

COVER SHEET

2 8 7 8 8
S.E.C. Registration Number

sd

M A K A T I F I N A N C E
C O R P O R A T I O N

(Company's Full Name)

2^{N^D} F l o o r , M a k a t i
F i n a n c e C e n t e r 7 8 2 3
M a k a t i A v e . , M a k a t i C i t y

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

CYNTHIA M. GACAYAN
Contact Person

897-0749
Company Telephone Number

1 2 3 1
Month Day
Fiscal Year
2013

SEC Form 20 - IS
(Definitive Info. Statement)
FORM TYPE

0 7
Month Day
Annual Meeting

Secondary License Type, If Applicable

C R M D
Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings
Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number
Document I.D.

LCU
Cashier

STAMPS

Remarks = pls. Use black ink for scanning purposes

Notice of the
2013 ASM

②

MAKATI FINANCE
FINANCIAL SERVICES AND ADVISORY

NOTICE OF THE 2013 ANNUAL STOCKHOLDERS' MEETING

TO ALL SHAREHOLDERS
MAKATI FINANCE CORPORATION


NOTICE IS HEREBY GIVEN that the Annual Stockholders' Meeting of Makati Finance Corporation, will be held on **25 July 2013, Thursday, 5:00 p.m.**, at the Manila A Function Room, **Makati Shangri-La Hotel**, Ayala Avenue, Makati City, with the following agenda:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the Annual Stockholders' Meeting held on 28 June 2012.
4. Presentation and Approval of the 2012 Annual Report and 2012 Audited Financial Statements
5. Ratification of acts, contracts, investments and resolutions of the Board of Directors and Management since the last Annual Stockholders' Meeting
6. Declaration of Cash /Stock Dividends
7. Election of Directors
8. Appointment of Independent External Auditors
9. Other Matters
10. Adjournment

The record date for stockholders entitled to notice of and vote at the said meeting is 27 June 2013. Registration for the meeting shall be at 4:30 p.m. Please present and provide any proof of identification, such as driver's license, passport, or government issued I.D, to facilitate registration. The Annual Stockholders' Meeting is a business meeting and children shall not be allowed in the venue.

Any instrument authorizing a proxy to act as such shall be submitted to and received at the principal office of the corporation on or before 19 July 2013, addressed to the attention of The Corporate Secretary. Corporate Shareholders are required to submit duly notarized Board Resolutions designating their proxies. Validation of proxies shall be on 20 July 2013 at 10:30 a.m. at the principal office of the Corporation. Holders of proxies which have not been submitted and validated in accordance with the foregoing shall not be honored during the meeting. No proxy is being solicited.

1 July 2013.

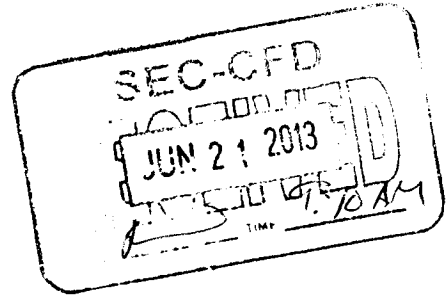

ATTY. D. ENRIQUE O. CO
Corporate Secretary

MFC NSJL03 [CFA-LAW]

2/F Makati Finance Bldg., 7823 Makati Avenue, Makati City, 1200 Philippines
Telephone Nos. (632) 899 4145 / 899 0526 Fax No. (632) 899 4121

SEC 20-1S

3



SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS
 INFORMATION STATEMENT PURSUANT TO SECTION 20
 OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

- Preliminary Information Statement
 Definitive Information Statement

2. Name of Registrant as specified in its charter MAKATI FINANCE CORPORATION

3. MAKATI CITY, PHILIPPINES
Province, country or other jurisdiction of incorporation or organization

4. SEC Identification Number 28788

5. BIR Tax Identification Code 000-473-966

6. **7823 MAKATI AVENUE, MAKATI CITY** **1210**
Address of principal office Postal Code

7. Registrant's telephone number, including area code (062) 890-06-21

8. **July 25, 2013 5:00 p.m. at Manila A Function Room, Makati Shangri-la Hotel, Ayala Ave., corner Makati Ave., Makati City**
Date, time and place of the meeting of security holders

9. Approximate date on which the Information Statement is first to be sent or given to security holders June 27, 2013.

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
<u>COMMON STOCK</u>	<u>197,402,011</u>

11. Are any or all of registrant's securities listed on a Stock Exchange?

Yes / No

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:
PHILIPPINE STOCK EXCHANGE Common Stock

INFORMATION REQUIRED IN INFORMATION STATEMENT

Statement That Proxies are Not Solicited

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY

GENERAL INFORMATION

DATE, TIME AND PLACE OF MEETING OF SECURITY HOLDERS

The Special Stockholders' Meeting of the Company will be held on July 25, 2013, 5:00 p.m. at the Manila A Function Room, Makati Shangri-la, Ayala Avenue corner Makati Avenue, Makati City. The complete mailing address of the principal office of Makati Finance Corporation is: 7823 Makati Avenue, Makati City, Philippines. This information statement is to be sent to the Company's stockholders on June 27, 2013.

DISSENTERS' RIGHT OF APPRAISAL

The procedure to be followed in exercising the appraisal right of dissenting stockholders shall be in accordance with Section 81 to 86 of the Corporation Code. A stockholder must have voted against any proposed corporate action in order to avail himself of the appraisal right.

There are no matters to be taken up in the stockholders' meeting which would warrant exercise of appraisal.

INTEREST OF CERTAIN PERSONS IN OR OPPOSITION TO MATTERS TO BE ACTED UPON

Other than their election to the Board of directors, none of the incumbent Directors or Officers of the Company has any substantial interest, direct or indirect, in any matter to be acted upon in the Special Stockholders' meeting.

None of the Company's Directors has informed the Corporation in writing that he intends to oppose any action to be taken in the Annual Stockholders' Meeting.

CONTROL AND COMPENSATION INFORMATION

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

Total number of common shares outstanding as of May 31, 2013 is 197,402,011 (Foreign shares is 8,171,028 and Local shares is 189,230,983) with a par value of P1 per share. Pursuant to Article III, Section 4 of the Company's Amended By-Laws, every stockholder shall be entitled to one (1) vote for each share of common stock standing in his name in the books of the Company on the Record Date as fixed by the Board of Directors. Every stockholder voting on the election of directors may cumulate such number of votes in accordance with Section 24 of the Corporation Code.

Stockholders of record of the Company as of June 27, 2013 ("the Record Date") shall be entitled to notice of, and to vote at, the Special Stockholders' Meeting.

**SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS
(MORE THAN 5% AS OF MAY 31, 2013)**

Title of Class	Name and Address of Record Owner	Name/Address of Beneficial Owner	Citizenship	Amount of Ownership	Percentage Held
Common Shares	Amalgamated Investment Bancorporation -11/F Multinational Bancorporation Bldg. 6805 Ayala Avenue, Makati City (Stockholder)	Same	Filipino	139,479,889	70.66%
Common Shares	MF Pikeville Holdings/Pikeville Bancshares - 11/F Multinational Bancorporation Bldg. 6805 Ayala Avenue, Makati City (Stockholder)	Same	Filipino	14,010,820	7.10%
	TOTAL			153,490,709	77.76%

SECURITY OWNERSHIP OF DIRECTORS AND MANAGEMENT (AS OF MAY 31, 2013)

Title of Class	Name of Beneficial Owner	Amount of Ownership	Nature of Ownership	Citizenship	Percentage Ownership
Common	Michael Wee Soon Lock	8,168,324	R	Singaporean	4.14%
Common	Rene B. Benitez	5,174,731	R	Filipino	2.62%
Common	Joel S. Ferrer	1,988,557	R	Filipino	1.01%
Common	Teresita B. Benitez	393,612	R	Filipino	0.20%
Common	Max O. Borromeo	397,892	R	Filipino	0.20%
Common	Isidro B. Benitez	249,957	R	Filipino	0.13%
Common	Eric B. Benitez	5,505,267	R	Filipino	2.79%
Common	Jose V. Cruz	1	R	Filipino	0.00%
Common	Juan Carlos del Rosario	29	R	Filipino	0.00%
Common	Francisco C. Eizmendi Jr.	15	R	Filipino	0.00%
Common	Eugenio E. Reyes	15	R	Filipino	0.00%
Common	Cynthia M. Gacayan	101,061	R	Filipino	0.05%
	All directors & officers as a group	21,979,461			11.14%

The representative of Amalgamated Investment Bancorporation entitled to vote is Mr. Juan Carlos del Rosario. The representative of MF Pikeville Holdings/Pikeville Bancshares entitled to vote is Mr. Rene B. Benitez. There are no directors and nominees owning more than 5% of the outstanding shares who are affected by any acquisition, business combination or other reorganization, and there are no other commitments with respect to issuance of shares.

No changes in control has occurred since the beginning of the last fiscal year.

NOMINATIONS TO THE BOARD

The nomination committee is composed of: Mr. Rene B. Benitez, Chairman and Dr. Isidro B. Benitez, Mr. Max O. Borromeo, Atty. Eugenio E. Reyes and Mr. Michael Wee as members. Pursuant to the Company's Corporate Governance Manual, the Nomination Committee has pre-screened and shortlisted all candidates to be nominated as members of the Board of Directors. The Nomination Committee has considered the guidelines set forth in the Manual. This is in accordance with

memorandum circular no. 16 of the Securities and Exchange Commission. The incumbent members of the Board of directors are expected to be nominated during the Stockholders' Meeting, for the term 2013 to 2014, as follows:

1. Dr. Isidro B. Benitez
2. Mr. Juan Carlos del Rosario
3. Ms. Teresita B. Benitez
4. Mr. Max O. Borromeo
5. Mr. Rene B. Benitez
6. Mr. Joel S. Ferrer
7. Mr. Francisco Eizmendi Jr.
8. Atty. Eugenio E. Reyes
9. Mr. Michael Wee Soon Lock
10. Mr. Eric B. Benitez
11. Mr. Jose V. Cruz

Pursuant to SRC Rule No. 38 on procedures on nomination and election of independent directors, Atty. Eugenio Reyes and Mr. Francisco Eizmendi, Jr. have been nominated by Mr. Rene B. Benitez as independent directors. There are no relations between Mr. Benitez, Atty. Reyes and Mr. Eizmendi up to the fourth degree either by consanguinity or affinity.

The nomination Committee shall propose that Dr. Isidro B. Benitez be bestowed the honorary title of Chairman Emeritus in recognition of his exemplary contributions to the Corporation and his key role as founder and Chairman of the Corporation. Chairman Emeritus is considered an honorary title and is not considered an officer of the Corporation nor a by-laws position. The Chairman Emeritus shall not exercise any formal duties and/or responsibilities within the Corporation.

DIRECTORS AND EXECUTIVE OFFICERS

The Directors elected who shall serve for a term of one (1) year or until their successors shall have been elected, and their business experience for the last five years:

Dr. Isidro B. Benitez, 86, Filipino, is the Chairman Emeritus of the Board. Dr. Benitez has served as a Director since the Company's incorporation. He is also the Chairman of Obstetrics and Gynecology of the Makati Medical Center, MERG Realty Corporation and Amalgamated Development Corporation. Concurrently, Dr. Benitez is the Vice-Chairman of AIB and a Director of Nationwide Health Systems. He was formerly the Chairman of Obstetrics and Gynecology of the University of the Philippines / Philippine General Hospital where he worked from 1955 to 1988. He is presently the Chairman of the Examining Board of SGOP, Philippines, and a member of the American College of Surgeons, the Philippine College of Surgeons and the Philippine OB-Gyne Society. He obtained his Doctor of Medicine degree from the University of the Philippines, specialized in Obstetrics and Gynecology at John Hopkins University, Baltimore, Maryland and took courses in the Senior Executive MBA Program of the Ateneo de Manila University. He is also a director of Dearborn Motors, Inc. and Vice Chairman of Amalgamated Investment Bancorporation.

Mr. Juan Carlos del Rosario, 63, Filipino, has served as a Director since 1996. Mr. Del Rosario is currently the Chairman of AIB and Inter Global Alliances Inc. He was formerly the Senior Vice President and Chief Investment Officer of the Philippine American Life Insurances Co. (AIG Philippines) where he served as a member of the Board of Directors in several of its subsidiaries and affiliated companies. He was a Director of AIG Investment Corporation (Asia) Ltd., Cosmos Bottling Co., Bacnotan Cement Corporation, Investment Capital Corporation of the Philippines and Science Park of the Philippines Inc. Prior to joining the AIG/Philamlife Group, he had worked for 17 years for Chase Manhattan Bank in New York Head Office, and overseas postings in Saudi Arabia, Brazil and the Philippines. He is a graduate of De La Salle University, Manila with

Bachelor of Arts (History) and Bachelor of Science (Commerce) degrees. He received his MBA (Finance and Marketing) from Columbia University, New York City and also completed the Executive Development Program at Cornell University Graduate School of Management Ithaca, New York and the Strategic Business Economics Program at the University of Asia and the Pacific, Manila.

Ms. Teresita B. Benitez, 78, Filipino, is the Company's Vice Chairperson. She has been a Director since 2001. She had previously worked for the Philippine Bank of Commerce as Assistant Personnel Manager and United Coconut Planters Bank as Assistant Corporate Secretary. She had also been a director at Asiatrust Bank and Amalgamated Development Corporation. At present she is the Treasurer and Director of Nationwide Health Systems and FLB Development Corporation and the President of MERG Realty and Development Corporation. Ms. Benitez obtained a Bachelor of Science degree in Commerce from the University of San Francisco.

Mr. Max O. Borromeo, 64, Filipino, is the Company's President. He has been a Director since 2000. Aside from being a Director of the Company, Mr. Borromeo is concurrently President and a Director of Honda Motor World, Inc., HMW Lending Investors, Dearborn Motors Co., Inc, Astron Gestus, Inc., Visayas Auto Ventures, Inc., Cebu Maxi Management Corporation, Maxi Agricultural Corporation, Cebu Parkland, Inc. He is also a Director in the following companies: Borromeo Brothers Estate, Inc., Margarita Agro-Industrial Corp., Salud Borromeo Foundation, Inc. and McBros Development Corporation. At present, Mr. Borromeo is the governor of the Cebu Business Park. He graduated with a Bachelor of Arts degree in Economics from the Ateneo de Manila University.

Mr. Rene B. Benitez, 51, Filipino, is the Company's Chairman. He has been a Director since 1996. Prior to joining the Company, he held the position of Country Manager of the Development Bank of Singapore ("DBS") Securities, Inc. He has had extensive experience in foreign and local investment banking and capital market operations, having been connected with Insular Investment and Trust Corporation, Shearson Lehman Brothers (USA), Prudential Bache Securities (USA) and the World Bank. He was formerly a member of the Philippine Stock Exchange and is currently Director of H. Thomas Group, Inc., Vision Air Flight Support Service, Inc., Pikeville, Inc., MERG Realty and Development Corporation, Commercial & Consumer Credit Corporation, Global Credit and Management Group, JCR Realty and Management and Interglobal Alliances. He graduated from Claremont Colleges / Pitzer College with a double degree in Business Economics and Organizational Studies. He also has a Master's Degree in Economics from Yale University.

Mr. Joel S. Ferrer, 59, Filipino, has served as a Director since 1998. Mr. Ferrer is currently the President of PARMAN Inc., an overseas recruitment company. At the same time he also manages his family's aquaculture business. Previous to this, he had worked for ERECSA, Inc. where he was the Executive Vice President. His other work experience includes being an investment executive at the Summa International Bank of Indonesia and a Lending Officer at the Bank of America. He obtained his Masters Degree in Business Management from the Asian Institute of Management and completed the Strategic Business Economics Program of the University of Asia and the Pacific.

Mr. Francisco C. Eizmendi Jr., 75, Filipino, is one of the Independent Directors of the Company. He was elected as a Director in the recent Stockholders' Meeting of Makati Finance Corporation and concurrently a Director of RCBC Forex Brokers Corporation. Mr. Eizmendi had been the President and Chief Operating Officer of San Miguel Corporation for 15 years. He also had been a member of the Advisory Board of Rizal Commercial Banking Corporation. Mr. Eizmendi graduated with a Bachelor of Science in Chemical Engineering Degree from the University of Santo Tomas in 1956.

Atty. Eugenio E. Reyes, 76, Filipino, is one of the Independent Directors of the Company. He was elected as a Director only in the last quarter of 2003. Atty. Reyes is with Jacob Jacob & Associates, concurrently the Corporate Secretary of Parman, Inc. and Executive Secretary of the Philippine Association of Securities Brokers and Dealers, Inc. He was also a former Director of the Securities & Exchange Commission from 1999 to 2001. Atty. Reyes finished his Bachelor of Laws at the University of Southern Philippines in Cebu City.

Mr. Michael Wee Soon Lock, 77, Singaporean, has served as a Director since 1998. Mr. Wee is a senior ASEAN banker and retired Executive Chairman of Development Bank of Singapore Securities Holding PTE Ltd. He has held the positions of the Chairman of NatSteel Ltd., Deputy Chairman of DBS Land, Executive Vice President of the Development Bank of Singapore, General Securities Investments Ltd., Singapore Bus Service Ltd., Laguna National Golf and Country Club, Ltd. and was the Director of NFC Merchant Bank, Ltd. Mr. Wee graduated with a Bachelor of Science Degree in Chemical Engineering from the University of Birmingham and obtained his Masters Degree in Finance from the University of British Columbia.

Mr. Jose V. Cruz, 67, Filipino, has served as a Director since 2010. Mr. Cruz is currently the President and CEO of Amalgamated Investment Bancorporation ("AIB"). Prior to joining AIB, he has had extensive experience in foreign and local investment banking, commercial banking, and capital market operations, having been based in New York, London, the Middle East, Singapore, and Hongkong. He was formerly Managing Director in AIA Capital Corporation, a Hongkong based regional investment bank (focused on corporate finance in Asia) previously owned by the publicly listed pan-Asian insurance group, AIA Group Limited. He was also a Board Member of AIA Capital's investment banking subsidiaries located in Taiwan, India, and the Philippines. Prior to AIA Capital, he was Senior Vice President of AFC Merchant Bank, a Singapore-based consortium bank owned by leading Southeast Asian banks, including DBS Bank, Bangkok Bank, and Malayan Bank. He was previously Vice President and CFO of MERALCO and a Board member of Royal Dutch Shell's subsidiary in the Philippines. He started his career as an officer in the 1970s in Citigroup (then called Citibank) head office, New York. He received his MBA from Columbia University, New York City.

Mr. Eric B. Benitez, 46, Filipino, has served as a Director since 2011. Mr. Benitez was formerly a Director in Credit Risk Management at Eurohypo AG (wholly-owned subsidiary of Commerzbank AG) in New York. Prior to Eurohypo, Mr. Benitez was a senior consultant within the Real Estate Business Advisory Services Group at the New York office of PricewaterhouseCoopers, LLP. He began his career in 1988 as an analyst in the trust department at Sanwa Bank (now part of The Bank of Tokyo-Mitsubishi UFJ) in San Francisco, CA. Previously, Mr. Benitez was formerly a Board Member of the Philippine Finance Association. He earned his BA in Applied Mathematics from the University of California, Berkeley and his MS in Real Estate from Columbia University in New York.

INDEPENDENT DIRECTORS

Among the Directors, Messrs. Francisco C. Eizmendi Jr. and Atty. Eugenio E. Reyes were elected as the two (2) Independent Directors of the Company at the 2012 Annual Stockholders' Meeting.

The Independent Directors will serve the five (5) consecutive years starting June 2012.

SENIOR MANAGEMENT

Ms. Cynthia M. Gacayan – *Chief Operating Officer, 58, Filipino.* Cynthia was employed by the Company in 2007 as its new CFO and in June 2008 was designated as Chief Operating Officer. She was the CFO/Finance Group Head of Cintree Management Services, Inc. (managing arm for the PJ Lhuillier companies) for 2 years. For 10 years she served as the Senior Vice President of Finance and Administration of the Science Park of the Philippines, Inc. (1990 – 2001). She also served as a Director for the Kyudenko Needs Creator IT Company from 2002 to 2005. Subsequently she became the CFO of Cintree Management Services Inc. in 2005 to 2007. She graduated with a Bachelor of Science degree in Accounting from the University of San Carlos in 1975. She completed her master's degree in Business Management from the University of the Philippines in 1984 and finished the Top Management Program of Asian Institute of Management in 1997.

Atty. Danilo Enrique O. Co, *Corporate Secretary and Legal Counsel, 44, Filipino.* Atty. Co has been serving the Corporation as its Corporate Secretary and Legal Counsel shortly after it went public in 2003. He is currently the Managing Partner of Co Ferrer & Ang-Co Law Offices. He is also a Director and/or Corporate Secretary of several other Philippine corporations, including Western Roadhouse Foods, Inc., Amalgamated Investment Bancorporation, Cuervo Appraisers, Inc. and Kalayaan College. Atty. Co obtained his BS Business Administration (*cum laude*) and Law degrees from the University of the Philippines.

FAMILY RELATIONSHIP

Dr. Isidro B. Benitez and Ms. Teresita B. Benitez are spouses, and Mr. Rene B. Benitez and Eric B. Benitez are their sons.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

None of the Directors and Executive Officers was involved during the past five years up to June 19, 2013 in any bankruptcy proceedings up to June 19, 2013. Neither have they been convicted by final judgment in any criminal proceeding or been subject to any order, judgment or decree of competent jurisdiction, permanently or temporarily enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, not any action by any court or administrative body to have violated a securities or commodities law.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS – NOTE 22

In the ordinary course of business, the Company enters into transactions with its stockholders and affiliates. Under the Company's policy, these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. Related party transactions are settled in cash.

Affiliates are other companies linked indirectly to the Company through interlocking directorship or officership and those under common significant influence and common control.

