



Philippine Country Report

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Outline: Philippine Country Report

€ The Philippine Economy

- § Growth despite global recession In 2009
- § Strong growth in 1Q10
- § Benign inflation and supportive monetary environment
- § Surge in BoP Surplus, large current account surplus narrower traded deficit and record GIR
- § Manageable fiscal situation and reduced burden
- § Special deposit accounts
- § Strengthening of the peso
- § Overall assessment
- § 2010 and 2011 forecasts

€ The Philippine Stock Market

- § Robust market performance and above-average volume turnover
- § More capital raised
- § Strong first-quarter earnings growth
- § Attractive P/E valuation
- § Key developments
 - New trading system
 - ASEAN exchange hub

€ The Philippine Fixed Income Exchange

- § Integrated and diversified products and services
- § Diverse ownership and clear mandate
- § Building market infrastructure
- § High trading-volume growth
- § Wave of corporate bond issuances

€ Capital Market Trends and Regulatory Policy

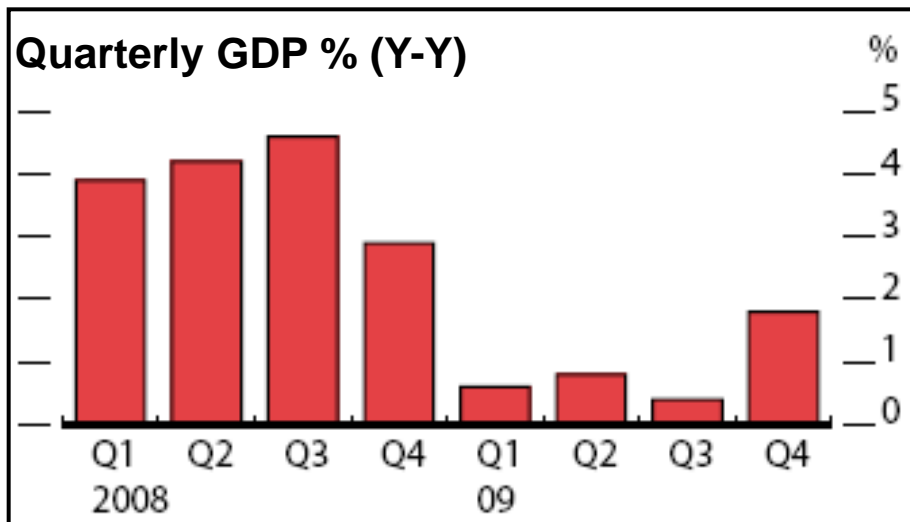
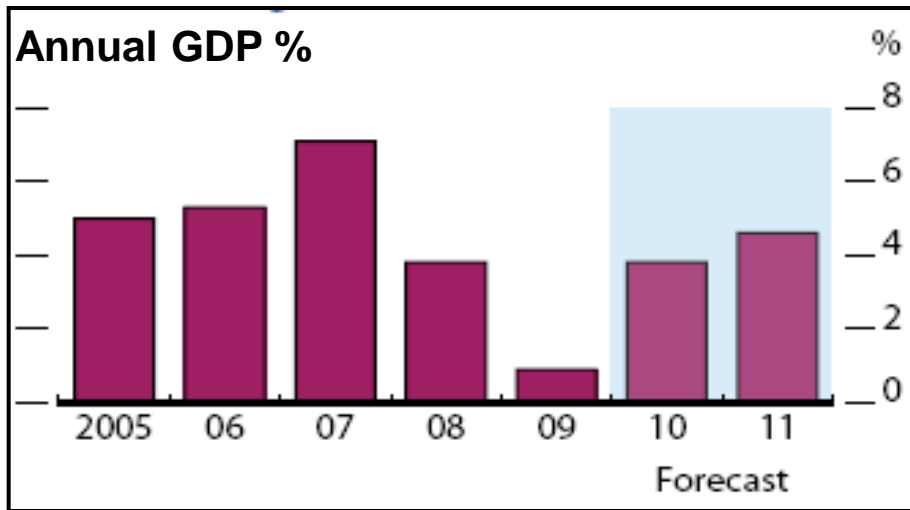
- § New products
 - PERA, Derivatives, ETFs, REITs
- § Regulatory policy:
 - DST, MRD Spin-off
- § New legislation
 - FRIA, CISA, CISL, FinTax



The Philippine Economy



The Philippine Economy: Growth Despite Global Recession



€ **Growth despite global recession**

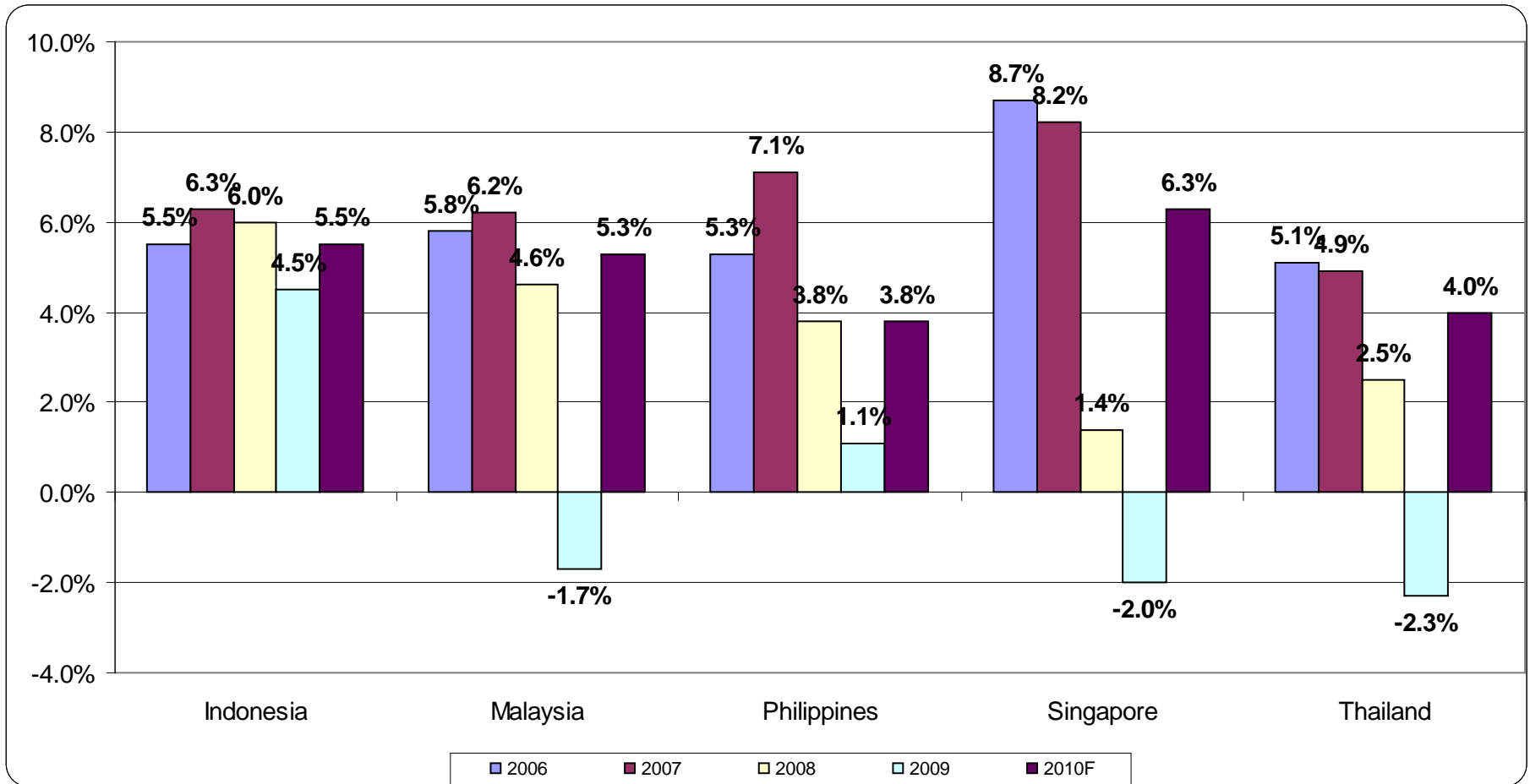
- § In the face of global recession, the economy grew by 0.9% in 2009, compared with average growth of 5.5% over the previous 5 years (2004-2008)
- § GDP maintained slight growth throughout 2009, picking up in the fourth quarter, as industrial output rebounded from a slump
- § GNP, which included remittances from nearly 9m OFWs, rose by 3.0%

€ **Private and public consumption spending offset weakness in investment and trade**

- § Private consumption grew 3.8%, buoyed by OFW remittances and remained the biggest contributor to GDP on the demand side
- § Significantly higher government consumption spending (up by 8.5%) and a fiscal stimulus package helped support aggregate demand
- § On the supply side, services, which accounted for 50% of GDP in 2009, expanded by 3.2% and was the only production sector to contribute to GDP growth



