies**

Basis of Financial Statement Preparation

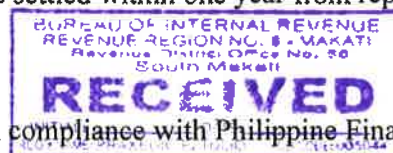
The accompanying financial statements have been prepared under the historical cost basis except for financial assets at fair value through profit or loss (FVPL) that have been measured at fair value. The financial statements are presented in Philippine peso, the Fund's functional currency. All amounts in the financial statements are rounded to the nearest peso unless otherwise indicated.

Presentation of Financial Statements

The Fund presents its statements of financial position in order of liquidity. As of December 31, 2017 and 2016, financial assets comprised of cash in banks, financial assets at FVPL, and receivables which are realizable within one year from reporting date. The Fund's financial liabilities consist of accounts payable and accrued expenses which are due to be settled within one year from reporting date.

Statement of Compliance

The financial statements of the Fund have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).





#### Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Fund assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Fund and all of the counterparties.

Income and expenses are not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Fund.

In December 31, 2017 and 2016, the Fund has no offsetting arrangements with its counterparties.

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Fund has adopted the following amendments starting January 1, 2017. Adoption of these amendments did not have any significant impact on the Fund's financial position or performance.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)
- Amendments to Philippine Accounting Standard (PAS) 7, *Statement of Cash Flows, Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

#### **Summary of Significant Accounting Policies**

##### Fair Value Measurement

The Fund measures equity securities at fair value at each reporting date. Fair value is 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.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Fund. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and an ask price (e.g., an input from a dealer market), the price between the bid-ask price spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.



All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

##### *Date of recognition*

The Fund recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial instruments that require delivery within the time frame established by regulation or convention in the marketplace are recognized on trade date. Deposits and receivables are recognized when cash is advanced or when the earning process is completed.

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

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

As of December 31, 2017 and 2016, the Fund has no AFS investments, HTM investments and financial liabilities at FVPL.

##### *Financial assets at FVPL*

Financial assets at FVPL include financial assets that are:

- acquired and held for trading purposes;
- designated upon initial recognition as at FVPL; and
- stand-alone or bifurcated embedded derivative financial instruments not designated as effective hedging.

Financial assets are classified as held for trading (HFT) if they are acquired principally for the purpose of selling or repurchasing in the near term.



Financial assets may be designated by management on initial recognition as designated financial assets at FVPL 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, liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets at FVPL comprise of quoted equity securities. These securities are carried at fair value, and realized and unrealized gains and losses on these instruments are recognized in 'Trading and securities gains (losses) - net' in the statement of comprehensive income. Dividend earned on financial assets held for trading is reported under 'Dividend income' in the statement of comprehensive income.

#### *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 financial assets at FVPL or designated as AFS investments. Receivables consist of accounts receivable, due from brokers and dividends receivable.

After initial measurement, receivables are subsequently measured at amortized cost using the effective interest method, less any 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 effective interest rate (EIR). The amortization, if any, is included in 'Interest income' in the statement of comprehensive income. The losses arising from impairment are recognized in 'Provision for credit losses' in the statement of comprehensive income.

This accounting policy applies to the Fund's 'Cash in Banks' and 'Receivables' accounts.

#### *Financial liabilities at amortized cost*

Issued financial instruments or their components, are classified as liabilities under the appropriate financial liability accounts, where the substance of the contractual arrangements result in the Fund 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.

This accounting policy applies to the Fund's 'Accounts payable and accrued expenses' account.



*Due to and due from brokers*

Amounts due to brokers are payables for securities purchased (in a regular way transaction) that have been contracted for but not yet delivered on the reporting date. Refer to the accounting policy for 'Financial liabilities at amortized cost' for recognition and measurement.

Amounts due from brokers are receivables for securities sold (in a regular way transaction) that have been contracted for but not yet delivered as of the reporting date. Refer to accounting policy for 'Receivables' for recognition and measurement.

The Fund recognizes a net due to or due from brokers in relation to subscription and redemption and related trade transactions by the Fund investors and authorized participants, respectively.

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 Fund 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 Fund 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 Fund 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 Fund'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 Fund could be required to repay.

*Financial liabilities*

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

Impairment of Financial Assets

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



The Fund assesses whether objective evidence of impairment exists individually for its cash in banks and receivables.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the financial asset is reduced through use of an allowance account and the amount of loss is charged against profit or loss. Interest income continues to be recognized based on the original EIR 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, if any, has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Provision for credit losses' in the statement of comprehensive income.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Fund and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates and other sales taxes or duties. The Fund assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or as an agent. The Fund 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 income is recognized:

#### *Trading and securities gains (losses) – net*

Trading and securities gains (losses) represents results arising from gains and losses from changes in the fair values and gains and losses on sale of financial assets at FVPL.

#### *Dividend income*

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

#### *Interest income*

Interest income is recognized in the statement of income as it accrues, taking into account the effective yield of the asset. Interest income includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an EIR basis.

#### Expense Recognition

Expenses are recognized when decrease in future economic benefits related to decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized as incurred.

The following specific recognition criteria must also be met before expense is recognized:

#### *Management fee*

Management fee is accrued over time at 0.50% of average daily net asset value (NAV) of the Fund plus 12.00% value added tax (VAT).



*Custodian and transfer agency fees*

This includes custodian fee, retainers fee and transaction charges which are accrued upon receipt of monthly billings.

*Brokers' commission*

Brokerage commission is recognized upon execution of trade.

*Taxes and licenses*

This includes local taxes which are recognized when incurred.

Stock transaction tax

Stock transaction tax, amounting to 0.05% of gross selling price of stocks sold, is incurred on sale of equity securities listed and traded through the PSE.

Income Taxes

Income tax on profit or loss for the year comprises 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 other comprehensive income (OCI).

*Current tax*

Current tax assets and liabilities for the current year 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, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carry forward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating losses carryover (NOLCO), to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences and carry forward of unused tax credits from excess MCIT over RCIT and unused 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.

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 future taxable income 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 income will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at 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 tax relate to the same taxable entity and the same taxation authority.



Current tax and deferred tax relating to items recognized in equity are recognized in OCI.

#### NAV per Share

As defined in the Fund's prospectus, NAV per share (NAVPS) is computed by dividing the Fund's net assets (total assets less total liabilities) by the total number of redeemable shares outstanding as of the reporting date.

#### Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect to stock dividends declared, stock rights exercised and stock splits, if any, declared during the year.

Diluted EPS is calculated by dividing the profit attributable to ordinary shareholders (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

As of December 31, 2017, 2016 and 2015 there were no potential common shares with dilutive effect on the basic EPS of the Fund.

#### Share Capital Transactions

The Fund issues redeemable shares in creation units, which are redeemable at the holder's option. Redeemable shares can be put back to the Fund at any time in creation units for a basket of securities and cash equal to a proportionate share of the Fund's NAV on date of redemption.

The Fund's redeemable shares have all of the following features which qualify them as puttable instruments classified as equity instruments:

- The shares entitle the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation.
- The shares are in the class of instruments that is subordinate to all other classes of instruments.
- All shares in the class of instruments that is subordinate to all other classes of instruments have identical features.
- The shares do not include any contractual obligation to deliver cash or another financial asset other than the holder's right to a pro rata share of the Fund's net assets.
- The total expected cash flows attributable to the shares over their life are based substantially on the statement of comprehensive income, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund over the life of the shares.

In addition, the Fund does not have other financial instruments or contract that have:

- total cash flows based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund (excluding any effect of such instrument or contract); and
- the effect of substantially restricting or fixing the residual return to the puttable instruments holders.



The Fund continuously assesses the classification of its redeemable shares. If the redeemable shares cease to have all the features or meet the conditions stated above, the Fund will reclassify the shares as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognized in equity. If the redeemable shares subsequently have all the features and meet the above conditions, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of reclassification.

The issuance, acquisition and resale of redeemable shares are accounted for as equity transactions. Upon issuance of shares (or sale of treasury shares), the consideration received is included in equity. Own equity instruments which are acquired (treasury shares) are deducted from equity and accounted for at amounts equal to the consideration paid, including any directly attributable incremental costs.

Transaction costs incurred by the Fund in issuing, acquiring or selling its own equity instruments are deducted against 'Additional paid-in capital' (APIC). If the APIC is not sufficient to absorb these transaction costs, any excess is charged against 'Retained earnings'.

#### Additional Paid-in Capital

Additional paid-in capital is the excess amount paid by an investor over the par value of a stock issue.

#### Retained Earnings

The amounts in retained earnings include accumulated investment income of previous periods reduced by the excess of redemption costs over the original selling price of redeemed shares and transaction costs in excess of APIC.

#### Dividend Distribution

Dividend distributions are at the discretion of the Fund. A dividend distribution to the Fund's shareholders is accounted for as a deduction from retained earnings. A proposed cash dividend is recognized as a liability in the period in which it is approved by the Board of Directors (BOD).