The following transactions have been entered into with related parties:

Category	December 31, 2012		Nature, Terms and Condition
	Statement of Comprehensive Income	Statement of Financial Position	
<u>Parent Company</u>			
<i>Amalgamated Investment Bancorporation</i>			
Accounts receivables		P520,307	Unsecured, 30-day non-interest bearing receivable. This refers to the Company's claim for reimbursement representing additional EWT payment equal to 18% of interest expense.
Other Receivables		101,007	non-interest bearing, unsecured, 30-day non-interest bearing receivable
AFS Investments		75,000,000	Shares of AIB held as AFS securities by the Company.
Notes Payables		512,300,000	Unsecured, 1-year interest bearing placement at 6.75% annual interest
Accrued expenses		782,090	30-day unsecured, non-interest bearing broker's fee payable to Parent for arranging the approved bank loan applications of the Company equal to 1.75% of the loan amount and interest payable on notes payable.
Interest Expense	P34,000,327		Interest payment for notes payable.
Professional Fees	2,187,500		Payment's of broker's fee payable to Parent.
Dividend Income	5,400,150		Cash dividend on P9M shares of AIB equal to Php 0.6 per share.
<u>Entities under Common Control</u>			
<i>Motor Ace Philippines, Inc.</i>			
Other receivables		112,000	non-interest bearing, unsecured, 30-day unsecured, non-interest bearing liability representing billings for motorcycle units financed by the Company
Accounts payable		27,253,037	This refers to the payment of management fees.
<i>Pikeville Bancshares</i>			
Professional Fees	1,107,000		
<i>Directors and other stockholders</i>			
Notes payable		30,083,701	Unsecured, 1-year interest bearing placement at 6.50% annual interest rate
Interest Expense	1,855,360		Interest payments for notes payable.
Notes payable		51,118,726	Unsecured, 1-year interest bearing placement at 6.50% annual interest rate
Interest Expense	3,355,505		Interest payments for notes payable.
<i>Key Management Personnel</i>			Unsecured, 1-year interest bearing placement

Notes payable		12,400,00	at 6.50% annual interest rate
Interest Expense	614,304		Interest payments for notes payable.

December 31, 2011

<u>Category</u>	<u>Statement of Comprehensive Income</u>	<u>Statement of Financial Position</u>	<u>Nature, Terms and Condition</u>
<u>Parent Company</u>			
<i>Amalgamated Investment Bancorporation</i>			
AFS Investments		P75,000,000	Shares of AIB held as AFS securities by the Company.
Accounts receivables		9,892	Unsecured, 30-day non-interest bearing receivable.
Other receivables		101,007	non-interest bearing, unsecured,
Notes Payables		485,800,000	Unsecured, 1-year interest bearing placement at 6.75% annual interest
Accrued expenses		6,878,269	30-day unsecured, non-interest bearing broker's fee payable to Parent for arranging the approved bank loan applications of the Company equal to 1.75% of the loan amount and interest payable on notes payable.
Interest Expense	P34,756,449		Interest payment for notes payable.
Dividend Income	3,600,000		Cash dividend on P9M shares of AIB equal to Php 0.6 per share.
<u>Entities under Common Control</u>			
<i>Motor Ace Philippines, Inc.</i>			
Other receivables		112,000	non-interest bearing, unsecured,
Accounts payable		14,501,287	30-day unsecured, non-interest bearing liability representing billings for motorcycle units financed by the Company
<i>Pikeville Bancshares</i>			
Professional Fees	938,000		Payment for management fees
Notes Payable		29,934,355	Secured, 1-year interest bearing placement at 6.50% annual interest rate
Interest Expense	2,456,960		Interest payment for notes payable.
<u>Other Stockholders</u>			
Notes payable		6,200,000	Secured, 1-year interest bearing placement at 6.50% annual interest rate
Interest Expense	1,742,542		Interest payment for notes payable.
<u>Key Management Personnel</u>			
Notes Payable		2,500,000	Secured, 1-year interest bearing placement at 6.50% annual interest rate
Interest Expense	150,583		Interest payment for notes payable.

Borrowings availed from related parties amounted to ₱610.90 million, ₱428.00 million and ₱231.37 million in 2012, 2011 and 2010, respectively, and settlement from borrowings amounted to ₱103.61 million, ₱206.38 million and ₱66.12 million in 2012, 2011 and 2010, respectively. Interest rates from borrowings range from 5.44% to 7.75% in 2012, 5.44% to 7.75% in 2011 and 7.5% to 8.00% in 2010. Borrowings from related parties are unsecured and to be settled in cash.

As of December 31, 2012 and 2011, notes payable and accrued interest payable arising from borrowings through other stockholders amounted to ₱512.30 million and ₱485.8 million, respectively, and ₱0.075 million and ₱6.88 million, respectively. Interest expense from these borrowings amounted to ₱34.0 million, ₱34.76 million and ₱27.27 million in 2012, 2011 and 2010, respectively.

The remuneration of directors and other members of key management personnel consist of short-term benefits amounting to ₱4.47 million, ₱5.50 million and ₱4.60 million in 2012, 2011 and 2010, respectively, included in the 'Salaries and employee benefits' and 'Management and professional fees' account in the statement of comprehensive income.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

SUMMARY COMPENSATION TABLE				
YEAR	NAME AND PRINCIPAL POSITION	SALARY/MANAGEMENT FEE	BONUS	OTHER COMPENSATION
2013 (Estimate)	Top 5 Executive Officers: Max Borromeo – Senior Managing Director Teresita Benitez – President Rene B. Benitez – Managing Director Cynthia M. Gacayan – COO/CFO Aldrin B. Pontanares – Operation Manager	7,000,000		500,000
	ALL BOARD DIRECTORS AND OFFICERS AS A GROUP	7,000,000	600,000	2,210,000
2012	Top 5 Executive Officers: Max Borromeo – Senior Managing Director Teresita Benitez – President Rene B. Benitez – Managing Director Cynthia M. Gacayan – COO/CFO Aldrin B. Pontanares – Operation Manager	7,000,000	400,000	400,000
	ALL BOARD DIRECTORS AND OFFICERS AS A GROUP	7,000,000	913,672	2,010,000
2011 (Actual)	Top 5 Executive Officers: Max Borromeo – Senior Managing Director Teresita Benitez – President Rene B. Benitez – Managing Director Cynthia M. Gacayan – COO/CFO Albert J. Batacan - Manager	7,850,000	484,000	400,000
	ALL BOARD DIRECTORS AND OFFICERS AS A GROUP	7,850,000	1,150,000	1,900,000
2010 (Actual)	Top 4 Executive Officers: Max Borromeo – Senior Managing Director Teresita Benitez – President Rene B. Benitez – Managing Director Cynthia M. Gacayan – COO/CFO Albert J. Batacan - Manager	7,041,000	437,000	330,000
	ALL BOARD DIRECTORS AND OFFICERS AS A GROUP	7,041,000	829,000	1,010,000

The Company has an existing management contract with Cebu Maxi Mgmt. Corporation for advice and assistance to be provided by Mr. Max O. Borrromeo and with Pikeville Resources, Inc. for advice and assistance to be provided by Mr. Rene B. Benitez. The directors receive per diem each amounting to ₱ 50,000.00 for every attendance at a Board meeting or any meeting of the Board Committees. There are also no special compensatory plan or arrangement with any officer, which would give undue advantage over any other employee of the Company. No stock warrants or stock options on the Company's shares have been issued or given to the Directors or Executive Officers as a form of compensation for services rendered.

IDENTITY OF SIGNIFICANT EMPLOYEES

There is no person who is not an executive officer who is expected to make a significant contribution to the business of the company.

INDEPENDENT PUBLIC ACCOUNTANTS

The auditing firm of SGV & Co. is the incumbent external auditor of the Company for the calendar year 2012. The Company has complied with SRC Rule 68 (3)(b)(iv), regarding rotation of external auditors or engagement partners every five years. Ms. Janeth Nuñez, SGV partner, is the reviewer/auditor of the Company. It is expected that SGV&Co. will be reappointed as Company's external auditor for Year 2013.

For the annual statutory and regulatory engagements including out-of-pocket expenses, MFC has paid SGV & Co. P511 thousand and P485 thousand for the years 2012 and 2011 respectively. The Company has not engaged SGV & Co. for tax-related service or any other professional services. The audit committee of MFC regularly meet to tackle whatever issues that may come out of the regular audit of the company's external auditor and reports them to the Board of Directors. Recommendations by the audit committee are then deliberated during the Board meetings.

The representatives of the said firm are expected to be present at the shareholders' meeting, Will have the opportunity to make a statement if they so desire, and are expected to be available to respond to appropriate questions.

There had been no disagreements with SGV & Co. with regards to accounting policies and financial disclosures of the Company.

Audit Committee is comprise of the following – Mr. Francisco C. Eizmendi Jr. , Chairman and Mr. Joel S. Ferrer, Mr. Jose V. Cruz and Mr. Juan Carlos Del Rosario as members.

ISSUANCE AND EXCHANGE OF SECURITIES

AUTHORIZATION OR ISSUANCE OF SECURITIES OTHER THAN FOR EXCHANGE

As approved by the Board of Directors and upon concurrence by the Stockholders of the Company, an annual dividend declaration policy was set up, amount of which will be equivalent to 30% of the Company's net earnings for the year. For the year 2006, the Board of Directors approved the following: 30% of the audited net income after tax of P 16,205,137 is P 4,861,541 of which 50% was declared as stock dividends amounting to P2,430,710 in favor of the stockholders of record as of July 12, 2007 and 8.28% of the outstanding capital stock as of October 31, 2007 amounting to

P83,117,897 is P6,882,103 was declared as stock dividends in favor of the stockholders of record as of November 26, 2007. For the year 2005, the Board of Directors approved the following: 30% of the audited net income after tax of P12,193,904 is P3,658,170, 50% of the amount, P1,829,066 was declared as stock dividend. Stock dividends shall be approved by a majority vote of the stockholders. On June 19, 2008, the Board of Directors approved the declaration of 2.51% stock dividends in the aggregate amount of P2,257,147 in favor of the stockholders of record as of July 17, 2008, with a payment date not later than August 12, 2008.

For the year 2009, the Board of Directors approved the following: 30% of the audited net income after tax of P5,465,094 is P1,639,528, 50% of the amount, P819,716 was declared as stock dividend. Stock dividend shall be approved by a majority vote of the stockholders.

For the year 2010, the Board of Directors approved the following: 30% of the audited net income after tax of P10,748,518 is P3,224,556, 50% of the amount P1,612,240 was declared as stock dividend. Stock dividend shall be approved by a majority vote of the stockholders.

For the year 2011, the Board of Directors approved the following: 30% of the audited net income after tax of P12,355,253 is P3,706,576, 50% of the amount P1,853,245 was declared as stock dividend. Stock dividend shall be approved by a majority vote of the stockholders.

For the year 2012, the Board of Directors approved the following: 30% of the audited net income after tax of P13,827,722 is P4,148,317, 50% of the amount P2,074,121 was declared as stock dividend. Stock dividend shall be approved by a majority vote of the stockholders.

In 2013, it is expected that the Board shall proposed dividend declaration of 30% of 2012 Net Income After Tax in the next BOD Meeting in July 25, 2013.

OTHER MATTERS

PROPOSED ACTION

The following matters will be submitted to a vote at the Annual Meeting of the stockholders:

1. Approval of the Minutes of the Annual Stockholders' Meeting held on 28 June 2012.
2. Presentation and Approval of the 2012 Annual Report and the 2012 Audited Financial Statements

A copy of the 2012 Audited Financial Statements will be furnished to all shareholders as of Record Date, and the 2012 Annual Report will be presented during the Annual Stockholders' Meeting.

3. Declaration of Dividends (cash/stock)

The dividend policy dictates that 30% of 2012 Net Income after Tax will be declared as dividends. It is expected that the Board shall proposed this in the next BOD Meeting in July 25, 2013.

4. Ratification of acts, contracts, investments and resolutions of the Board of Directors and Management since the last Annual Stockholders' Meeting

All acts and proceedings taken by the Directors and Corporate Officers relate mostly to the regular business transactions wherein the Board of Directors is required to act upon.

These actions are subjected to annual review of the Company's independent auditors. Major items are as follows:

- a. Approval of audited financial statements
- b. Approval of Corporate budget
- c. Election of Directors/Officers/Committees
- d. Approval of credit facilities
- e. Appointment of signatories to bank accounts
- f. Approval of dividends (cash/stock)
- g. Approval of the minutes of the previous meetings
- h. Execution of contracts and investments in the ordinary course of business

Upon prior written request, copies of the Minutes of the Meetings of the Board of Directors may be examined by stockholders of record as of Record Date at the office of the Corporate Secretary at Co Ferrer & Ang-Co Law Offices at 11/F Atlanta Center, 31 Annapolis St., Greenhills, San Juan, Metro Manila at a mutually agreed time, during regular office hours.

5. Election of Directors

The same Directors are expected to be re-elected except for the possible election of new Directors.

6. Appointment of External Auditor

It is expected that SGV & Co. will be reappointed as the Company's external auditor.

VOTING PROCEDURES

The affirmative vote of stockholders present in person or by proxy representing at least a majority of the outstanding capital stock of the Corporation shall be sufficient to carry the vote for any of the matters submitted to a vote at the Annual Stockholders' Meeting. Matters to be approved under "Other Matters" of the agenda, if any, shall be approved by stockholders owning majority of the shares of stock present during the annual stockholders' meeting or such other voting requirement as may be mandated by law.

The manner of voting and counting of votes will be as follows:

- a) Every stockholder entitled to vote shall have the right to vote, either in person or by proxy, the number of shares registered in his/her/their respective name of record as of the close of business hours of June 27, 2013. Only written proxies, signed by the stockholders and duly presented to the Corporate Secretary on or before July 19, 2013 for inspection and recording shall be honored for purposes of voting.
- b) For the stock dividend declaration, approval shall require a majority vote by the stockholders entitled to vote.
- c) For purposes of electing directors, the system of cumulative voting shall be followed. Each stockholder has a number of votes equal to the number of shares he owns, times the number of directors to be elected. The stockholder under this voting system has the option to (i) to cast all his votes in favor of one (1) nominee; or (ii) distribute those votes in the same principle among as many nominees as he shall see fit. Only candidates duly nominated

during the meeting shall be voted by the stockholders entitled to vote or by their proxies.

d) Unless required by law, or upon motion by any stockholder, voting need not be by ballot and will be done by show of hands and counted manually by the Corporate Secretary.

UNDERTAKING TO PROVIDE ANNUAL REPORT

The registrant undertakes to provide *without charge* to each stockholder a copy of the Company's Annual Report on SEC Form 17-A upon written request to the Company addressed to:

ATTY. DANILO ENRIQUE O. CO
Corporate Secretary
Makati Finance Corporation
2/F Makati Finance Center
7823 Makati Avenue, Makati City

UNDERTAKING TO PROVIDE UPDATED CERTIFICATION OF INDEPENDENT DIRECTOR

The registrant undertakes to provide SEC the updated Certificate of Qualification and Disqualification of Independent Directors within thirty (30) days after the Annual Stockholders' Meeting in July 25, 2013.

SIGNATURES

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

MAKATI FINANCE CORPORATION
Issuer


CYNTHIA M. GACAYAN/COO & CIO
Signature and Title

Date: June 11, 2013

MAKATI FINANCE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Plans and Prospects for 2013

The Company intends to continue to ride in the growth of the Philippine motorcycle industry. Thus the 2013 plan of MFC together with its dealer partner includes a gradual expansion in various geographical reach of an additional of not less than six (6) new trading areas staggered throughout the whole of 2013. We expect to grow our Rx Cash line product in the double digit range in 2012.

We shall continue to explore other financial products and we also continue to pursue the plan to explore into the savings bank sector. Meanwhile, our current thrust is to pursue further growth in our motorcycle financing accounts. We will continue to maintain a strong quality portfolio in the doctor's loan market and our factoring accounts.

Lending Activities

Being its core business, the Company's thrust is into expanding and strengthening its foothold on its lending operations of niche markets and at the same time exploring with the intention of venturing into new niche markets that will guarantee sustained growth.

MFC positions itself as a player in serving the financing needs of the often neglected middle markets in the Philippines. Because of the vast experience it has gained, the Company's lending activities and loan products will continue to be focused on the niche consumer loan market and SME markets. MFC will also continue and raise the quality of service it provides to its clients. Its future plans and prospects include the following:

- Continue to ride on the projected growth of the motorcycle industry as per Motorcycle Development Program Participant's Association.
- Continue partnerships with existing motorcycle dealers in their expansion and development of new trading areas in the northern area of Luzon.
- Implement the expansion of target markets to municipalities beyond Metro Manila
- Continuous growth in the portfolios of the Company's two (2) main credit facilities (Motorcycle Financing and Rx Cash Line)
- Continue maintaining good quality accounts in our high ticket facility (Factoring)

Funds Generation

All these plans shall require sufficient funds generation. With plans of the Additional Public Offering (APO) still on hold, the Company is looking at other sources of funds. We currently have a P500 million facility with AIB, a P50 million term loan and P10 million BP facility with UCPB and the P4 million term loan & P1 million BP facility with Union Bank and a P30 million term loan with Maybank and a P100 million term loan with Security Bank. The Company, with the assistance of AIB, is in discussions with other financial institutions to raise additional funds to finance MFC's growth.

Currently fund requirements are being met by loans, collections, acceptance of private placements under the 19 lender rule and intensive efforts in disposal of real estate acquired assets.

INFORMATION ON EXTERNAL AUDITOR

There had been no disagreements with SGV & Co. with regards to accounting policies and financial disclosures of the Company. Ms. Jessie Cabaluna, SGV Partner, has been the reviewer/auditor of the Company since year 2006, and not yet having completed the five-year cap requirement of SEC, has been replaced by Ms. Janeth Nuñez, SGV partner effective year 2009. The change in handling partner was part of SGV & Co.'s internal policy of account rotation. There was no

disagreement with prior handling partner on accounting and financial disclosures. Ms. Janeth T. Nuñez replaced Ms. Jessie D. Cabaluna both partners of SGV & Co. for the year ended December 31, 2012.

For the annual statutory and regulatory engagements including out-of-pocket expenses, MFC has paid SGV & Co. P511 thousand and P485 thousand for the years 2012 and 2011 respectively. The Company has not engaged SGV & Co. for tax-related service or any other professional services. The audit committee of MFC regularly meets to tackle whatever issues that may come out of the regular audit of the company's external auditor and reports them to the Board of Directors. Recommendations by the audit committee are then deliberated during the Board meetings.

Discussion of Past Financial Performance

As of December 31, 2012

Results of Operation

Net Income after tax for the year ending December 31, 2012, as reflected in the audited financial statements, was at P16.30 million. This was a 17.3% increase over the NIAT of 2011, or an increase of P.47 million.

Total operating income rose from P135.93 million in 2011 to P150.26 million in 2012, an 14.33% increase from 2011 to 2012 performance. Total expenses in 2012 reached P127.51 million which was 10.71% higher than the P116.80 million expenses in 2011.

Interest income in 2012 amounted to P186.12 million; major breakdown of which is P16.84 million from Rx, P7.32 million from Factors and P159.53 million from MC Financing.

With higher income in 2012, Earnings Per Share in 2012 went up at P0.08 compared to P0.07 in 2011 while return on Assets was at 6.5%, slightly better as that in 2011.

Financial Condition and Capital Resources

In 2012 total assets increased by P162.57 million as against that in 2011, from P904.92 million to P1,066.98 million which was primarily due to increase in our motorcycle financing loan portfolio. There was also a noticeable increase in our notes payable by P145.2 million as compared to that in 2011.

Interest Income

The interest income this year was up by 8.7% in absolute amounts P126.94 million in 2011 to P138.05 million in 2012.

Net Interest Income

Interest expense increased 50.12 percent or P14.85 million as against that in 2011. The Company increased in interest expense from P29.6 million to P44.5 million. The reduction in income is due to expansion activity primarily in the MC Financing product.

Other Income

Other income decreased by ₱9.2 million or 103.4% from December 2011.

Income Before Income Tax

Due to the significant increase on interest income and operating expenses as mentioned above, income before income tax increased by 18.8% from December 2011.

Net Income

The Company posted a net income of ₱ 16.3 million compared to ₱ 13.83 million in 2011 or an increase of 17.3%.

As of December 31, 2011**Results of Operation**

MFC ended the year 2011 with Net Income after Tax at P13.82 million. This was an increase against the 2010 NIAT of P12.36 million, or a 12% increase. Interest income in 2011 amounted to P156.6 million from our 3 major products: P16.9 million from Rx, P8.3 million from Factors and P128.0 million from Motorcycle Financing.

Midway in the year, Management decided to defer its projected geographical expansion due firstly to a slowdown in the economies world-wide. The economic contractions were prominent in Europe, USA and Japan. Additionally, the continued unrests erupting in various areas in the Middle East brought a level of uncertainties and lack of job security for a lot of our Overseas Filipino Workers. All these add up to the Peso volatility which greatly affected a bulk of our motorcycle customers. Secondly, minimal government spending stunted economic growth as well as the spending capability of most of our customers. And thirdly, Luzon was battered with a lot of typhoons and bad weather which directly impacted client solicitations and collection efficiencies.

MFC then took this opportunity to focus on strengthening the operations and services of its existing outlets. It went into the re-aligning of functions & responsibilities and strengthening of operational controls. Management also focused on improving and beefing up manpower on its back-room operations and completing the conversion of the manual financing system to an automated one.

With the resulting income in 2011, Earnings Per Share in 2011 was a slight increase at P0.07. Likewise, Return on equity (ROE) in 2011 was at 6% while Return on Assets was 1.5%.

Financial Condition and Capital Resources

In 2011 total assets increased by P238.2 million as against that in 2010, from P666.7 million to P904.9 million. This increase was primarily due to the increase in our loan portfolio of products being offered. An increase in our portfolio necessitated for an increase in our borrowings which resulted in the noticeable increase in our notes payable by P251.9 million compared to that in 2010.

Interest Income

The interest income this year was up by 57% or P46.03 million in absolute amounts P80.92 million in 2010 to P126.95 million in 2011.

Net Interest Income

Interest expense decreased 7.66 percent or P2.46 million as against that in 2010. The Company decreased in interest expense from P32.1 million to P29.6 million. The reduction in income is due to expansion activity primarily in the MC Financing product.

Other Income

Other income decreased by ₱.12 million or 1.31% from December 2010.

Income Before Income Tax

Due to the significant increase on interest income and operating expenses as mentioned

above, income before income tax increased by 21.66% from December 2010.

Net Income

The Company posted a net income of ₱ 13.83 million compared to ₱ 12.36 million in 2010 or an increase of 11.9%.

As of December 31, 2010

Results of Operation

The audited financial statements of the Company reflected Net Income after tax for the year ending December 31, 2010 at P12.36 million. This was a 15% increase over the NIAT of 2009, or an increase of P1.61 million.