The Philippine Economy: Resilience And Gradual Growth

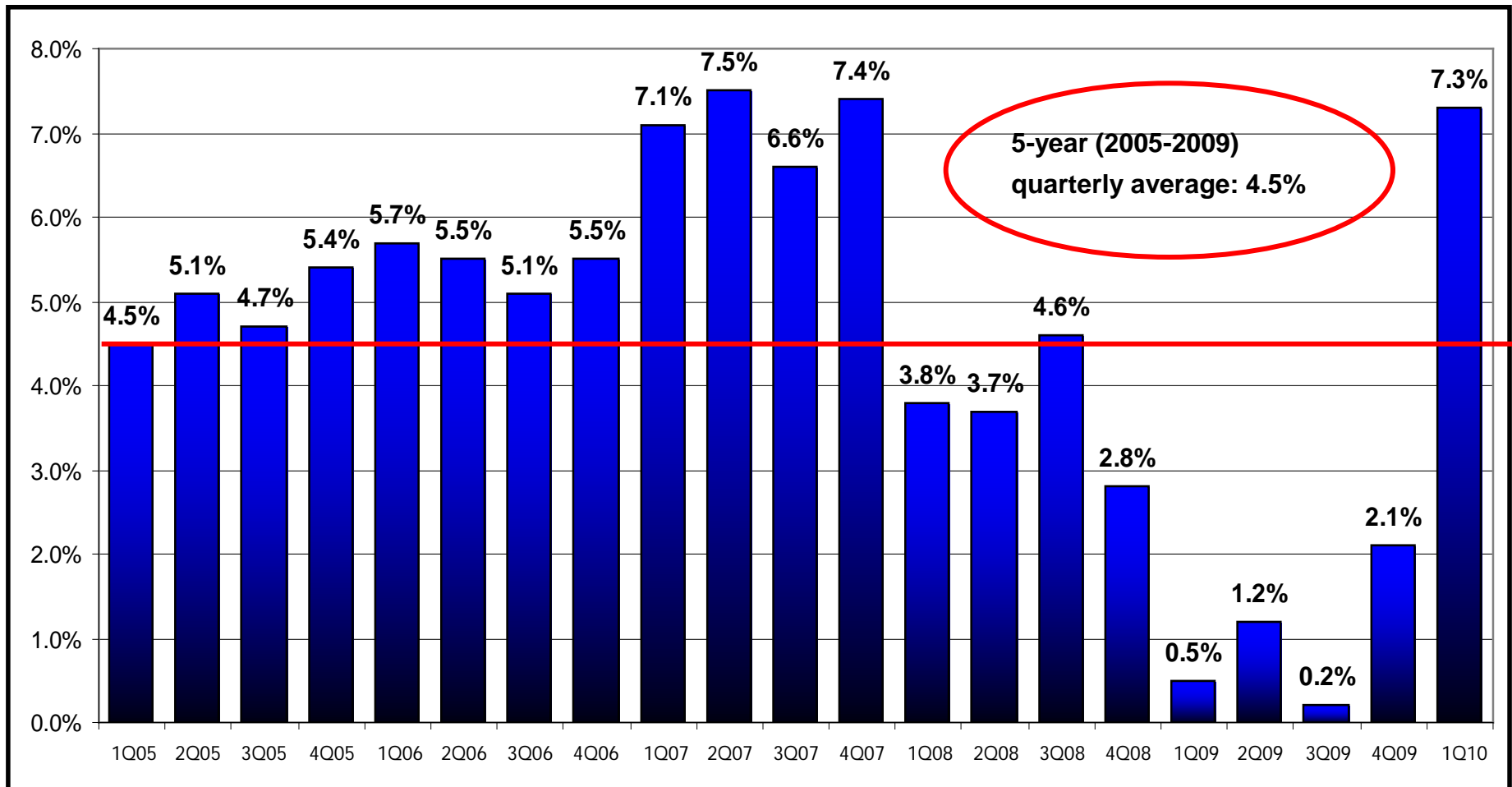




The Philippine Economy:

1Q10 GDP Grew At The Fastest Pace Since 4Q07

Quarterly GDP Growth (Y-Y)



— 5-year average



The Philippine Economy: Surge In Investments, Trade, And Industry; Improvement In All Components, Except Agriculture

Quarterly Growth Of Demand And Supply Side Components (Q-Q, Y-Y)

	4Q09			1Q10		
	Q-Q	Y-Y	% of Total	Q-Q	Y-Y	% of Total
Private consumption	+18.2%	+5.0%	82.3%	-15.4%	+5.9%	77.2%
Investments	+9.2%	+5.8%	15.6%	+19.5%	+24.2%	20.6%
Government spending	-8.9%	+13.7%	5.8%	+22.8%	+18.5%	7.9%
Exports	-26.1%	-6.7%	31.8%	+15.5%	+17.9%	40.7%
Imports	+7.1%	+6.8%	44.8%	-14.9%	+20.3%	42.3%

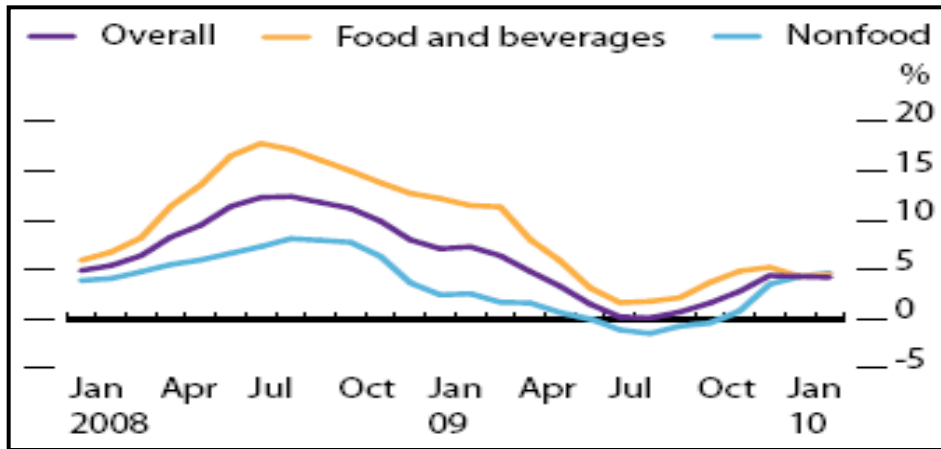
	4Q09			1Q10		
	Q-Q	Y-Y	% of Total	Q-Q	Y-Y	% of Total
Agriculture	+28.9%	-2.6%	19.1%	-15.5%	-2.5%	17.9%
Industry	+12.3%	+0.4%	31.4%	-6.2%	+15.4%	32.6%
Services	+11.5%	+4.3%	49.0%	-9.1%	+5.9%	49.4%



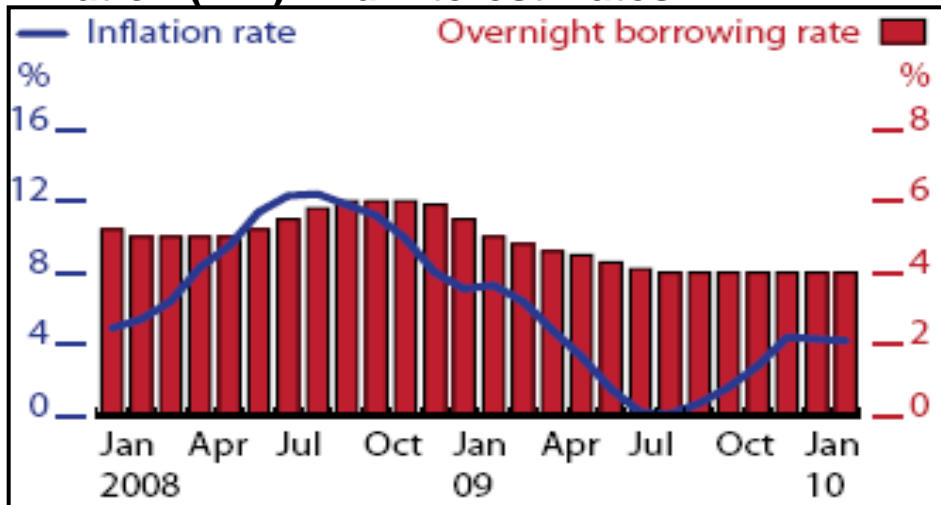
The Philippine Economy:

Benign Inflation And Supportive Monetary Environment

Monthly Inflation (Y-Y)



Inflation (Y-Y) And Interest Rates



€ Inflation has risen but remains low

- § Inflation averaged 3.2% in 2009 pulled down by lower international prices for oil and commodities, coupled with soft domestic demand
- § Consumer prices picked up to 4.4% in December, on the back of rising prices oil and food

€ Interest rates have been kept at low levels to support growth

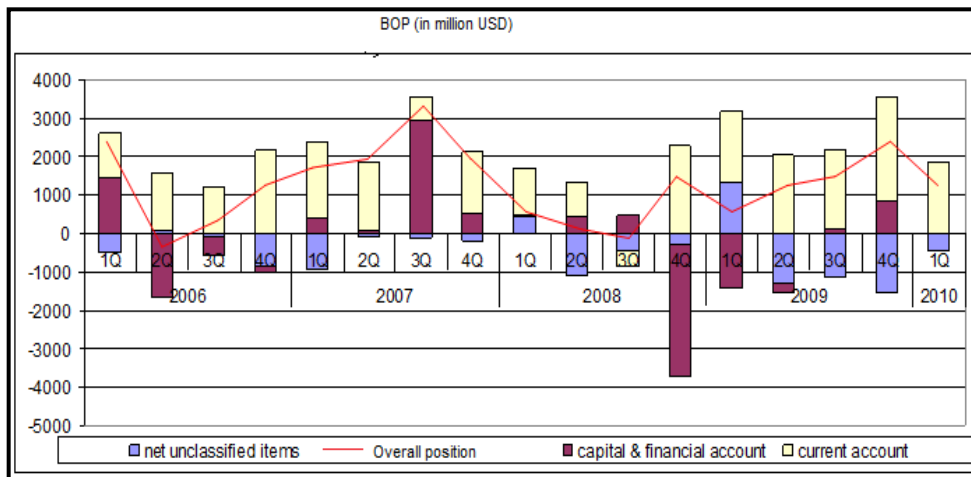
- § As the economy sagged and inflation waned, BSP lowered interest rates by 200 bp from December 2008 and July 2009, taking the overnight borrowing rate to 4.0%
- § BSP also supported banking system liquidity and depositor confidence by reducing commercial bank reserve requirements and increasing the ceiling on deposit insurance



The Philippine Economy:

Surge In BoP Surplus, Large Current Account Surplus And Record GIR

Quarterly BoP



€ Surge in BoP surplus

§ BoP surplus of \$5.3b, from \$89m in 2008

€ Large current account surplus

§ Current account recorded a large surplus of \$8.6b (5.3% of GDP), benefiting from a narrower trade gap, growth in remittances, and expansion of earnings from BPOs

§ Portfolio investment recorded an inflow of \$1.4b, a reversal from outflows of \$3.8b in 2008

€ Trade deficit narrowed

§ Exports fell 22% to \$37.5b, the lowest value since 2003, as exports of electronics and clothing were particularly affected by the global trade slump

§ Imports fell 24% to \$46.4b, reflecting the weakness in exports and in investment, and lower prices for oil and commodities

§ By November, trade grew on a year-on-year basis, from a low base in the prior-year month

