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## SECURITIES AND EXCHANGE COMMISSION

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Company Information

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Company Name : MAKATI FINANCE CORP.  
Industry Classification  
Company Type : Stock Corporation

Document Information

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# **MAKATI FINANCE**

FINANCIAL SERVICES AND ADVISORY

November 12, 2015

**The Markets & Securities Regulation Department  
SECURITIES AND EXCHANGE COMMISSION**  
SEC Building, Mandaluyong City

Attention : **Hon. Vicente Graciano P. Felizmenio, Jr.**  
Director, Markets & Securities Regulation Department

**The Disclosure Department  
THE PHILIPPINE STOCK EXCHANGE, INC.**  
3<sup>rd</sup> Floor, Tower One and Exchange Plaza  
Ayala Triangle, Ayala Avenue, Makati City

Attention : **Ms. Janet A. Encarnacion**  
Head, Disclosure Department

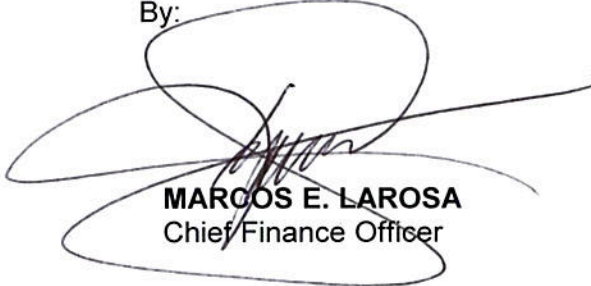
Gentlemen:

We are sending herewith the Quarterly Report for the period ended September 30, 2015 (SEC Form 17-Q) of Makati Finance Corporation.

We are making this disclosure in compliance with the Continuing Listing Requirements of the Philippine Stock Exchange.

MAKATI FINANCE CORPORATION  
Registrant

By:



**MARCOS E. LAROSA**  
Chief Finance Officer

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  
For The Quarter Ended September 30, 2015

1. For the quarterly period ended **September 30, 2015**

2. SEC Identification **No. 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)

7. Address of issuer's principal office **2/F MAKATI FINANCE BLDG., 7823 MAKATI AVENUE, MAKATI CITY** **1210**  
Postal Code

8. Issuer's telephone number, including area code  
**(0632) 896-02-21**

9. Former name, former address and former fiscal year, if changed since last report  
**N/A**

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
<b>COMMON STOCK</b>	<b>209,565,483*</b>

*\*as reported by the stock transfer agent as of September 30, 2015*

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 September)*

	2015	2014
GROSS MARGIN	77.67%	75.97%
EBIT MARGIN	41.12%	47.28%
RETURN ON ASSETS(annualized)	2.56%	6.37%
DEBT TO EQUITY	226.48%	241.43%
RETURN ON EQUITY(annualized)	8.37%	8.12%

Gross margin increased by 1.7%, which is computed by deducting the cost of borrowings from the gross interest revenues. This is due to lower interest expense of the Company in 2015 as against in 2014. The EBIT margin, which measures profitability performance as annualized net income before interest and taxes over the total interest income ended at 41.12% in September 2015 as against 47.28% in September 2014 as a result of the company's thrust to produce higher quality loan portfolio with lower interest yield. Return on assets was 2.56% in 2015 as against 6.37% in 2014. 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 8.37% in September 2015 as against 8.12% in September 2014. 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 Corporation (MFC) 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, furniture and service units (motorcycles) for the CSRs. The Company continued to spend its resources on computerization of financial system and on IT financial infrastructure.

### **Results of Operations/Material Changes in Financial Statement Accounts**

The company posted a net income of ₱ 25 million as of September 2015. Net interest income amounted to ₱ 126.2 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, rent, and higher loss from sale and write down of MC inventories contributed to the increase in the operating expenses as of September 30, 2015. 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 ₱1,300.3 million, of which current assets were at ₱947.19 million. The Total Assets is higher by ₱57 million versus the same period last year due to increase in loan releases in 2015. Total liabilities amounting to ₱902.07 million as of September 30, 2015 an increased from ₱879.13 million in September 2014.