The Company continued to implement its geographical expansion for the Motorcycle Financing line. Sixteen (16) new trading areas were established by our dealer partners in 2010 making a total of twenty eight (28) trading areas, where MFC absorbed all their financing transactions. The company has now a wider reach in the offer of its services resulting in a rise in amounts financed and the corresponding rise in income generation.

Operating income went up to P80.92 million from P58.18 million in 2009, a 39% increase in 2010 performance which was expected with the more than double geographical reach. Expenses likewise spiked up from P48.38 million in 2009 to P71.26 million in 2010. Expansion-related expenses like salary and compensation related expenses, recruitment and training costs, advertising and marketing costs, depreciation costs for new fixed assets, office supplies and forms that needed to be stocked up on and other overhead costs to support the increased number of trading areas were noted to be high. These expansion-related up-front costs were incurred sans corresponding equitable income recognition

Financial Condition and Capital Resources

In 2010 total assets increased by P212.0 million as against that in 2009, from P454.6 million to P666.6 million which primarily due to the increase in our loan portfolio of our products being offered. There is also a noticeable increase in our notes payable by P165.2 million and other payables by P33.3 million as compared to that in 2009 which increased activities due to the geographical expansion in our trading areas.

Interest Income

The interest income this year was up by 62% from interest income for the year 2009.

Net Interest Income

Interest expense increased by 174 percent. The Company's reduction in net interest income is attributable mainly with the increased in interest expense by ₱20.4million. The reduction in income is due to expansion activity primarily in the MC Financing product.

Other Income

Other income decreased by ₱.3million or 4.4% from December 2009.

Income Before Income Tax

Due to the significant increase on interest income and operating expenses as mentioned above, income before income tax decreased by 2.6.1% from December 2009.

Net Income

The Company posted a net income of ₱ 12.36 million compared to ₱ 10.75 million in 2009 or an increase of 15%.

As of December 31, 2009

Results of Operations

Net Income after tax for the year ending December 31, 2009, as reflected in the audited financial statements, was at P10.75 million. This is a 96.7% increase over the NIAT of 2008, or an increase of P5.28 million .

By April 2009, the Company had started to implement its geographical expansion plans for the Motorcycle Financing line. Over the year of 2009, MFC covered a total of nine (9) new trading areas established by our dealer partners. This resulted to a wider reach in the offer of our service, therefore higher loan releases and gradual rise in income generation.

Total operating income jumped from P46.78 million in 2008 to P64.53 million in 2009, a 37.8% increase from 2008 to 2009 performance. Although interest income generated from our Motorcycle Financing line in 2009 more than doubled with the geographic expansion, related expenses also grew. As in any expansion, there is first the need to invest in the hiring and training of new manpower complement, getting and stocking up on forms and office supplies, buying new office equipment and furniture which spiked up depreciation expenses and doing more extensive marketing and advertising campaigns. All these activities meant expenses incurred up front with little matching income. Total expenses in 2009 reached P48.38 million which is 22.7% higher than the P39.41 million expenses in 2008.

Financial Condition and Capital Resources

In 2009 total assets increased by P90.9 million as against that in 2008, from P363.7 million to P454.6 million which primarily due to the increase in our loan portfolio of our products being offered. There is also a noticeable increase in our notes payable by P55.6 million and other payables by P21.8 million as compared to that in 2008 which is still a result of our geographical expansion in our trading areas.

Interest Income

The interest income this year was up by 38% from interest income for the year 2008.

Net Interest Income

Interest expense did not vary that much. The Company's reduction in net interest income is attributable mainly with the increased in interest expense by only ₱.3million. The reduction in income is due to timing of loan releases primarily in the MC Financing product.

Other Income

Other income decreased by ₱ 5.2million or 44.8% from December 2008 due to Dividend income received from AIB in 2008..

Income Before Income Tax

Due to the significant increase on interest income and operating expenses as mentioned above, income before income tax increased by 120.1% from December 2008.

Net Income

The Company posted a net income of ₱ 10.75million compared to ₱ 5.46million in 2008 or an increase of 96.7%.

KEY PERFORMANCE INDICATORS:

Following are the top five (5) key performance indicators of the Company.

**EXHIBIT VI
MAKATI FINANCE CORPORATION
SCHEDULE SHOWING FINANCIAL SOUNDNESS
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2012**

	2012	2011
Solvency and Liquidity Ratios		
Current ratio	165.40%	99.72%
Debt to equity ratio	327.46%	284.35%
Quick ratio	149.61%	96.98%
Profitability Ratios		
Return on assets	6.82%	6.21%
Return on equity	26.97%	21.25%
Net profit margin	34.57%	29.45%
Asset to Equity Ratio	427.46%	384.35%
Interest Rate Coverage Ratio	151.13%	164.59%
Other Relevant Ratios		
Ratio or percentage of total real estate investments to total assets	0.24%	0.29%
Total receivables to total assets	76.47%	81.78%
Total DOSRI receivables to net worth	2.20%	23.76%
Amount of receivables from a single corporation to total receivables:		
Merg Realty and Development Corporation	0.60%	0.13%
Honda Motors World, Inc.	12.21%	4.59%

TRENDS, EVENTS OR UNCERTAINTIES WITH MATERIAL IMPACT ON LIQUIDITY

There are no known trends, events or uncertainties that will have a material impact on the company's liquidity.

EVENTS THAT WILL TRIGGER DIRECT OR CONTINGENT FINANCIAL OBLIGATION

There are no events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

MATERIAL OFF-BALANCE SHEET TRANSACTIONS, ARRANGEMENT OR OBLIGATION

There are no material off-balance sheet transactions, arrangement or obligation.

CAPITAL EXPENDITURES

The Company had started to implement in April 2009 the geographical expansion for the Motorcycle Financing line. This resulted to invest in buying new office equipments, furnitures and vehicles as service unit for the CSR.

TRENDS, EVENTS OR UNCERTAINTIES WITH MATERIAL IMPACT ON SALES

There are no known trends, events or uncertainties with material impact on sales.

SIGNIFICANT ELEMENTS OF INCOME OR LOSS

Significant elements of net income of the Company for 2009 came from its continuing operations.

SEASONAL ASPECTS

There was no seasonal aspect that had material effect on the Company's financial condition or results of operation

Plans and Prospects for 2013

The Company intends to continue to ride in the growth of the Philippine motorcycle industry. Thus the 2013 plan of MFC together with its dealer partner includes a gradual expansion in various geographical reach of an additional of not less than six (6) new trading areas staggered throughout the whole of 2013. We expect to grow our Rx Cash line product in the double digit range in 2012.

We shall continue to explore other financial products and we also continue to pursue the plan to explore into the savings bank sector. Meanwhile, our current thrust is to pursue further growth in our motorcycle financing accounts. We will continue to maintain a strong quality portfolio in the doctor's loan market and our factoring accounts.

Lending Activities

Being its core business, the Company's thrust is into expanding and strengthening its foothold

on its lending operations of niche markets and at the same time exploring with the intention of venturing into new niche markets that will guarantee sustained growth.

MFC positions itself as a player in serving the financing needs of the often neglected middle markets in the Philippines. Because of the vast experience it has gained, the Company's lending activities and loan products will continue to be focused on the niche consumer loan market and SME markets. MFC will also continue and raise the quality of service it provides to its clients. Its future plans and prospects include the following:

- Continue to ride on the projected growth of the motorcycle industry as per Motorcycle Development Program Participant's Association.
- Continue partnerships with existing motorcycle dealers in their expansion and development of new trading areas in the northern area of Luzon.
- Implement the expansion of target markets to municipalities beyond Metro Manila
- Continuous growth in the portfolios of the Company's two (2) main credit facilities (Motorcycle Financing and Rx Cash Line)
- Continue maintaining good quality accounts in our high ticket facility (Factoring)

Funds Generation

All these plans shall require sufficient funds generation. With plans of the Additional Public Offering (APO) still on hold, the Company is looking at other sources of funds. We currently have a P500 million facility with AIB, a P50 million term loan and P10 million BP facility with UCPB and the P4 million term loan & P1 million BP facility with Union Bank and a P30 million term loan with Maybank and a P100 million term loan with Security Bank. The Company, with the assistance of AIB, is in discussions with other financial institutions to raise additional funds to finance MFC's growth.

Currently fund requirements are being met by loans, collections, acceptance of private placements under the 19 lender rule and intensive efforts in disposal of real estate acquired assets.

HOLDERS OF COMMON STOCK as of May 31, 2013 TOP 20 Stockholders

There are a total of 101 stockholders as of May 31, 2013.

Name	Nat	Class	No. of Shares	Percentage
AMALGAMATED INV. BANCORP.	FIL	A	137,050,820	69.427266%
MF PIKEVILLE HOLDINGS INC.	FIL	A	13,617,635	6.898428%
MICHAEL WEE	FOR	A	7,939,097	4.021791%
BORROMEO BROS. ESTATE INC.	FIL	A	6,269,592	3.176053%
PCD NOMINEE CORPORATION	FIL	A	5,714,070	2.894636%
ERIC B. BENITEZ	FIL	A	5,350,773	2.710597%
MELISSA B. LIMCAOCO	FIL	A	4,802,330	2.432767%
RENE B. BENITEZ	FIL	A	4,572,329	2.316252%
GLENN B. BENITEZ	FIL	A	4,572,329	2.316252%
JOEL FERRER	FIL	A	1,932,754	0.979095%
RODOLFO B. HERRERA / MAX BORROMEO / CARMEN MERCADO	FIL	A	947,197	0.479831%
REYES, MARY GRACE V.	FIL	A	580,000	0.293817%
TERESITA B. BENITEZ	FIL	A	377,019	0.190990%
MERG REALTY DEVELOPMENT	FIL	A	331,526	0.167945%
FLB DEVELOPMENT CORPORATION	FIL	A	262,457	0.132956%
ISIDRO B. BENITEZ	FIL	A	242,944	0.123071%

PCD NOMINEE CORPORATION	FOR	A	231,887	0.117469%
GLENN B. BENITEZ ITF ALESSANDRA C. BENITEZ	FIL	A	228,596	0.115802%
GLENN BENITEZ ITF ANDREA C. BENITEZ	FIL	A	228,596	0.115802%
GLENN BENITEZ ITF ALFONSO C. BENITEZ	FIL	A	228,596	0.115802%
SUB-TOTAL			195,480,547	99.026624%
OTHER STOCKHOLDERS (81)			1,921,464	0.973376%
GRAND TOTAL (101 stockholders)			197,402,011	100.000000%

Currently the Company is in compliant in the PSE continuing listing requirement rule on minimum public ownership. The rule requires a 10% minimum public float. MFC has 10.02% public float.

MARKET SHARE INFORMATION

The Company was listed in the Philippine Stock Exchange on January 6, 2003.

On January 6, 2003 with authorized capital stock of ₱90 million, a total of 19.56 million shares of stock were offered to the general public in the company's Initial Public Offering (IPO). On November 6, 2007, the Board of Directors and Stockholders approved the increase in the Company's authorized capital stock to ₱300 million. On March 27, 2008, the Securities and Exchange Commission approved the Company's application for a follow-on offering to the general public of 75,500,000 new common shares and 7,598,892 secondary shares. But the sharp fall in stock prices locally and globally prompted the Board and Management to forego the planned additional public offering.

According to the Philippine Stock Exchange Website, latest available price information on Makati Finance's stock price is P3.30 per share as of December 2012. The Company has not gone into a business combination nor any reorganization for the year 2012.

The latest available price information on Makati Finance's stock price is P3.0 per share as of June 19, 2013.

Philippine Stock Exchange Market prices for the last two years were as follows:

Quarter Ending	Market Prices	
	High	Low
March 2013	3.50	3.50
December 2012	2.50	2.30
September 2012	3.00	3.00
June 2012	3.60	3.60
March 2012	2.60	2.40
December 2011	3.30	3.30
September 2011	2.60	2.60
June 2011	2.10	2.10

DIVIDENDS

As approved by the board of directors and upon concurrence by the stockholders of the Company, an annual dividend declaration policy was set up, amount of which will be equivalent to 30% of the Company's net earnings for the year. For the year 2009, the Board of Directors also approved the declaration of cash dividends amounting to P819,812. Fractional shares was settled in cash. For the year 2010, the Board of Directors also approved the declaration of cash dividends amounting to P1,612,316. Fractional shares related to this declaration was settled in cash. For the year 2011, the

Board of Directors approved the declaration of cash dividends amounting to P1,853,288. Fractional shares related to this declaration was settled in cash. For the year 2012, the Board of Directors also approved the declaration of cash dividends amounting to P2,074,158.30. Fractional share was settled in cash.

There is no restriction that Limit the Payment of Dividend Common Shares.

NAMES OF THE UNDERWRITERS OR IDENTITY OF PERSONS TO WHOM THE SECURITIES WERE SOLD

There were no underwriters or persons to whom the stock dividends were sold.

EXEMPTION FROM REGISTRATION CLAIMED

Pursuant to SRC Rule No. 10 Section D, the declaration of stock dividends is an exempt transaction. The approval of the Commission for the stock dividend declaration was not sought by the Company.

COMPLIANCE WITH LEADING PRACTICE ON CORPORATE GOVERNANCE

Makati Finance shall set up an evaluation system that will determine and measure compliance with the Manual on Corporate Governance.

Measures undertaken by MFC for full compliance with the adopted leading practices on good corporate governance includes election of independent directors and creation of the Nomination Committee starting year 2003 and continued up to the present time. Each incumbent director of MFC underwent seminars on good corporate governance in year 2003. To monitor compliance, the board of directors designated Ms.Cynthia M. Gacayan as compliance officer. The Company submitted to the SEC its Revised Anti-Money Laundering Manual as mandated by Republic Act 9160, as amended by Republic Act. No. 9194 on October 28, 2004. Also, the Company submitted the Audit Charter Manual. Lastly, the Company's By-Laws shall be amended to incorporate provisions on independent directors. Deviations from the Company's Manual on Corporate Governance are not applicable. With regards to plans on improving corporate governance of the Company, Makati Finance is already adopting the International Accounting Standards in the presentation of its financial statements with the help of its external auditors. Communications are open with SGV with regards to further compliance with the IAS.

Statement of
Mgt's Responsibility
for FS

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

The management of Makati Finance Corporation (the Company) is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2012 and 2011, including the additional components attached therein, in accordance with the accounting principles generally accepted in the Philippines as described in Note 2 to the financial statements. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

Sycip, Gorres, Velayo and Co., the independent auditors, appointed by the stockholders, has examined the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.


RENE B. BENITEZ
Chairman


MAX O. BORROMELO
President

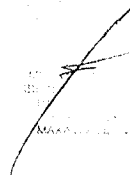

JOEL S. FERRER
Treasurer

Signed this MAY 02 day of 2013, 2013.

MAKATI CITY

MAY 02 2013

494
108
183
202


MAKATI CITY

④ cover sheet
Annex A

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

ANNEX A



SyCip Gorres Velayo & Co.
6750 Ayala Avenue
1226 Makati City
Philippines
Phone: (632) 891 0307
Fax: (632) 819 0877
www.sgv.com.ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Makati Finance Corporation
2nd Floor, Makati Finance Centre
7823 Makati Avenue, Makati City

Report on the Financial Statements

We have audited the accompanying financial statements of Makati Finance Corporation, which comprise the statements of financial position as at December 31, 2012 and 2011, 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, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Makati Finance Corporation as at December 31, 2012 and 2011, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Note 26 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Makati Finance Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez

Janeth T. Nuñez

Partner

CPA Certificate No. 111092

SEC Accreditation No. A-560-A (Group A),

Valid until May 31 2013

Tax Identification No. 900-322-673

BIR Accreditation No. 08-001998-69-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 3670006, January 2, 2013, Makati City

April 8, 2013



MAKATI FINANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2012	2011
ASSETS		
Cash on Hand and in Banks (Note 7)	₱28,259,851	₱31,701,374
Loans and Other Receivables (Note 8)	816,085,697	740,071,001
Available-for-Sale Investments (Note 9)	75,090,000	75,150,000
Investment Properties (Note 10)	2,604,468	2,604,468
Investment in Subsidiaries (Note 11)	100,000	100,000
Property and Equipment (Note 12)	6,107,926	7,829,527
Deferred Tax Assets (Note 21)	8,900,582	10,549,898
Other Assets (Note 13)	129,832,187	36,916,363
	₱1,066,980,711	₱904,922,631
LIABILITIES AND EQUITY		
Liabilities		
Notes payable (Notes 15 and 22)	₱763,293,385	₱618,095,937
Accounts payable (Note 22)	38,945,222	22,564,527
Accrued expenses (Note 16)	10,579,071	18,152,394
Income tax payable	3,049,834	9,673,646
Pension liability (Note 19)	1,504,548	994,970
	817,372,060	669,481,474
Equity (Note 18)		
Capital stock - ₱1 par value	197,402,011	195,327,890
Additional paid-in capital	5,803,922	5,803,922
Retained earnings	46,562,718	34,409,345
Net unrealized loss on available-for-sale investments (Note 9)	(160,000)	(100,000)
	249,608,651	235,441,157
	₱1,066,980,711	₱904,922,631

See accompanying Notes to Financial Statements.



MAKATI FINANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2012	2011	2010
INTEREST INCOME (Notes 7 and 8)	₱176,556,651	₱156,570,939	₱113,002,063
INTEREST EXPENSE (Notes 15 and 22)	44,478,344	29,625,753	32,086,742
NET INTEREST INCOME	132,078,307	126,945,186	80,915,321
OTHER INCOME			
Dividends (Note 9)	5,400,150	3,600,000	7,300
Service charges	1,334,248	1,365,657	2,078,130
Net gain (loss) on sale of investment properties and property and equipment	(213,697)	–	1,479,043
Miscellaneous (Note 20)	11,656,750	4,018,690	5,538,688
TOTAL OTHER INCOME	18,177,451	8,984,347	9,103,161
TOTAL OPERATING INCOME	150,255,758	135,929,533	90,018,482
OPERATING EXPENSES			
Salaries and employee benefits (Notes 19 and 22)	40,422,217	33,913,896	22,506,133
Loss from sale and writedown of motorcycle inventories (Note 13)	17,879,007	13,254,167	7,812,039
Taxes and licenses	13,896,518	12,597,156	7,940,861
Management and professional fees (Note 22)	10,386,468	13,696,011	10,401,479
Travel and transportation	7,788,926	5,270,858	2,422,324
Commissions	5,111,842	6,295,034	4,414,422
Occupancy costs (Note 25)	4,144,628	3,814,053	2,679,986
Depreciation and amortization (Note 12)	3,605,296	4,081,031	4,431,965
Provision for credit losses (Note 14)	3,239,114	11,109,652	5,118,007
Entertainment, amusement and recreation (Note 21)	1,636,742	1,627,795	1,098,574
Amortization of software costs (Note 13)	644,789	595,296	478,491
Miscellaneous (Note 20)	18,757,103	10,538,138	4,984,648
TOTAL OPERATING EXPENSES	127,512,650	116,793,087	74,288,929
INCOME BEFORE INCOME TAX	22,743,108	19,136,446	15,729,553
PROVISION FOR INCOME TAX (Note 21)	6,441,419	5,308,724	3,374,300
NET INCOME	16,301,689	13,827,722	12,355,253
OTHER COMPREHENSIVE LOSS	(60,000)	–	–
TOTAL COMPREHENSIVE INCOME	₱16,241,689	₱13,827,722	₱12,355,253
Basic/Diluted Earnings Per Share (Note 23)	₱0.08	₱0.07	₱0.06

See accompanying Notes to Financial Statements.



MAKATI FINANCE CORPORATION
STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 18)	Additional Paid-In Capital	Retained Earnings (Note 18)	Net Unrealized Loss on Available- For-Sale Investments (Note 9)	Total Equity
Balance at January 1, 2012	₱195,327,890	₱5,803,922	₱34,409,345	(₱100,000)	₱235,441,157
Stock dividends (Note 18)	2,074,121	–	(2,074,121)	–	–
Cash dividends (Note 18)	–	–	(2,074,195)	–	(2,074,195)
Total comprehensive income/(loss) for the year	–	–	16,301,689	(60,000)	16,241,689
Balance at December 31, 2012	₱197,402,011	₱5,803,922	₱46,562,718	(₱160,000)	₱249,608,651
Balance at January 1, 2011	₱193,474,645	₱5,803,922	₱24,288,199	(₱100,000)	₱223,466,766
Stock dividends (Note 18)	1,853,245	–	(1,853,245)	–	–
Cash dividends (Note 18)	–	–	(1,853,331)	–	(1,853,331)
Total comprehensive income/(loss) for the year	–	–	13,827,722	–	13,827,722
Balance at December 31, 2011	₱195,327,890	₱5,803,922	₱34,409,345	(₱100,000)	₱235,441,157
Balance at January 1, 2010	₱191,862,405	₱5,803,922	₱15,157,502	(₱100,000)	₱212,723,829
Stock dividends (Note 18)	1,612,240	–	(1,612,240)	–	–
Cash dividends (Note 18)	–	–	(1,612,316)	–	(1,612,316)
Total comprehensive income/(loss) for the year	–	–	12,355,253	–	12,355,253
Balance at December 31, 2010	₱193,474,645	₱5,803,922	₱24,288,199	(₱100,000)	₱223,466,766

See accompanying Notes to Financial Statements.