§ In the last two months of 2009, the rebound in exports was driven by electronics; that in imports by capital goods, materials for manufactured exports and higher oil prices

€ Record GIR

§ Gross international reserves stood at \$45.7b as of February 2010, representing 9.3 months of import cover and 10.2x short-term external debt

§ Reserves were boosted by higher government borrowings on global financial markets to fund fiscal stimulus

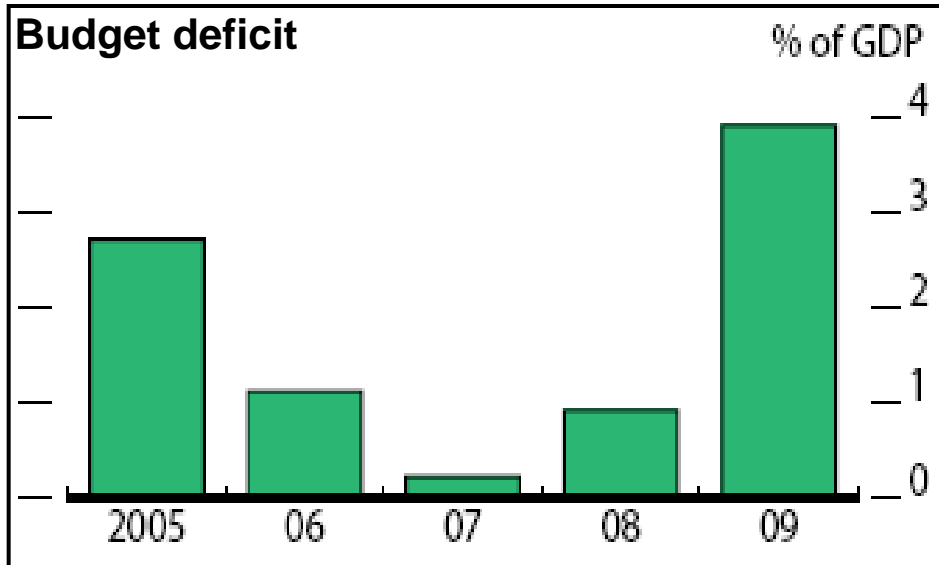
Gross international reserves and import cover





The Philippine Economy:

Manageable Fiscal Balance And Reduced Debt Burden



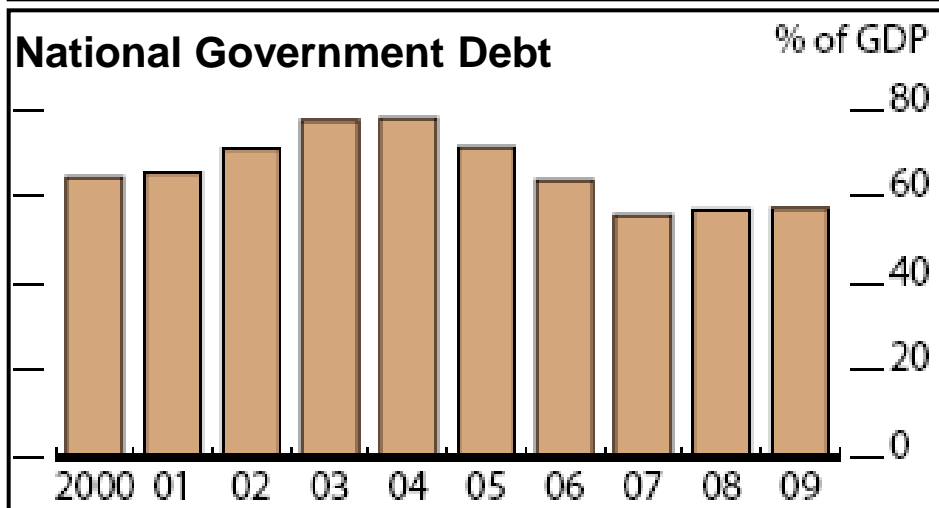
€ Stimulative fiscal policy

- § The fiscal deficit widened to 3.9% of GDP, from 0.9% of GDP in 2008
- § Stimulus focused on extra spending for infrastructure and for social protection measures
- § Government expenditure, other than for interest payments on large public debt, rose to 14.9% of GDP from 13.5% in 2008

€ Stable sovereign outlook

- § In July 2009, Moody's upgraded the country's credit rating from B1 to Ba3 with stable outlook- after 4 years at B1, citing resilience of the financial system and of the external payments position during the global recession

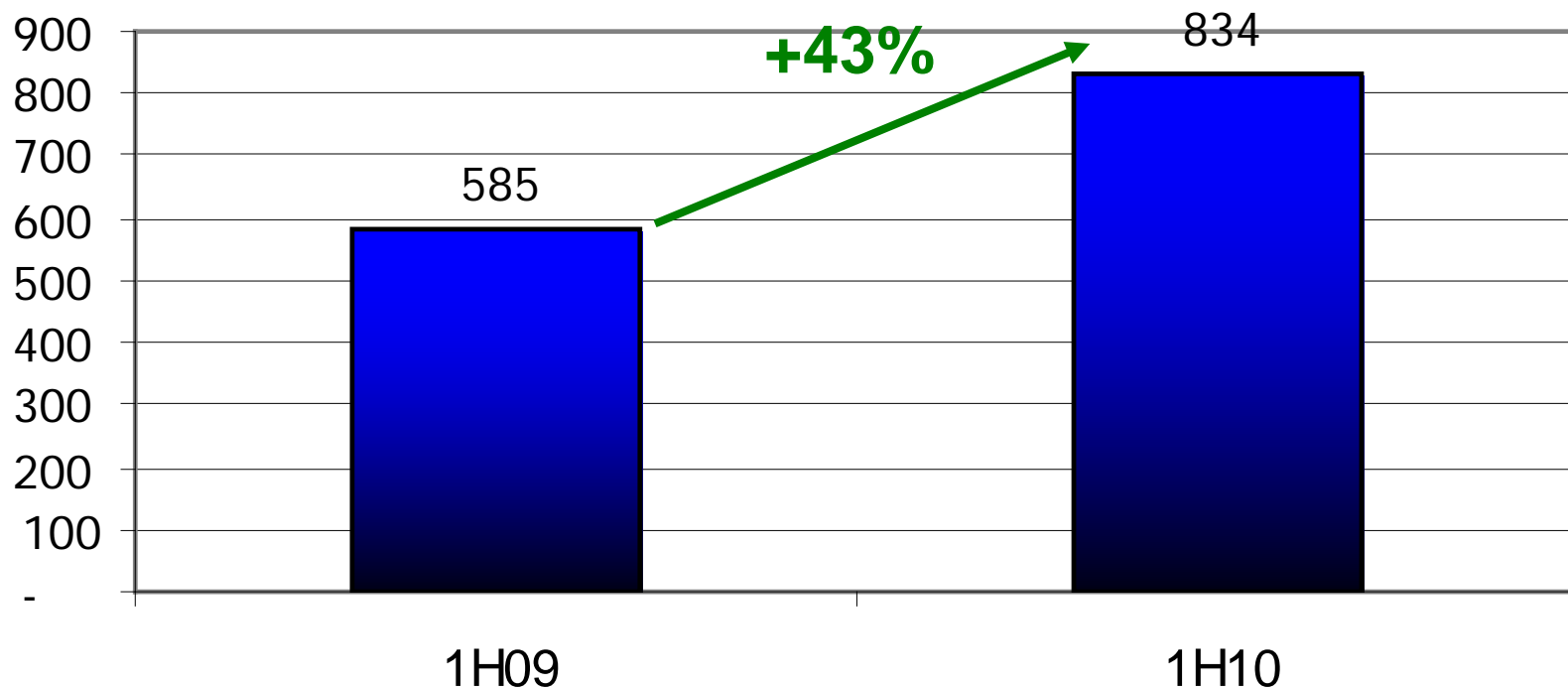
€ NG debt of P4,443b (57.3% of GDP) at end 2009 from 77.3% in 2003





The Philippine Economy: SDAs Are Attracting Liquid Capital

Special Deposit Accounts (in Php bn)





The Philippine Economy:

The Peso Has Strengthened By 12% To P44.16 (April 2010)
From P50.17 (Nov. 2008)

US Dollar = Philippine Peso(Weighted) with 15-prd Simple Moving Average

11-Aug-2010





The Philippine Economy: Underpinned By Strong Economic Fundamentals

Positive Factors

- € The Philippines avoided recession in 2009 with growth of 1.1%
- € 1Q10 GDP grew 7.3%, the fastest pace since 4Q07, and full-year is forecasted to grow 5% to 6%
- € Inflation rate slowed to 3.9% in June, from 4.3% the previous month, the lowest in seven months
- € Interest rates are at a record low of 4% and 6% for borrowing and lending, respectively
- € OFW remittances in the 5M10 rose 7% to \$7.4b, and forecasted to grow 8% this year
- € Balance of payments surplus grew 46% to \$3.2b in 1H10, driven by strong OFW remittance and forex inflows
- € Exports rose 39% to \$19.2b in 5M10, better than full-year forecast of +15%
- € FDI in 1Q10 rose 19% to \$319M, better than full-year forecast of -8%
- € Peso has appreciated as much 6% this year against the US dollar, and YTD appreciation of +3%
- € Successful automated elections and new leadership

Negative Factors

- € Trade deficit grew 16% y-y in 5M10 to \$2.9b, due to a sharper rise in imports
- € Budget deficit was revised upwards to P325b or 3.6% of GDP, from P300b or 3.5%
- € External debt is at 57.3% Debt-to-GDP ratio in 2009, among the highest in the region. (Regional average: 37.8% Debt-to-GDP ratio)



The Philippine Economy: 2009 and 2010 Forecasts

Economic Indicator	2010F	2011F
GDP	+5% to +6%	+7% to +8%
Inflation rate	3.5% to 5.5%	3.0% to 5.0%
Gross international reserves	\$49b to \$50b	-
OFW remittances	+8% to \$18.8b	-
FDI	-8% to \$1.8b	-
Balance of Payments	-30% to \$3.7b surplus	-
Budget deficit	P325b or 3.6% of GDP	P285b or 3.3% of GDP
Exports	+15% to \$43.1b	+13% to \$48.7b
Imports	+20% to \$55.7b	+16% to +18% (\$64.6b to \$65.7b)