A proposed stock dividend is recognized as a reduction in equity in the period in which it is approved by the BOD and shareholders representing at least two-thirds (2/3) of the outstanding capital stock. Dividends declared during the year that are approved after the reporting date are dealt with as an event after the reporting date.

#### Provisions and Contingencies

Provisions are recognized when the Fund has a present obligation (legal or constructive) where, 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. When the Fund expects some or all of a provision to be reimbursed, 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 statements of comprehensive income, net of any reimbursement.

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying 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 up to the date of the approval of BOD of the financial statements that provide additional information about the Fund's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are non-adjusting events are disclosed in notes to the financial statements when material.





### Standards Issued but not yet Effective

Standards issued but not yet effective are listed below. The listing consists of standards and interpretations issued, which the Fund reasonably expects to be applicable at a future date. The Fund intends to adopt these standards when they become effective. Except as otherwise indicated, the Fund does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on its financial statements.

#### *Effective beginning on or after January 1, 2018*

- PFRS 2, *Classification and Measurement of Share-based Payment Transactions* (Amendment)
- PFRS 4, *Applying PFRS 9, Financial Instruments, with PFRS 4* (Amendment)
- PFRS 15, *Revenue from Contracts with Customers*
- PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle) (Amendment)
- PAS 40, *Investment Property - Transfers of Investment Property* (Amendment)  
Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

#### *Effective beginning on or after January 1, 2019*

- PFRS 9, *Prepayment Features with Negative Compensation* (Amendment)
- PFRS 16, *Leases*
- PAS 28, *Long-term Interests in Associates and Joint Ventures* (Amendment)
- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*

#### *Deferred effectivity*

- PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendment)

Pronouncements that are deemed to have significant impact on the financial statements of the Fund are described below:

#### *Effective beginning on or after January 1, 2018*

##### *PFRS 9, Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Fund plans to adopt the new standard on the mandatory effective date and will not restate comparative information.

In 2017, the Fund performed its initial impact assessment of all three phases of PFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information becoming available to the Fund when it adopts PFRS 9 in 2018. The initial adoption of PFRS 9 will have no effect on the classification and measurement of the Fund's financial instruments as its investment portfolio consists only of financial instruments classified as financial assets at FVPL. The adoption will have an impact on the Fund's amount of provisioning based on the new requirements of the expected credit loss model.



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### 3. Significant Estimates and Judgments

The preparation of the financial statements in compliance with PFRS requires the Fund to use estimates, assumptions and judgments. These estimates and assumptions affect the reported amounts of assets and liabilities and contingent assets and liabilities, if any, at the reporting date, as well as the reported income and expenses for the period. Although the estimates are based on management's best knowledge and judgment of current facts at the reporting date, the actual outcome may differ from these estimates, which may possibly be significant.

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.

#### Judgment

##### *Classification of redeemable shares as equity*

The Fund continually assesses whether all of the conditions indicated in its accounting policy on Share Capital Transactions (Note 2) are met by the redeemable shares it issues to retain the classification of the shares as equity instruments.

In applying its judgment, management considers the rights and claims that each shareholder is entitled to from the Fund on shares held, the type and features of issued shares including the terms of any contractual obligation, and the basis for the cash flows attributable to the entirety of the term of the shares.

As of year-end, management believes that there is no significant accounting estimate in respect to the preparation of the financial statements.

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### 4. Financial Risk Management Objectives and Policies

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

- a. Credit risk
- b. Liquidity risk
- c. Market risk

#### Risk Management Framework

The BOD has overall responsibility for the oversight of the Fund's risk management process. Supporting the BOD in this function is the Audit Committee (AC).

The AC is responsible for monitoring compliance with the Fund's risk management policies and procedures, and for reviewing the adequacy of risk management practices in relation to the risks faced by the Fund. The AC is assisted in these functions by the Internal Audit Group (IAG) of MBTC. The IAG undertakes both the Fund's regular and ad-hoc reviews of risk management controls and procedures through the audit of FAMI's processes and operations, being the Investment Manager, the results of which are reported to the AC.

Under the management and distribution agreement of the Fund with FAMI as its Investment Manager and Principal Distributor, FAMI handles the management and administration of the Fund and is authorized to setup marketing network and accredited sub-dealers and agents to sell the shares of the Fund. In addition, under the memorandum of agreement between FAMI and First Metro, the former engages the latter to provide research assistance and technical advice on the implementation and ongoing management of the Investment Guidelines outlined in the Fund's prospectus.



First Metro's BOD, through its board-level Risk Oversight Committee (ROC), has an oversight function in reviewing and assessing all risks associated with the Fund.

The Compliance Division (CD) of First Metro also collaborates with the ROC. The main task of the CD is to monitor and assess compliance of the Fund to the rules and regulations outlined in Fund's prospectus as well as their compliance with the rules of the relevant regulatory bodies. The CD is also tasked to properly disseminate these rules and regulations to the Fund.

First Metro's Chief Risk Officer (CRO) manages and oversees the day-to-day activities of the Risk Management Division (RMD). RMD is tasked with identifying, analyzing, measuring, controlling and evaluating risk exposures arising from fluctuations in prices or market values of instruments, products and transactions of the Parent Company and subsidiaries. It is responsible for recommending trading risk and liquidity management policies, setting uniform standards of risk assessment and measurement, providing senior management with periodic evaluation and simulation and analyzing limit compliance exceptions. The RMD furnishes daily reports to FAMI and provides monthly reports to the ROC.

#### Nature of Risks and Risk Management Objectives and Policies

The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects of such unpredictability on the Fund's financial performance.

The Fund is governed by the provisions in its prospectus that incorporated relevant investment rules and regulations by regulators such as the Investment Company Act, SEC ETF Rules, and the SEC, among others.

The Fund's investment activities are guided by the following limits/conditions:

- Investments in margin purchases of securities, commodity futures contracts, precious metals, unlimited liability investments, short-selling of currencies and securities are not allowed.
- It shall not incur any further debt or borrowing.
- It shall not participate in underwriting or selling activities in connection with the public distribution of securities except for its own capital stock.
- Investment in any company for the purpose of exercising control or management.
- Investment in the securities of other investment companies.
- Investment in real estate properties and developments.
- Purchasing or selling of securities other than capital stocks of the Fund from or to any of its officers or directors or the officers and directors of its investment adviser/s, manager or distributor/s or firm/s of which any of them are members is prohibited.
- It shall not engage in lending operations.

As an ETF, the Fund is not subject to the maximum or minimum investment limitations or liquidity requirements provided under the Investment Company Act.

#### *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 Fund manages its credit risks by setting limits for issuers/borrowers. As credit ratings can change and affect the Fund's returns, a credit analysis is adopted to standardize operational procedure that will support in assessing the credit quality and the credit worthiness of the counterparty. Transactions are structured to include collateralization or various credit enhancements when necessary. Credit exposures are closely monitored to ensure payments are made on time.

*Maximum Exposure to Credit Risk and Investment Risk*

The maximum exposure to credit risk and investment risk is represented by the carrying amounts of the financial assets that are reflected in the statements of financial position and the related notes.

As of December 31, 2017 and 2016, the Fund does not hold collateral nor has any other credit enhancements for the outstanding financial assets.

*Concentration of risks of financial assets with credit risk on receivables and investment risk exposure*

An analysis of concentrations of credit risk and investment risk by industry is shown below:

	December 31, 2017			
	Cash in banks	Receivables	Financial Assets at FVPL	Total
Holding firms	₱-	₱334,519	₱548,921,340	₱549,255,859
Financial intermediaries	12,064,174	595,116	276,590,188	289,249,478
Property	-	-	265,038,000	265,038,000
Industrial companies	-	-	152,721,508	152,721,508
Services	-	130,080	148,474,396	148,604,476
Mining and oil	-	-	15,956,480	15,956,480
	₱12,064,174	₱1,059,715	₱1,407,701,912	₱1,420,825,801

	December 31, 2016			
	Cash in banks	Receivables	Financial Assets at FVPL	Total
Holding firms	₱-	₱221,312	₱238,987,575	₱239,208,887
Financial intermediaries	4,161,350	449,172	251,938,047	256,548,569
Property	-	-	156,651,960	156,651,960
Industrial companies	-	-	130,106,210	130,106,210
Services	-	-	71,914,538	71,914,538
Mining and oil	-	-	10,173,800	10,173,800
Others	-	10,000	-	10,000
	₱4,161,350	₱680,484	₱859,772,130	₱864,613,964

As of December 31, 2017 and 2016, the Fund's financial assets are all located in the Philippines.