MAKATI FINANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱22,743,108	₱19,136,446	₱15,729,553
Adjustments for:			
Dividend income (Note 9)	(5,400,150)	(3,600,000)	(7,300)
Depreciation and amortization (Notes 10 and 12)	3,605,296	4,081,031	4,431,965
Provision for credit losses (Note 14)	3,239,114	11,109,652	5,118,007
Amortization of software costs (Note 13)	644,789	595,296	478,491
Gain on sale of investment properties and property and equipment	213,697	-	(4,211,135)
Loss on write-off of software cost (Notes 13 and 20)	-	101,606	-
Loss on write-off of investment properties	-	-	2,732,092
Operating income before changes in working capital	25,045,854	31,424,031	24,271,673
Changes in operating assets and liabilities:			
Increase in:			
Loans and other receivables	(79,253,810)	(205,309,411)	(211,034,912)
Other assets	(93,636,410)	(28,593,974)	(3,444,933)
Increase (decrease) in:			
Accounts payable	16,380,695	(38,964,903)	31,717,941
Accrued expenses	(7,573,323)	7,159,155	3,345,393
Pension liability	509,578	(779,291)	824,394
Net cash used in operations	(138,527,415)	(235,064,393)	(154,320,444)
Income taxes paid	(11,415,915)	(4,812,492)	(5,289,040)
Net cash used in operating activities	(149,943,330)	(239,876,885)	(159,609,484)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Property and equipment (Note 12)	(2,692,449)	(3,833,978)	(3,571,190)
Software costs (Note 13)	(133,400)	(483,807)	(420,000)
Cash dividends received (Note 9)	5,400,150	3,600,000	7,300
Proceeds from sale of:			
Property and equipment	804,253	110,827	-
Investment properties	-	-	6,349,471
Net cash provided by (used in) investing activities	3,378,554	(606,958)	2,365,581
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of notes payable	330,920,041	458,337,524	231,369,502
Payments of notes payable	(185,722,593)	(206,384,373)	(66,124,664)
Cash dividends paid (Note 18)	(2,074,195)	(1,853,331)	(1,612,316)
Net cash provided by financing activities	143,123,253	250,099,820	163,632,522
NET INCREASE (DECREASE) IN CASH ON HAND AND IN BANKS	(3,441,523)	9,615,977	6,388,619
CASH ON HAND AND IN BANKS AT BEGINNING OF YEAR	31,701,374	22,085,397	15,696,778
CASH ON HAND AND IN BANKS AT END OF YEAR (Note 7)	₱28,259,851	₱31,701,374	₱22,085,397

(Forward)



	Years Ended December 31		
	2012	2011	2010
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest received	₱171,950,172	₱152,570,939	₱109,363,082
Interest paid	53,529,352	32,418,496	21,806,903

See accompanying Notes to Financial Statements.



MAKATI FINANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. General Information

Makati Finance Corporation (the Company) was incorporated in the Philippines on February 17, 1966. The Company operates as a domestic corporation engaged in the sale of various financial products and services, catering generally to the consumer market.

The Company's principal place of business is at 2nd Floor, Makati Finance Centre, 7823 Makati Avenue, Makati City. The Company was listed in the Philippine Stock Exchange (PSE) on January 6, 2003 and is majority-owned by Amalgamated Investment Bancorporation (AIB).

The accompanying financial statements of the Company were approved by the Audit Committee, as authorized by the Board of Directors (BOD), on April 8, 2013.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) investments that have been measured at fair value, and these financial statements are presented in Philippine Peso, the Company's functional currency.

Statement of Compliance

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

Presentation of Financial Statements

The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery (asset) or settlement (liability) within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 17.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expense 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 Company.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended Philippine Accounting Standards (PAS), PFRS and Philippine Interpretation of International Financial Reporting Interpretation Committee (IFRIC) which were adopted as of January 1, 2012. Except as otherwise indicated, these changes in accounting policies did not have any significant impact on the Company financial statements.



PFRS 7, Financial Instruments: Disclosures - Transfers of Financial Assets (Amendments)

The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments had no impact to the Company.

PAS 12, Income Taxes - Deferred Tax: Recovery of Underlying Assets (Amendments)

This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendments had no impact to the Company.

Significant Accounting Policies

Cash on Hand and In Banks

Cash includes cash on hand and in banks.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

The Company recognizes financial assets or financial liabilities in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition of financial instruments

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

As of December 31, 2012 and 2011, the Company has no outstanding financial assets and liabilities at FVPL and HTM investments.



Determination of fair value

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

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation methodologies. Valuation methodologies include net present value techniques, comparison to similar instruments for which market observable prices exist and other relevant valuation models.

'Day 1' difference

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS investments or financial assets at FVPL. This accounting policy relates to statement of financial position captions, 'Cash on hand and in banks' and 'Loans and other receivables'.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included in the statement of comprehensive income. The losses arising from impairment of such loans and receivables are recognized in the statement of comprehensive income.

Loans and receivables are classified as nonperforming or considered impaired when the principal is past due, or when, in the opinion of management, collection of interest and principal is doubtful. These receivables will not be reclassified as performing until interest and principal payments are brought current or the receivables are restructured and future payments appear assured.

Client's equity represents the amount withheld by the Company as protection against customer returns and allowances and other special adjustments, which is equivalent to 30.00% of the receivables factored. This is diminished proportionately as the receivables from factoring are collected.

Unearned interest income is shown as a deduction from 'Loans and receivables'.



AFS investments

AFS investments are those nonderivative financial assets that are designated as such or are not classified as financial assets at FVPL, HTM investments or loans and receivables. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS investments pertain to golf club shares and an investment in an affiliated company.

After initial measurement, AFS investments are subsequently measured at fair value. The unrealized gains or losses arising from the fair valuation of AFS investments are excluded from reported income and are reported as 'Net unrealized loss on AFS investments' in Other Comprehensive Income.

When the investment is disposed of, the cumulative gain or loss previously recognized in OCI is recognized in the statement of comprehensive income. Dividends earned are recognized in the statement of comprehensive income when the Company's right to receive payment is established. Impairment losses arising from impairment of such investments are recognized in the statement of comprehensive income.

Other financial liabilities

Other financial liabilities are financial liabilities not classified or designated at FVPL and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than the exchange of a fixed amount of cash. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

This accounting policy applies primarily to the Company's notes payable, accounts payable and accrued expenses.

Derecognition of Financial Assets and Liabilities

Financial asset

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

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

Where the Company 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 Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially



modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Impairment of Financial Assets

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

Loans 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 asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in the statement of comprehensive income. Interest income continues to be accrued based on the original EIR of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance for impairment losses. If a future write-off is later recovered, any amounts formerly charged are credited to the "Provision for credit losses" account in the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

AFS investments

In the case of equity securities classified as AFS investments, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. When there is evidence of impairment loss, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit or loss - is removed from equity and recognized in OCI. Impairment losses on equity investments are not reversed through the profit or loss. Increases in fair value after impairment are recognized directly in OCI.



Investments in Subsidiaries

Subsidiaries pertain to all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The Company's investments in subsidiaries are carried at cost less allowance for impairment losses.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the item of property and equipment to its working condition and location for its intended use. Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets as follows:

Furniture, fixtures and equipment	3-5 years
Leasehold rights and improvements	10 years or over the period of the lease, whichever is shorter
Transportation equipment	3-5 years

The useful lives and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized in the statement of comprehensive income (see accounting policy on Impairment of Nonfinancial Assets).

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognized.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Subsequent to initial recognition,



depreciable investment properties are carried at cost less accumulated depreciation and impairment in value.

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

Foreclosed properties are classified under investment properties on foreclosure date.

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

Investment properties are derecognized when it has either been disposed of or when it is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the derecognition of an investment property are recognized in the statement of comprehensive income in the year of derecognition.

Motorcycle Inventories

The Company forecloses the chattel mortgages attached to the loans pertaining to the Motorcycle (MC) Financing upon default at cost. The Company subsequently recognizes motorcycle inventories at their net realizable value based on its assessment of the recoverability of the inventories. In determining the recoverability of the inventories, management considers whether those inventories are damaged or if the selling prices have declined. Likewise, management also considers whether estimated costs to be incurred to make the sale have increased. The excess of the cost over the net realizable value is recognized as a loss from writedown of motorcycle inventories in the statement of comprehensive income.

Software Costs

Software costs, included under "Other assets" account in the statement of financial position, include costs incurred relative to the development of the Company's software. Software costs are amortized over three to five years on a straight-line basis from the date they are available for use.

Impairment of Nonfinancial Assets

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

An impairment loss is charged against operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.



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

Equity

Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at premium, the difference between the proceeds and the par value is credited to a 'Paid-in premium account'.

Retained earnings include all accumulated profits or losses of the Company less any dividends declared.

Dividends on Common Shares

Cash on common shares are recognized as a liability and deducted from equity when approved by the BOD and shareholders of the Company. Stock dividends are deducted from retained earnings when approved by the BOD and shareholders. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting period.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The Company has concluded that it is acting as principal on all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Interest income

Unearned interest income is recognized as income over the terms of the receivable using the effective interest method. Interest income on nondiscounted receivables is accrued as earned likewise using EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

Service charges

Service charges are recognized only upon collection or accrued when there is reasonable certainty as to its collectability.

Dividend income

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

Miscellaneous income

Miscellaneous income represents other gains or revenues recognized as earned or collected and upon rendition of the service.

Expenses

Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the Company. Expenses are recognized when incurred.



Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset;
or,
- d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c), or (d) above; and at the date of renewal or extension period for scenario (b).

Company as lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Borrowing Costs

Borrowing costs are recognized as expense in the year in which these costs are incurred. Borrowing costs consist of interest and other costs that the Company incurs in connection with borrowing of funds.

Retirement Cost

The Company has a funded, noncontributory defined benefit retirement plan, administered by trustees, covering its permanent employees.

The retirement cost of the Company is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period. The liability recognized in the statement of financial position in respect of defined benefit retirement plans is the present value of the defined benefit obligation less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceed 10.00% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. The excess actuarial gains or losses are recognized over the average remaining working life of the employees participating in the plan.

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



Income Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted 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, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), if any, and unused net operating loss carryover (NOLCO), if any, to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income 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 asset to be recovered.

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

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingent Liabilities and Contingent Assets

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



Earnings Per Share

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

Events after Reporting Date

Post year-end events that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the Company's financial statements. Post year-end events that are not adjusting events, if any, are disclosed in the financial statements when material.

Segment Reporting

The Company's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6.

New Standards and Interpretations

Future Changes in Accounting Policies

Standards and Interpretations issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS, PAS, and Philippine Interpretations to have significant impact on its financial statements. The Company will assess the impact of these amendments on its financial position or performance when they become effective.

Effective 2013

PFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments)

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c) The net amounts presented in the statement of financial position;
- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
 - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
 - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied and are effectively for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Company's financial position or performance.



PFRS 10, Consolidated Financial Statements

PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 11, Joint Arrangements

PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly-Controlled Entities: Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 12, Disclosure of Interests in Other Entities

PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31, *Interests in Joint Ventures*, and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

The adoption of PFRS 12 will affect disclosures only and have no impact on the Company's financial position or performance.

PFRS 13, Fair Value Measurement

PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of adopting this standard.

PAS 1, Financial Statement Presentation - Presentation of Items of Other Comprehensive Income or OCI (Amendments)

The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.

PAS 19, Employee Benefits (Revised)

Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a



sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Company has to apply the amendments retroactively to the earliest period presented.

The Company reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Company obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The effects are detailed below:

	As at December 31, 2012	As at December 31, 2011	As at January 1, 2011
Increase (decrease) in:			
<u>Statement of financial position</u>			
Pension asset (liability)	P1,615,726	P2,365,659	(P1,198,410)
Deferred tax asset	(484,718)	(709,698)	(359,523)
Other comprehensive income	376,489	820,288	-
Retained earnings	754,519	835,673	838,887
		<u>For the year ended December 31, 2012</u>	
<u>Statement of comprehensive income</u>			
Salaries, wages and employee benefits (cost of services and operating expenses)		P115,934	
Provision for income tax		224,980	
Net income		(340,914)	
Other comprehensive income		(443,799)	
Earnings per share		(0.002)	

PAS 27 (as revised in 2011), Separate Financial Statements

As a consequence of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 28, Investments in Associates and Joint Ventures (as revised in 2011),

As a consequence of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

Philippine Interpretation IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine

This Interpretation applies to waste removal (stripping) costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This Interpretation becomes effective for annual periods beginning on or after January 1, 2013.



Effective 2014

PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities

These amendments to PAS 32 clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

Effective 2015

PFRS 9, Financial Instruments: Classification and Measurement

PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, Financial Instruments: Recognition and Measurement. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company’s financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate

This Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this Interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the real estate industry is completed.



Annual Improvements to PFRSs (2009-2011 cycle)

The *Annual Improvements to PFRSs (2009-2011 cycle)* contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

PFRS 1, First-time Adoption of PFRS – Borrowing Costs

The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Company as it is not a first-time adopter of PFRS.

PAS 1, Presentation of Financial Statements - Clarification of the requirements for comparative information

The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

PAS 16, Property, Plant and Equipment - Classification of servicing equipment

The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Company's financial position or performance.

PAS 32, Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments

The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with

PAS 12, Income Taxes. The Company expects that this amendment will not have any impact on its financial position or performance.

PAS 34, Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities

The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amendments)

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The



amendments affect presentation only and have no impact on the Company's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

3. Significant Accounting Judgments and Estimates

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

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

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

Judgments

(a) Classification of financial instruments

The Company classifies financial instruments, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of the instruments. The substance of a financial instrument, rather than its legal form, governs its classification in the Company's statement of financial position. The Company determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

(b) Fair values of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation.

(c) Financial assets not quoted in an active market

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

(d) Operating leases

Company as a lessee

The Company has entered into a contract of lease for the office space it occupies. The Company has determined that all significant risks and rewards of ownership on these properties are retained by the lessor (see Note 25).



(e) *Contingencies*

The Company may incur contingent liabilities arising from preliminary assessment notice from the Bureau of Internal Revenue (BIR). Management does not anticipate losses from these contingencies that would adversely affect the financial position (see Note 24).

Estimates

(a) *Impairment of AFS equity investment*

The Company treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20.0% or more and 'prolonged' greater than 12 months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

The carrying values of the quoted AFS investment of the Company, which refers to one Orchard Club share, amounted to ₱0.09 and ₱0.15 million as of December 31, 2012 and 2011, respectively, net of unrealized losses amounting to ₱0.06 million and ₱0.10 million for 2012 and 2011, respectively (see Note 9).

(b) *Valuation of unquoted equity investments*

The Company's investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost. As of December 31, 2012 and 2011, unquoted equity securities amounted to ₱75.00 million. The Company has no intention of disposing unquoted equity securities held for which active market is not available (see Note 9).

(c) *Impairment of property and equipment, investment properties, investment in subsidiaries and software cost*

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

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

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if not possible, for the cash-generating unit to which the asset belongs.

The carrying values of property and equipment, investment properties, investment in subsidiaries, and software cost amounted to ₱6.11 million, ₱2.60 million, ₱0.10 million, and ₱1.04 million, respectively, as of December 31, 2012 and ₱7.83 million, ₱2.60 million, ₱0.10 million, and ₱1.55 million, respectively, as of December 31, 2011 (see Notes 12, 10, 11 and 13). As of December 31, 2012 and 2011, the allowance for impairment losses on investment properties and investments in subsidiaries amounted to ₱1.02 million and



₱2.00 million, respectively (see Notes 10 and 11). No impairment loss was recognized on property and equipment and software cost in 2012, compared to an impairment loss amounting to ₱0.10 million in 2011 due to the write-off of the payroll software of the Company .

(d) Writedown of motorcycle inventories

The Company recognizes loss on writedown of motorcycle inventories at a level considered adequate to reflect the excess of cost of motorcycle inventories over their NRV. NRV of inventories are assessed regularly based on the prevailing selling prices less the estimated cost necessary to sell. Increase in the NRV will increase the carrying amount of inventories but only to the extent of their original acquisition costs.

As of December 31, 2012 and 2011, the carrying value of motorcycle inventories amounted to ₱127.48 million and ₱34.38 million, net of loss on writedown of ₱6.47 million and ₱4.23 million, respectively (see Note 13).

(e) Recognition of deferred tax assets

The Company reviews the carrying amounts of deferred taxes at each reporting date and reduce deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Company will generate sufficient taxable income to allow all or part of deferred tax assets to be utilized. The Company looks at its projected performance in assessing the sufficiency of future taxable income.

The Company recognized deferred tax assets amounting to ₱8.90 million and ₱10.55 million as of December 31, 2012 and 2011, respectively (see Note 21).

(f) Present value of retirement obligation

The determination of the obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates. As of December 31, 2012 and 2011, the present value of the retirement obligation amounted to ₱4.41 million and ₱2.51 million, respectively (see Note 19).

(g) Estimating useful lives of property and equipment, investment properties and software cost

The Company estimates the useful lives of its property and equipment, investment properties and software cost based on the period over which these properties are expected to be available for use. The estimated useful lives of the properties are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these properties. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The estimated useful lives are disclosed in Note 2.

4. Fair Value Measurement

The methods and assumptions used by the Company in estimating the fair value of financial instruments follow:

Cash on hand and in banks

Carrying amounts approximate fair values due to the relatively short-term maturities of these financial assets.



Loans and other receivables

Carrying amounts approximate fair values as there is no significant change in the market interest rates from grant date.

AFS investments

AFS quoted equity shares - Fair values are based on quoted prices published in markets.

AFS unquoted equity shares - Carrying amounts (cost less allowance for impairment losses) approximate fair values due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Liabilities

The carrying amounts of notes payable, accounts payable and accrued interest payable approximate fair values due to their short-term maturities.

The Company's financial assets recognized at fair value (i.e., AFS investments), analyzed between those whose fair value is based on:

- Quoted prices in active markets for identical assets (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset, either directly (as prices) or indirectly (derived prices) (Level 2); and
- Those with inputs for the asset that are not based on observable market data (unobservable inputs) (Level 3).

Quoted equity securities classified as AFS investments are measured based on Level 1. In 2012 and 2011, there were no transfers of financial instruments between Level 1 and Level 2.

No instruments were measured based on Level 3 and there were no transfers in and out of level 3 for 2012 and 2011.

5. Financial Risk Management Objectives and Policies

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, interest rate risk and foreign exchange risk.

Credit Risk

Credit risk management and collateral and other credit enhancements

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages credit risk by setting limits for individual borrowers, and groups of borrowers and industry segments. The Company also monitors credit exposures, and continually assesses the creditworthiness of counterparties.

In addition, the Company obtains security where appropriate, enters into collateral arrangements with counterparties, and limits the duration of exposures. Finally, credit applications go through a process of screening using the Company's credit standards to minimize risk.



The Company also focuses on markets and borrowers that have a relatively better capability to repay their loans. One example for this is the medical professional market where most doctors are able to pay because of their higher disposable income. Despite the systems and checks in place for the Company, there is no guarantee that none of its existing and future clients will default on a loan. An increase in loan defaults will have a negative effect on the Company's profitability.

The Company's motorcycle financing business has the motorcycle itself as collateral in case the borrower defaults on its loan. Other receivable from customers are secured by real estate and other chattel properties.

It is the Company's policy to dispose of repossessed properties in an orderly fashion and proceeds are used to repay or reduce the outstanding claim.

The table below shows the maximum exposure of loans and receivables after financial effect of collateral and credit enhancements to the maximum exposure to credit risk.

	2012			2011		
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Maximum Exposure After Financial Effect of Collateral and Credit Enhancements	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Maximum Exposure After Financial Effect of Collateral and Credit Enhancements
Loans and other receivables						
Receivable from customers:						
Consumer	₱1,050,960,221	₱623,606,331	₱427,353,890	₱912,935,350	₱532,213,446	₱380,721,904
Services	125,866,576	10,605,649	115,260,927	145,559,854	10,605,649	134,954,205
Construction	21,647,713	19,250,000	2,397,713	21,870,691	19,250,000	2,620,691
Manufacturing	6,918,649	-	6,918,649	2,974,600	549,122	2,425,478
	₱1,205,393,159	₱653,461,980	₱551,931,179	₱1,083,340,495	₱562,618,217	₱520,722,278

Except for receivable from customers, the carrying values of the Company's other financial assets as reflected in the statements of financial position as of December 31, 2012 and 2011 represent the financial asset's maximum exposure to credit risk, since these are unsecured.

The tables below show a comparison of the credit quality of the Company's financial assets (gross of unearned interest income, client's equity and allowance for impairment losses) as of December 31:

2012

	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired	Total
	High Grade	Medium Grade	Low Grade			
Available-for-sale investments	₱75,090,000	₱-	₱-	₱-	₱-	₱75,090,000
Loans and other receivables						
Cash in banks	19,103,269	-	-	-	-	19,103,269
Receivable from customers:						
Consumer	984,254,071	-	-	61,220,156	5,485,994	1,050,960,221
Services	-	120,453,284	-	2,312,491	3,100,801	125,866,576
Construction	-	14,184,446	-	7,463,267	-	21,647,713
Manufacturing	-	6,918,649	-	-	-	6,918,649
Other receivables	1,334,492	-	-	-	-	1,334,492
	₱1,079,781,832	₱141,556,379	₱-	₱70,995,914	₱8,586,795	₱1,300,920,920



2011

	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired	Total
	High Grade	Medium Grade	Low Grade			
Available-for-sale investments	P75,150,000	P-	P-	P-	P-	P75,150,000
Loans and other receivables						
Cash in banks	23,612,118	-	-	-	-	23,612,118
Receivable from customers:						
Consumer	876,701,925	-	-	29,543,166	6,690,259	912,935,350
Services	20,369,423	114,311,622	-	7,963,749	2,915,060	145,559,854
Construction	-	4,738,015	-	15,500,000	1,632,676	21,870,691
Manufacturing	-	2,974,600	-	-	-	2,974,600
Other receivables	6,798,394	-	-	-	-	6,798,394
	P1,002,631,860	P122,024,237	P-	P53,006,915	P11,237,995	P1,188,901,007

The Company's basis in grading its financial assets are as follows:

Cash in banks

High grade pertains to cash deposited in local banks belonging to top 10 rank.

Loans and other receivables

- High grade pertains to receivables with no default in payment and fully secured with collateral.
- Medium grade pertains to receivables with no default in payment and partially secured with collateral.
- Low grade pertains to receivables with no default in payment and without security.

The analysis of receivables from customers that were past due but not impaired follows:

	December 31, 2012					Total
	<30 days	30-60 days	61-90 days	91-120 days	>120 days	
Consumer	P15,372,627	P8,493,792	P5,596,959	P3,922,917	P27,833,861	P61,220,156
Services	1,061,003	544,183	435,427	271,878	-	2,312,491
Construction	-	1,379,086	5,221,530	862,651	-	7,463,267
	P16,433,630	P10,417,061	P11,253,916	P5,057,446	P27,833,861	P70,995,914

	December 31, 2011					Total
	<30 days	30-60 days	61-90 days	91-120 days	>120 days	
Consumer	P9,111,663	P5,734,574	P3,625,587	P3,626,718	P7,444,624	P29,543,166
Services	1,624,382	1,922,030	490,612	377,438	3,549,287	7,963,749
Construction	-	-	-	-	15,500,000	15,500,000
	P10,736,045	P7,656,604	P4,116,199	P4,004,156	P26,493,911	P53,006,915

Impairment assessment

The Company recognizes impairment/credit losses based on the results of specific (individual) and collective assessment of its credit exposures. Impairment has taken place when there is a presence of known difficulties in the payment of obligation by counterparties, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold (e.g., 90 days).