*Source: Various Philippine government agencies

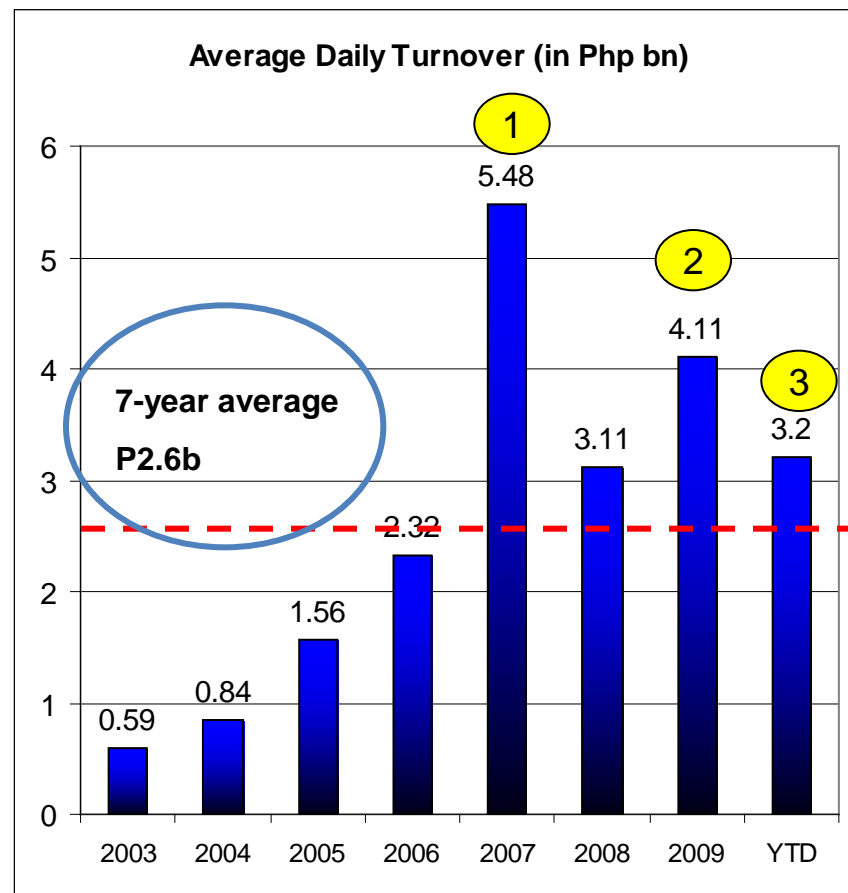
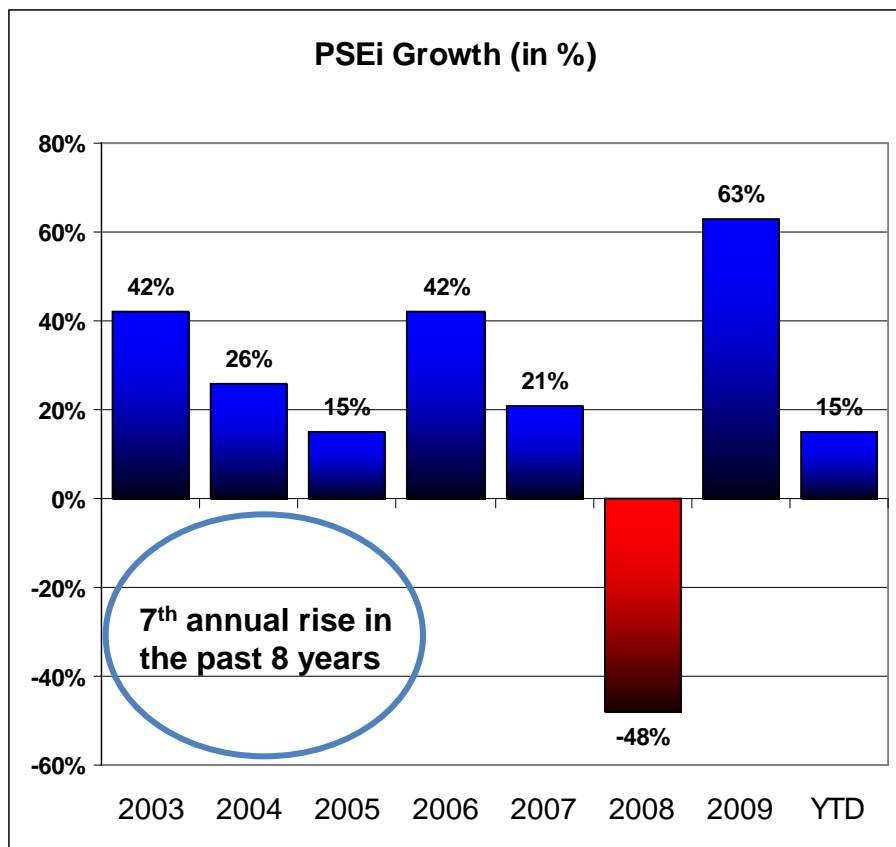


The Philippine Stock Market



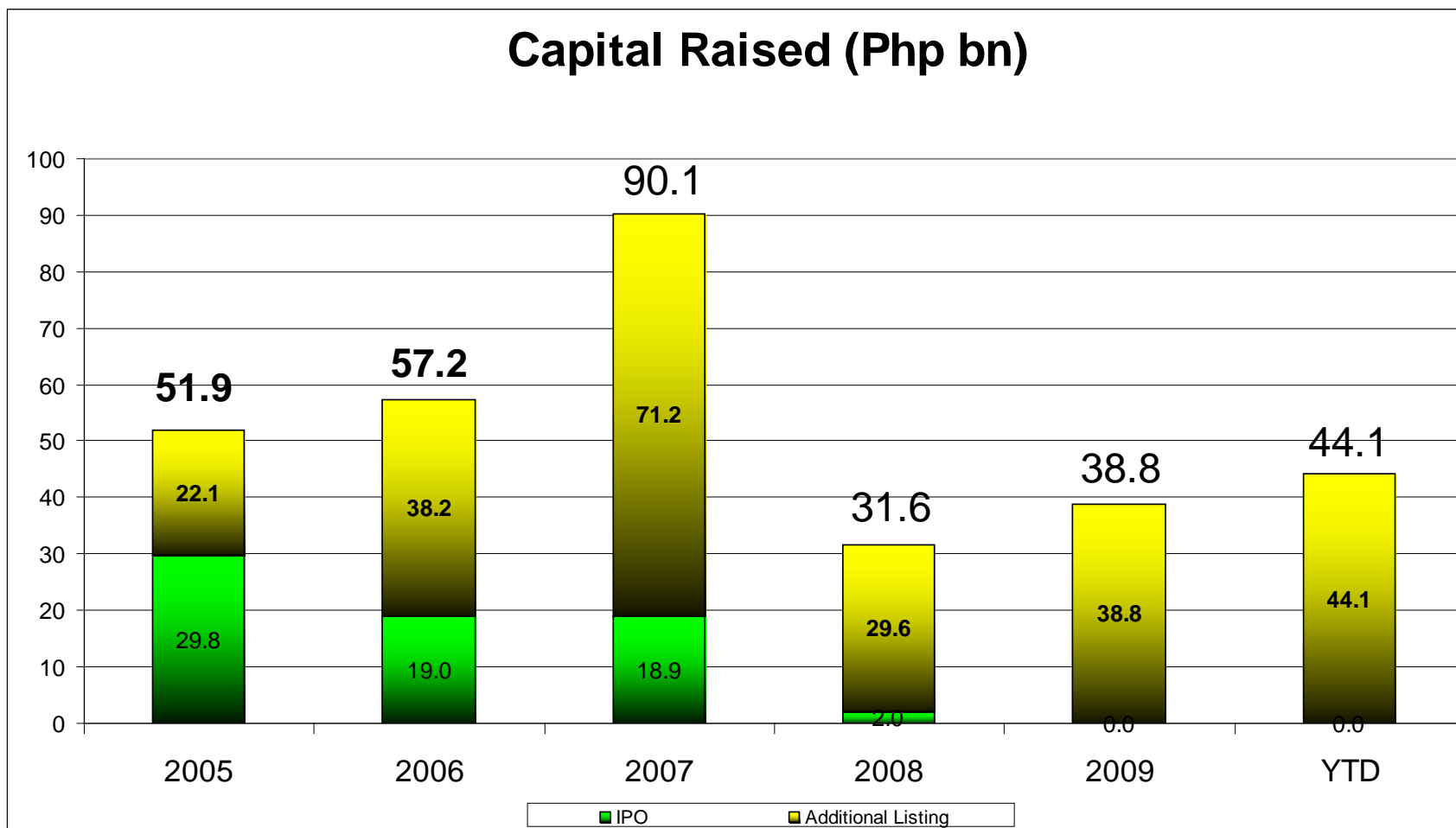
The Philippine Stock Market:

Robust Stock Market Performance And Above-Average Volume Turnover



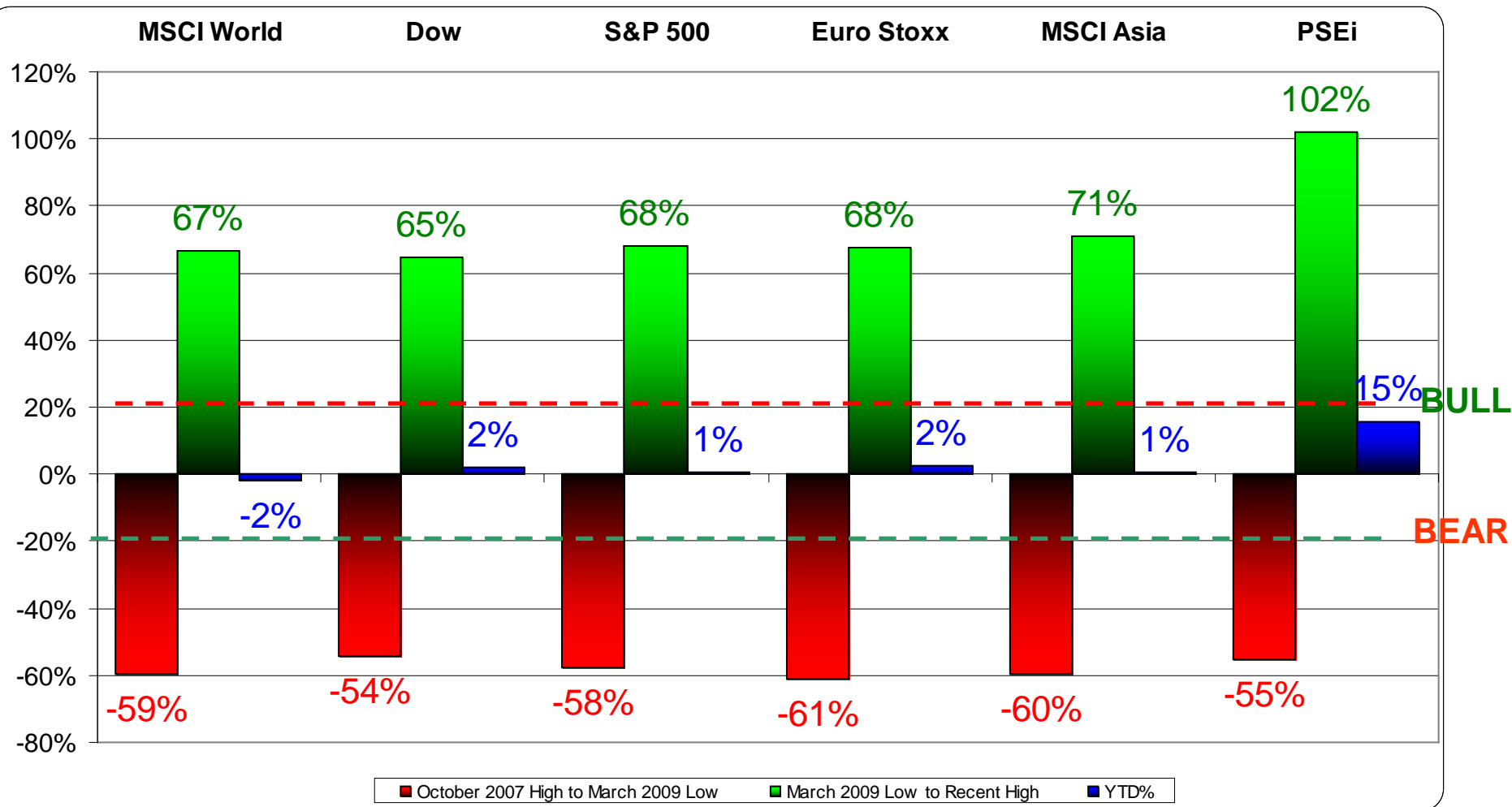


The Philippine Stock Market: Total Capital Raised Is 15% Higher





The Philippine Stock Market: Bull Market Continues

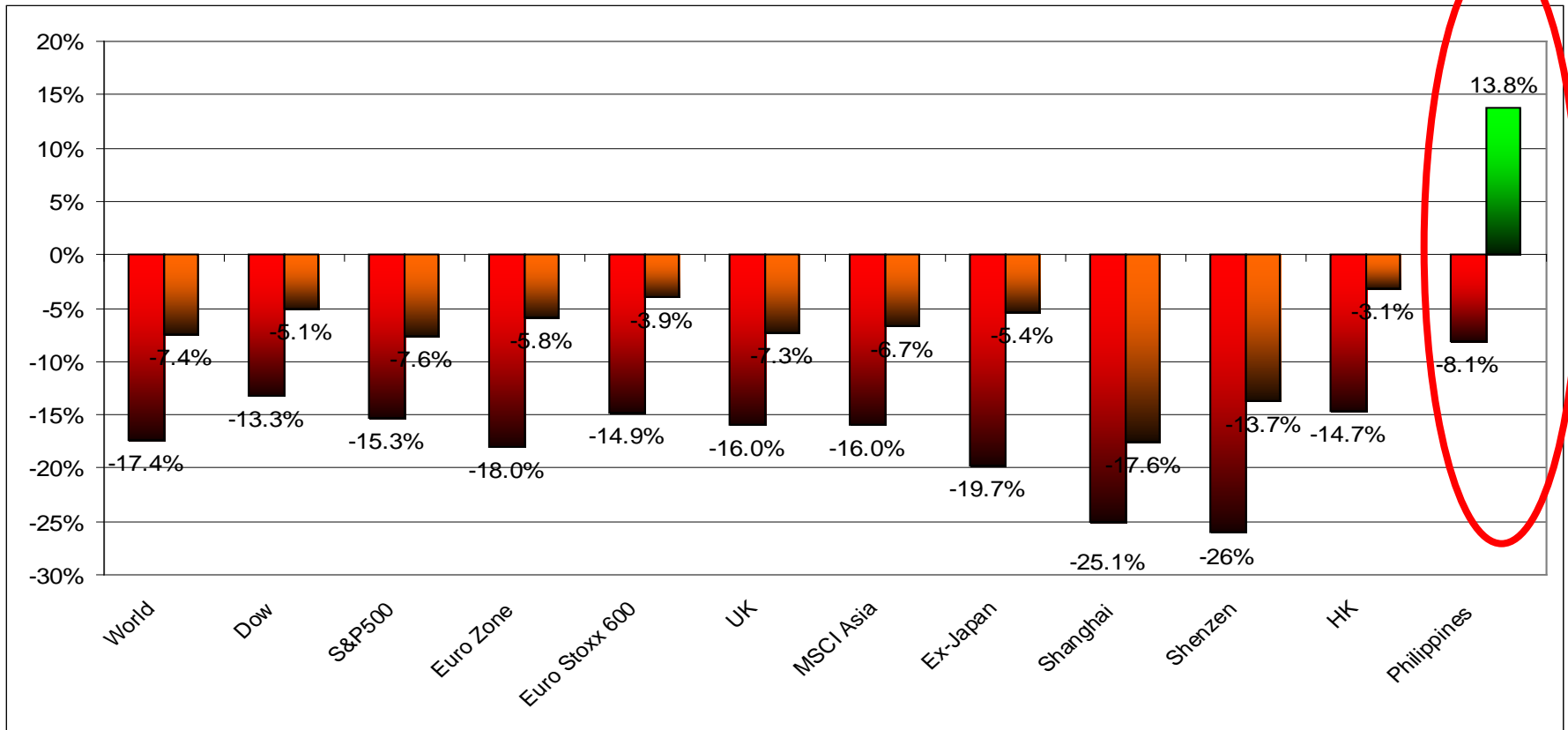




The Philippine Stock Market:

Global Markets Have Bounced-Off From Their Recent Lows
 PSEi: Weaker Correction And Stronger Recovery

Recent Correction and Recovery (April to July, July to date)



Max.



Current



*as of August 5



The Philippine Stock Market:

PSEi First-Quarter Earnings Growth Of 56% Exceeded Market Expectations And Full-Year Forecast Of 17%

Industry	Number of stocks	% index weight	Profit growth	
			Reported	Recurring
Telcos	2	23.7%	6%	-7%
Banks	7	16.8%	25%	25%
Conglomerates	7	19.7%	314%	128%
Utilities	6	13.7%	221%	267%
Properties	6	13.3%	15%	14%
Consumer	5	3.9%	164%	72%
Media	2	1.8%	181%	120%
Resources	2	1.8%	50%	50%
Aggregate	37	94.6%	100%	56%
Aggregate ex-power	31	77.6%	26%	20%

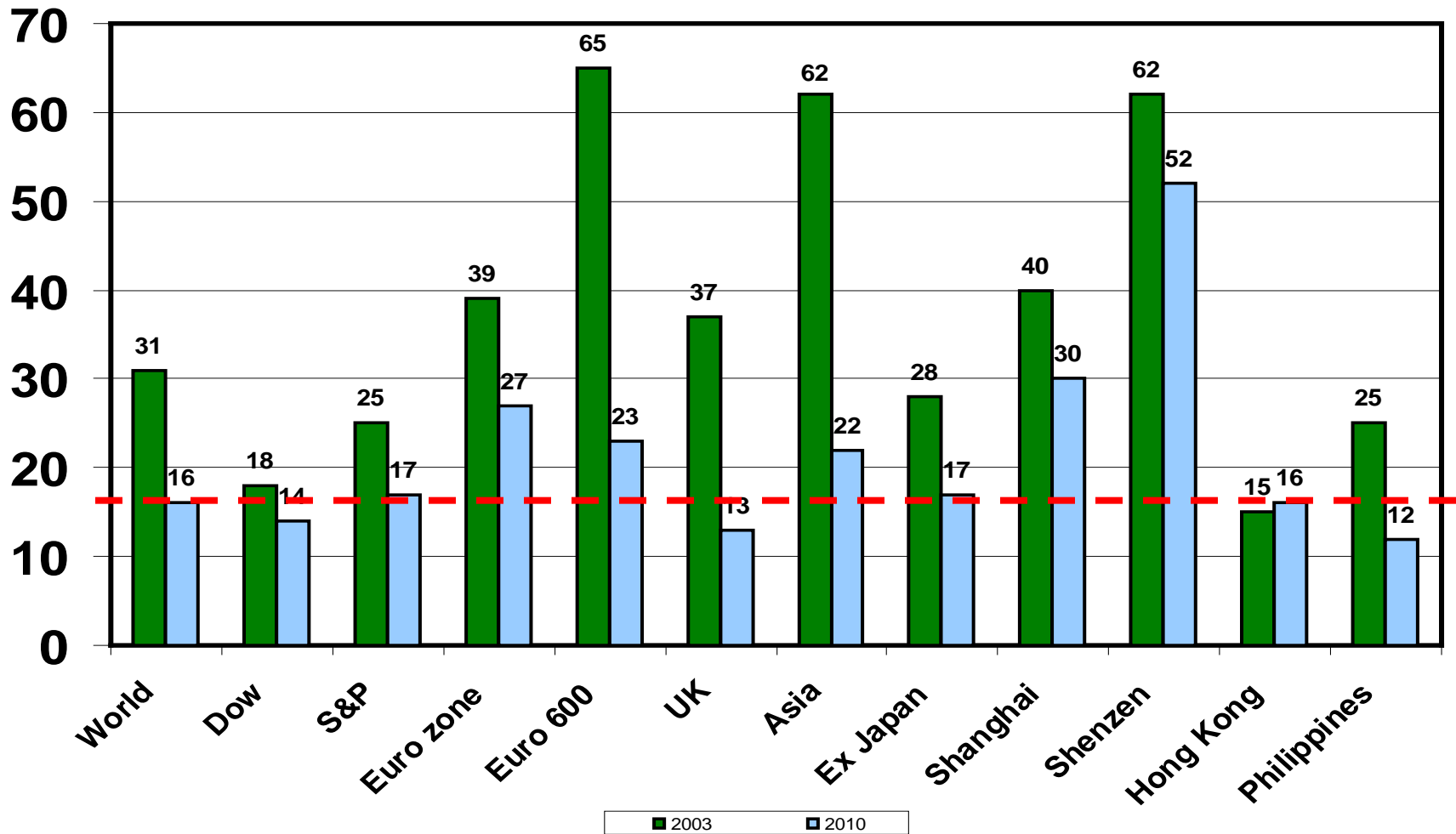
Source: Philippine Equity Partners

	2003	2004	2005	2006	2007	2008	2009	2010F
PSEi Earnings Growth (%)		30.8	14.7	16.7	14.8	Flat	4.0	17.0