### **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 September 30, 2015.


## **PART II--OTHER INFORMATION**

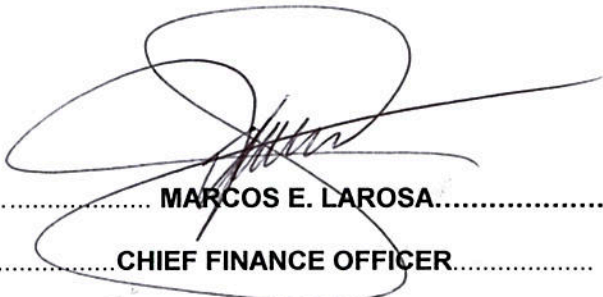
NOT APPLICABLE.

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..........**TERESITA B. BENITEZ**.....  
Signature and Title..... **CHAIRPERSON**.....  
Date ..... November 12, 2015

Principal Financial/Accounting Officer/Controller..........**MARCOS E. LAROSA**.....  
Signature and Title.....**CHIEF FINANCE OFFICER**.....  
Date ..... November 12, 2015



## **ANNEX A**

### **FINANCIAL STATEMENTS** For the Period Ending September 30, 2015 With Comparative Figures for 2014

**MAKATI FINANCE CORPORATION**  
**INTERIM BALANCE SHEET (Unaudited)**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2015 AND DECEMBER 31, 2014**

	<b>2015</b>	<b>2014</b>
	<b>September</b>	<b>Dec. (Audited)</b>
<b>Current Assets:</b>		
Cash on Hand/in Banks	17,533,182	46,375,048
Receivables (Note 8)	929,657,669	844,882,348
<b>Total Current Assets</b>	<b>947,190,851</b>	<b>891,257,396</b>
Investment Properties (Note 11)	2,604,468	2,604,468
Investment in Associates (Note 9)	146,167,571	154,302,222
Property & Equipment - net (Note 10)	4,639,447	5,551,098
Retirement Asset-net	662,595	662,595
Deferred Tax Asset	23,045,270	21,312,700
Other Assets - net (Note 12)	176,056,249	184,477,840
<b>Total Assets</b>	<b>1,300,366,451</b>	<b>1,260,168,319</b>

	<b>2015</b>	<b>2014</b>
	<b>September</b>	<b>Dec. (Audited)</b>
<b>Current Liabilities:</b>		
Notes Payable (Note 13)	835,848,668	828,082,702
Accounts Payable	27,633,412	21,860,364
Accrued Expenses	34,139,760	27,232,986
Other Payables	4,447,925	3,443,187
<b>Total Liabilities</b>	<b>902,069,765</b>	<b>880,619,239</b>
<b>Stockholder's Equity:</b>		
Capital Stock – P1 par value		
Authorized – 300,000,000 shares		
Issued and Outstanding	209,565,483	203,312,773
Additional Paid in Capital	5,803,922	5,803,922
Retained Earnings	154,815,782	132,567,334
Remeasurement gains on retirement assets	3,110,992	3,110,992
Share in other comprehensive income/(loss) of an associate	57	57
YTD Net Income	25,000,450	34,754,002
<b>Total Equity</b>	<b>398,296,686</b>	<b>379,549,080</b>
<b>Total Liabilities and Capital</b>	<b>1,300,366,451</b>	<b>1,260,168,319</b>

**MAKATI FINANCE CORPORATION**  
**INTERIM STATEMENT OF COMPREHENSIVE INCOME AND RETAINED EARNINGS (Unaudited)**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2015 AND SEPTEMBER 30, 2014**