These and other factors, either singly or in tandem with other factors, constitute observable events and/or data that meet the definition of an objective evidence of impairment.



Liquidity risk

Liquidity risk is the risk of not being able to meet funding obligations such as the repayment of liabilities or payment for asset purchases. The Company seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Company maintains a level of cash on hand and in banks deemed sufficient to finance its operations. As part of its liquidity risk management, the Company regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include bank loans and advances from related parties.

The table summarizes the maturity profile of the Company's financial assets and liabilities based on undiscounted contractual payments and remaining contractual maturities.

	2012					Total
	Up to 3 months	3 to 6 Months	6 to 12 Months	1 to 3 years	More than 3 years	
Financial assets						
Loans and other receivables						
Cash in banks	₱19,103,269	₱-	₱-	₱-	₱-	₱19,103,269
Receivable from customers:						
Consumer	1,023,497,817	7,744,914	19,717,490	-	-	1,050,960,221
Services	123,372,440	916,609	1,577,527	-	-	125,866,576
Construction	1,379,086	5,221,530	862,652	-	14,184,446	21,647,713
Manufacturing	6,380,413	105,000	210,000	223,236	-	6,918,649
Other receivables	1,334,492	-	-	-	-	1,334,492
	₱1,175,067,517	₱13,988,053	₱22,367,669	₱223,236	₱14,184,446	₱1,225,830,920
Financial liabilities						
Notes payable	₱197,343,535	₱ 61,282,076	₱385,839,894	₱156,519,417	₱-	₱ 800,984,921
Accounts payable	38,945,222	-	-	-	-	38,945,222
Accrued interest	765,840	-	-	-	-	765,840
	₱237,054,597	₱61,282,076	₱385,839,894	₱156,519,417	₱-	₱840,695,983

	2011					Total
	Up to 3 months	3 to 6 Months	6 to 12 Months	1 to 3 years	More than 3 years	
Financial assets						
Loans and other receivables						
Cash in banks	₱23,612,118	₱-	₱-	₱-	₱-	₱23,612,118
Receivable from customers:						
Consumer	116,842,796	112,320,419	209,440,254	470,800,059	3,531,822	912,935,350
Services	78,828,709	18,605,475	26,279,735	18,678,970	3,166,965	145,559,854
Construction	1,686,786	-	-	-	20,183,905	21,870,691
Manufacturing	1,836,364	105,000	210,000	735,000	88,236	2,974,600
Other receivables	6,798,394	-	-	-	-	6,798,394
	₱205,993,049	₱131,030,894	₱235,929,989	₱490,214,029	₱26,970,928	₱1,090,138,889
Financial liabilities						
Notes payable	₱196,319,064	₱76,399,936	₱337,674,211	₱35,542,810	₱-	₱645,936,021
Accounts payable	22,564,527	-	-	-	-	22,564,527
Accrued interest	9,816,848	-	-	-	-	9,816,848
	₱228,700,439	₱76,399,936	₱337,674,211	₱35,542,810	₱-	₱678,317,396

Interest rate risk

The profitability of the Company may be influenced by changes in the level of interest rates. In the event that interest rates go up significantly, less people will be inclined to avail of a loan. The Company funds its loan operations through a combination of the operational cash flow and borrowings from related parties. Any increase in interest rates will cause the Company to incur more expenses for every peso they earn in interest income.

The Company follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. The interest rates



reflect the prevailing market interest rates. The rates are benchmarked against the applicable treasury bills and MART rate for most of the peso-denominated investments.

Foreign exchange risk

The Company has no foreign currency denominated financial assets and liabilities as of December 31, 2012 and 2011. Accordingly, the Company does not have exposure to foreign exchange risk.

6. Segment Information

The Company has three (3) main products: Rx Cashline - loans tailored to medical professionals, MFC Factors - receivable factoring services and MC Financing, loans to motorcycle buyers.

The Company considers its Management Committee as chief operating decision maker. Management conducts weekly Management Committee meetings to monitor the performance and conversion of each of the product lines handled. Strategies and recommendations are formulated while operating parameters and guidelines are developed and implemented in these weekly meetings. Product line performance is evaluated based on how it performs versus target and versus last year's actual figures. Another major consideration is on the analysis of risk and collectability exposure contributed by each product line.

Below is the performance of each of the product line based on allocable revenues and expenses.

	2012				
	Rx Cash Line	MC Factors	MC Financing	Others	Total
Loans	₱62,248,108	₱82,380,435	₱895,420,201	₱31,850,682	₱1,071,899,426
Results of operation					
Revenues					
Interest income	₱16,842,621	₱7,320,698	₱159,533,011	₱2,428,234	₱186,124,564
Other income	463,145	1,389,027	(6,301,802)	13,059,168	8,609,538
	17,305,766	8,709,725	153,231,209	15,487,402	194,734,102
Expenses					
Interest expense	3,574,384	1,857,947	31,778,427	7,267,586	44,478,344
Provision for credit losses	485,707	-	2,753,407	-	3,239,114
Operating expenses	5,479,626	2,378,841	91,688,962	24,726,107	124,273,536
	9,539,717	4,236,788	126,220,796	31,993,693	171,990,994
Net operating income	7,766,049	4,472,937	27,010,413	(16,506,291)	22,743,108
Less provision for income tax	2,199,540	1,266,848	7,650,027	(4,674,996)	6,441,419
Net income (loss)	₱5,566,509	₱3,206,089	₱19,360,386	(₱11,831,295)	₱16,301,689
Statement of financial position					
Total assets	₱46,156,540	₱ 61,746,055	₱810,898,315	₱148,179,801	₱1,066,980,711
Total liabilities	₱204,100	₱76,650	₱46,796,594	₱770,294,716	₱817,372,060
Other segment information					
Capital expenditures	₱-	₱-	₱1,450,103	₱1,242,345	₱2,692,448
Depreciation and amortization	₱86,596	₱6,312	₱1,883,843	₱2,381,668	₱4,358,419



	2011				
	Rx Cash Line	MC Factors	MC Financing	Others	Total
Loans	P62,248,108	P82,380,435	P895,420,201	P31,850,682	P1,071,899,426
Results of operation					
Revenues					
Interest income	P16,940,889	P8,328,421	P127,971,117	P3,330,512	P156,570,939
Other income	698,809	1,164,548	3,357,046	3,763,944	8,984,347
	17,639,698	9,492,969	131,328,163	7,094,456	165,555,286
Expenses					
Interest expense	3,206,721	1,576,477	24,223,504	619,051	29,625,753
Provision for credit losses	137,715	369,619	10,602,318	-	11,109,652
Operating expenses	11,515,006	6,196,908	85,729,616	2,241,905	105,683,435
	14,859,442	8,143,004	120,555,438	2,860,956	146,418,840
Net operating income	2,780,256	1,349,965	10,772,725	4,233,500	19,136,446
Less provision for income tax	-	-	-	5,308,724	5,308,724
Net income (loss)	P2,780,256	P1,349,965	P10,772,725	(P1,075,224)	P13,827,722
Statement of financial position					
Total assets	P43,690,957	P57,666,305	P609,643,596	P193,921,773	P904,922,631
Total liabilities	P72,465,346	P35,625,162	P547,401,688	P13,989,278	P669,481,474
Other segment information					
Capital expenditures	P-	P-	P-	P5,865,982	P5,865,982
Depreciation and amortization	P509,521	P274,204	P3,793,402	P99,201	P4,676,327

	2010				
	Rx Cash Line	MC Factors	MC Financing	Others	Total
Loans	P50,229,814	P105,661,037	P589,332,925	P29,193,660	P774,417,436
Results of operation					
Revenues					
Interest income	P18,824,788	P12,781,093	P80,956,468	P439,715	P113,002,064
Other income	2,057,489	1,243,650	-	5,802,022	9,103,161
	20,882,277	14,024,743	80,956,468	6,241,737	122,105,225
Expenses					
Interest expense	2,566,939	4,171,276	24,385,924	962,603	32,086,742
Provision for credit losses	2,017,120	349,909	2,750,978	-	5,118,007
Operating expenses	6,851,776	2,030,536	40,890,979	19,397,632	69,170,923
	11,435,835	6,551,721	68,027,881	20,360,235	106,375,672
Net operating income (loss)	9,446,442	7,473,022	12,928,587	(14,118,498)	15,729,553
Less provision for income tax	-	-	-	3,374,300	3,374,300
Net income (loss)	P9,446,442	P7,473,022	P12,928,587	(P17,492,798)	P12,355,253
Statement of financial position					
Total assets	P36,354,687	P73,962,725	P400,455,183	P155,918,963	P666,691,558
Total liabilities	P35,457,978	P57,619,217	P336,850,843	P13,296,754	P443,224,792
Other segment information					
Capital expenditures	P-	P-	P-	P3,991,190	P3,991,190
Depreciation and amortization	P508,684	P150,750	P2,885,160	P1,365,862	P4,910,456

The Company has no significant customers which contribute 10% or more of the revenues.

7. Cash on Hand and in Banks

This account consists of:

	2012	2011
Cash in banks	P19,103,269	P23,612,118
Cash on hand	9,156,582	8,089,256
	P28,259,851	P31,701,374



Cash in banks earn interest at the prevailing bank deposit rates which ranges from 0.05% to 0.375% in 2012 and from 0.50% to 1.25% in 2011.

Interest income on cash in banks amounted to ₱0.06 million, ₱0.06 million and ₱0.04 million in 2012, 2011 and 2010, respectively.

8. Loans and Other Receivables

This account consists of:

	2012	2011
Receivable from customers:		
Consumer	₱1,050,960,221	₱912,935,350
Services	125,866,576	145,559,854
Construction	21,647,713	21,870,691
Manufacturing	6,918,649	2,974,600
Other receivables	1,334,492	6,798,394
	1,206,727,651	1,090,138,889
Unearned interest income	(348,210,969)	(308,186,583)
Client's equity	(27,269,091)	(24,714,131)
Allowance for credit losses (Note 14)	(15,161,894)	(17,167,174)
	₱816,085,697	₱740,071,001

The classes of receivable from customers are subdivided according to loans granted to different industries.

Loans and receivables according to product type:

	2012	2011
Motorcycle financing	₱997,246,945	₱895,420,201
Receivables purchased	90,896,970	82,380,435
Rx cash line	63,535,968	62,248,108
Other receivables	30,408,919	31,850,682
	1,182,088,802	1,071,899,426
Unearned interest income	(348,210,969)	(308,186,583)
Client's equity	(27,269,091)	(24,714,131)
	806,608,742	738,998,712
Accrued interest receivable	15,265,481	10,659,002
Advances to officers and employees	98,260	3,171,782
Sales contract receivable	992,027	1,354,631
Due from affiliates (Note 22)	213,007	213,007
Miscellaneous receivables	8,070,074	2,841,041
	831,247,591	757,238,175
Allowance for credit losses (Note 14)	(15,161,894)	(17,167,174)
	₱816,085,697	₱740,071,001

Miscellaneous receivables consist of lease contract receivables and receivables from other non related parties.



Client's equity represents the amount withheld by the Company as protection against customer returns and allowances and other special adjustments, which is equivalent to 30.00% of the receivables factored.

Interest rates on loans receivable ranges from 1.40% to 2.60% plus gross receipts tax.

Interest income earned from receivable from customers amounted to ₱176.49 million, ₱156.51 million and ₱112.56 million in 2012, 2011 and 2010, respectively.

9. Available-for-Sale Investments

This account pertains to golf club shares which are carried at fair value, net of unrealized loss and allowance for impairment losses and in AIB which is carried at cost. Details of these investments follow:

	2012	2011
Cost	₱78,477,008	₱78,477,008
Net unrealized loss	(160,000)	(100,000)
Allowance for impairment losses	(3,227,008)	(3,227,008)
	<u>₱75,090,000</u>	<u>₱75,150,000</u>

10. Investment Properties

As of December 31, 2012 and 2011, details of this account follows:

Cost	₱3,624,001
Allowance for impairment losses	(1,019,533)
	<u>₱2,604,468</u>

The aggregate fair value of the investment properties of the Company amounted to ₱3.62 million as of December 31, 2012 and 2011. No sale of investment property occurred in 2012 and 2011. The fair value of the Company's investment properties was estimated on the basis of recent sales of similar properties in the same areas taking into account the economic conditions prevailing at the time the valuations were made. The Company sold certain investment properties at a gain of ₱1.55 million in 2010.



11. Investment in Subsidiaries

As of December 31, 2012 and 2011, details of this account follows:

	Percentage of ownership	
Acquisition cost:		
Commercial and Consumer Credit Corporation (3C)	100%	₱1,000,000
Global Credit and Management Group/3C (GCMGI/3C)	51%	1,000,000
3C Pawnshop	100%	100,000
		2,100,000
Allowance for impairment losses		(2,000,000)
		₱100,000

3C and GCMGI/3C have ceased operations in 1999 and 1996, respectively.

As of December 31, 2012, 3C Pawnshop has not yet started commercial operations. Total assets and equity of 3C Pawnshop amounted to ₱100,000 as of December 31, 2012 and 2011. The Company did not consolidate the accounts of the subsidiaries due to immateriality of the balances of the accounts.

12. Property and Equipment

The rollforward analysis of this account follows:

	2012			Total
	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Transportation Equipment	
Cost				
At January 1	₱4,807,255	₱873,326	₱16,101,917	₱21,782,498
Additions	1,644,312	-	1,048,136	2,692,448
Disposals	(36,655)	-	(1,790,128)	(1,826,783)
At December 31	6,414,912	873,326	15,359,925	22,648,163
Accumulated Depreciation and Amortization				
At January 1	3,061,053	291,793	10,600,125	13,952,971
Depreciation and amortization	1,324,006	89,782	2,191,508	3,605,296
Disposals	(19,152)	-	(998,878)	(1,018,030)
At December 31	4,365,907	381,575	11,792,755	16,540,237
Net Book Value	₱2,049,005	₱491,751	₱3,567,170	₱6,107,926



	2011			Total
	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Transportation Equipment	
Cost				
At January 1	₱3,833,277	₱873,326	₱11,905,698	₱16,612,301
Additions	973,978	–	4,408,197	5,382,175
Disposals	–	–	(211,978)	(211,978)
At December 31	4,807,255	873,326	16,101,917	21,782,498
Accumulated Depreciation and Amortization				
At January 1	1,749,402	202,010	8,021,679	9,973,091
Depreciation and amortization	1,311,651	89,783	2,679,597	4,081,031
Disposals	–	–	(101,151)	(101,151)
At December 31	3,061,053	291,793	10,600,125	13,952,971
Net Book Value	₱1,746,202	₱581,533	₱5,501,792	₱7,829,527

Motorcycle inventory is transferred to transportation equipment when they are used in the business operations by the employees. The transportation equipment is valued at the inventory's carrying amount. In 2012 and 2011, the Company transferred motorcycle inventories amounting to ₱0.52 million and ₱1.55 million, respectively (shown as additions).

As of December 31, 2012 and 2011, the Company has fully depreciated property and equipment that are still in use with original cost amounting to ₱2.22 million.

Depreciation and amortization consists of:

	2012	2011	2010
Property and equipment	₱3,605,296	₱4,081,031	₱4,094,349
Investment properties	–	–	337,616
	₱3,605,296	₱4,081,031	₱4,431,965

13. Other Assets

This account consists of:

	2012	2011
Motorcycle inventories	₱127,475,596	₱34,383,222
Software costs	1,042,005	1,553,394
Prepaid expenses	992,129	695,097
Miscellaneous	322,457	284,650
	₱129,832,187	₱36,916,363

Motorcycle inventories pertain to repossessed units from the Company's motorcycle financing business carried at its net realizable value. Loss from writedown of motorcycle inventories included in the statements of comprehensive income amounted to ₱6.47 million, ₱4.23 million and ₱2.66 million in 2012, 2011 and 2010, respectively.



The movements in software costs follow:

	2012	2011
Cost		
At January 1	₱3,492,446	₱3,110,245
Additions	133,400	483,807
Write-off (Note 20)	-	(101,606)
At December 31	3,625,846	3,492,446
Accumulated Amortization		
At January 1	1,939,052	1,343,756
Amortization for the year	644,789	595,296
Accumulated amortization	2,583,841	1,939,052
At December 31	₱1,042,005	₱1,553,394

14. Allowance for Credit Losses

Movements in allowance for credit losses follow:

	December 31, 2012			
	Receivable from Customers			Total
	Construction	Services	Consumer	
At January 1	₱1,632,676	₱2,915,060	₱12,619,438	₱17,167,174
Provisions (reversals) during the year	(1,263,057)	3,243,590	1,258,581	3,239,114
Write-off	(369,619)	(3,057,849)	(1,816,926)	(5,244,394)
At December 31	₱-	₱3,100,801	₱12,061,093	₱15,161,894
Individually impaired	₱-	₱3,100,801	₱5,485,994	₱8,586,795
Collectively impaired	-	-	6,575,099	6,575,099
Total	₱-	₱3,100,801	₱12,061,093	₱15,161,894

As of December 31, 2012, the gross amount of loans and receivable individually determined to be impaired, before deducting any individually assessed impairment allowance amounted to ₱8.59 million.

	December 31, 2011			
	Receivable from Customers			Total
	Construction	Services	Consumer	
At January 1	₱1,263,057	₱2,777,345	₱2,017,120	₱6,057,522
Provisions during the year	369,619	137,715	10,602,318	11,109,652
At December 31	₱1,632,676	₱2,915,060	₱12,619,438	₱17,167,174
Individually impaired	₱1,632,676	₱2,915,060	₱6,690,259	₱11,237,995
Collectively impaired	-	-	5,929,179	5,929,179
Total	₱1,632,676	₱2,915,060	₱12,619,438	₱17,167,174

As of December 31, 2011, the gross amount of loans and receivable individually determined to be impaired, before deducting any individually assessed impairment allowance amounted to ₱11.24 million.



15. Notes Payable

This account consists of:

	2012	2011
Related parties (Note 22)	₱610,902,427	₱524,434,355
Individuals	13,747,019	58,518,725
Banks	138,643,939	35,142,857
	₱763,293,385	₱618,095,937

Interest rates from borrowings range 5.44% to 7.75% per annum in 2012 and 2011.

Interest expense on these notes payable amounted to ₱44.48 million, ₱29.63 million, ₱32.09 million in 2012, 2011 and 2010, respectively.

16. Accrued Expenses

This account consists of:

	2012	2011
Accrued taxes	₱2,400,412	₱2,358,753
Accrued interest (Note 22)	765,840	9,816,848
Other accrued expenses	7,412,819	5,976,793
	₱10,579,071	₱18,152,394

Other accrued expenses consist of:

	2012	2011
Accrued administrative expenses	₱4,341,239	₱1,236,476
Accrued management and professional fees	2,332,104	2,246,869
Accrued occupancy costs	251,290	1,024,550
Accrued insurance payable	130,706	936,959
Others	357,480	531,939
	₱7,412,819	₱5,976,793



17. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities of the Company analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from the reporting date.

	2012			2011		
	Less than twelve months	Over twelve months	Total	Less than twelve months	Over twelve months	Total
Financial Assets						
Cash on hand and in banks	₱28,259,851	₱-	₱28,259,851	₱31,701,374	₱-	₱31,701,374
Loans and other receivables - gross	561,603,737	645,123,915	1,206,727,652	572,953,932	517,184,957	1,090,138,889
AFS investments - gross	-	78,477,008	78,477,008	-	78,377,008	78,377,008
	589,863,588	723,600,923	1,313,464,511	604,655,306	595,561,965	1,200,217,271
Nonfinancial Assets						
Property and equipment	-	6,107,926	6,107,926	-	7,829,527	7,829,527
Investment properties - gross	-	3,624,001	3,624,001	-	3,624,001	3,624,001
Investment in a subsidiary - gross	-	2,100,000	2,100,000	-	2,100,000	2,100,000
Deferred tax assets	-	8,900,582	8,900,582	-	10,549,898	10,549,898
Other assets	128,790,182	1,042,005	129,832,187	35,362,969	1,553,394	36,916,363
	128,790,182	21,774,514	150,564,696	35,362,969	25,656,820	61,019,789
Less: Allowance for credit and impairment losses	-	-	21,568,436	-	-	23,413,715
Unearned interest income	-	-	348,210,969	-	-	308,186,583
Client's equity	-	-	27,269,091	18,269,175	6,444,987	24,714,131
	-	-	397,048,496	18,269,175	6,444,987	356,314,429
	₱718,653,770	₱745,375,437	₱1,066,980,711	₱621,749,100	₱614,773,798	₱904,922,631
Financial Liabilities						
Notes payable	624,649,446	138,643,939	763,293,385	₱573,095,937	₱45,000,000	₱618,095,937
Accounts payable	38,945,222	-	38,945,222	22,564,527	-	22,564,527
Accrued interest	765,840	-	765,840	9,816,848	-	9,816,848
	803,004,447	-	803,004,447	605,477,312	45,000,000	650,477,312
Nonfinancial Liabilities						
Accrued expenses	9,813,231	-	9,813,231	8,335,546	-	8,335,546
Income tax payable	3,049,834	-	3,049,834	9,673,646	-	9,673,646
Pension liability	-	1,504,548	1,504,548	-	994,970	994,970
	12,863,065	1,504,548	14,367,613	18,009,192	994,970	19,004,162
	₱815,867,512	₱1,504,548	₱817,372,060	₱623,486,504	₱45,994,970	₱669,481,474

18. Equity

On June 28, 2012, the BOD and stockholders approved the declaration of 1.06% stock dividends in the amount of ₱2,074,121 to stockholders of record as of July 26, 2012 with distribution date not later than August 20, 2012. On the same date, the BOD also approved the declaration of cash dividends amounting to ₱2,074,158. Fractional shares related to this declaration were settled in cash amounting to ₱37.30.

On June 23, 2011, the BOD and stockholders approved the declaration of 0.96% stock dividends in the amount of ₱1,853,245 to stockholders of record as of July 21, 2011 with distribution date not later than August 15, 2011. On the same date, the BOD also approved the declaration of cash dividends amounting to ₱1,853,331. Fractional shares related to this declaration were settled in cash amounting to ₱43.00.