The Philippine Stock Market:

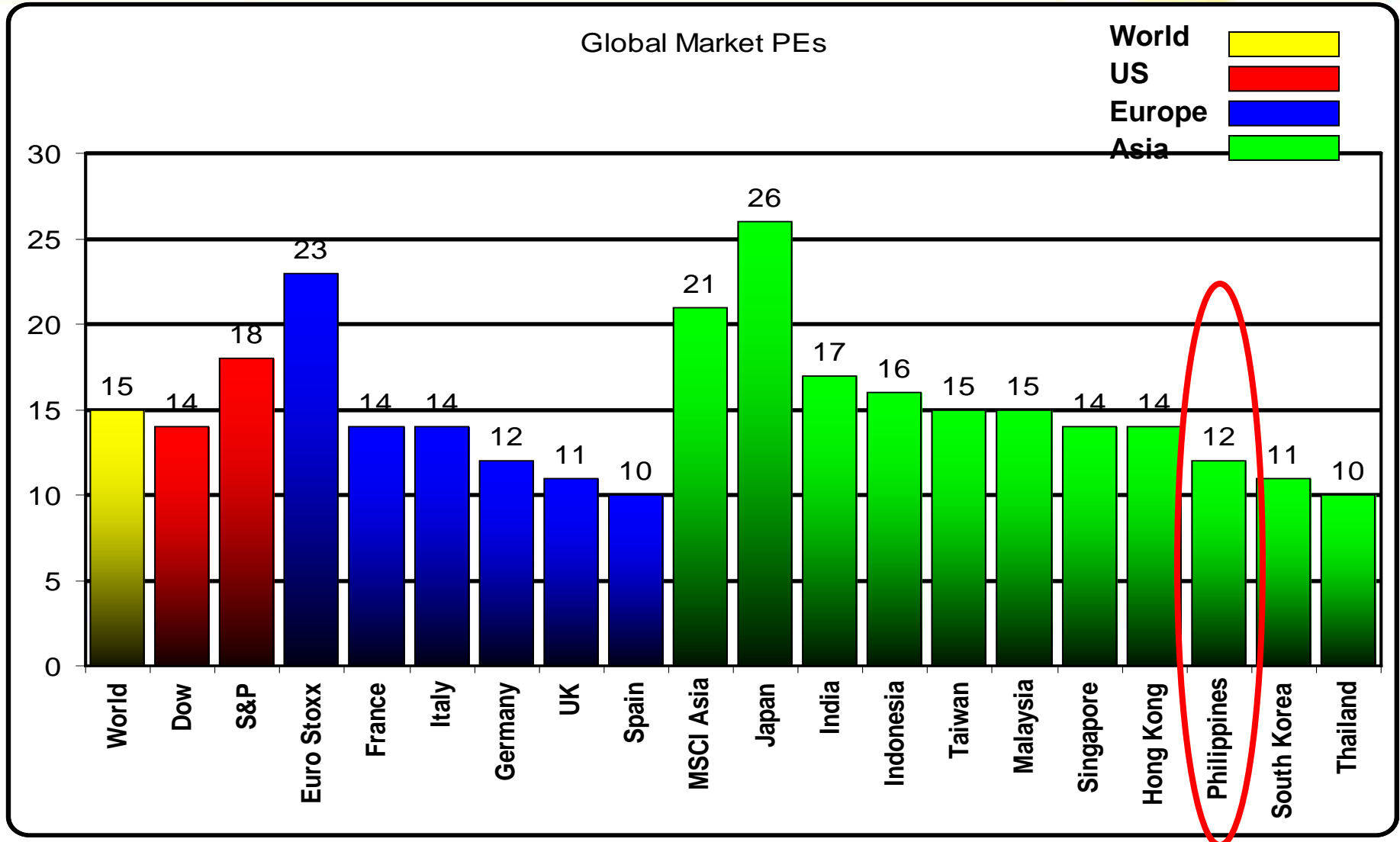
Attractive Valuation Of PSEi Relative To Global Peers
And 2003, The First Year Of Recovery





The Philippine Stock Market:

PSEi Trading At 12x P/E, Still Among The Lowest In Asia





The Philippine Stock Market

The PSEi May Challenge 3800 By End 2010

Philippine Stock Index

11-Aug-2010





The Philippine Stock Market:

Key Developments: New Trading System And ASEAN Exchange Hub

Initiative	Update
<p>PSE New Trading System</p> <p>The NSC Trading System Core Products, developed by NYSE Euronext, is equipped to trade a wide range of cash, debt and derivatives instruments It replaced the Maktrade system which was in use since 1993</p>	<p>Launched on July 26, 2010</p>
<p>ASEAN Exchange Hub</p> <p>The ASEAN stock exchanges formally entered into an MOU in February 2009 to proceed with the discussions in developing an ASEAN trade linkage and in establishing an ASEAN Board</p> <p>The Agreement was entered into by Bursa Malaysia, Indonesia Stock Exchange, PSE and Singapore Exchange The Stock Exchange of Thailand, and later in September 2009, the Ho Chi Minh Stock Exchange</p> <p>The e-trading link, through one single access point, will allow intra-ASEAN cross-border trading and will attract more international funds into the ASEAN.</p>	<p>Expected to go online in 2010</p>
<p>PSE- Shenzhen Stock Exchange, Ho Chi Minh Stock Exchange and The Korea Stock Exchange Memorandum of Understanding</p> <p>To explore mutual cooperation through information and experience sharing.</p>	<p>Signed on April 23, 2009</p>

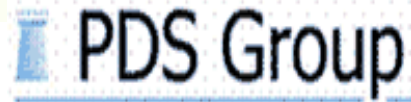


The Philippine Fixed Income Exchange

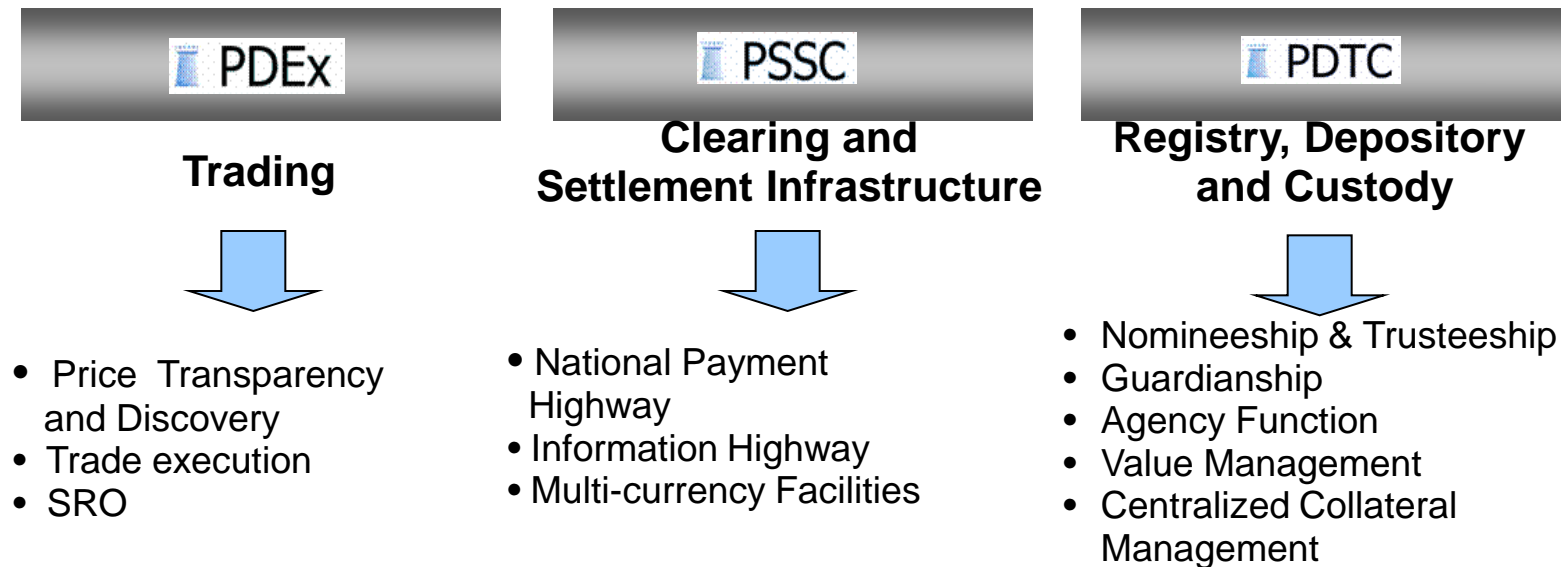


The Philippine Fixed Income Exchange

Integrated And Diversified Products And Services



Phil. Dealing System Holdings Corp. (PDS)



Designed to seamlessly link market activities from trading, clearing & settlement up to post-settlement disposition



The Philippine Fixed Income Exchange: Diverse Ownership And Clear Mandate

PDS Shareholders
Key Stakeholders in the FI Market
Issuers, Investors, Intermediaries