The following tables show the credit quality of the Fund's debt instruments and investment grades for equity securities:

	December 31, 2017				
	Neither Past Due nor Impaired				
	High Grade	Standard Grade	Substandard Grade	Not rated	Total
Receivables:					
Dividend receivable	₱422,865	₱636,850	₱-	₱-	₱1,059,715
Cash in banks	12,064,174	-	-	-	12,064,174
Financial assets at FVPL*	946,962,888	460,739,024	-	-	1,407,701,912
	₱959,449,927	₱461,375,874	₱-	₱-	₱1,420,825,801

\* Quoted equity securities



December 31, 2016					
Neither Past Due nor Impaired					
	High Grade	Standard Grade	Substandard Grade	Not rated	Total
<b>Receivables:</b>					
Dividend receivable	₱187,114	₱483,371	₱-	₱-	₱670,484
Other receivables	-	-	-	10,000	10,000
Cash in banks	4,161,350	-	-	-	4,161,350
Financial assets at FVPL*	603,800,448	255,971,682	-	-	859,772,130
	₱608,148,912	₱256,455,053	₱-	₱10,000	₱864,613,964

\* Quoted equity securities

The Fund's basis in grading its financial assets is as follows:

High grade - Entities that are highly liquid, sustain operating trends, unlikely to be affected by external factors and have competent management that uses current business models.

Standard grade - Entities that meet performance expectation, unlikely to be affected by external factors and have competent management that uses current business models.

Substandard grade - Entities with marginal liquidity and have a declining trend in operations or an imbalanced position in their statements of financial position, though not to the point that repayment is jeopardized.

Not Rated - Entities for which there is no established credit rating.

As of December 31, 2017 and 2016, the Fund has no past due or impaired receivables.

#### Liquidity Risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with the financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or the counterparty failing on repayment of a contractual obligation; or the inability to generate cash inflows as anticipated.

The Fund is also exposed to daily cash redemptions of redeemable shares. The Fund therefore invest majority of its assets in the basket of securities as indicated in the Fund's prospectus.

The Fund anticipates a gradual turnover in portfolio with the aim of ensuring the preservation of capital and liquidity.

The table below, for the period indicated, shows the maturity profile of the financial assets, financial liabilities and redeemable shares of the Fund based on contractual undiscounted cash flows:

December 31, 2017							
	On demand	Up to 1 month	More than 1 to 3 months	More than 3 to 6 months	More than 6 to 12 months	Beyond 1 year	Total
<b>Financial Assets</b>							
Cash in banks	₱12,064,174	₱-	₱-	₱-	₱-	₱-	₱12,064,174
Financial assets at FVPL	1,407,701,912	-	-	-	-	-	1,407,701,912
Receivables	-	1,059,715	-	-	-	-	1,059,715
	1,419,766,086	1,059,715	-	-	-	-	1,420,825,801
<b>Financial Liabilities</b>							
Payable to FAMI	-	560,910	-	-	-	-	560,910
Accrued expenses	-	47,207	204,516	-	-	-	251,723
Custodian fee and transaction charges payable	-	80,719	-	-	-	-	80,719
	-	688,836	204,516	-	-	-	893,352
Redeemable shares	1,419,553,947	-	-	-	-	-	1,419,553,947
<b>Net asset (liability)</b>	<b>₱212,139</b>	<b>₱370,879</b>	<b>(₱204,516)</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱378,502</b>



December 31, 2016							
	On demand	Up to 1 month	More than 1 to 3 months	More than 3 to 6 months	More than 6 to 12 months	Beyond 1 year	Total
<b>Financial Assets</b>							
Cash in banks	₱4,161,350	₱-	₱-	₱-	₱-	₱-	₱4,161,350
Financial assets at FVPL	859,772,130	-	-	-	-	-	859,772,130
Receivables	10,000	670,484	-	-	-	-	680,484
	863,943,480	670,484	-	-	-	-	864,613,964
<b>Financial Liabilities</b>							
Payable to FAMI	-	346,816	-	-	-	-	346,816
Accrued expenses	-	62,082	423,970	-	-	-	486,052
Custodian fee and transaction charges payable	-	76,288	-	-	-	-	76,288
Due to brokers	-	23,754	-	-	-	-	23,754
	-	508,940	423,970	-	-	-	932,910
Redeemable shares	863,454,272	-	-	-	-	-	863,454,272
Net asset (liability)	₱489,208	₱161,544	(₱423,970)	₱-	₱-	₱-	₱226,782

### Market Risk

Market risk is the risk of change in fair value of financial instruments from fluctuations in equity prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Fund's exposure to market risk relates to equity price risk.

As of December 31, 2017 and 2016, the Fund does not have debt instruments that would expose it to interest rate risk.

The risks inherent to equity ETFs are related to the volatility of the stock market. Changes in prices of equity securities that compose the Fund's basket of securities may substantially vary in a short span of time. The performance of the companies whose shares are included in the portfolio of the Fund is very much dependent on the people behind those companies. Added to that, stock prices are sensitive to political and economic conditions that normally change from time to time. Fluctuations in the value of securities in which the Fund invests will cause the NAV of the Fund to fluctuate.

The Fund's financial instruments comprise equity investments. The Fund Manager uses an indexing approach in achieving its investment objective. The Fund's investment objective is not to outperform the Philippine Stock Exchange index (PSEi) but to track this index as close as possible. Consequently, the Fund does not intend to seek provisional defensive position during instances of market decline or overvaluation.

The approach used to select the Underlying Index may prevent the Fund from considerably outperforming the PSEi, however, the indexing approach may also result to the reduction of the risks that the Fund is faced with.

To meet the Fund's investment objectives, FAMI intends to manage the Fund using an index replication strategy, which involves investing in substantially all of the securities and in approximately the same weights as in the PSEi. When conditions permit, as determined by FAMI, FAMI may use a representative sampling indexing strategy, instead of full replication strategy, to manage the Fund. This would involve investing in a representative sample of securities that collectively has an investment profile optimally similar to the PSEi, which it aims to track. The securities selected, in this particular case, are expected to have, in the aggregate, investment and fundamental characteristics, as well as liquidity measures, substantially similar to those in the PSEi. The use of representative sampling may result in higher chances of incurring tracking error risk as opposed to replication of an index.



A change in the index tracking strategy may result in a change in the composition of the securities in the Underlying Index, but shall not be a change in the investment objective or policy of the Fund in accordance with the SEC ETF Rules.

The Fund will at times be substantially fully invested. In case when rebalancing the portfolio is required due to changes in the index composition or diminishing liquidity of certain index component stock, the portfolio may be under invested but limited to at least 80.00% of its assets. The Fund may then temporarily invest the remainder of its assets in liquid investments, including cash, cash equivalents, money market instruments, and shares of money market funds as advised by FAMI.

*Equity price risk*

The Fund's price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices. 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 Fund measures the sensitivity of its investment securities by using the PSEi fluctuations.

The following table sets forth the impact of changes in the PSEi on the Fund's unrealized gain (loss) on its financial assets at FVPL in 2017 and 2016:

	2017		2016	
Changes in PSEi	9.83%	(9.83%)	9.64%	(9.64%)
Changes in fair value of financial assets at FVPL by industry classification:				
Holdings	₱58,530,339	(₱58,530,339)	₱34,591,896	(₱34,591,896)
Property	29,738,180	(29,738,180)	17,905,343	(17,905,343)
Financial	23,824,840	(23,824,840)	11,834,327	(11,834,327)
Services	13,097,485	(13,097,485)	7,182,100	(7,182,100)
Industrial	12,028,192	(12,028,192)	10,378,891	(10,378,891)
Mining and oil	1,209,396	(1,209,396)	641,338	(641,338)
<b>Total</b>	<b>₱138,428,432</b>	<b>(₱138,428,432)</b>	<b>₱82,533,895</b>	<b>(₱82,533,895)</b>
As a percentage of the Fund's net unrealized gain (loss) for the year	55.79%	(55.79%)	(585.94%)	585.94%

*Index Risk*

The Fund is subject to the risk that the Underlying Index may underperform other segments of the equity market or the equity market as a whole. The Fund aims to track the PSEi, as the Underlying Index, which is rebalanced every six months. The returns of the Fund may be affected by such rebalancing, and the Fund is subject to the risk that it may not accurately track the returns of the PSEi.

The table below provides an analysis of the effect on net assets and profit (loss) of the Fund due to a change in market index with all other variables held constant.

	2017	2016
Actual change in underlying index	24.73%	0.11%
Actual changes in net assets and profit or loss	59,961,074	₱19,690



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## 5. Fair Value Measurement

As of December 31, 2017 and 2016, the carrying values of the Fund's financial assets and liabilities as reflected in the statements of financial position and related notes approximate their fair values. The methods and assumptions used by the Fund in estimating fair values of financial instruments are as follows:

### *Financial assets at FVPL*

Fair values are based on quoted market prices, which are considered as Level 1 input.

### *Financial assets and liabilities carried at amortized cost*

Carrying values approximate fair values since these instruments are liquid and have short-term maturities (less than three months). These financial instruments comprise cash in banks, receivables, and accounts payable and accrued expenses.