On June 24, 2010, the BOD and stockholders approved the declaration of 0.84% stock dividends in the amount of ₱1,612,240 to stockholders of record as of July 19, 2010 with distribution date not later than August 16, 2010. On the same date, the BOD also approved the declaration of cash dividends amounting to ₱1,612,316. Fractional shares related to this declaration were settled in cash amounting to ₱76.00.



On March 11, 2002, the BOD and stockholders approved the offer of up to 19,560,000 shares from the Company's unissued common stock through initial common public offering (IPO). The application for the IPO of the Company was approved by the Securities and Exchange Commission and the PSE, on December 9, 2002 and November 28, 2002, respectively. The Company was listed in the PSE under the Small and Medium Enterprise Board on January 6, 2003, with an offer price of ₱1.38 per share.

As of December 31, 2012, the Company has 197,402,011 common shares issued and outstanding which were owned by 101 shareholders.

The movements in the number of issued shares and capital stock follows:

	2012		2011		2010	
	Number of Shares	Amount	Number of Shares	Amount	Number Of Shares	Amount
Authorized - 300,000,000 shares						
At January 1	195,327,890	₱195,327,890	193,474,645	₱193,474,645	191,862,405	₱191,862,405
Stock dividends	2,074,121	2,074,121	1,853,245	1,853,245	1,612,240	1,612,240
At December 31	197,402,011	₱197,402,011	195,327,890	₱195,327,890	193,474,645	₱193,474,645

Capital Management

The primary objective of the Company's capital management policies and procedures are to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and to maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares. The Company considers its total equity as capital. No changes were made in the objectives, policies or processes for the years ended December 31, 2012 and 2011.

Under Republic Act (RA) No. 8556, *Financing Company Act*, the Company is required to maintain the following capital requirements:

- (a) minimum paid-up capital of ₱10.00 million; and
- (b) additional capital requirements for each branch of ₱1.00 million for branches established in Metro Manila, ₱0.50 million for branches established in other classes of cities and ₱0.25 million for branches established in municipalities.

For the years ended December 31, 2012 and 2011, the Company was in compliance with the minimum paid-up capital.

19. Retirement Plan

The Company has a funded, tax-qualified defined benefit pension plan covering all its officers and regular employees. The benefits are based on years of service and compensation on the last year of service.



The principal actuarial assumptions used in determining retirement liability for the Company's retirement plan as of January 1 are shown below:

	2012	2011
Discount rate	6.11%	7.05%
Expected rate of return on assets	8.00	8.00
Future salary increases	8.00	8.00

As of December 31, 2012, the discount rate used in determining the retirement obligation is 6.11%.

The funded status and amounts recognized in the statements of financial position for the net pension liability as of December 31, 2012 and 2011 follow:

	2012	2011
Present value of fund obligation	₱4,409,797	₱2,505,589
Fair value of plan assets	(4,527,769)	(4,003,551)
Surplus	(117,972)	(1,497,962)
Unrecognized actuarial gains	1,622,520	2,492,932
Net pension liability	₱1,504,548	₱994,970

Movement in the pension liability during the year follows:

	2012	2011
At January 1	₱994,970	₱1,774,261
Contributions	(300,000)	(1,800,000)
Retirement expense	809,578	1,020,709
At December 31	₱1,504,548	₱994,970

Movements in the present value of plan obligation follow:

	2012	2011
At January 1	₱2,505,589	₱2,560,001
Current service cost	1,032,720	1,051,006
Actuarial loss (gain)	694,844	(1,308,426)
Interest cost	176,644	203,008
At December 31	₱4,409,797	₱2,505,589
Experience adjustments	₱175,816	(₱620,526)

Movements in the fair value of plan assets recognized follow:

	2012	2011
At January 1	₱4,003,551	₱1,984,150
Contributions	300,000	1,800,000
Expected return on plan assets	332,284	201,891
Actuarial gain	(108,066)	17,510
At December 31	₱4,527,769	₱4,003,551
Experience adjustments	(₱108,066)	₱17,510

Actual return on plan assets amounted to ₱0.22 million in 2012 and 2011.



The retirement expense included in 'Salaries and employee benefits' in the statements of comprehensive income follows:

	2012	2011
Current service cost	₱1,032,720	₱1,051,006
Expected return on plan assets	(332,284)	(201,891)
Interest cost	176,644	203,008
Actuarial gains	(67,502)	(31,414)
	₱809,578	₱1,020,709

The Company does not expect to make contributions to its defined benefit retirement plan in 2013.

The categories of plan assets follow:

	2012	2011
Government securities	82.78%	52.25%
Time deposits	14.17	38.22
Loans and Receivables	3.00	9.12
Savings deposits	0.05	0.41
	100.00%	100.00%

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

Information on the Company's retirement plan is as follows:

	2012	2011	2010	2009	2008
Present value of the defined benefit obligation	₱4,409,797	₱2,505,589	₱2,560,001	₱1,853,196	₱1,096,849
Fair value of plan assets	4,527,769	4,003,551	1,984,150	1,562,501	990,791
Deficit (surplus)	(117,972)	(1,497,962)	575,851	290,695	106,058
Experience adjustments arising on plan liabilities	175,816	620,526	752,411	260,661	853,586
Experience adjustments arising on plan assets	108,066	17,510	105,274	89,365	8,905

20. Miscellaneous

Miscellaneous income consists of the following items:

	2012	2011	2010
Penalties	₱5,771,692	₱2,272,065	₱2,301,290
Recoveries	3,678,425	711,416	2,817,891
Miscellaneous	2,174,520	1,035,209	419,507
	₱11,624,637	₱4,018,690	₱5,538,688



Miscellaneous expenses consist of the following items:

	2012	2011	2010
Advertising and promotions	₱13,138,556	₱5,168,875	₱466,290
Stationeries and supplies	2,229,703	2,055,975	1,279,117
Communication	1,778,870	1,375,420	1,242,447
Insurance	927,879	290,402	534,918
Training and development	215,905	60,999	190,092
Meetings and conferences	158,821	69,305	220,649
Repairs and maintenance	83,218	463,940	620,278
Loss on write-off of software cost	-	101,606	-
Miscellaneous	224,150	951,616	430,857
	₱18,757,102	₱10,538,138	₱4,984,648

Miscellaneous expenses include donations, membership dues and other expenses.

21. Income Taxes

Provision for income tax consists of:

	2012	2011	2010
Current:			
RCIT	₱4,792,103	₱11,701,062	₱5,472,035
Deferred	1,649,316	(6,392,338)	(2,097,735)
	₱6,441,419	₱5,308,724	₱3,374,300

The components of deferred tax assets follow:

	2012	2011
Allowance for impairment and credit losses	₱8,048,131	₱6,709,003
Pension liability	645,382	298,491
Past service cost	207,069	238,813
Accrued expenses	-	3,303,591
	₱8,900,582	₱10,549,898

The reconciliation of the statutory income tax to the effective income tax follows:

	2012	2011	2010
Statutory income tax	₱6,822,932	₱5,740,934	₱4,718,866
Tax effects of:			
Interest subjected to final tax and dividend income	(1,638,811)	(1,098,033)	(1,349,148)
Nondeductible expense	1,346,428	610,757	-
Change in unrecognized deferred tax assets	(96,871)	-	-
Nondeductible interest expense	7,741	55,066	4,582
Effective income tax	₱6,441,419	₱5,308,724	₱3,374,300



Current tax regulations provide that the RCIT rate is 30.00%. Interest allowed as deductible expense is reduced by an amount equivalent to 33.00% of interest income subjected to final tax.

RA No. 9504, *An Act Amending National Internal Revenue Code*, provides that, the optional standard deduction (OSD) equivalent to 40.0% of gross income may be claimed as an alternative deduction in computing for the RCIT. The Company elected to claim itemized expense deductions instead of the OSD.

In addition, current tax regulations provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expenses that can be claimed as a deduction against taxable income. Under the regulations, EAR expenses allowed as deductible expense is limited to the actual EAR paid or incurred but not to exceed 1.00% of the gross revenue of a company engaged in the sale of services. EAR expenses amounted to ₱1.64 million, ₱1.63 million and ₱1.10 million in 2012, 2011 and 2010, respectively.

22. Related Party Transactions

In the ordinary course of business, the Company enters into transactions with its stockholders and affiliates. Under the Company's policy, these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. Related party transactions are settled in cash.

Affiliates are other companies linked indirectly to the Company through interlocking directorship or officership and those under common significant influence and common control.

The following transactions have been entered into with related parties:

Category	December 31, 2012		Nature, Terms and Condition
	Statement of Comprehensive Income	Statement of Financial Position	
<i>Parent Company</i>			
<i>Amalgamated Investment</i>			
<i>Bancorporation</i>			
Accounts receivables		₱520,307	Unsecured, 30-day non-interest bearing receivable. This refers to the Company's claim for reimbursement representing additional EWT payment equal to 18% of interest expense.
Other Receivables		101,007	non-interest bearing, unsecured, 30-day non-interest bearing receivable
AFS Investments		75,000,000	Shares of AIB held as AFS securities by the Company.
Notes payable		512,300,000	Unsecured, 1-year interest bearing placement at 6.75% annual interest rate
Accrued expenses		782,090	30-day unsecured, non-interest bearing broker's fee payable to Parent for arranging the approved bank loan applications of the Company equal to 1.75% of the loan amount and interest payable on notes payable.
Interest Expense	₱34,000,327		Interest payments for notes payable.
Professional Fees	2,187,500		Payments of broker's fee payable to Parent.
Dividend income	5,400,150		Cash dividend on 9M shares of AIB equal to Php 0.6 per share.



December 31, 2012			
Category	Statement of Comprehensive Income	Statement of Financial Position	Nature, Terms and Condition
Entities under Common Control			
<i>Motor Ace Philippines, Inc.</i>			
Other receivables		112,000	Non-interest bearing, unsecured
Accounts payable		27,253,037	30-day unsecured, non-interest bearing liability representing billings for motorcycle units financed by the Company.
<i>Pikeville Bancshares</i>			This refers to the payment of management fees.
Professional fees	1,107,000		
<i>Directors and other stockholders</i>			
Notes payable		30,083,701	Unsecured, 1-year interest bearing placement at 6.50% annual interest rate
Interest expense	1,855,360		Interest payments for notes payable.
Notes payable		51,118,726	Unsecured, 1-year interest bearing placement at 6.50% annual interest rate
Interest Expense	3,355,505		Interest payments for notes payable.
<i>Key Management Personnel</i>			
Notes Payable		12,400,000	Unsecured, 1-year interest bearing placement at 6.50% annual interest rate
Interest Expense	614,304		Interest payments for notes payable.
December 31, 2011			
Category	Statement of Comprehensive Income	Statement of Financial Position	Nature, Terms and Condition
<i>Parent Company</i>			
<i>Amalgamated Investment Bancorporation</i>			
Investments (AFS)		P75,000,000	Shares of AIB held as AFS securities by the Company.
Accounts receivables		9,892	Unsecured, 30-day non-interest bearing receivable
Other Receivables		101,007	Non-interest bearing, unsecured
Notes payable		485,800,000	Unsecured, 1-year interest bearing placement at 6.75% annual interest rate
Accrued expenses		6,878,269	30-day unsecured, non-interest bearing broker's fee payable to Parent for arranging the approved bank loan applications of the Company equal to 1.75% of the loan amount and interest payable on notes payable.
Interest Expense	P34,756,449		Interest payments for notes payable.
Dividend income	3,600,000		Cash dividend on 9.0 million shares of the Parent Company equal to P0.6 per share.
<i>Entities under common control</i>			
<i>Motor Ace Philippines, Inc.</i>			
Other receivables		112,000	Non-interest bearing, unsecured
Accounts payable		14,501,287	30-day unsecured, non-interest bearing liability representing billings for motorcycle units financed by the Company
<i>Pikeville Bancshares</i>			
Professional fees	938,000		Payments of management fees
<i>Directors</i>			
Notes payable		29,934,355	Secured, 1-year interest bearing placement at 6.50% annual interest rate
Interest expense	2,456,960		Interest payments for notes payable.
<i>Other Stockholders</i>			
Notes payable		6,200,000	Secured, 1-year interest bearing placement at 6.50% annual interest rate
Interest Expense	1,742,542		Interest payments for notes payable.
<i>Key Management Personnel</i>			
Notes Payable		2,500,000	Secured, 1-year interest bearing placement at 6.50% annual interest rate
Interest Expense		150,853	Interest payments for notes payable.

Borrowings availed from related parties amounted to P610.90 million, P428.00 million and P231.37 million in 2012, 2011 and 2010, respectively, and settlement from borrowings amounted



to P103.61 million, P206.38 million and P66.12 million in 2012, 2011 and 2010, respectively. Interest rates from borrowings range from 5.44% to 7.75% in 2012, 5.44% to 7.75% in 2011 and 7.5% to 8.00% in 2010. Borrowings from related parties are unsecured and to be settled in cash.

As of December 31, 2012 and 2011, notes payable and accrued interest payable arising from borrowings through other stockholders amounted to P512.30 million and P485.80 million, respectively, and P0.075 million and P6.88 million, respectively. Interest expense from these borrowings amounted to P34.0 million, P34.76 million and P27.27 million in 2012, 2011 and 2010, respectively.

The remuneration of directors and other members of key management personnel consist of short-term benefits amounting to P4.47 million, P5.50 million and P4.60 million in 2012, 2011 and 2010, respectively, included in the 'Salaries and employee benefits' and 'Management and professional fees' account in the statement of comprehensive income.

23. Earnings Per Share

EPS amounts were calculated as follows:

	2012	2011	2010
a. Net income	P16,219,137	P13,827,722	P12,355,253
b. Weighted average number of outstanding common shares	197,402,011	197,402,011	197,402,011
c. Basic/diluted earnings per share (a/b)	P0.08	P0.07	P0.06

The weighted average number of outstanding common shares in 2011 and 2010 was recomputed after giving retroactive effect to stock dividends declared on June 28, 2012 and June 23, 2011, however, the impact to the EPS was immaterial (see Note 18).

24. Contingent Liability

In 2003, the Company received a preliminary assessment notice from the BIR for various tax liabilities covering the taxable year 1999 amounting to P5.33 million. In 2004, the Company entered into a compromise settlement with the BIR for the settlement of this assessment at P0.72 million. Of this amount, P0.39 million were paid representing basic deficiency tax and compromise penalty. The balance represents interest. On December 19, 2006, the Company filed an abatement on its outstanding tax liability amounting to P0.33 million and received the termination letter dated November 10, 2011 indicating the tax liability is closed and terminated.

25. Lease Commitment

The Company leases its office space for a period of one (1) year under a lease contract expiring on May 31, 2012. The lease contract was not renewed and no new lease agreement was entered by the Company upon the expiration of the lease term. The Company treats the lease agreement as continuing and effective to date. Total rent expense incurred in 2012, 2011 and 2010 amounted to P 0.87 million, P0.65 million and P0.62 million, respectively. The lease contract is renewable annually upon agreement of the lessor and the Company.



As of December 31, 2012 and 2011, minimum lease payments due within one year from reporting date amounted to ₱0.61 million and ₱0.58 million, respectively.

26. Supplementary Information Required Under Revenue Regulations (RR) No. 19-2011 and 15-2010

Supplementary Information Under RR No. 19-2011

In addition to the required supplementary information under RR No. 15-2010, on December 9, 2011, the BIR issued RR No. 19-2011 which prescribes the new annual income tax forms that will be used for filing effective taxable year 2011. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements. For the taxable year December 31, 2011, the Company reported the following revenues and expenses for income tax purposes

Revenues

The composition of gross income reported in 2012 follows:

Interest income	₱176,494,096
Non-operating and taxable other income	12,777,301
	<hr/>
	₱189,271,397

Cost of services

The Company reported interest costs and salaries and employee benefits amounting to ₱52.76 million and ₱28.74 million as cost of services, respectively, in 2012.

Expenses

The Company claimed the following expenses as itemized deductions in filing its annual income tax return for 2012:

Advertising and promotions	₱13,338,968
Taxes and licenses	13,505,607
Loss from sale and writedown of motorcycle inventories	11,089,003
Salaries and employee benefits	10,959,794
Management and professional fees	9,669,102
Travel and transportation	7,806,972
Bad debts	5,096,869
Commissions	4,882,205
Depreciation and amortization	3,503,879
Communication, light and water	3,033,741
Rent expense	2,878,087
Office supplies	2,179,550
Entertainment, amusement and recreation	1,646,350
Amortization of software costs	626,651
Trainings and seminars	362,727
Repairs and maintenance	80,877
Miscellaneous	1,131,939
	<hr/>
	₱91,792,321



Supplementary Information Under RR No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002 which provides that starting 2010 the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

Other Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the 'Taxes and licenses' account in the Company's statement of comprehensive income. Details consist of the following:

Gross receipts tax	₱9,486,544
Documentary stamp tax on loan instruments	3,600,115
License and permit fees	809,860
	<hr/>
	₱13,896,519

As of December 31, 2012, accrued GRT and DST amounted to ₱0.92 million and ₱0.07 million.

Withholding Taxes

Details of withholding taxes for the year follow:

	Total Amount Remitted	Balance as of December 31, 2012
Expanded withholding taxes	₱2,395,238	₱1,127,462
Withholding taxes on compensation and benefits	2,904,731	279,443
Final withholding taxes	47,902	3,918
	<hr/>	
	₱5,347,871	₱ 1,410,823



6

Supplementary
Schedules



SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines
Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001.
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A)
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Makati Finance Corporation
2nd Floor, Makati Finance Centre
7823 Makati Avenue, Makati City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Makati Finance Corporation (the Company) as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012, included in this Form 17-A, and have issued our report thereon dated April 8, 2013. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. Exhibits II-IV listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes 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 respect, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez

Janeth T. Nuñez

Partner

CPA Certificate No. 111092

SEC Accreditation No. A-560-A (Group A),

Valid until May 31 2013

Tax Identification No. 900-322-673

BIR Accreditation No. 08-001998-69-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 3670006, January 2, 2013, Makati City

April 8, 2013



EXHIBIT III
MAKATI FINANCE CORPORATION
SCHEDULE OF ALL THE EFFECTIVE STANDARDS
UNDER PFRS IN COMPLIANCE WITH SRC RULE 68, AS AMENDED
DECEMBER 31, 2012

List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs and Philippine Accounting Standards (PASs)] effective as of December 31, 2011:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		x		
PFRSs Practice Statement Management Commentary				x
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	x		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			x
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			x
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			x
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			x
	Amendments to PFRS 1: Government Loans			x
PFRS 2	Share-based Payment			x
	Amendments to PFRS 2: Vesting Conditions and Cancellations			x
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			x
PFRS 3 (Revised)	Business Combinations			x
PFRS 4	Insurance Contracts			x
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			x
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			x
PFRS 6	Exploration for and Evaluation of Mineral Resources			x
PFRS 7	Financial Instruments: Disclosures	x		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			x
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			x



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	x		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			x
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities			x
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			x
PFRS 8	Operating Segments	x		
PFRS 9	Financial Instruments		x*	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		x*	
PFRS 10	Consolidated Financial Statements			x
PFRS 11*	Joint Arrangements			x
PFRS 12*	Disclosure of Interests in Other Entities			x
PFRS 13*	Fair Value Measurement		x*	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	x		
	Amendment to PAS 1: Capital Disclosures	x		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			x
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income		x	
PAS 2	Inventories	x		
PAS 7	Statement of Cash Flows	x		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	x		
PAS 10	Events after the Reporting Period	x		
PAS 11	Construction Contracts			x
PAS 12	Income Taxes	x		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			x
PAS 16	Property, Plant and Equipment	x		
PAS 17	Leases	x		
PAS 18	Revenue	x		
PAS 19	Employee Benefits	x		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			x

*Not early adopted



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PAS 19 (Amended)	Employee Benefits	x		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			x
PAS 21	The Effects of Changes in Foreign Exchange Rates	x		
	Amendment: Net Investment in a Foreign Operation			x
PAS 23 (Revised)	Borrowing Costs	x		
PAS 24 (Revised)	Related Party Disclosures	x		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			x
PAS 27	Consolidated and Separate Financial Statements			x
PAS 27 (Amended)	Separate Financial Statements		x*	
PAS 28	Investments in Associates	x		
PAS 28 (Amended)	Investments in Associates and Joint Ventures		x*	
PAS 29	Financial Reporting in Hyperinflationary Economies			x
PAS 31	Interests in Joint Ventures			x
PAS 32	Financial Instruments: Disclosure and Presentation	x		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			x
	Amendment to PAS 32: Classification of Rights Issues			x
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities		x*	
PAS 33	Earnings per Share			x
PAS 34	Interim Financial Reporting			x
PAS 36	Impairment of Assets	x		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	x		
PAS 38	Intangible Assets	x		

*Not early adopted



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PAS 39	Financial Instruments: Recognition and Measurement	x		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	x		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			x
	Amendments to PAS 39: The Fair Value Option			x
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			x
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			x
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition			x
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			x
	Amendment to PAS 39: Eligible Hedged Items			x
PAS 40	Investment Property	x		
PAS 41	Agriculture			x
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			x
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			x
IFRIC 4	<i>Determining Whether an Arrangement Contains a Lease</i>	x		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			x
IFRIC 6	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>			x
IFRIC 7	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			x
IFRIC 8	<i>Scope of PFRS 2</i>			x
IFRIC 9	Reassessment of Embedded Derivatives			x
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			x
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>			x
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			x
IFRIC 12	Service Concession Arrangements			x
IFRIC 13	Customer Loyalty Programmes			x
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum			x



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
	Funding Requirements and their Interaction			
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			x
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			x
IFRIC 17	Distributions of Non-cash Assets to Owners			x
IFRIC 18	Transfers of Assets from Customers			x
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			x
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			x
SIC-7	Introduction of the Euro			x
SIC-10	Government Assistance - No Specific Relation to Operating Activities			x
SIC-12	Consolidation - Special Purpose Entities			x
	Amendment to SIC - 12: Scope of SIC 12			x
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			x
SIC-15	Operating Leases - Incentives			x
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			x
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			x
SIC-29	Service Concession Arrangements: Disclosures.			x
SIC-31	Revenue - Barter Transactions Involving Advertising Services			x
SIC-32	Intangible Assets - Web Site Costs			x



7

ANNEX B

MAKATI FINANCE CORPORATION

SEC FORM 17-Q

FOR THE QUARTER ENDING MARCH 31, 2013

WITH COMPARATIVE FIGURES FOR 2012

8

SEC 17Q

COVER SHEET

2 8 7 8 8

S.E.C. Registration Number

M A K A T I F I N A N C E

C O R P O R A T I O N

(Company's Full Name)

2ND F l o o r , M a k a t i

F i n a n c e C e n t e r 7 8 2 3

M a k a t i A v e . , M a k a t i C i t y

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

CYNTHIA M. GACAYAN

Contact Person

897-0749

Company Telephone Number

1 2

Month

3 1

Day

Fiscal Year

2013

SEC Form 17-Q

FORMTYPE

0 7

Month

Day

Annual Meeting

Secondary License Type, If Applicable

C R M D

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. Use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **MARCH 31, 2013**
2. Commission identification number **28788**
3. BIR Tax Identification No. **000-473-966**

MAKATI FINANCE CORPORATION

4. Exact name of issuer as specified in its charter

MAKATI CITY, PHILIPPINES

5. Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (SEC Use Only)

7823 MAKATI AVENUE, POBLACION, MAKATI CITY

7. Address of issuer's principal office

1210

Postal Code

(0632) 896-02-21

8. Issuer's telephone number, including area code

N/A

9. Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class

Number of shares of common stock
outstanding and amount of debt outstanding

COMMON STOCK

197,402,011*

**as reported by the stock transfer agent as of March 31, 2012*

11. Are any or all of the securities listed on a Stock Exchange?

Yes No

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

PHILIPPINE STOCK EXCHANGE

Common Stock

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the

Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period 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 []

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements. (See Annex A)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Key Variable and Other Qualitative and Quantitative Indicators

Financial Ratios (For the Quarter Ending March 31)

	2013	2012
GROSS MARGIN	72.40%	71.89%
EBIT MARGIN	48.01%	44.82%
RETURN ON ASSETS	2.11%	1.96%
DEBT PERFORMANCE	324.71%	282.08%
RETURN ON EQUITY	9.07%	7.49%

Gross margin increased by 0.5%, which is computed by deducting the cost of borrowing from the gross interest revenues. This is due to higher interest expense of the Company in 2013 as against of year 2012. The EBIT margin, which measures profitability performance as annualized net income before interest and taxes over the total interest income, increased to 48.01% in March 2013 as against 44.82% in March 2012 as a result of the company's thrust to produce higher quality loan portfolio with lower interest yield. Return on assets was at 2.11% in 2013 as against 1.96% in 2012. This ratio of annualized net income over the total assets is an indicator of management effectiveness. The return on equity or the ratio of annualized net income over the stockholder's equity was at 9.07% in March 2013 as against 7.49% in March 2012. The ROE measures the return on funds provided by the stockholders. The income generated steadily grows as the Company grows quality loan portfolio.