	2015 Unaudited		2014 Unaudited	
	July 1 to September 30	January 1 to September 30	July 1 to September 30	January 1 to September 30
<b>Interest Income – Loans</b>	<b>56,468,285</b>	<b>162,523,496</b>	<b>51,788,434</b>	<b>167,716,95</b>
Cost of Borrowings	11,503,529	36,296,038	14,127,041	40,303,35
<b>Net Interest Income</b>	<b>44,964,756</b>	<b>126,227,458</b>	<b>37,661,393</b>	<b>127,413,60</b>
Less: Provisions	2,417,938	8,670,944	4,722,919	8,011,13
<b>Net Interest Income</b>	<b>42,546,818</b>	<b>117,556,514</b>	<b>32,938,474</b>	<b>119,402,47</b>
Other Income	14,082,288	41,045,541	8,289,505	39,349,34
<b>Operating Expenses</b>				
Professional/Management Fees and Bonus	4,618,282	11,151,641	6,635,176	9,961,98
Salaries and Wages	15,799,810	45,444,705	13,881,205	41,748,33
Transportation and Representation	1,588,611	4,640,077	2,070,080	9,173,06
Depreciation and Amortization	584,350	1,769,843	616,486	2,862,77
Commissions	260,442	1,940,242	619,000	2,176,73
Loss from sale and write-down of MC inventories	20,260,015	48,644,116	18,783,106	39,276,40
Other Employee Benefits	505,018	1,007,496	83,947	245,58
Communication and Utilities	678,296	2,720,679	1,048,361	2,957,36
Rent Expense	1,951,722	4,937,563	1,422,593	3,516,47
Taxes, Licenses, Permits and fees	3,413,085	9,366,070	2,761,984	9,494,02
Other Operating Expenses	1,329,344	3,206,987	2,609,774	7,837,36
Total	50,988,975	134,829,419	50,531,712	129,250,10
<b>Net Income Before Income Tax</b>	<b>5,640,131</b>	<b>23,772,636</b>	<b>(9,303,733)</b>	<b>29,501,71</b>
Provisions for Tax/Deferred Tax Adjustment	(1,083,566)	(1,227,814)	(3,859,443)	918,86
<b>Net Income</b>	<b>6,723,697</b>	<b>25,000,450</b>	<b>(5,444,290)</b>	<b>28,582,84</b>
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>6,723,697</b>	<b>25,000,450</b>	<b>(5,444,290)</b>	<b>28,582,84</b>
RETAINED EARNINGS, BEGINNING	167,321,336	167,321,336	132,567,334	132,567,33
RETAINED EARNINGS, QUARTER/YEAR-END	161,539,479	179,816,232	120,191,867	154,219,00
<b>BASIC EARNINGS PER SHARE</b>	<b>0.03</b>	<b>0.12</b>	<b>(0.03)</b>	<b>0.1</b>

\*As of September 30, 2015, and December 31, 2014, there were no shares of stock that have a dilutive effect on earnings per share of the Company.



**MAKATI FINANCE CORPORATION**  
**INTERIM CASH FLOW STATEMENTS**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2015 AND SEPTEMBER**  
**30, 2014**

	<b>2015 SEPTEMBER</b>	<b>2014 SEPTEMBER</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income Before Tax and Extra-Ordinary Items	23,772,636	29,501,712
Adjustments for:		
Provisions for probable losses	57,315,060	47,287,537
Depreciation and amortization	1,769,843	2,862,774
Dividend Income		
Share in the net income of an associate	(27,865,349)	(26,438,832)
Change in operating Assets and Liabilities		
Decrease (increase) in the amounts of:		
Receivables	(93,446,265)	103,084,196
Other Assets	(40,222,527)	(122,879,164)
Increase (decrease) in the amounts of:		
Accrued Expenses Payable	5,773,048	13,397,013
Other Payable	10,588,572	(16,886,119)
<b>Net cash provided by (used in) operating activities</b>	<b>(62,314,982)</b>	<b>29,929,117</b>
Income Tax Paid	(3,181,814)	(5,270,059)
<b>Net Cash provided by (used in) operating activities</b>	<b>(65,496,796)</b>	<b>24,659,058</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of Property and Equipment	(858,192)	(3,054,687)
Pre-termination of short-term money market placement	-	-
Cash Dividends from AIB	36,000,000	36,000,000
Proceeds from Sale of Property and Equipment	-	-
<b>Net cash provided by (used in) investing activities</b>	<b>35,141,808</b>	<b>32,945,313</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash dividend paid	(6,252,844)	(3,465,624)
Loan availments (net of Pre-Termination)	7,765,966	(65,753,978)
<b>Net cash provided by (used in) financing activities</b>	<b>1,513,122</b>	<b>(69,219,602)</b>
Net cash provided by (used in) Cash and Cash Equivalents	<b>(28,841,866)</b>	<b>(11,615,231)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>46,375,048</b>	<b>47,982,524</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR</b>	<b>17,533,182</b>	<b>36,367,293</b>