As of December 31, 2017 and 2016, the Fund has no financial instruments that are reported under levels 2 and 3, and there were no transfers made among the three levels in the fair value hierarchy.

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## 6. Cash in Banks

This account represents the Fund's savings and checking accounts with local banks that bear annual interest rate of up to 0.25% in 2017, 2016 and 2015.

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## 7. Financial Assets at FVPL

Financial assets at FVPL consist of quoted equity securities with net gains (losses) of:

	2017	2016	2015
Net unrealized gains (losses) from changes in fair value of equity securities	<b>₱248,137,659</b>	(₱14,085,724)	(₱71,026,766)
Net realized gains on sale of equity securities	<b>9,133,021</b>	24,351,329	4,958,437
	<b>₱257,270,680</b>	<b>₱10,265,605</b>	<b>(₱66,068,329)</b>

Dividend income earned from financial assets at FVPL amounted to ₱18.71 million, ₱18.32 million and ₱23.93 million in 2017, 2016 and 2015, respectively (Note 15).

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## 8. Receivables

This account consists of:

	2017	2016
Dividend receivable	<b>₱1,059,715</b>	<b>₱670,484</b>
Other receivables (Note 14)	-	10,000
	<b>₱1,059,715</b>	<b>₱680,484</b>





## 9. Accounts Payable and Accrued Expenses

This account consists of:

	2017	2016
<b>Financial:</b>		
Payable to FAMI (Note 14)	P560,910	P346,816
Accrued expenses	251,723	486,052
Custodian fee and transaction charges payable	80,719	76,288
Due to brokers (Note 14)	—	23,754
	<b>893,352</b>	<b>932,910</b>
<b>Nonfinancial:</b>		
Documentary stamp tax payable	265,000	150,000
Withholding taxes payable	113,502	76,782
	<b>378,502</b>	<b>226,782</b>
	<b>P1,271,854</b>	<b>P1,159,692</b>

Payable to FAMI represents unpaid management fees.

Accrued expenses include professional fees, information technology fees, listing fees and retainer's fees.

Custodian fee payable represents unpaid fees to the Fund's custodian for daily fees charged based on transactions made and for safekeeping services of the Fund's cash and equity securities.

Due to brokers represents amounts payable to brokers arising from the redemption of shares which are normally settled three days after the transaction date which also includes the cash component. The cash component is the amount of cash required to equalize any differences between the value of securities and the value of closing NAV of the creation units on the day of redemption. Cash settlement will pass through the broker serving also as an authorized participant of the Fund.

## 10. Equity

### Authorized Capital Stock

The Fund's authorized and issued capital stock follow:

	2017		2016	
	Shares	Amount	Shares	Amount
Authorized	30,000,000	P3,000,000,000	30,000,000	P3,000,000,000
Issued and outstanding:				
Balance at the beginning of the period	7,650,000	765,000,000	11,800,000	1,180,000,000
Subscriptions	2,370,000	237,000,000	850,000	85,000,000
Redemptions	(10,000)	(1,000,000)	(5,000,000)	(500,000,000)
Issuance of stock dividends	932,000	93,200,000	—	—
Balance at the end of the period	<b>10,942,000</b>	<b>P1,094,200,000</b>	<b>7,650,000</b>	<b>P765,000,000</b>



The initial authorized capital of the Fund amounting to ₱1.00 billion divided into 10.00 million common redeemable shares of ₱100.00 par value with each share carrying one vote was approved by the SEC on January 15, 2013. The BOD approved and the stockholders ratified on April 16, 2013 the increase in authorized capital stock of the Fund from ₱1.00 billion (10.00 million redeemable common shares) to ₱3.00 billion (30.00 million redeemable common shares) with a par value of ₱100.00 per share. The increase in authorized capital stock and the registration statement was approved by the SEC on August 29, 2013 and November 27, 2013, respectively.

In December 2013, the Parent Company paid ₱750.00 million representing the minimum 25.00% subscribed and paid-up capital for the authorized capital stock of the Fund.

As of December 31, 2017 and 2016, the total number of shareholders owning at least one board lot (equivalent to 10 ETF shares) is 827 and 793, respectively.

#### Dividend

On March 21, 2017 and May 24, 2017, the BOD and Stockholders, respectively, approved the declaration of stock dividends equivalent to 10.00% of its outstanding capital stock for the stockholders of record as at June 8, 2017 and distributed the shares to the stockholders on June 20, 2017.

#### NAV per Share

NAV per share is computed by dividing net assets (total assets less total liabilities) by the total number of shares issued and subscribed as of the date of the statements of financial position.

As of December 31, 2017, 2016 and 2015, NAV per share is computed as follows:

	2017	2016	2015
Net assets (a)	₱1,419,553,947	₱863,454,272	₱1,340,413,490
Number of shares outstanding (b)	10,942,000	7,650,000	11,800,000
NAV per share (a/b)	₱129.7344	₱112.8698	₱113.5944

Securities Regulation Code Rule 68 requires mutual funds to disclose the net asset value per share in the face or in the notes of the financial statements.

The shares of the Fund are listed in the PSE. The shares may be bought and sold through the secondary market at the quoted market price through the trading participants of the PSE. The quoted market price of the share may differ from its NAVPS which are disclosed in the PSE board. However, shares of the Fund may be issued and redeemed only through the authorized participants in creation units. The subscription or redemption of shares in creation units are based on the NAVPS on the date of creation or redemption of the units. The quoted market prices of the Fund's shares as of December 31, 2017, 2016 and 2015 amounted to ₱130.50, ₱112.80 and ₱113.50, respectively.

#### Capital Management

The Fund aims to provide returns which would reflect the performance of the Philippine equities market by investing in a basket of securities included in the PSEi. The portfolio of the Fund is to be rebalanced and reconstituted every six months in order to adjust to the current composition of the PSEi.



Minimum Capital Requirements

As an ETF registered with the SEC, the Fund must continually comply with the minimum subscribed and paid-up capital of ₱250.00 million. As of December 31, 2017 and 2016, the Fund has complied with the externally imposed capital requirement.

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**11. Earnings (Loss) Per Share**

Basic EPS amounts are calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year (adjusted for stock dividends).

The following reflects the income and share data used in the basic earnings per share computations:

	2017	2016	2015
Net investment income (loss) (a)	<b>₱265,757,732</b>	₱19,924,211	(₱52,054,165)
Weighted average number of shares outstanding (b)	<b>9,737,995</b>	9,202,902	11,548,667
Basic/diluted earnings (loss) per share (a/b)	<b>₱27.2908</b>	₱2.1650	(₱4.5074)

As of December 31, 2017, 2016 and 2015, there were no outstanding dilutive potential common shares. Before consideration of the 10.00% stock dividends distributed in 2017, the EPS for 2016 and 2015 were ₱2.4090 and (₱4.9031), respectively.

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**12. Income Taxes**

Provision for final tax pertains to the 20.00% final withholding tax on interest income on peso-denominated deposits with local banks and stock transaction tax incurred on sale of equity securities listed and traded through the PSE amounting to 0.50% of gross selling price on stocks sold.

Current tax regulations provide that the RCIT rate shall be 30.00% starting January 1, 2009 and that interest allowed as a deductible expense is reduced by 33.00% of interest income subjected to final tax.

Starting July 1, 2008, an Optional Standard Deduction (OSD) equivalent to 40.00% of gross income maybe claimed as an alternative deduction in computing for the RCIT. The Fund has elected to claim itemized deductions instead of OSD for its RCIT computations.

The National Internal Revenue Code (NIRC) of 1997 also provides for rules on the imposition of a 2.00% MCIT on the gross income as of the end of the taxable year beginning on the fourth taxable year immediately following the taxable year in which the Fund commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three immediately succeeding taxable years. Furthermore, the regulations allow a NOLCO, which may also be applied against the Fund's taxable income, over a three-year period from the year of occurrence.



Moreover, the NIRC provides that dividends received by a domestic corporation from another domestic corporation shall not be subject to tax.

Details of the Fund's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2014	₱7,346,290	₱7,346,290	₱-	2017
2015	9,670,799	-	9,670,799	2018
2016	6,860,335	-	6,860,335	2019
2017	9,443,260	-	9,443,260	2020
	<b>₱33,320,684</b>	<b>₱7,346,290</b>	<b>₱25,974,394</b>	

The Fund did not set up deferred tax assets on NOLCO for 2017 and 2016 amounting to ₱7.79 million and ₱7.16 million, respectively. The Fund believes that it is not probable that these temporary differences will be realized in the future. The Fund is subject to MCIT in 2017.