€ PDEX

- § Organize Inter-Dealer Market
- § Integrate Public Market
- § Strengthen Benchmarks
- § Establish Independent SRO Capability
- § Develop Corporate/Bank Issue Market
- § Enhance Settlement Environment (STP/DVP)
- § Create Cash/Securities Enhancement Programs
 - Repo
 - SLT

€ PDTC (Fixed Income and Equity Markets)

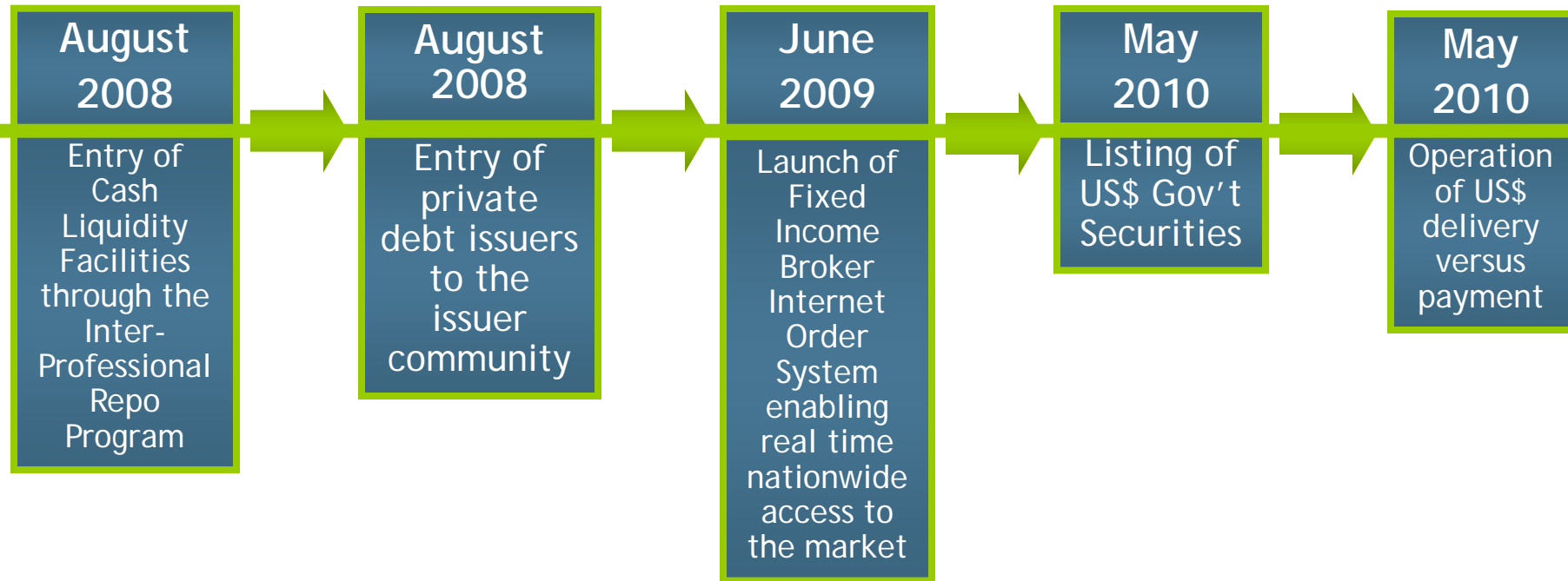
- § Central Safekeeping/Guardianship
 - Depository
 - Registry
 - Custody
- § Liquidity Support Value Added Services
 - Collateral Management
 - Lending Pool
 - Lending Agency

€ PSSC

- § Settlement Highways
 - PDS Settlement Highway
 - PDS Gateway

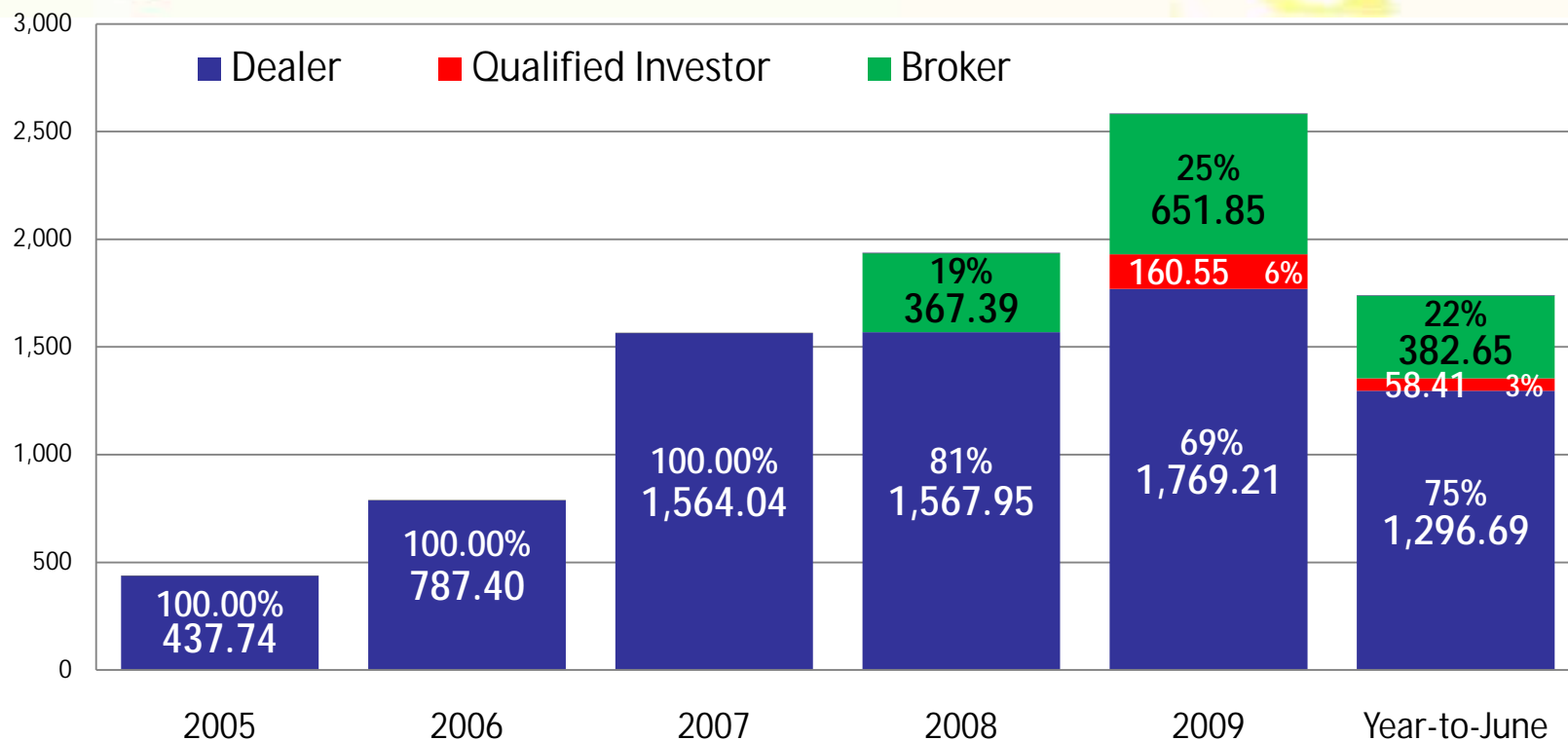


The Philippine Fixed Income Exchange: Building Market Infrastructure





The Philippine Fixed Income Exchange: High Growth Of Trading Volume

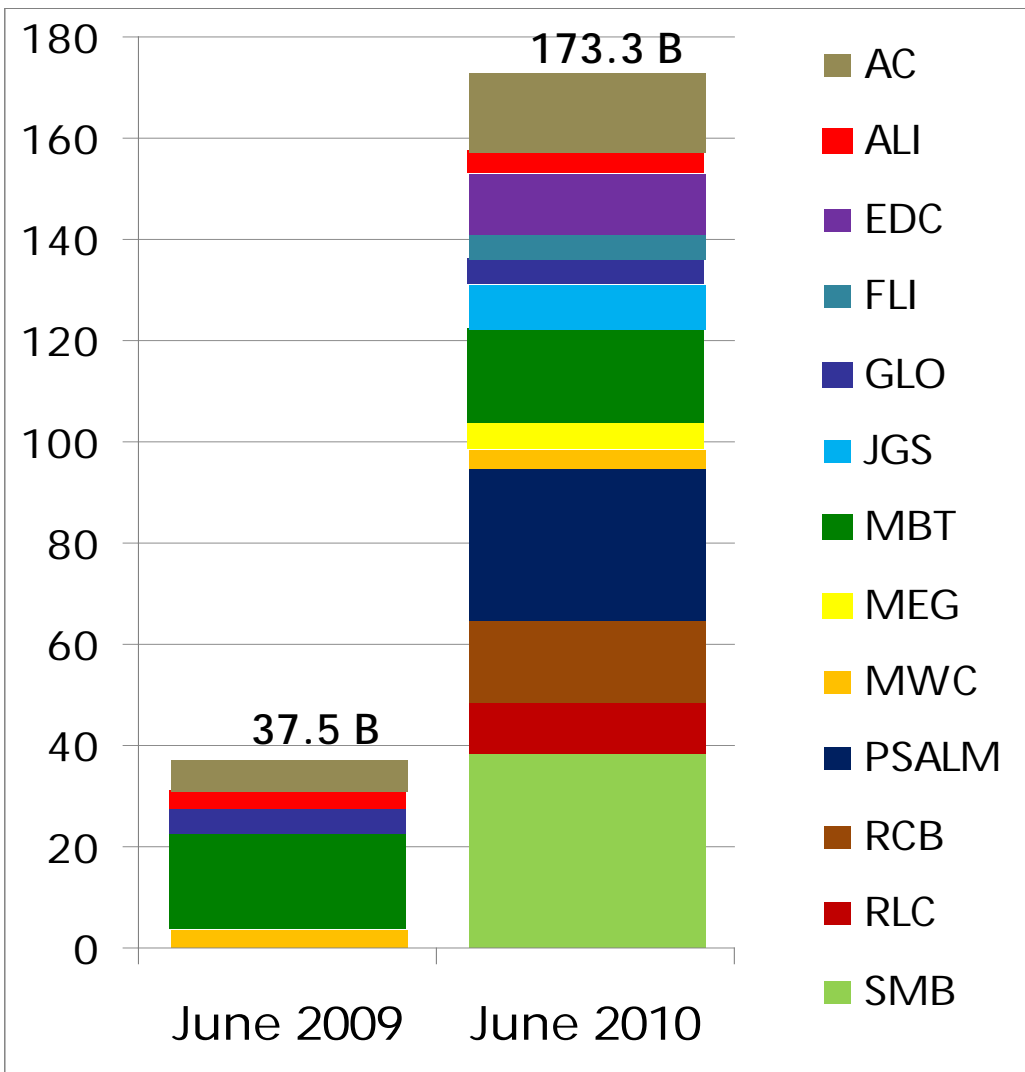


Volume	437.74	787.40	1,564.04	1,935.34	2,581.61	1,737.75
Growth		79.88%	98.63%	23.74%	33.39%	
Ave. Daily Vol.	2.32	3.24	6.41	7.87	10.62	14.36
Turnover	0.4x	0.8x	1.3x	1.4x	1.7x	1.02x