**MAKATI FINANCE CORPORATION**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2015 AND 2014 AND DECEMBER 31, 2014**

	<b>2015 September</b>	<b>2014 December</b>	<b>2014 September</b>
<b>Capital Stock</b>			
Authorized 300,000,000 par value P1			
Issued and outstanding	203,312,773	199,847,220	199,847,220
Stock dividends	6,252,710	3,465,553	3,465,553
Issuance during the year			
	<b>209,565,483</b>	<b>203,312,773</b>	<b>203,312,773</b>
<b>Additional paid-in capital</b>			
Balance, beginning of year	5,803,922	5,803,922	5,803,922
Issuance during the year			
	<b>5,803,922</b>	<b>5,803,922</b>	<b>5,803,922</b>
<b>Retained earnings (deficit)</b>			
Balance, beginning of year	167,321,336	132,567,334	132,567,334
Adjustment to RE			
Stock dividends	(6,252,710)	(3,465,553)	(3,465,553)
Cash dividends	(6,252,844)	(3,465,624)	(3,465,624)
Total Comprehensive Income	25,000,450	41,685,179	28,582,848
<b>Balance, end of quarter/year</b>	<b>179,816,232</b>	<b>167,321,336</b>	<b>154,219,005</b>
Remeasurement gains on retirement assets	<b>3,110,992</b>	<b>3,110,992</b>	<b>1,206,131</b>
Share in other comprehensive income/loss of an associate	<b>57</b>	<b>57</b>	<b>57</b>
Net unrealized loss on investments			
<b>Total Equity</b>	<b>398,296,686</b>	<b>379,549,080</b>	<b>364,541,888</b>

**MAKATI FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(With Comparative Figures for 2014)

**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 (70%) by Amalgamated Investment Bancorporation (AIB).

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**2. Basis of Preparation**

Statement of Compliance

The accompanying financial statements of the Company have been prepared in compliance with the Philippine Financial Reporting Standards (PFRSs), PFRSs are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). PFRSs consist of PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

Basis of Measurement

These financial statements have been prepared under the historical cost convention, except for retirement assets and available-for-sale (AFS) financial assets which are measured at their fair values.

Functional and Presentation Currency

These financial statements are presented in Philippine peso, which is the functional and presentation currency of the Company. All financial information has been rounded off to the nearest peso unless otherwise indicated.

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**3. Summary of Significant Accounting Policies**

The accounting policies set out below have been applied consistently to the comparative years presented in these financial statements, and have been applied consistently by the Company, except for the changes in accounting policies as explained below.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Company has adopted the following amendments to standards and interpretations starting January 1, 2014 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards and interpretations did not have any significant impact on the Company's financial statements.

*Adopted on January 1, 2014*

- *Offsetting Financial Assets and Financial Liabilities (Amendments to PAS 32)*. These amendments clarify that:
  - an entity currently has a legally enforceable right to set-off if that right is:
    - not contingent on a future event; and



- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and
- gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that:
  - eliminate or result in insignificant credit and liquidity risk; and
  - process receivables and payables in a single settlement process or cycle.
- *Investment Entities (Amendments to PFRS 10, PFRS 12, and PAS 27 (2011)).*

These amendments provide consolidation exception for investment funds and require qualifying investment entities to recognize their investments in controlled entities, as well as investments in associates and joint ventures, in a single line item in the statement of financial position, measured at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investing activities. However, the parent of an investment entity (that is not itself an investment entity) is still required to consolidate all subsidiaries. This consolidation exception is mandatory.

- *Recoverable Amount Disclosures for Non-Financial Assets (Amendments to PAS 36).*

These narrow-scope amendments to PAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments clarified that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.

- *Measurement of short-term receivables and payables (Amendment to PFRS 13).* Amendment to PFRS 13 is part of the Annual Improvements to PFRSs 2010-2012 Cycle. The amendment clarifies that, in issuing PFRS 13 and making consequential amendments to PAS 39 and PFRS 9, the intention is not to prevent entities from measuring short-term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, if the effect of not discounting is immaterial. The amendment to PFRS 13 is effective immediately.