Liquidity

As for the Company's working capital requirements, the Company monitors its liquidity position on a daily basis and does not anticipate any cash flow or liquidity problem within the next twelve months. Makati Finance has available credit lines with its parent company, Amalgamated Investment Bancorporation at interest within accepted regulatory requirements to be considered as arms-length transaction and other bank lines. The Company also get other bank lines for possible cash inflow. The Company's acquired assets are being offered at good prices, which is also a good source of funds. In the meantime, fund requirements are being met by loans, collections, acceptance of private placements under the 19 lender rule and intensive efforts in disposal of real estate acquired assets.

Events that will Trigger Material Direct or Contingent Financial Obligation

There are no expected events that will trigger any material direct or contingent liabilities that the company may incur.

Material Off-Balance Sheet Transactions, Arrangements or Obligations

There are no material Off-Balance Sheet transactions, arrangements or obligations.

Material Commitments for Capital Expenditure

The Company had started to implement its geographical expansion plans for the Motorcycle Financing line. As in any expansion, there is the need to invest in buying new office equipment, furnitures and service units (motorcycles) for the CSRs. The Company continued to spent its resources on computerization of financial system and spent on IT financial infrastructure.

Results of Operations/Material Changes in Financial Statement Accounts

The company posted a net income of ₱ 4.87 million for the first quarter of 2013. Net interest income for the quarter ending March amounted to ₱ 34.5 million. The thrust in loan production is to produce more low risk, low interest yield loans for higher quality portfolio.

On operating expenses, increased salaries and benefits, supplies, communications, representations and advertising contributed to the increase in the operating expenses as of March 2013 due to Motorcycle expansion. On matters of provisioning, the Company continued to be prudent such that even day one past due accounts are provisioned for but only within the limits of the newly implemented Accounting Standards on valuation of assets.

Total assets amounted to ₱1,080.7 million, of which current assets were at ₱986.3 million. The increase is primarily due to our loan portfolio of our products being offered. Total liabilities amounting to ₱826.3 million as of March 31, 2013 was an increase from the ₱817.3 million from December 2012 due to additional funding requirements relative to Motorcycle expansion..

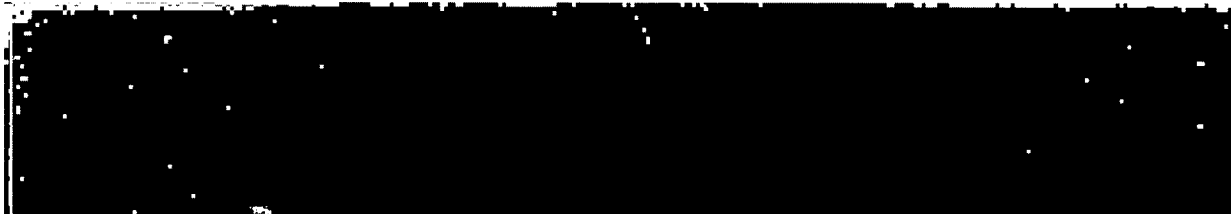
Material Events or Uncertainties

The Company had no material foreign exchange transactions, hence the peso depreciation had no direct effect on the company's financials. Management is not aware at this time of any forthcoming trends, uncertainties, demands, or events that would materially affect the Company's liquidity nor would have a material impact on its net income from continuing operations. There are also no material off-balance sheet transactions, arrangements nor obligations with unconsolidated entities. All the company's majority-owned subsidiaries do not have commercial operations as of March 31, 2013.

PART II--OTHER INFORMATION

NOT APPLICABLE.

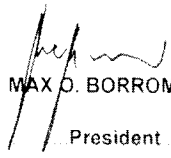
There are no material disclosures that have not been reported under SEC Form 17-C covered by this period.




SIGNATURES

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

ISSUER
Signature and Title
Date ... May 08, 2013


MAX O. BORROMEO
President

Principal Financial/Accounting Officer/Controller
Signature and Title
Date ... May 08, 2013


CYNTHIA M. GACAYAN
CHIEF OPERATING OFFICER

ANNEX A

FINANCIAL STATEMENTS
For the Period Ending March 31, 2013
With Comparative Figures for 2012

MAKATI FINANCE CORPORATION
INTERIM BALANCE SHEETS

	MARCH 31, 2013	DEC. 31, 2012 (Audited)
Current Assets		
Cash on Hand/in Banks (Note 7)	2,871,584	28,259,851
Short Term Investments (Note 9)	75,090,000	75,090,000
Receivables (Note 3)	882,040,316	816,085,697
Total Current Assets	960,001,900	919,435,548
Investment Properties (Note 10)	2,604,468	2,604,468
Property & Equipment - net (Note 12)	5,455,913	6,107,926
Deferred Tax Asset (Note 21)	8,900,582	8,900,582
Other Assets - net (Note 13)	103,832,202	129,832,187
Total Assets	1,080,795,065	1,066,980,711

	MARCH 31, 2013	DEC. 31, 2012 (Audited)
Current Liabilities		
Notes Payable (Note 15 and 22)	749,756,481	763,293,385
Accrued Expenses (Note 16)	21,217,640	10,579,071
Other Payables	55,341,231	43,499,604
Total	826,315,352	817,372,060
Stockholder's Equity		
Capital Stock - P1 par value		
Authorized - 300,000,000 shares		
Issued and Outstanding	197,402,011	195,402,011
Additional Paid in Capital	5,803,922	5,803,922
Deposits for future stock subscription		
Retained Earnings	46,562,720	32,261,029
Net unrealized loss on investments	-160,000	-160,000
YTD Net Income	4,871,060	16,301,689
Total	25,479,713	249,608,651
Total Liabilities and Capital	1,080,795,065	1,066,980,711

MAKATI FINANCE CORPORATION
INTERIM STATEMENTS OF INCOME AND RETAINED EARNINGS
FOR THE QUARTER ENDING MARCH 31, 2013, 2012 and DEC. 31, 2012

	MAR. 2013	DEC. 2012 (AUDITED)	MAR. 2012
Interest Income – Loans	47,605,485	176,556,651	39,841,794
Interest Income - Short-term Investments			
Cost of Borrowings	13,138,107	44,478,344	11,200,123
Net Interest Income	34,467,378	132,078,307	28,641,671
Less: Provisions	515,927	3,239,114	898,059
Net Interest Income After Provision	33,951,451	128,839,193	27,743,612
Other Income	2,169,476	18,177,451	2,747,983
Operating Expenses			
Professional Fees	1,625,800	10,386,468	1,227,602
Salaries and Wages	10,375,751	40,422,217	8,547,578
Transportation & Representation	2,522,855	9,425,668	1,546,513
Depreciation & Amortization	1,134,423	4,250,085	1,028,996
Commissions	1,042,583	5,111,842	508,720
Loss from sale and writedown of MC inventories	3,149,439	17,879,007	4,046,363
Other Employee Benefits		-	-
Communications	274,942	1,778,869	306,364
Occupancy costs	1,105,245	4,144,628	1,058,927
Taxes	2,758,024	13,896,518	2,397,860
Other Operating Expenses	6,402,093	16,978,234	5,564,727
Total	29,160,555	124,273,536	26,233,650
Net Income Before Income Tax	6,960,372	22,743,108	4,257,945
Provision for Tax/Deferred Tax Adjustment	2,089,312	6,441,419	1,277,383
Net Income After Tax	4,871,060	16,301,689	2,980,562
Other Comprehensive Income		-60,000	
Total Comprehensive Income	4,871,060	16,241,689	2,980,562
RETAINED EARNINGS, BEGINNING	46,562,720	30,261,029	34,409,345
RETAINED EARNINGS, QUARTER/YEAR-END	51,433,780	46,562,718	37,389,907
BASIC EARNINGS PER SHARE*	0.02	0.08	0.02

*As of March 31, 2013, and December 31, 2012, there were no shares of stock that have a dilutive effect on the earnings per share of the Company.

MAKATI FINANCE CORPORATION
INTERIM CASH FLOW STATEMENTS (in '000)
FOR THE QUARTERS ENDING MARCH 31, 2013 and 2012

	2013 MARCH 31	2012 MARCH 31
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income Before Tax and Extraordinary Items	6,960,371	4,259,266
Adjustments for:		
Provisions for credit losses	515,927	898,059
Depreciation and amortization	968,806	876,888
Amortization of software cost	165,617	152,108
Gain on sale of acquired assets		
Changes in operating assets and liabilities		
Decrease (increase) in the amounts of:		
Loans and other receivables	-79,838,656	4,983,207
Other assets	39,302,481	-13,981,621
Increase(decrease) in the amounts of:		
Pension Liability	300,000	
Accrued expenses	16,237,492	9,554,072
Other payables	3,853,392	6,543,735
Net cash provided by (used in) operations	-11,534,569	13,285,714
Interest paid		
Income taxes paid		
Net cash provided by (used in) operating activities	-11,534,569	13,285,714
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment/acquired assets	-316,793	
Proceeds from sale of property and equipment		
Net cash provided by (used in) investing activities	-316,793	
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of notes payable	13,831,565	4,581,261
Payment of private placement	-27,368,470	-13,750,424
Net cash provided by (used in) financing activities	-13,536,905	-9,169,162
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	-25,388,267	4,116,551
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	28,259,851	31,701,375
CASH AND CASH EQUIVALENTS AT END OF QUARTER/YEAR	2,871,584	35,817,925

MAKATI FINANCE CORPORATION
STATEMENTS OF CHANGES IN EQUITY
FOR THE QUARTERS ENDING MARCH 31, 2013 and 2012 and DECEMBER 31, 2012

	March 31, 2013	Dec. 31, 2012	March 31, 2012
Capital Stock			
Authorized 300,000,000 par value P1			
Issued and outstanding	197,402,011	195,327,890	195,327,890
Stock dividends		2,074,121	
Issuance during the year			
	197,402,011	197,402,011	195,327,890
Additional paid-in capital			
Balance, beginning of year	5,803,922	5,803,922	5,803,922
Issuance during the year			
	5,803,922	5,803,922	5,803,922
Retained earnings (deficit)			
Balance, beginning of year	46,562,718	34,409,345	34,409,345
Adjustment to RE			
Stock dividends		(2,074,121)	
Cash dividends		(2,074,195)	
Total Comprehensive Income/(loss) for the year	4,871,060	16,241,689	2,981,882
Balance, end of quarter/year	51,433,778	46,562,718	37,391,227
Net unrealized loss on investments	-160,000	-100,000	-100,000
Total Equity	254,479,711	249,608,651	238,423,039

MAKATI FINANCE CORPORATION NOTES TO FINANCIAL STATEMENTS

1. General Information

Makati Finance Corporation (the Company) was incorporated in the Philippines on February 17, 1966. The Company operates as a domestic corporation engaged in the sale of various financial products and services, catering generally to the consumer market.

The Company's principal place of business is at 2nd Floor, Makati Finance Centre, 7823 Makati Avenue, Makati City. The Company was listed in the Philippine Stock Exchange (PSE) on January 6, 2003 and is majority-owned by Amalgamated Investment Bancorporation (AIB).

The accompanying financial statements of the Company were approved by the Audit Committee, as authorized by the Board of Directors (BOD), on April 8, 2013.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) investments that have been measured at fair value, and these financial statements are presented in Philippine Peso, the Company's functional currency.

Statement of Compliance

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

Presentation of Financial Statements

The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery (asset) or settlement (liability) within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 17.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expense 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 Company.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended Philippine Accounting Standards (PAS), PFRS and Philippine Interpretation of International Financial Reporting Interpretation Committee (IFRIC) which were adopted as of January 1, 2012. Except as otherwise indicated, these changes in accounting policies did not have any significant impact on the Company financial statements.

PFRS 7. Financial Instruments: Disclosures - Transfers of Financial Assets (Amendments)

The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments had no impact to the Company.

PAS 12. Income Taxes - Deferred Tax: Recovery of Underlying Assets (Amendments)

This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendments had no impact to the Company.

Significant Accounting Policies

Cash on Hand and In Banks

Cash includes cash on hand and in banks.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

The Company recognizes financial assets or financial liabilities in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition of financial instruments

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

As of December 31, 2012 and 2011, the Company has no outstanding financial assets and liabilities at FVPL and HTM investments.

Determination of fair value

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

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation methodologies. Valuation methodologies include net present value techniques, comparison to similar instruments for which market observable prices exist and other relevant valuation models.

'Day 1' difference

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS investments or financial assets at FVPL. This accounting policy relates to statement of financial position captions, 'Cash on hand and in banks' and 'Loans and other receivables'.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included in the statement of comprehensive income. The losses arising from impairment of such loans and receivables are recognized in the statement of comprehensive income.

Loans and receivables are classified as nonperforming or considered impaired when the principal is past due, or when, in the opinion of management, collection of interest and principal is doubtful. These receivables will not be reclassified as performing until interest and principal payments are brought current or the receivables are restructured and future payments appear assured.

Client's equity represents the amount withheld by the Company as protection against customer returns and allowances and other special adjustments, which is equivalent to 30.00% of the receivables factored. This is diminished proportionately as the receivables from factoring are collected.

Unearned interest income is shown as a deduction from 'Loans and receivables'.

AFS investments

AFS investments are those nonderivative financial assets that are designated as such or are not classified as financial assets at FVPL, HTM investments or loans and receivables. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS investments pertain to golf club shares and an investment in an affiliated company.

After initial measurement, AFS investments are subsequently measured at fair value. The unrealized gains or losses arising from the fair valuation of AFS investments are excluded from reported income and are reported as 'Net unrealized loss on AFS investments' in Other Comprehensive Income.

When the investment is disposed of, the cumulative gain or loss previously recognized in OCI is recognized in the statement of comprehensive income. Dividends earned are recognized in the statement of comprehensive income when the Company's right to receive payment is established. Impairment losses arising from impairment of such investments are recognized in the statement of comprehensive income.

Other financial liabilities

Other financial liabilities are financial liabilities not classified or designated at FVPL and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than the exchange of a fixed amount of cash. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

This accounting policy applies primarily to the Company's notes payable, accounts payable and accrued expenses.

Derecognition of Financial Assets and Liabilities

Financial asset

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

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

Where the Company 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 Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liability

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

Impairment of Financial Assets

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

Loans 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 asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in the statement of comprehensive income. Interest income continues to be accrued based on the original EIR of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance for impairment losses. If a future write-off is later recovered, any amounts formerly charged are credited to the "Provision for credit losses" account in the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

AFS investments

In the case of equity securities classified as AFS investments, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. When there is evidence of impairment loss, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit or loss - is removed from equity and recognized in OCI. Impairment losses on equity investments are not reversed through the profit or loss. Increases in fair value after impairment are recognized directly in OCI.

Investments in Subsidiaries

Subsidiaries pertain to all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The Company's investments in subsidiaries are carried at cost less allowance for impairment losses.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the item of property and equipment to its working condition and location for its intended use. Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets as follows:

Furniture, fixtures and equipment	3-5 years
Leasehold rights and improvements	10 years or over the period of the lease, whichever is shorter
Transportation equipment	3-5 years

The useful lives and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized in the statement of comprehensive income (see accounting policy on Impairment of Nonfinancial Assets).

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognized.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and impairment in value.

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

Foreclosed properties are classified under investment properties on foreclosure date.

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

Investment properties are derecognized when it has either been disposed of or when it is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the derecognition of an investment property are recognized in the statement of comprehensive income in the year of derecognition.

Motorcycle Inventories

The Company forecloses the chattel mortgages attached to the loans pertaining to the Motorcycle (MC) Financing upon default at cost. The Company subsequently recognizes motorcycle inventories at their net realizable value based on its assessment of the recoverability of the inventories. In determining the recoverability of the inventories, management considers whether those inventories are damaged or if the selling prices have declined. Likewise, management also considers whether estimated costs to be incurred to make the sale have increased. The excess of the cost over the net realizable value is recognized as a loss from writedown of motorcycle inventories in the statement of comprehensive income.

Software Costs

Software costs, included under "Other assets" account in the statement of financial position, include costs incurred relative to the development of the Company's software. Software costs are amortized over three to five years on a straight-line basis from the date they are available for use.

Impairment of Nonfinancial Assets

At each reporting date, the Company assesses whether there is any indication that its property and equipment, investment properties, investment in subsidiaries and software cost may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal

estimate of recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's (CGU's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Equity

Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at premium, the difference between the proceeds and the par value is credited to a 'Paid-in premium account'.

Retained earnings include all accumulated profits or losses of the Company less any dividends declared.

Dividends on Common Shares

Cash on common shares are recognized as a liability and deducted from equity when approved by the BOD and shareholders of the Company. Stock dividends are deducted from retained earnings when approved by the BOD and shareholders. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting period.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The Company has concluded that it is acting as principal on all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Interest income

Unearned interest income is recognized as income over the terms of the receivable using the effective interest method. Interest income on nondiscounted receivables is accrued as earned likewise using EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

Service charges

Service charges are recognized only upon collection or accrued when there is reasonable certainty as to its collectability.

Dividend income

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

Miscellaneous income

Miscellaneous income represents other gains or revenues recognized as earned or collected and upon rendition of the service.

Expenses

Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the Company. Expenses are recognized when incurred.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or,
- d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c), or (d) above; and at the date of renewal or extension period for scenario (b).

Company as lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Borrowing Costs

Borrowing costs are recognized as expense in the year in which these costs are incurred. Borrowing costs consist of interest and other costs that the Company incurs in connection with borrowing of funds.

Retirement Cost

The Company has a funded, noncontributory defined benefit retirement plan, administered by trustees, covering its permanent employees.

The retirement cost of the Company is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period. The liability recognized in the statement of financial position in respect of defined benefit retirement plans is the present value of the defined benefit obligation less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceed 10.00% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. The excess actuarial gains or losses are recognized over the average remaining working life of the employees participating in the plan. Past service costs are recognized immediately in the statement of comprehensive income, unless the changes to the retirement plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

Income Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted 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, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), if any, and unused net operating loss carryover (NOLCO), if any, to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income 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 asset to be recovered.

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

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingent Liabilities and Contingent Assets

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

Earnings Per Share

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

Events after Reporting Date

Post year-end events that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the Company's financial statements. Post year-end events that are not adjusting events, if any, are disclosed in the financial statements when material.

Segment Reporting

The Company's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6.

New Standards and Interpretations

Future Changes in Accounting Policies

Standards and Interpretations issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS, PAS, and Philippine Interpretations to have significant impact on its financial statements. The Company will assess the impact of these amendments on its financial position or performance when they become effective.

Effective 2013

PFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments)

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c) The net amounts presented in the statement of financial position;
- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
 - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
 - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied and are effectively for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

PFRS 10, Consolidated Financial Statements

PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that

applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 11, Joint Arrangements

PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly-Controlled Entities: Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 12, Disclosure of Interests in Other Entities

PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31, *Interests in Joint Ventures*, and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

The adoption of PFRS 12 will affect disclosures only and have no impact on the Company's financial position or performance.

PFRS 13, Fair Value Measurement

PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of adopting this standard.

PAS 1, Financial Statement Presentation - Presentation of Items of Other Comprehensive Income or OCI (Amendments)

The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.

PAS 19, Employee Benefits (Revised)

Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Company has to apply the amendments retroactively to the earliest period presented.

The Company reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Company obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The effects are detailed below:

	As at December 31, 2012	As at December 31, 2011	As at January 1, 2011
Increase (decrease) in:			
<u>Statement of financial position</u>			
Pension asset (liability)	₱1,615,726	₱2,365,659	(₱1,198,410)
Deferred tax asset	(484,718)	(709,698)	(359,523)
Other comprehensive income	376,489	820,288	-
Retained earnings	754,519	835,673	838,887
		<u>For the year ended December 31, 2012</u>	
<u>Statement of comprehensive income</u>			
Salaries, wages and employee benefits (cost of services and operating expenses)		₱115,934	
Provision for income tax		224,980	
Net income		(340,914)	
Other comprehensive income		(443,799)	
Earnings per share		(0.002)	

PAS 27 (as revised in 2011), *Separate Financial Statements*

As a consequence of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011),

As a consequence of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*

This Interpretation applies to waste removal (stripping) costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This Interpretation becomes effective for annual periods beginning on or after January 1, 2013.