Reconciliation of the statutory income tax to effective income tax for 2017, 2016 and 2015 follows:

	2017	2016	2015
Statutory income tax	<b>₱79,824,050</b>	₱6,015,497	(₱15,541,776)
Tax effect of:			
Tax paid and tax-exempt income	<b>(82,794,184)</b>	(12,672,632)	(8,419,249)
Non-deductible expenses/losses	<b>459,589</b>	4,726,481	21,308,030
Movements in unrecognized deferred tax asset	<b>2,832,978</b>	2,058,101	2,901,239
Effective income tax	<b>₱322,433</b>	₱127,447	₱248,244

### 13. Segment Information

For management purposes, the Fund is organized into one main operating segment, which invests in equity securities. All of the Fund's activities are interrelated and interdependent. Accordingly, all significant operating decisions are based upon analysis of the Fund as one segment. The financial results from this segment are equivalent to the financial statements of the Fund as a whole.

The Fund Manager (with its president as Chief Operating Decision Maker (CODM)) monitors and assesses the performance of the Fund based on the daily NAV and NAVPS (Note 10).

The segment's net assets reported to the CODM and reconciliation of net assets under PFRS as of December 31, 2017, 2016 and 2015 follow:

	2017	2016	2015
Financial assets at FVPL	<b>₱1,407,701,912</b>	₱859,772,130	₱1,337,424,578
Cash in bank	<b>12,064,174</b>	4,161,350	2,907,564
Receivables	<b>1,059,715</b>	680,484	1,042,939
Total segment assets	<b>1,420,825,801</b>	864,613,964	1,341,375,081
Total segment liabilities	<b>1,271,854</b>	1,159,692	961,591
Net assets reported to CODM and under PFRS	<b>₱1,419,553,947</b>	₱863,454,272	₱1,340,413,490



The table below analyzes the Fund's investment income (loss) per investment type:

	2017	2016	2015
Equity securities	₱275,980,428	₱28,580,697	(₱42,135,862)
Deposit placements	554	509	739
	₱275,980,982	₱28,581,206	(₱42,135,123)

The Fund's asset producing revenue are all located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

No investment income was derived from a single customer that constitutes 10% or more of the Fund's investment income (loss) in 2017, 2016 and 2015.

#### 14. Related Party Transactions

Parties are related if one party has the ability, directly or indirectly, to control the other parties 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.

The Fund's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members, and
- its Ultimate Parent Company, Parent Company and other subsidiaries of its Parent Company.

In the ordinary course of business, the Fund has transactions with other related parties as follows:

As of and for the year ended December 31, 2017			
	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Ultimate parent company</b>			
Cash in banks		₱452,110	Savings account with 0.25% interest rate
Dividend income	₱452,202		Dividend income from equity investments
Interest income	554		Income from cash in banks
Custodian and transfer agency fees***	109,758	23,747	Fees paid to stock transfer agent
<b>Other related parties</b>			
Management fees (Note 9)*	6,672,251	560,910	0.50%; Monthly fee based on average NAV
Dividend income****	105,750		Dividend income from equity investments
Brokers' commissions**	396,558		Incurred for purchases and sales of equity securities
<b>Key management personnel</b>			
Directors' and officers' fees	301,500		Per diems given to directors and officers during board meetings

\* FAMI

\*\* FMSBC

\*\*\* MBTC-TBG

\*\*\*\*GT Capital Holdings



As of and for the year ended December 31, 2016

	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Ultimate parent company</b>			
Cash in banks		₱256,712	Savings account with 0.25% interest rate
Dividend income	₱504,780		Dividend income from equity investments
Interest income	509		Income from cash in banks
Custodian and transfer agency fees***	548,048	76,288	Fees paid to stock transfer agent
<b>Other related parties</b>			
Management fees (Note 9)*	5,586,013	346,816	0.50%; Monthly fee based on average NAV
Dividend income****	139,440		Dividend income from equity investments
Brokers' commissions**	166,167		Incurred for purchases and sales of equity securities
Other receivables**		10,000	Expenses shouldered by the Fund; due and demandable
Due to brokers**		23,754	Cash component on stock redemption or subscriptions, settled at T+3
<b>Key management personnel</b>			
Directors' and officers' fees	373,000		Per diems given to directors and officers during board meetings
* FAMI			
** FMSBC			
*** MBTC-TBG			
****GT Capital Holdings			

As of and for the year ended December 31, 2015

	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Ultimate parent company</b>			
Cash in banks		₱214,523	Savings account with 0.25% interest rate
Dividend income	₱500,040		Dividend income from equity investments
Interest income	739		Income from cash in banks
Custodian and transfer agency fees***	151,744	35,216	Fees paid to stock transfer agent every month
<b>Other related parties</b>			
Dividend income****	75,645		Dividend income from equity investments
Management fees*	7,313,760	552,046	0.50%; Monthly fee based on average NAV
Brokers' commissions**	406,242		Incurred for purchases and sales of equity securities
Other receivables**		10,896	Expenses shouldered by the Fund; due and demandable
Due to brokers**		679	Cash component on stock redemption or subscriptions, settled at T+3
<b>Key management personnel</b>			
Directors' and officers' fees	366,215		Per diems given to directors and officers during board meetings
* FAMI			
** FMSBC			
*** MBTC-TBG			
****GT Capital Holdings			

As of December 31, 2017, 2016, and 2015, the Fund holds shares issued by its Ultimate Parent Company with fair values of ₱54.96 million, ₱30.16 million, and ₱53.53 million, respectively and of GT Capital Holdings, Inc. with fair values of ₱35.01 million, ₱26.84 million, and ₱44.32 million, respectively. In 2016, the Fund has written-off other receivables of ₱10,896.

Pursuant to the Management and Distribution Agreement (the Agreement) dated April 17, 2013, as fund manager of the Fund, FAMI is entitled to receive annual management fee of 0.50% of the average daily NAV of the Fund payable on a monthly basis. The average daily NAV shall be determined by computing the total value of the Fund's assets less its liabilities.



The Agreement shall take effect for a period of two years and shall continue in effect from year to year, unless otherwise terminated or amended by the parties in accordance with specified terms and conditions. There were no changes made during the year.

*Terms and conditions of transactions with related parties*

Outstanding balances at year-end are unsecured and settlement occurs in cash. There are no provisions for amounts due from related parties. There have been no guaranties provided or received for any related party receivables and payables.

Details of investments in the Fund by related parties are set out below:

	Number of shares held at January 1	% interest held at January 1	Number of shares acquired during the year*	Number of shares disposed during the year	Number of shares held at December 31	% interest held at December 31
<b>2017</b>						
First Metro	2,703,523	35.34	740,185	70,862	3,372,846	30.82
FMSBC	41,579	0.54	1,084,669	1,009,840	116,408	1.06
FMSALEF	411,189	5.38	1,285,334	814,723	881,800	8.06
FMSALBF	50,000	0.65	1,213,530	551,500	712,030	6.51
OWN	25,000	0.33	125,980	104,600	46,380	0.42
Directors and officers	1,507	0.02	150	1,100	557	0.01
<b>2016</b>						
First Metro	4,865,023	41.23	-	2,161,500	2,703,523	35.34
First Metro Trust	568,140	4.81	-	568,140	-	-
FMSBC	66,629	0.56	3,102,410	3,127,460	41,579	0.54
FMSALEF	743,205	6.30	581,051	913,067	411,189	5.38
FMSALBF	-	-	50,000	-	50,000	0.65
OWN	-	-	25,000	-	25,000	0.33
Directors and officers	1,507	0.01	-	-	1,507	0.02
<b>2015</b>						
First Metro	2,824,203	36.68	2,191,500	150,680	4,865,023	41.23
First Metro Trust	299,280	3.89	484,570	215,710	568,140	4.81
FMSBC	62,110	0.81	2,672,860	2,668,341	66,629	0.56
FMSALEF	1,917,360	24.90	826,300	2,000,455	743,205	6.30
FMSALBF	554,340	7.20	-	554,340	-	-
Directors and officers	1,507	0.02	-	-	1,507	0.01

\*Number of shares acquired during 2017 includes issuance of 10.00% stock dividend

**15. Approval for the Release of the Financial Statements**

The financial statements of the Fund were authorized and approved for issue by the BOD on March 16, 2018.

**16. Supplementary Information Required Under Revenue Regulations 15-2010**

The Fund also reported and/or paid the following types of taxes during the year:

Taxes and licenses

In 2017, taxes and licenses of the Fund consist of:

Documentary stamp tax	P466,000
Local taxes	70,165
	P536,165



The Fund also paid stock transaction tax of ₱322,323 in 2017.

Withholding Taxes

Total remittances in 2017 and outstanding balance as of December 31, 2017 of withholding taxes follow:

	Total remittances	Balance
Expanded withholding taxes	₱974,265	₱113,502
Final withholding taxes	189,419	—
	<u>₱1,163,684</u>	<u>₱113,502</u>





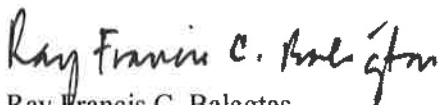
## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
First Metro Philippine Equity Exchange Traded Fund, Inc.  
18th Floor, PSBank Center  
777 Paseo de Roxas corner Sedefio Street  
Makati City

We have audited the financial statements of First Metro Philippine Equity Exchange Traded Fund, Inc. (the Fund) as at and for the year ended December 31, 2017, on which we have rendered the attached report dated March 16, 2018.