#### 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 assesses its revenue arrangements to determine if it is acting as a principal or agent. The Company has concluded that it is acting as a principal on all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

#### *Interest*

Interest income and expense are accrued using the effective interest method. The effective interest rate (EIR) is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the EIR, the Company estimates the future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the EIR includes all fees, transaction costs, and all other discounts or premiums that are an integral part of the EIR. Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of a financial asset or financial liability.

Unearned discount is recognized as income over the terms of the receivables using the effective interest method.

Interest from bank deposit accounts is recognized as the interest is earned.

#### *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 right to receive payment has been established. Usually, this is the ex-dividend date for quoted equity securities.

#### *Miscellaneous Income*

Income from other sources is recognized when earned.

#### Expenses

Expenses are recognized when it is probable that decrease in future economic benefits related to decrease in an asset or an increase in liability has occurred and that the decrease in economic benefits can be measured reliably.

#### Financial Instruments

Financial assets and financial liabilities are accounted for as follows:

#### *Recognition*

The Company recognizes a financial asset or a financial liability 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.

All financial instruments are recognized initially at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs that are attributable to its acquisition or issue.

#### *Classification and Measurement*

Subsequent to initial recognition, the Company classifies its financial assets in the following categories: financial assets at FVPL, available-for-sale (AFS) investments, held-to-maturity (HTM) investments and loans and receivables. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As of December 31, 2014 and 2013, the Company has no HTM investments and financial assets and liabilities at FVPL.

The measurement of financial instruments subsequent to initial recognition is described below:

#### *a. Securities at FVPL*

Securities at FVPL consist of debt and private equity securities purchased and held principally with the intention of selling them in the near term. These securities are carried at fair market value; realized and unrealized gains and losses on these instruments are recognized in profit or loss of the Company. Quoted market prices, when available, are used to determine the fair value of these financial instruments. Interest earned is recorded in interest income while dividend income is recorded in other income according to the terms of the contract, or when the right of payment has been established.

#### *b. AFS Financial Assets*



AFS financial assets are those non-derivative financial assets that are designated as such or are not classified as securities 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.

After initial measurement, any AFS financial assets are subsequently measured at fair value. Any unrealized gains or losses arising from the fair valuation of AFS financial assets are excluded from reported income and are reported 'Net unrealized loss on Available-for-sale investments' in other comprehensive income (OCI).

When the AFS financial asset is disposed of, the cumulative gain or loss previously recognized in OCI is recognized in profit or loss.

c. *HTM Investments*

HTM investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as AFS.

After initial measurement, HTM investments are carried at amortized cost using the effective interest method less any impairment losses. A sale or reclassification of a more than insignificant amount of HTM investments would result in the reclassification of all HTM investments as AFS, and would prevent the Company from classifying investment securities as HTM for the current and the following two financial years.

d. *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 and 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.

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

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% 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.'

Included in this category are 'Cash and cash equivalent' and 'Loans and other receivables'. Cash includes cash on hand and in banks and are stated at face value.

e. *Other Financial Liabilities*

This category pertains to financial liabilities not designated at FVPL where the substance of the contractual arrangements results in the Company having an obligation either to deliver cash or another financial asset to the holder or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement,

other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

Included in this category are notes payable, accounts payable and accrued expenses (excluding payable to government).

#### *Amortized Cost Measurement*

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

#### *Impairment of Financial Assets*

At each reporting date, the Company assesses whether there is objective evidence that financial assets not carried at FVPL are impaired. A financial asset is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Company considers evidence of impairment at both specific asset and collective levels. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar credit risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Company on terms that it would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in equity securities classified as AFS financial assets, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

In assessing collective impairment, the Company uses statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical modeling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that these remain appropriate.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the assets' original EIR. Impairment losses are recognized in profit and loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in the impairment loss is reversed through profit or loss but only to the extent that the resulting carrying amount of the asset after the reversal of impairment loss does not exceed its amortized cost at the reversal date had no impairment loss been recognized.

Impairment losses on AFS financial assets are recognized by transferring the cumulative loss that has been recognized in OCI to profit and loss. The amount transferred is the difference between the acquisition cost,



net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit and loss. Changes in impairment provisions attributable to time value of money are reflected as a component of interest income.