Effective 2014

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*

These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

Effective 2015

PFRS 9, *Financial Instruments: Classification and Measurement*

PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are

solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate

This Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this Interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the real estate industry is completed.

Annual Improvements to PFRSs (2009-2011 cycle)

The *Annual Improvements to PFRSs (2009-2011 cycle)* contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

PFRS 1, First-time Adoption of PFRS – Borrowing Costs

The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Company as it is not a first-time adopter of PFRS.

PAS 1, Presentation of Financial Statements - Clarification of the requirements for comparative information

The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

PAS 16, Property, Plant and Equipment - Classification of servicing equipment

The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Company's financial position or performance.

PAS 32. Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments

The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with

PAS 12. Income Taxes. The Company expects that this amendment will not have any impact on its financial position or performance.

PAS 34. Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities

The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

PAS 32. Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amendments)

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Company's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

3. Significant Accounting Judgments and Estimates

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

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

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

Judgments

(a) Classification of financial instruments

The Company classifies financial instruments, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of the instruments. The substance of a financial instrument, rather than its legal form, governs its classification in the Company's statement of financial position. The Company determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

(b) Fair values of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation.

(c) Financial assets not quoted in an active market

The Company classifies financial assets by evaluating, among others, whether the asset is quoted or not in

an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's-length basis.

(d) Operating leases

Company as a lessee

The Company has entered into a contract of lease for the office space it occupies. The Company has determined that all significant risks and rewards of ownership on these properties are retained by the lessor (see Note 25).

(e) Contingencies

The Company may incur contingent liabilities arising from preliminary assessment notice from the Bureau of Internal Revenue (BIR). Management does not anticipate losses from these contingencies that would adversely affect the financial position (see Note 24).

Estimates

(a) Impairment of AFS equity investment

The Company treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20.0% or more and 'prolonged' greater than 12 months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

The carrying values of the quoted AFS investment of the Company, which refers to one Orchard Club share, amounted to ₱0.09 and ₱0.15 million as of December 31, 2012 and 2011, respectively, net of unrealized losses amounting to ₱0.06 million and ₱0.10 million for 2012 and 2011, respectively (see Note 9).

(b) Valuation of unquoted equity investments

The Company's investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost. As of December 31, 2012 and 2011, unquoted equity securities amounted to ₱75.00 million. The Company has no intention of disposing unquoted equity securities held for which active market is not available (see Note 9).

(c) Impairment of property and equipment, investment properties, investment in subsidiaries and software cost

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

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

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if not possible, for the cash-generating unit to which the asset belongs.

The carrying values of property and equipment, investment properties, investment in subsidiaries, and software cost amounted to ₱6.11 million, ₱2.60 million, ₱0.10 million, and ₱1.04 million, respectively, as of December 31, 2012 and ₱7.83 million, ₱2.60 million, ₱0.10 million, and ₱1.55 million, respectively, as of December 31, 2011 (see Notes 12, 10, 11 and 13). As of December 31, 2012 and 2011, the allowance for impairment losses on investment properties and

investments in subsidiaries amounted to ₱1.02 million and ₱2.00 million, respectively (see Notes 10 and 11). No impairment loss was recognized on property and equipment and software cost in 2012, compared to an impairment loss amounting to ₱0.10 million in 2011 due to the write-off of the payroll software of the Company .

(d) Writedown of motorcycle inventories

The Company recognizes loss on writedown of motorcycle inventories at a level considered adequate to reflect the excess of cost of motorcycle inventories over their NRV. NRV of inventories are assessed regularly based on the prevailing selling prices less the estimated cost necessary to sell. Increase in the NRV will increase the carrying amount of inventories but only to the extent of their original acquisition costs.

As of December 31, 2012 and 2011, the carrying value of motorcycle inventories amounted to ₱127.48 million and ₱34.38 million, net of loss on writedown of ₱6.47 million and ₱4.23 million, respectively (see Note 13).

(e) Recognition of deferred tax assets

The Company reviews the carrying amounts of deferred taxes at each reporting date and reduce deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Company will generate sufficient taxable income to allow all or part of deferred tax assets to be utilized. The Company looks at its projected performance in assessing the sufficiency of future taxable income.

The Company recognized deferred tax assets amounting to ₱8.90 million and ₱10.55 million as of December 31, 2012 and 2011, respectively (see Note 21).

(f) Present value of retirement obligation

The determination of the obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates. As of December 31, 2012 and 2011, the present value of the retirement obligation amounted to ₱4.41 million and ₱2.51 million, respectively (see Note 19).

(g) Estimating useful lives of property and equipment, investment properties and software cost

The Company estimates the useful lives of its property and equipment, investment properties and software cost based on the period over which these properties are expected to be available for use. The estimated useful lives of the properties are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these properties. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The estimated useful lives are disclosed in Note 2.

4. Fair Value Measurement

The methods and assumptions used by the Company in estimating the fair value of financial instruments follow:

Cash on hand and in banks

Carrying amounts approximate fair values due to the relatively short-term maturities of these financial assets.

Loans and other receivables

Carrying amounts approximate fair values as there is no significant change in the market interest rates from grant date.

AFS investments

AFS quoted equity shares - Fair values are based on quoted prices published in markets.

AFS unquoted equity shares - Carrying amounts (cost less allowance for impairment losses) approximate fair values due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Liabilities

The carrying amounts of notes payable, accounts payable and accrued interest payable approximate fair values due to their short-term maturities.

The Company's financial assets recognized at fair value (i.e., AFS investments), analyzed between those whose fair value is based on:

- Quoted prices in active markets for identical assets (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset, either directly (as prices) or indirectly (derived prices) (Level 2); and
- Those with inputs for the asset that are not based on observable market data (unobservable inputs) (Level 3).

Quoted equity securities classified as AFS investments are measured based on Level 1. In 2012 and 2011, there were no transfers of financial instruments between Level 1 and Level 2.

No instruments were measured based on Level 3 and there were no transfers in and out of level 3 for 2012 and 2011.

5. Financial Risk Management Objectives and Policies

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, interest rate risk and foreign exchange risk.

Credit Risk

Credit risk management and collateral and other credit enhancements

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages credit risk by setting limits for individual borrowers, and groups of borrowers and industry segments. The Company also monitors credit exposures, and continually assesses the creditworthiness of counterparties.

In addition, the Company obtains security where appropriate, enters into collateral arrangements with counterparties, and limits the duration of exposures. Finally, credit applications go through a process of screening using the Company's credit standards to minimize risk.

The Company also focuses on markets and borrowers that have a relatively better capability to repay their loans. One example for this is the medical professional market where most doctors are able to pay because of their higher disposable income. Despite the systems and checks in place for the Company, there is no guarantee that none of its existing and future clients will default on a loan. An increase in loan defaults will have a negative effect on the Company's profitability.

The Company's motorcycle financing business has the motorcycle itself as collateral in case the borrower defaults on its loan. Other receivable from customers are secured by real estate and other chattel properties.

It is the Company's policy to dispose of repossessed properties in an orderly fashion and proceeds are used to repay or reduce the outstanding claim.

The table below shows the maximum exposure of loans and receivables after financial effect of collateral and credit enhancements to the maximum exposure to credit risk.

	2012			2011		
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Maximum Exposure After Financial Effect of Collateral and Credit Enhancements	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Maximum Exposure After Financial Effect of Collateral and Credit Enhancements
Loans and other receivables						
Receivable from customers:						
Consumer Services	₱1,050,960,221	₱623,606,331	₱427,353,890	₱912,935,350	₱532,213,446	₱380,721,904
Construction	21,647,713	19,250,000	2,397,713	21,870,691	19,250,000	2,620,691
Manufacturing	6,918,649	-	6,918,649	2,974,600	549,122	2,425,478
	₱1,205,393,159	₱653,461,980	₱551,931,179	₱1,083,340,495	₱562,618,217	₱520,722,278

Except for receivable from customers, the carrying values of the Company's other financial assets as reflected in the statements of financial position as of December 31, 2012 and 2011 represent the financial asset's maximum exposure to credit risk, since these are unsecured.

The tables below show a comparison of the credit quality of the Company's financial assets (gross of unearned interest income, client's equity and allowance for impairment losses) as of December 31:

2012

	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired	Total
	High Grade	Medium Grade	Low Grade			
Available-for-sale investments	₱75,090,000	₱-	₱-	₱-	₱-	₱75,090,000
Loans and other receivables						
Cash in banks	19,103,269	-	-	-	-	19,103,269
Receivable from customers:						
Consumer Services	984,254,071	-	-	61,220,156	5,485,994	1,050,960,221
Construction	-	120,453,284	-	2,312,491	3,100,801	125,866,576
Manufacturing	-	14,184,446	-	7,463,267	-	21,647,713
Other receivables	-	6,918,649	-	-	-	6,918,649
Other receivables	1,334,492	-	-	-	-	1,334,492
	₱1,079,781,832	₱141,556,379	₱-	₱70,995,914	₱8,586,795	₱1,300,920,920

The Company's basis in grading its financial assets are as follows:

Cash in banks

High grade pertains to cash deposited in local banks belonging to top 10 rank.

Loans and other receivables

- High grade pertains to receivables with no default in payment and fully secured with collateral.
- Medium grade pertains to receivables with no default in payment and partially secured with collateral.
- Low grade pertains to receivables with no default in payment and without security.

The analysis of receivables from customers that were past due but not impaired follows:

	December 31, 2012					Total
	<30 days	30-60 days	61-90 days	91-120 days	>120 days	
Consumer	₱15,372,627	₱8,493,792	₱5,596,959	₱3,922,917	₱27,833,861	₱61,220,156
Services	1,061,003	544,183	435,427	271,878	–	2,312,491
Construction	–	1,379,086	5,221,530	862,651	–	7,463,267
	₱16,433,630	₱10,417,061	₱11,253,916	₱5,057,446	₱27,833,861	₱70,995,914

	December 31, 2011					Total
	<30 days	30-60 days	61-90 days	91-120 days	>120 days	
Consumer	₱9,111,663	₱5,734,574	₱3,625,587	₱3,626,718	₱7,444,624	₱29,543,166
Services	1,624,382	1,922,030	490,612	377,438	3,549,287	7,963,749
Construction	–	–	–	–	15,500,000	15,500,000
	₱10,736,045	₱7,656,604	₱4,116,199	₱4,004,156	₱26,493,911	₱53,006,915

Impairment assessment

The Company recognizes impairment/credit losses based on the results of specific (individual) and collective assessment of its credit exposures. Impairment has taken place when there is a presence of known difficulties in the payment of obligation by counterparties, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold (e.g., 90 days).

These and other factors, either singly or in tandem with other factors, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

Liquidity risk

Liquidity risk is the risk of not being able to meet funding obligations such as the repayment of liabilities or payment for asset purchases. The Company seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Company maintains a level of cash on hand and in banks deemed sufficient to finance its operations. As part of its liquidity risk management, the Company regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include bank loans and advances from related parties.

The table summarizes the maturity profile of the Company's financial assets and liabilities based on undiscounted contractual payments and remaining contractual maturities.

	2012					Total
	Up to 3 months	3 to 6 Months	6 to 12 Months	1 to 3 years	More than 3 years	
Financial assets						
Loans and other receivables						
Cash in banks	₱19,103,269	₱–	₱–	₱–	₱–	₱19,103,269
Receivable from customers:						
Consumer	1,023,497,817	7,744,914	19,717,490	–	–	1,050,960,221
Services	123,372,440	916,609	1,577,527	–	–	125,866,576
Construction	1,379,086	5,221,530	862,652	–	14,184,446	21,647,713
Manufacturing	6,380,413	105,000	210,000	223,236	–	6,918,649
Other receivables	1,334,492	–	–	–	–	1,334,492

	₱1,175,067,517	₱13,988,053	₱22,367,669	₱223,236	₱14,184,446	₱1,225,830,920
Financial liabilities						
Notes payable	₱197,343,535	₱ 61,282,076	₱385,839,894	₱156,519,417	₱-	₱ 800,984,921
Accounts payable	38,945,222	-	-	-	-	38,945,222
Accrued interest	765,840	-	-	-	-	765,840
	₱237,054,597	₱61,282,076	₱385,839,894	₱156,519,417	₱-	₱840,695,983

Interest rate risk

The profitability of the Company may be influenced by changes in the level of interest rates. In the event that interest rates go up significantly, less people will be inclined to avail of a loan. The Company funds its loan operations through a combination of the operational cash flow and borrowings from related parties. Any increase in interest rates will cause the Company to incur more expenses for every peso they earn in interest income.

The Company follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. The interest rates reflect the prevailing market interest rates. The rates are benchmarked against the applicable treasury bills and MART rate for most of the peso-denominated investments.

Foreign exchange risk

The Company has no foreign currency denominated financial assets and liabilities as of December 31, 2012 and 2011. Accordingly, the Company does not have exposure to foreign exchange risk. As of December 31, 2012, the Company has 197,402,011 common shares issued and outstanding which were owned by 101 shareholders.

The movements in the number of issued shares and capital stock follows:

	2012		2011		2010	
	Number of Shares	Amount	Number of Shares	Amount	Number Of Shares	Amount
Authorized - 300,000,000 shares						
At January 1	195,327,890	₱195,327,890	193,474,645	₱193,474,645	191,862,405	₱191,862,405
Stock dividends	2,074,121	2,074,121	1,853,245	1,853,245	1,612,240	1,612,240
At December 31	197,402,011	₱197,402,011	195,327,890	₱195,327,890	193,474,645	₱193,474,645

Capital Management

The primary objective of the Company's capital management policies and procedures are to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and to maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares. The Company considers its total equity as capital. No changes were made in the objectives, policies or processes for the years ended December 31, 2012 and 2011.

Under Republic Act (RA) No. 8556, *Financing Company Act*, the Company is required to maintain the following capital requirements:

- minimum paid-up capital of ₱10.00 million; and
- additional capital requirements for each branch of ₱1.00 million for branches established in Metro Manila, ₱0.50 million for branches established in other classes of cities and ₱0.25 million for branches established in municipalities.

For the years ended December 31, 2012 and 2011, the Company was in compliance with the minimum paid-up capital.

1. Receivables

Receivables consist of:

	Mar-13	Dec-12
Loans receivable	1,276,939,148	1,198,346,310
Due from affiliates	213,007	213,007
Others	15,943,370	8,168,335
	1,293,095,525	1,206,727,652
Unearned interest income/discount	-397,723,978	-375,480,060
Allowance for impairment losses	-15,677,821	-15,161,894
	<u>879,693,726</u>	<u>816,085,698</u>

Property and Equipment

The movements of property and equipment during the year follow:

	Furniture, Fixtures and Equipment	Leasehold Improvements	Transportation Equipment	Total
Cost				
Balance, January 1, 2013	6,414,912	873,326	15,359,925	22,648,163
Additions	316,793	-	-	316,793
Reclassification (See Note 13)	-	-	-	-
Balance, Mar 31, 2013	6,731,705	873,326	15,359,925	22,964,956
Accumulated Depreciation and Amortization				
Balance, January 1, 2013	4,365,907	381,575	11,792,755	16,540,237
Depreciation and amortization	414,094	22,446	532,266	968,806
Balance, Mar 31, 2013	4,780,001	404,021	12,325,021	17,509,043
Net Book Value				
March 31, 2013	<u>1,951,704</u>	<u>469,305</u>	<u>3,034,904</u>	<u>5,455,913</u>
Dec. 31, 2012(Audited)	<u>2,049,005</u>	<u>491,751</u>	<u>3,567,170</u>	<u>6,107,926</u>

2. Other Assets

This account consists of:

	Mar-13	Dec-12
Computer Software	947,888	1,042,005
Prepaid Expenses	966,710	992,129
Motorcycle Inventories	103,841,737	127,475,596
Miscellaneous	322,457	322,457
	<u>106,078,792</u>	<u>129,832,187</u>

As of March 31, 2013 and December 31, 2012, investments in associates pertain to investments in shares of stock of the following:

Acquisition costs:

Commercial and Consumer Credit Corporation (3C) (100% owned)	₱1,000,000
Global Credit and Management Group/3C (GCMGI/3C) (51% owned)	1,000,000
3C – Pawnshop (100% owned)	100,000
	<u>2,100,000</u>
Allowance for impairment losses	<u>(2,000,000)</u>
	<u>₱100,000</u>

3C and GCMGI/3C have ceased operations in 1999 and 1996, respectively.

As of December 31, 2012, 3C Pawnshop has not yet started commercial operations. Total assets and equity of 3C Pawnshop amounted to ₱100,000 as of December 31, 2012 and 2011. The Company did not consolidate the accounts of the subsidiaries due to immateriality of the balances of the accounts.

3. Notes Payable

This represents unsecured short-term unsecured loans from the Company's stockholders (see Note 22) Interest rates from borrowings range 5.44% to 7.75% per annum in 2012 and 2011

4. Stockholders' Equity

On June 28, 2012, the BOD and stockholders approved the declaration of 1.06% stock dividends in the amount of ₱2,074,121 to stockholders of record as of July 26, 2012 with distribution date not later than August 20, 2012. On the same date, the BOD also approved the declaration of cash dividends amounting to ₱2,074,158. Fractional shares related to this declaration were settled in cash amounting to ₱37.30.

On June 23, 2011, the BOD and stockholders approved the declaration of 0.96% stock dividends in the amount of ₱1,853,245 to stockholders of record as of July 21, 2011 with distribution date not later than August 15, 2011. On the same date, the BOD also approved the declaration of

cash dividends amounting to ₱1,853,331. Fractional shares related to this declaration were settled in cash amounting to ₱43.00.

On June 24, 2010, the BOD approved the declaration of 0.84% stock dividends in the amount of P1,612,240 to stockholders of record as of July 19, 2010 with distribution date not later than August 16, 2010. On the same date, the BOD also approved the declaration of cash dividends amounting to P1,612,316. Fractional shares related to this declaration were settled in cash amounting to P76.

On June 4, 2009, the BOD approved the declaration of 0.43% stock dividends in the amount of P819,764 to stockholders of record as of July 2, 2009 with distribution date not later than July 28, 2009. On the same date, the BOD also approved the declaration of cash dividends amounting to P819,716. Fractional shares related to this declaration were settled in cash amounting to P48.00

On June 19, 2008, the BOD approved the declaration of 2.51% stock dividends in the aggregate amount of P2,257,147 in favor of the stockholders of record as of July 17, 2008, with a payment date not later than August 12, 2008. On the same date, the BOD also approved the declaration of cash dividends amounting to P2,257,147. Fractional shares related to this declaration were settled in cash amounting to P35.

In 2007, the Company received an additional capital infusion from its stockholders for their subscription of 48,543,689 shares to be issued out of the proposed increase in authorized capital stock from 90 million common shares to 300 million common shares with a par value of ₱1 per share. This was recorded as deposits for future stock subscription in the amount of ₱50.00 million. In addition, the BOD approved the declaration of stock dividends in the maximum of 50,241,970 shares for shareholders as of November 27, 2007. Fractional shares related to this declaration were settled in cash amounting to ₱4. The SEC approved the increase in authorized capital stock on March 6, 2008.

On June 14, 2007, the BOD approved the declaration of cash dividends amounting to ₱2,430,832 and 3.01% stock dividends amounting to ₱2,430,712 in favor of the stockholders of record as of July 12, 2007. In addition, on November 6, 2007, the BOD approved the declaration of 8.28% stock dividends amounting to ₱6,882,103 in favor of the stockholders of record as of November 26, 2007. Fractional shares related to this declaration were settled in cash amounting to ₱41.

MAKATI FINANCE CORPORATION
SCHEDULE SHOWING FINANCIAL SOUNDNESS
PURSUANT TO SRC RULE 68, AS AMENDED
MARCH 31, 2013

	2013	2012
Solvency and Liquidity Ratios		
Current ratio	119.00%	121.00%
Debt to equity ratio	324.71%	282.08%
Quick ratio	108.80%	117.40%
Profitability Ratios		
Return on assets	2.11%	1.96%
Return on equity	9.07%	7.49%
Net profit margin	48.01%	44.82%
Asset to Equity Ratio	424.71%	382.08%
Interest Rate Coverage Ratio	184.43%	174.67%
Other Relevant Ratios		
Ratio or percentage of total real estate investments to total assets	0.00%	0.00%
Total receivables to total assets	81.16%	82.54%
Total DOSRI receivables to networth	5.20%	22.00%
Amount of receivables from a single corporation to total receivables:		
Merg Realty and Development Corporation	0.60%	0.59%
Honda Motor World, Inc.	12.00%	21.29%

AGING OF RECEIVABLES

AS OF MARCH 31, 2013

CLASSIFICATION	CURRENT	1-30 DAYS	31-60 DAYS	61-90 DAYS	91-180 DAYS	> 180 DAYS
A. Trade Receivables						
Loans Receivable (Gross PN Value)*						
As to Maturity Date:						
Within 1 year or less	-	-	-	-	-	-
Maturity after 1 year	-	-	-	-	-	-
Loan Receivables	1,210,969,148	21,860,000	8,670,000	5,030,000	10,830,000	19,580,000
SUB-TOTAL	1,210,969,148	21,860,000	8,670,000	5,030,000	10,830,000	19,580,000
Less: Allowance for Doubtful Accounts						15,677,821
Net Trade Receivables	1,210,969,148	21,860,000	8,670,000	5,030,000	10,830,000	3,902,179
*Gross PN Value=Principal + Unearned Interest & Discount/Clients' Equity amounting to P1,263.52Mn while allowance is for principal only. (Please see notes on Receivables)						
B. Non-Trade Receivables						
Due from Subsidiaries/Affiliates						
As to Maturity Date:						
Within 1 year or less**		-	-	-	-	-
Maturity after 1 year	16,004,683	-	-	-	-	-
SUB-TOTAL	16,004,683	-	-	-	-	-
Less: Allowance for Doubtful Accounts		-	-	-	-	-
Net Non-Trade Receivables	16,004,683	-	-	-	-	-
 NET RECEIVABLES	 1,226,973,831	 21,860,000	 8,670,000	 5,030,000	 10,830,000	 3,902,179