In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the Fund has sixty-seven (67) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.



Ray Francis C. Balagtas  
Partner

CPA Certificate No. 108795

SEC Accreditation No. 1510-A (Group A),

October 1, 2015, valid until September 30, 2018

Tax Identification No. 216-950-288

BIR Accreditation No. 08-001998-107-2018,

February 14, 2018, valid until February 13, 2021

PTR No. 6621226, January 9, 2018, Makati City

March 16, 2018

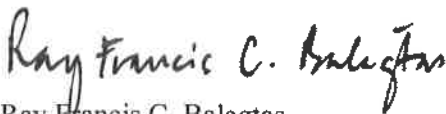


## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULE

The Stockholders and the Board of Directors  
First Metro Philippine Equity Exchange Traded Fund, Inc.  
18th Floor, PSBank Center  
777 Paseo de Roxas corner Sedeño Street  
Makati City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of First Metro Philippine Equity Exchange Traded Fund, Inc. (the Fund) as at December 31, 2017 and 2016, and for each of the three years in the period ended December 31, 2017 and have issued our report thereon dated March 16, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Fund's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, *As Amended* (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Ray Francis C. Balagtas

Partner

CPA Certificate No. 108795

SEC Accreditation No. 1510-A (Group A),

October 1, 2015, valid until September 30, 2018

Tax Identification No. 216-950-288

BIR Accreditation No. 08-001998-107-2018,

February 14, 2018, valid until February 13, 2021

PTR No. 6621226, January 9, 2018, Makati City

March 16, 2018



**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
**INDEX TO THE FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY SCHEDULES**  
**DECEMBER 31, 2017**

**Schedules Required under Securities Regulation Code Rule 68**

Schedule	Content	Page No.
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II	List of Effective Philippine Financial Reporting Standards and Interpretations <i>(Part 1 4J)</i>	2-8
III	Conglomerate Map <i>(Part 1 4H)</i>	9-10
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A	Financial Assets <i>(Part II 6D, Annex 68-E, A)</i>	11-12
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**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
**SCHEDULE I**  
**RECONCILIATION OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**  
**AS OF DECEMBER 31, 2017**

<b>Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning</b>	P89,952,056
Add: Net investment income in 2017	265,757,732
Deduct:	
Unrealized gain on fair value adjustment of financial assets at fair value through profit or loss	(248,137,659)
Reduction in retained earnings due to stock dividend	(122,508,324)
<b>Unappropriated Retained Earnings, as adjusted to available for dividend distribution, ending</b>	<b>(P14,936,195)</b>

**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
**SCHEDULE II**  
**LIST OF PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS)**  
**EFFECTIVE AS OF DECEMBER 31, 2017**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Early Adopted	Not Applicable
<b>Framework for the Preparation and Presentation of Financial Statements</b>		✓		
Conceptual Framework Phase A: Objectives and qualitative Characteristics				
<b>PFRSs Practice Statement Management Commentary</b>				
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendment to PFRS 1: Meaning of Effective PFRSs			✓
				✓
<b>PFRS 2</b>	Share Based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendment to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓
<b>PFRS 3 (Revised)</b>	Business Combinations			✓
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			✓
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendment to PFRS 5: Changes in methods of disposal			✓
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Early Adopted	Not Applicable
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments			✓
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities			✓
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in PFRS 9			✓
	Amendments to PFRS 7: Servicing Contracts and Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
	PFRS 8	Operating Segments	✓	
Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets		✓		
PFRS 9	Financial Instruments		✓	
	Financial Instruments: Classification and Measurement of Financial Liabilities		✓	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓	
	Reissue to incorporate a hedge accounting chapter and permit early application of the requirements for presenting in other comprehensive income the "own credit" gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of PFRS 9		✓	
	Financial Instruments (final version), incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition		✓	
	Prepayment Features with Negative Compensation			✓
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture*			✓
	Amendments to PFRS 10: Investment Entities -- Applying the Consolidation Exception			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Early Adopted	Not Applicable
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interest in Other Entities			✓
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Investment Entities			✓
	Amendments to PFRS 12: Clarification of the Scope of the Standard			✓
PFRS 13	Fair Value Measurements	✓		
	Amendment to PFRS 13: Short-term Receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from contracts with customers			✓
PFRS 16	Leases			✓
<b>Philippine Accounting Standards</b>				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosure	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative			✓
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 – Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation on Revaluation			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendments to PAS 16 and PAS 41, Agriculture: Bearer Plants			✓
PAS 17	Leases			✓
PAS 18	Revenue	✓		
PAS 19	Employee Benefits			✓
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution			✓

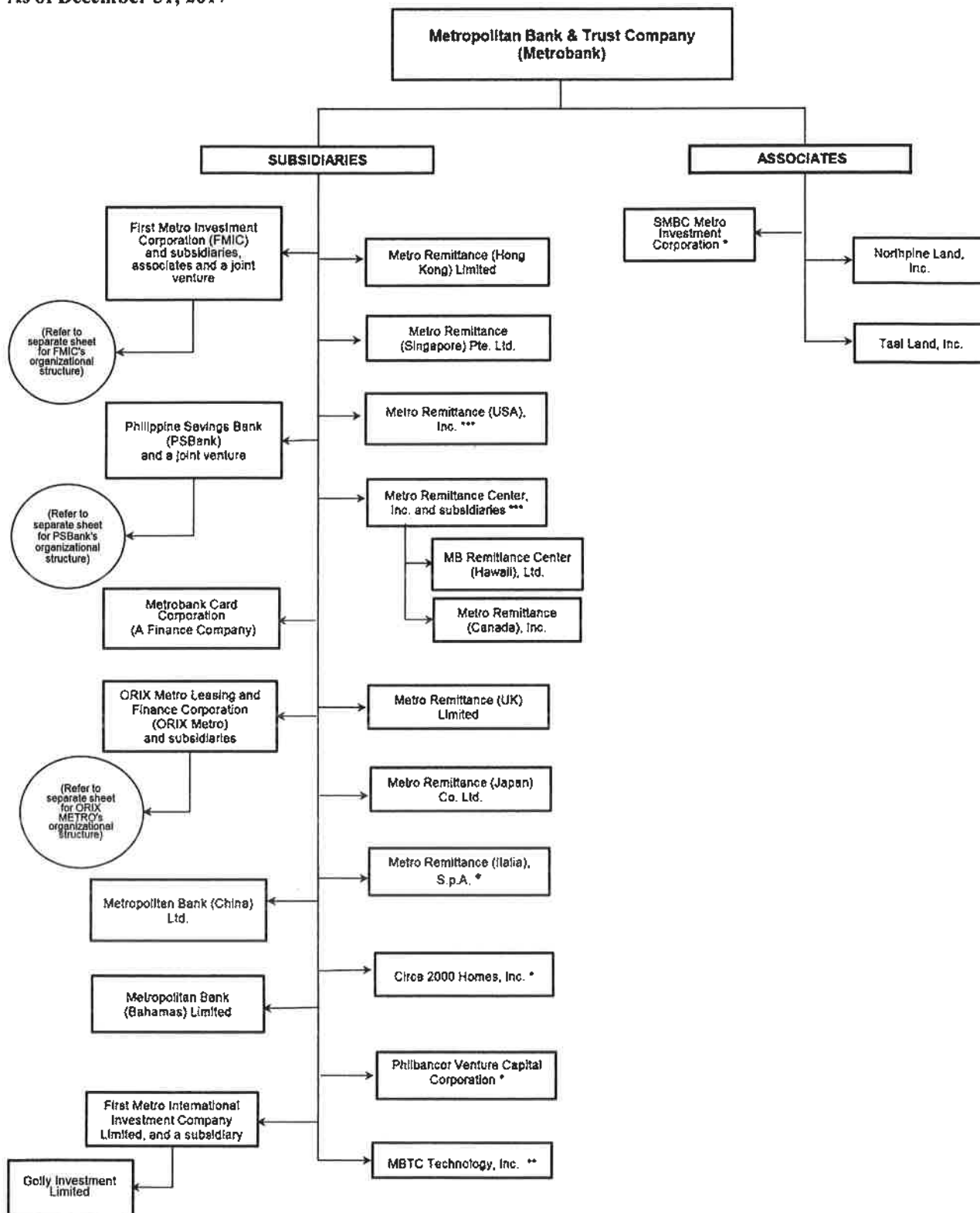
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Early Adopted	Not Applicable
	Amendments to PAS 19: Discount Rate: Regional Market Issue			✓
PAS 19 (Revised)	Employee Benefits			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates			✓
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosure	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments for investment entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28: Investment Entities – Applying the Consolidation Exception			✓
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value			✓
	Long-term Interests in Associates and Joint Ventures			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities			✓
PA 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
	Amendment to PAS 34: Disclosure of information 'Elsewhere in the Interim financial report'			✓
PAS 36	Impairment of Assets			✓
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets			✓
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Amendments to PAS 38 : Proportionate Restatement of Accumulated Depreciation on Revaluation			✓
	Amendments to PAS 38 : Revaluation Method – Proportionate Restatement Of Accumulated Amortization			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		