If in a subsequent period, the fair value of an impaired AFS debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income and expenses, the impairment loss is reversed to the extent of the carrying amount of the debt instrument had no impairment loss been recognized, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired AFS equity security is recognized in OCI.

The Company writes off certain loans and advances and securities when these are determined to be uncollectible.

#### *Derecognition of Financial Assets and Liabilities*

##### Financial Asset

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

- (a) the rights to receive cash flows from the assets have expired;
- (b) the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third-party under a “pass-through” arrangement; or
- (c) the Company has transferred its right to receive cash flows from the asset and either:
  - (i) has transferred substantially all the risks and rewards of the asset, or
  - (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of 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, with the difference in the respective carrying amounts recognized in profit or loss.

##### Fair Value Measurement

‘Fair value’ is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e., the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Company on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustments of each of the individual instruments in the portfolio.

#### *Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to set off the amounts and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

#### Investment in an Associate

An associate pertains to an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investment in an associate is accounted for under the equity method of accounting.

Under the equity method, the investment in associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share in the net assets of the associate since acquisition date.

The statement of comprehensive income reports the Company's share of the results of operations of the associate. Any change in OCI of the investee is presented as part of the Company's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Company's share of profit or loss of an associate is shown on the face of OCI outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.



The financial statements of the associate are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the investment in associate and its carrying value, then recognizes the loss as 'share in net income of an associate' in profit or loss.

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

#### Property and Equipment

Property and equipment are carried at cost less accumulated depreciation, amortization and impairment losses, if any.

Initially, an item of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Company. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which these are incurred.

Depreciation and amortization is calculated using the straight-line basis over the estimated useful lives of the property and equipment, as follows:

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

The useful lives and depreciation and amortization methods are reviewed at each reporting date to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from those assets.

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 profit or loss (see accounting policy on Impairment of Non-financial Assets).

When an item of property and equipment is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation, amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is reflected in profit or loss.

#### Investment Properties

Investment properties are land held for capital appreciation or land held for currently undetermined future use. Investment properties are measured at cost, including transactions 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 the asset given up. Subsequent to initial recognition, depreciable investment properties are carried at cost less any 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.

The Company estimates the useful lives of its investment properties based on the period over which the assets are expected to be available for use. Any depreciation for foreclosed assets is calculated on a straight-line basis using a useful life of 15 years.

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 profit or loss in the year of derecognition.

#### Motorcycle Inventories

The Company recognizes motorcycle inventories at the lower of cost and net realizable value (NRV) 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 cost of motorcycle inventories is determined using specific identification. The excess of the cost over the net realizable value is recognized as a loss from writedown of motorcycle inventories in profit or loss.

#### Software Costs

Software costs that are not an integral part of the hardware are classified as intangible asset. This is included under "Other assets - net" account in the statement of financial position, which includes costs incurred relative to the development of the Company's software.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortized on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to five years.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

#### Impairment of Non-financial Assets

The Company assesses at each reporting date whether there is an indication that its property and equipment, investment properties and other assets may be impaired. When an indicator exists or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. Recoverable amount is the higher of an asset or cash generating unit's (CGU's) fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, 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 against 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 profit or loss. 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 'Additional paid-in capital' account.

#### Retained Earnings

Retained earnings represent accumulated profits or losses of the Company, net of dividend distributions if any, to stockholders and other capital adjustments.

#### Dividends on Common Shares

Cash dividends on common shares are recognized as a liability and deducted from equity once approved by the Board of Directors (BOD). Stock dividends are recognized as addition to capital stock once approved by the BOD and stockholders. Dividends approved after the reporting date are treated as an event after the reporting date.

#### Foreign Currency Transactions and Translation

Foreign currency-denominated assets and liabilities are translated to Philippine peso at the prevailing Philippine Dealing & Exchange Corp (PDEX) closing rate at the reporting date while foreign-currency denominated income and expenses are translated into Philippine peso based on the weighted average rate at transaction dates. Foreign exchange gains or losses arising from such transactions, including restatements of foreign-currency denominated assets and liabilities are charged against current operations.

#### 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 give 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 profit or loss on a straight-line basis over the lease term.