The Philippine Fixed Income Exchange: Wave Of Corporate Bond Issuances

Total Market Value Of Listed Corporate Securities Grew 362%

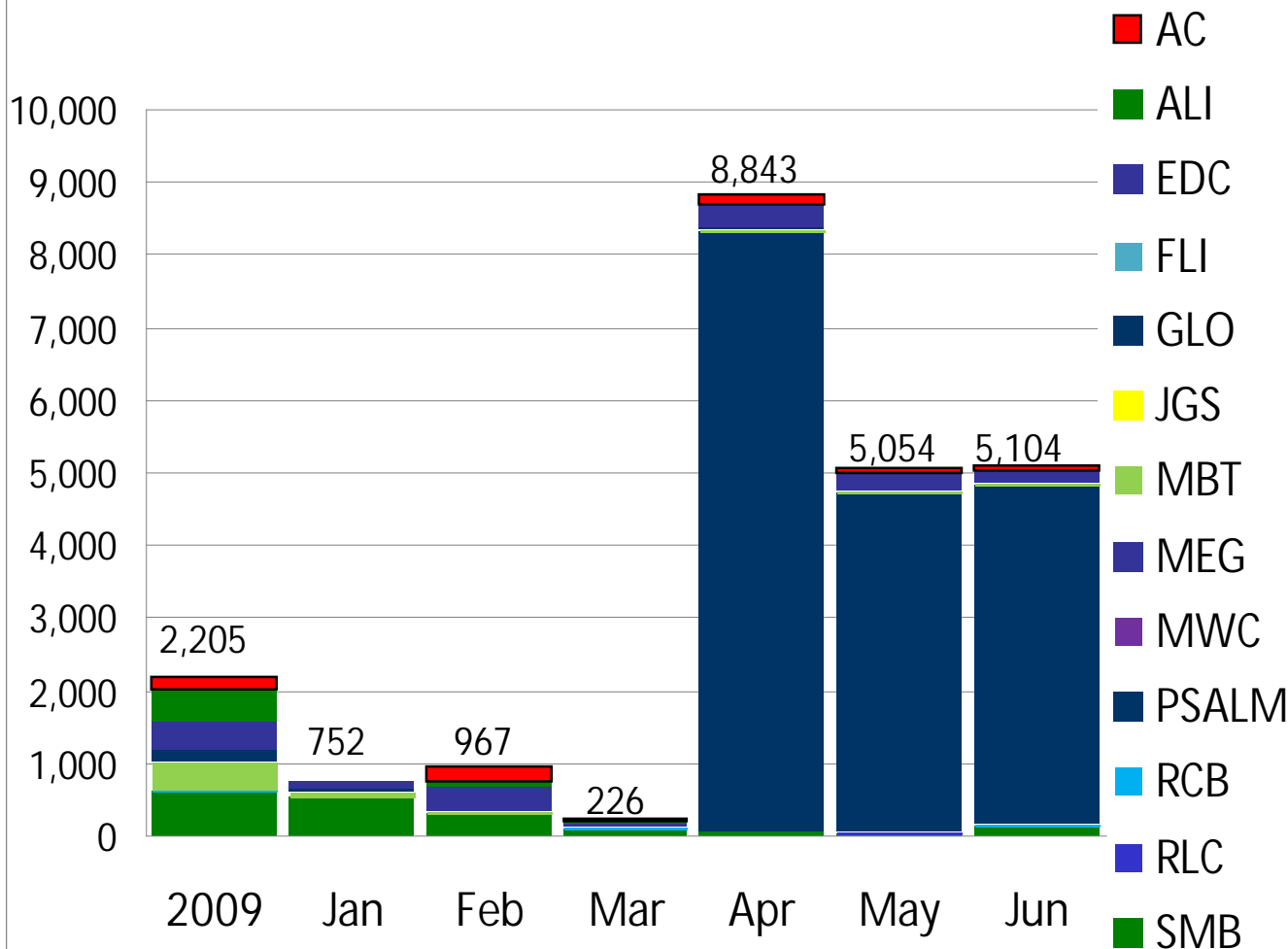


	June 2010 (PhpBn)	Share (%)
AC	16.0	9.2
ALI	4.0	2.3
MWC	4.0	2.3
MBT	18.5	10.7
GLO	5.0	2.9
RCB	16.0	9.2
SMB	38.8	22.4
MEG	5.0	2.9
EDC	12.0	6.9
RLC	10.0	5.8
FLI	5.0	2.9
PSALM	30.0	17.3
JGS	9.0	5.2
Total	173.3	



The Philippine Fixed Income Exchange: Ten-fold Increase In Trading Volume Of Corporate Bonds

Monthly Corporate Bond Trade Volume



YTD Corporate Bond Volume (PhpMn)		
AC	467.69	2.23%
ALI	150.00	0.72%
EDC	1,176.69	5.62%
FLI	19.30	0.09%
GLO	95.88	0.46%
JGS	4.68	0.02%
MBT	141.64	0.68%
MEG	1.00	0.00%
MWC	2.45	0.01%
PSALM	17,567.40	83.87%
RCB	71.40	0.34%
RLC	23.10	0.11%
SMB	1,224.77	5.85%
	20,945.99	



Capital Market Trends And Regulatory Policy



Capital Market Trends: New Products

Initiative	Update
<p>Personal Equity Retirement Account (PERA)</p> <p>Promotes voluntary long-term savings, through investments in PERA products designed to be locked for at least 5 years until retirement age of investor</p>	<p>Signed into law on August 22, 2008</p> <p>IRR approved on October 21, 2009 by BSP, SEC and DoF and BIR</p> <p>Council private sector members submitted comments on the draft Revenue Regulations</p>
<p>Feasibility Study of Equity Derivatives Trading</p> <p>Engaged CBM Group, Inc. to develop a strategic plan to introduce derivatives and commodities trading on the PSE</p> <p>The results of the study showed potential for developing a derivatives market in the Philippines particularly for index-based futures. The study also revealed, however, that the tax structure for trading for derivatives products needs to be reviewed.</p>	<p>Concluded in 2009</p>
<p>Exchange-Traded Fund Listing Rules</p> <p>Will allow local and foreign ETFs, with minimum asset size of P250m and \$10m, respectively, to list on the PSE</p>	<p>Approved by the PSE on April 2008 and submitted to the SEC for approval</p>
<p>Real Estate Investment Trust (REIT)</p> <p>Seeks to provide a legal and regulatory framework and create a favorable market environment for real estate investment companies</p> <p>The REIT Act of 2009 requires REITs to list its shares on the PSE. The REIT must distribute 90% of its income as dividends to avail of tax incentives.</p>	<p>Lapsed into Law on December 17, 2009; Implementing Rules and Regulations issued by SEC on May 13, 2010; Awaiting BIR Implementing Rules and Regulations</p>



Capital Market Trends: Regulatory Policy

Initiative	Update
<p>Abolition of Documentary Stamp Tax on Secondary Trading</p> <p>Permanently exempts stock trades through the PSE from the Documentary Stamp Tax (P0.75 per P200 par), with retroactive effect to March 20, 2009</p>	<p>Signed into law on June 30, 2009</p>
<p>Spin-off of Market Regulation Division</p> <p>The PSE Board approved the spin-off of the Market Regulation Division into a wholly-owned and self-regulatory company to be known as Philippine Securities Regulation Company, Inc. that will monitor the activities of trading participants.</p>	<p>Approved by PSE Board on May 28, 2010</p>



Capital Market Trends: New Legislation

Initiative	Update
<p>Financial Rehabilitation and Insolvency Act (FRIA)</p> <p>Aims to update the outdated legal framework of insolvency proceedings under the Insolvency Law of 1909. The law provides financially distressed companies with four different remedies: 1) Court-supervised rehabilitation 2) Pre-packaged Rehabilitation 3) Out-of-court or informal restructuring agreement 4) Liquidation</p>	<p>Adopted by Congress on February 2, 2010</p>
<p>Credit Information System Act (CISA)</p> <p>Aimed at establishing a comprehensive credit information system, allowing financial institutions ready access to accurate and up-to-date credit information thru the proposed Central Credit Information Corporation</p>	<p>Signed into law on October 31, 2008; Implementing Rules and Regulations for Approval by Congress</p>
<p>Collective Investments Schemes Law (CISL) formerly referred to as the Revised Investment Company Act (RICA)</p> <p>Seeks to institute reforms in the domestic investment company industry, including mutual funds and aims to establish a comprehensive regulatory framework to enable investment companies to play a key role in capital formation</p>	<p>Joint Committee meetings/hearings were conducted on April 16, 2009 and May 19, 2009</p> <p>No bill filed at House of Representatives</p>
<p>Financial Sector Taxation Reform (Fin Tax)</p> <p>Meant to rationalize taxation to level the playing field as regards applicable tax on similar financial instruments offered by different financial institutions, thereby avoiding tax arbitrage</p>	<p>Legislative Committee report under preparation</p>



End Of Presentation

Thank You!