<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2017		<b>Adopted</b>	<b>Not Early Adopted</b>	<b>Not Applicable</b>
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transaction			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
<b>PAS 40</b>	Investment Property			✓
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property			✓
	Amendments to PAS 40: Transfers of Investment Property			✓
<b>PAS 41</b>	Agriculture			✓
	Amendments to PAS 16 and PAS 41, Agriculture: Bearer Plants			✓
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease			✓
<b>IFRIC 5</b>	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment			✓
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes			✓
<b>IFRIC 14</b>	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement			✓
<b>IFRIC 15</b>	Agreements for the Construction of Real Estate			✓
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓
<b>IFRIC 18</b>	Transfers of Assets from Customers			✓

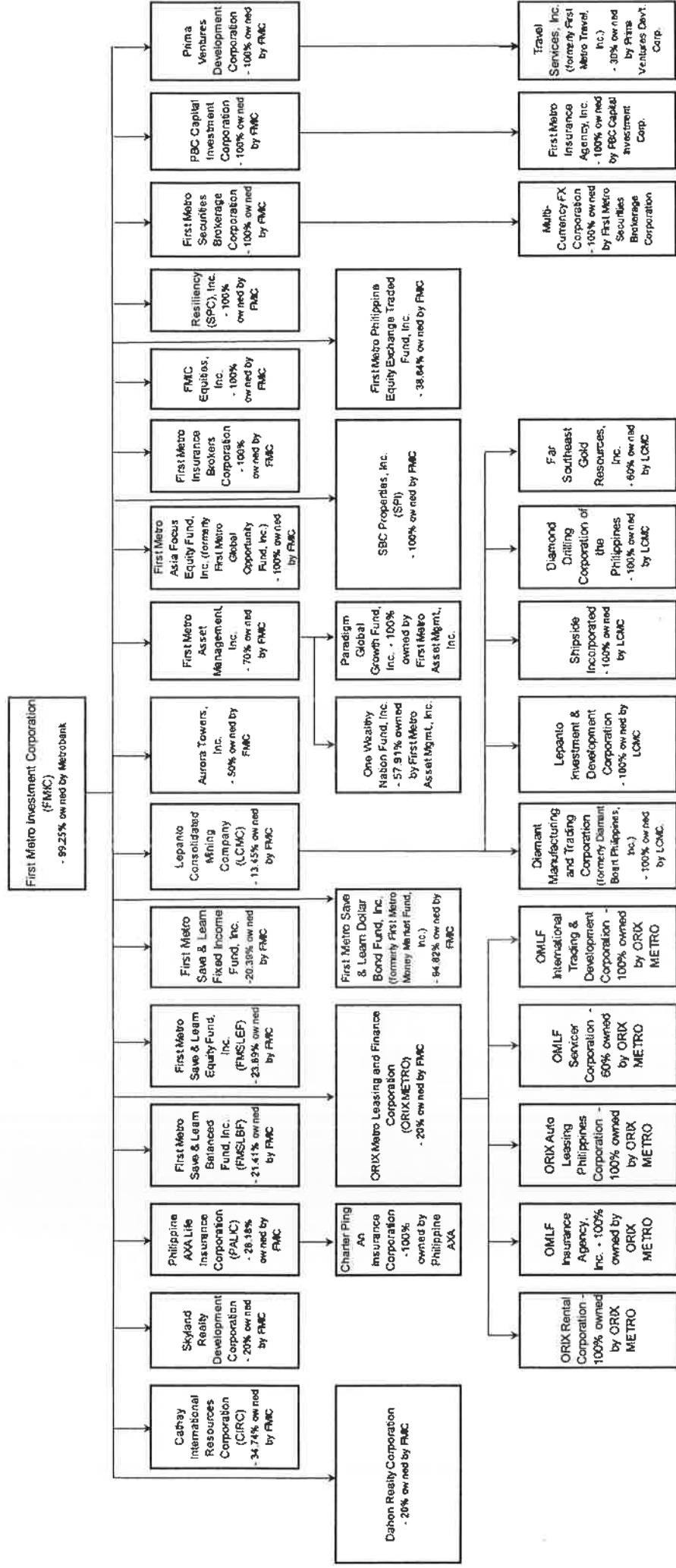
<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2017		<b>Adopted</b>	<b>Not Early Adopted</b>	<b>Not Applicable</b>
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Investment			✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine			✓
<b>IFRIC 21</b>	Levies			✓
<b>IFRIC 22</b>	Foreign Currency Transactions and Advance Consideration			✓
<b>IFRIC 23</b>	Uncertainty over Income Tax Treatments			✓
<b>SIC - 7</b>	Introduction of the Euro			✓
<b>SIC - 10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC - 15</b>	Operating Leases - Incentives			✓
<b>SIC - 25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
<b>SIC - 27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
<b>SIC - 29</b>	Service Concession Arrangements: Disclosures			✓
<b>SIC - 31</b>	Revenue - Barter Transactions Involving Advertising Services			✓
<b>SIC - 32</b>	Intangible Assets - Web Site Costs			✓

**Metropolitan Bank & Trust Company  
Subsidiaries and Associates  
As of December 31, 2017**



\* in process of dissolution  
\*\* in process of liquidation

**First Metro Investment Corp.**  
 Conglomerate Map/Organizational Structure  
 As of December 31, 2017



**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**

**Schedule A – Financial Assets**

**December 31, 2017**

Name of issuing entity and association of each issue	Number of shares	Amount shown on the balance sheet	Valued based on market quotation at balance sheet date	Income received and accrued
SM Investments Corporation	184,280	₱182,437,200	₱182,437,200	₱1,362,625
SM Prime Holdings, Inc.	3,143,600	117,885,000	117,885,000	767,936
Ayala Land, Inc.	2,601,600	116,031,360	116,031,360	1,139,976
BDO Unibank, Inc.	682,920	111,998,880	111,998,880	758,498
Ayala Corporation	86,720	88,020,800	88,020,800	576,505
JG Summit Holdings, Inc.	1,008,120	72,685,452	72,685,452	267,170
Bank of the Philippine Islands	661,240	71,480,044	71,480,044	1,148,616
Aboitiz Equity Ventures, Inc.	878,040	64,974,960	64,974,960	1,010,268
Phil Long Distance Telephone Corporation	37,940	56,151,200	56,151,200	2,679,880
Metropolitan Bank & Trust Company	542,000	54,958,800	54,958,800	462,470
Universal Robina Corporation	336,040	50,742,040	50,742,040	896,175
Jollibee Foods Corporation	162,600	41,137,800	41,137,800	331,583
Security Bank Corporation	151,760	38,152,464	38,152,464	439,350
International Container Terminal Services, Inc.	357,720	37,739,460	37,739,460	819,842
GT Capital Holdings, Inc.	27,100	35,013,200	35,013,200	105,750
Metro Pacific Investments Corporation	4,552,800	31,186,680	31,186,680	424,372
Manila Electric Company	86,720	28,496,192	28,496,192	1,194,837
Alliance Global Group, Inc.	1,517,600	24,281,600	24,281,600	—
Globe Telecom, Inc.	10,840	20,596,000	20,596,000	868,140

Name of issuing entity and association of each issue	Number of shares	Amount shown on the balance sheet	Valued based on market quotation at balance sheet date	Income received and accrued
Megaworld Corporation	3,794,000	19,577,040	19,577,040	166,369
DMCI Holdings, Inc.	1,300,800	18,731,520	18,731,520	575,328
LT Group, Inc.	975,600	18,282,744	18,282,744	152,280
Aboitiz Power Corp.	433,600	18,016,080	18,016,080	574,600
Robinsons Retail Holdings, Inc.	184,280	17,727,736	17,727,736	-
Puregold Price Club Inc.	325,200	16,260,000	16,260,000	130,080
Semirara Mining And Power Corporation	433,600	15,956,480	15,956,480	926,400
San Miguel Corporation	119,240	13,307,184	13,307,184	156,769
Robinsons Land Corporation	542,000	11,544,600	11,544,600	182,736
First Gen Corporation	433,600	7,371,200	7,371,200	145,320
Petron Corporation	758,800	6,958,196	6,958,196	67,760
	26,330,360	P1,407,701,912	P1,407,701,912	P18,331,635

**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
**Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and**  
**Principal Stockholders (Other than Related Parties)**  
**December 31, 2017**

Name of Debtor	Balance at beginning of period	Additions	Amounts Collected	Amounts Written-off	Current	Non-Current	Balance at end of period
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None to report.