#### *Company as Lessor*

Leases where the Company does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases. Operating lease payments received are recognized as an income in the statement of income on a straight line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

#### Employee Benefits

##### *Defined Benefit Plan*

The Company's net obligation in respect of defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of plan assets, if there is any.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in compensation and fringe benefits in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss at the earlier of the following:

- when the related restructuring costs are recognized;
- when the related termination benefits are recognized; and
- when the plan amendment or curtailment occurs.

The Company recognized gains and losses on the settlement of a defined benefit plan when the settlement occurs.

#### *Short-term Employee Benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company have a present legal or constructive obligation to pay this amount as a result of past service provided by the employees and the obligation can be estimated reliably.

#### *Employee Leave Entitlement*

Employee entitlements to annual leave are recognized as a liability when the same accrues to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the reporting date is recognized for services rendered by employees up to the end of the reporting date.

#### Borrowing Costs

Borrowing costs consist of interest which the Company incurs in connection to borrowing of funds. These are recognized in profit or loss in the year in which the costs are incurred.

#### Income Taxes

Income tax expense comprises current and deferred taxes. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in OCI.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes, the carry-forward tax benefits of the net operating loss carryover (NOLCO) and the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT). The amount of deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when these reverse, based on the tax rates enacted at or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and deferred tax liabilities are offset if the Company has a legally enforceable right to offset the amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

#### Provisions

Provisions are recognized when the Company has a present legal or constructive obligation 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 assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

When the Company expects some or all of a provision to be reimbursed, the reimbursement is recorded as a separate asset only when the reimbursement is virtually certain.

#### Contingent Assets and Contingent Liabilities

Contingent assets are not recognized in the statement of financial position but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable.



Contingent liabilities are not recognized in the statement of financial position but are disclosed in the notes to the financial statements unless the possibility of an outflow of assets embodying economic benefits is remote.

#### 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.

#### 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 7.

#### Events After the Reporting Date

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

#### New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, and have not been applied in preparing these financial statements. However, none of these is expected to have a significant effect on the financial statements. Those which may be relevant to the Company are set out below.

##### *To be Adopted on January 1, 2015*

- *Defined Benefit Plans: Employee Contributions (Amendments to PAS 19).* The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

The amendments apply retrospectively for annual periods beginning on or after July 1, 2014. Earlier application is permitted.

- *Annual Improvements to PFRSs: 2010 - 2012 and 2011 - 2013 Cycles*

Amendments were made to a total of nine standards, with changes made to the standards on business combinations and fair value measurement in both cycles. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014. Earlier application is permitted, in which case the related consequential amendments to other PFRSs would also apply. Special transitional requirements have been set for amendments to the following standards: PFRS 2, PAS 16, PAS 38 and PAS 40. The following are the said improvements or amendments to PFRSs, none of which has a significant effect on the financial statements of the Company:

- *Definition of 'related party' (Amendment to PAS 24).* The definition of a 'related party' is extended to include a management entity that provides key management personnel (KMP) services to the reporting entity, either directly or through a group entity. For related party transactions that arise when KMP services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity; however, it is not required to 'look



through' the management entity and disclose compensation paid by the management entity to the individuals providing the KMP services. The reporting entity will also need to disclose other transactions with the management entity under the existing disclosure requirements of PAS 24 - e.g. loans.

- *Inter-relationship of PFRS 3 and PAS 40 (Amendment to PAS 40)*. PAS 40 has been amended to clarify that an entity should assess whether an acquired property is an investment property under PAS 40 and perform a separate assessment under PFRS 3 to determine whether the acquisition of the investment property constitutes a business combination. Entities will still need to use judgment to determine whether the acquisition of an investment property is an acquisition of a business under PFRS 3.

*To be Adopted on January 1, 2016*

- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 and PAS 28)*. The amendments address an inconsistency between the requirements in PFRS 10 and in PAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- *Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to PAS 16 and PAS 38)*.

The amendments to *PAS 38 Intangible Assets* introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

The amendments to *PAS 16 Property, Plant and Equipment* explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g. changes in sales volumes and prices.

The amendments are effective for annual periods beginning on or after January 1, 2016, and are to be applied prospectively. Early application is permitted.

- *Equity Method in Separate Financial Statements (Amendments to PAS 27)*.

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures, but also for subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- *Annual Improvements to PFRSs 2012 - 2014 Cycle*.