**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
**Schedule C – Amounts Receivable from Related Parties which are eliminated**  
**during the consolidation of financial statements**  
**December 31, 2017**

Name of Debtor	Balance at beginning of period	Additions	Amounts Collected (i)	Amounts Written-off (ii)	Current	Non-Current	Balance at end of period
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None to report.

(i) If collected was other than in cash, explain.

(ii) Give reasons to write-off.



**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
**Schedule D – Intangible Assets – Other Assets**  
**December 31, 2017**

Description <sup>(i)</sup>	Beginning Balance	Additions at Cost <sup>(ii)</sup>	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions) <sup>(iii)</sup>	Ending Balance
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None to report.

<sup>(i)</sup> The information required shall be grouped into (a) intangibles shown under the caption intangible assets and (b) deferrals shown under the caption Other Assets in the related balance sheet. Show by major classifications.

<sup>(ii)</sup> For each change representing other than an acquisition, clearly state the nature of the change and the other accounts affected. Describe cost of additions representing other than cash expenditures.

<sup>(iii)</sup> If provision for amortization of intangible assets is credited in the books directly to the intangible asset account, the amounts shall be stated with explanations, including the accounts charged. Clearly state the nature of deductions if these represent anything other than regular amortization.

**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**

**Schedule E - Long-Term Debt**

**December 31, 2017**

Title of issue and type of obligation <sup>(i)</sup>	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet <sup>(ii)</sup>	Amount shown under caption "Long-Term Debt" in related balance sheet <sup>(iii)</sup>	Interest Rate %	Maturity Date
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None to report.

<sup>(i)</sup> Include in this column each type of obligation authorized.

<sup>(ii)</sup> This column is to be totaled to correspond to the related balance sheet caption.

<sup>(iii)</sup> Include in this column details as to interest rates, amounts or numbers of periodic instalments, and maturity dates.

**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
**Schedule F - Indebtedness to Related Parties**  
**(Long Term Loans from Related Companies)**  
**December 31, 2017**

Name of Related Parties <sup>(i)</sup>	Balance at beginning of period	Balance at end of period <sup>(ii)</sup>
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None to report.

(i) The related parties named shall be grouped as in Schedule C. The information called for shall be stated for any persons whose investments shown separately in such related schedule.  
(ii) For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10 percent of the related balance at either the beginning or end of the period.

**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**

**Schedule G - Guarantees of Securities of Other Issuers**

**December 31, 2017**

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount of guaranteed and outstanding <sup>(i)</sup>	Amount owned by person of which statement is filed	Nature of guarantee <sup>(ii)</sup>
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None to report.

(i) Indicate in a note any significant changes since the date of the last balance sheet file. If this schedule is filed in support of consolidated financial statements, there shall be set forth guarantees by any person included in the consolidation except such guarantees of securities which are included in the consolidated balance sheet.

(ii) There must be a brief statement of the nature of the guarantee, such as "Guarantee of principal and interest", "Guarantee of Interest", or "Guarantee of Dividends". If the guarantee is of interest, dividends, or both, state the annual aggregate amount of interest or dividends so guaranteed.

**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
**Schedule H - Capital Stock**  
**December 31, 2017**

Title of Issue <sup>(i)</sup>	Number of shares authorized	Number of shares issued and outstanding as shown under the related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties <sup>(ii)</sup>	Directors, officers and employees	Others <sup>(iii)</sup>
Common	30,000,000	10,942,000	—	5,130,021	557	The Fund issued 2,370,000 shares, redeemed 10,000 shares and declared 10.00% stock dividend during the year.

<sup>(i)</sup> Include in this column each type of issue authorized

<sup>(ii)</sup> Related parties referred to include persons for which separate financial statements are filed and those included in the consolidated financial statements, other than the issuer of the particular security.

<sup>(iii)</sup> Indicate in a note any significant changes since the date of the last balance sheet filed.

**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
**FINANCIAL SOUNDNESS INDICATORS**  
**AS OF DECEMBER 31, 2017 AND 2016**

	2017	2016
Current ratio <sup>1/</sup>	111,712.96%	74,555.48%
Acid test ratio <sup>2/</sup>	111,712.96%	74,555.48%
Debt-to-equity ratio <sup>3/</sup>	0.09%	0.13%
Asset-to-equity ratio <sup>4/</sup>	100.09%	100.13%
Interest rate coverage ratio <sup>5/</sup>	n.a.	n.a.
Profitability ratios:		
Return on assets <sup>6/</sup>	23.26%	1.81%
Return on equity <sup>7/</sup>	23.28%	1.81%

<sup>1/</sup> Current Assets divided by Current Liabilities

<sup>2/</sup> Quick Assets (Cash and cash equivalents, Financial assets at FVPL securities and Accounts receivables) divided by Current Liabilities

<sup>3/</sup> Total Liabilities divided by Total Equity

<sup>4/</sup> Total Assets divided by Total Equity

<sup>5/</sup> Earnings Before Interest and Tax divided by Interest Expense

<sup>6/</sup> Net Investment Income divided by Average Total Assets

<sup>7/</sup> Net Investment Income divided by Average Total Equity

**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
**OTHER RATIOS REQUIRED FOR MUTUAL FUNDS**

**DECEMBER 31, 2017**

Name of issuing entity and association of each issue	Number of shares	Valued based on market quotation at balance sheet date	Percentage of Investment to Net Asset Value (i)	Percentage to Outstanding Shares of Investee Company (ii)
SM Investments Corporation	184,280	182,437,200	12.85%	0.02%
SM Prime Holdings, Inc.	3,143,600	117,885,000	8.30%	0.01%
Ayala Land, Inc.	2,601,600	116,031,360	8.17%	0.02%
BDO Unibank, Inc.	682,920	111,998,880	7.89%	0.02%
Ayala Corporation	86,720	88,020,800	6.20%	0.01%
JG Summit Holdings, Inc.	1,008,120	72,685,452	5.12%	0.01%
Bank of the Philippine Islands	661,240	71,480,044	5.04%	0.02%
Aboitiz Equity Ventures, Inc.	878,040	64,974,960	4.58%	0.02%
Phil Long Distance Telephone Corporation	37,940	56,151,200	3.96%	0.02%
Metropolitan Bank & Trust Company	542,000	54,958,800	3.87%	0.02%
Universal Robina Corporation	336,040	50,742,040	3.57%	0.02%
Jollibee Foods Corporation	162,600	41,137,800	2.90%	0.01%
Security Bank Corporation	151,760	38,152,464	2.69%	0.02%
International Container Terminal Services, Inc.	357,720	37,739,460	2.66%	0.02%
GT Capital Holdings, Inc.	27,100	35,013,200	2.47%	0.01%
Metro Pacific Investments Corporation	4,552,800	31,186,680	2.20%	0.01%
Manila Electric Company	86,720	28,496,192	2.01%	0.01%
Alliance Global Group, Inc.	1,517,600	24,281,600	1.71%	0.01%
Globe Telecom, Inc.	10,840	20,596,000	1.45%	0.01%
Megaworld Corporation	3,794,000	19,577,040	1.38%	0.01%
DMCI Holdings, Inc.	1,300,800	18,731,520	1.32%	0.01%
LT Group, Inc.	975,600	18,282,744	1.29%	0.01%
Aboitiz Power Corp.	433,600	18,016,080	1.27%	0.01%
Robinsons Retail Holdings, Inc.	184,280	17,727,736	1.25%	0.01%
Puregold Price Club Inc.	325,200	16,260,000	1.15%	0.01%
Semirara Mining And Power Corporation	433,600	15,956,480	1.12%	0.01%
San Miguel Corporation	119,240	13,307,184	0.94%	0.01%
Robinsons Land Corporation	542,000	11,544,600	0.81%	0.01%
First Gen Corporation	433,600	7,371,200	0.52%	0.01%
Petron Corporation	758,800	6,958,196	0.49%	0.01%
	<b>26,330,360</b>	<b>₱1,407,701,912</b>	<b>99.17%</b>	<b>n.a.</b>

**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.  
OTHER RATIOS REQUIRED FOR MUTUAL FUNDS**

**Other relevant ratios:**

	2017	2016
Liquid/Semi liquid assets to total assets <sup>1/</sup>	100.00%	100.00%
Total operating expenses to total net worth <sup>2/</sup>	0.87%	0.77%
Total assets to total borrowing <sup>3/</sup>	n.a.	n.a.

<sup>1/</sup> Liquid/Semi Liquid Assets (*Cash and cash equivalents, Financial assets at FVPL securities and accounts receivables*)  
divided by Total Assets

<sup>2/</sup> Total Operating Expenses divided by Average Equity

<sup>3/</sup> Total Assets divided by Total Borrowings