This cycle of improvements contains amendments to four standards, none of which are expected to have significant impact on the Company's financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

- *Changes in method for disposal (Amendment to PFRS 5)*. PFRS 5 is amended to clarify that:
  - if an entity changes the method of disposal of an asset (or disposal group) - i.e. reclassifies an asset (or disposal group) from held-for-distribution to owners to held-for-sale (or vice versa) without any time lag - then the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset (or disposal group) and recognizes any write-down (impairment loss) or subsequent increase in the fair value less costs to sell/distribute of the asset (or disposal group); and
  - if an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting.

Any change in method of disposal or distribution does not, in itself, extend the period in which a sale has to be completed.

The amendment to PFRS 5 is applied prospectively in accordance with PAS 8 to changes in methods of disposal that occur on or after January 1, 2016.

- *Offsetting disclosures in condensed interim financial statements (Amendment to PFRS 7)*. PFRS 7 is also amended to clarify that the additional disclosures required by *Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to PFRS 7)* are not specifically required for inclusion in condensed interim financial statements for all interim periods; however, they are required if the general requirements of *PAS 34 Interim Financial Reporting* require their inclusion.

The amendment to PFRS 7 is applied retrospectively, in accordance with *PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*.

- *'Continuing involvement' for servicing contracts (Amendment to PFRS 7)*. PFRS 7 is amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred financial assets in cases when they are derecognized in their entirety. A servicer is deemed to have continuing involvement if it has an interest in the future performance of the transferred asset - e.g. if the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset; however, the collection and remittance of cash flows from the transferred financial asset to the transferee is not, in itself, sufficient to be considered 'continuing involvement.'

The amendment to PFRS 7 is applied retrospectively, in accordance with *PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*, except that the PFRS 7 amendment relating to servicing contracts need not be applied for any period presented that begins before the annual period for which the entity first applies this amendment.

- *Disclosure of information "elsewhere in the interim financial report" (Amendment to PAS 34)*. PAS 34 is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements, may be disclosed "elsewhere in the interim financial report" - i.e. incorporated by cross-reference from the interim financial statements to another part of the interim financial report (e.g. management commentary or risk report). The interim financial report is incomplete if the interim financial statements and any disclosure incorporated by cross reference are not made available to users of the interim financial statements on the same terms and at the same time.

The amendment to PAS 34 is applied retrospectively, in accordance with *PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*.



To be Adopted January 1, 2018

- *PFRS 9 Financial Instruments (2014)*. PFRS 9 (2014) replaces PAS 39 *Financial Instruments: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018 with early adoption permitted.

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#### 4. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRSs 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 these 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) *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.

##### Estimates

(a) *Impairment of Loans and Other Receivables*

The Company reviews its loans and other receivables at each reporting date to assess whether an allowance for impairment should be recognized in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.



In addition to specific allowances against individually significant loans and receivables, the Company also makes a collective impairment allowance against exposure which, although not specifically identified as requiring a specific allowance, has a greater risk of default than when originally granted. This takes into consideration the length of relationship with the counterparty, credit status of counterparty based on third party reports, and historical experience.

The Company management assessed that provision for impairment loss is necessary for its loans and receivables as of 2015 and 2014.

*(b) Impairment of AFS Equity Investment*

The Company treats any 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.

For 2015, no impairment loss was recognized for AFS equity investments.

*(c) Impairment of Property and Equipment, Investment Properties, Investment in an Associate 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 investment in an associate, property and equipment, investment properties and software costs are disclosed in Notes 10, 11, 12 and 13.

*(d) Writedown of Motorcycle Inventories to NRV*

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 based on the estimated prevailing selling prices less the estimated cost necessary to sell.

*(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.

*(f) Estimating Useful Lives of Property and Equipment 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.

(g) *Valuation of Retirement Asset*

The cost of defined benefit pension plan as well as the present value of the pension obligation was determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Philippine government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rate.

(h) *Provisions and Contingencies*

The Company, in the ordinary course of business, sets up appropriate provisions for its present legal or constructive obligations, if any, in accordance with its policies on provisions and contingencies. In recognizing and measuring provisions, management takes risk and uncertainties into account.

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## 5. Fair Value Measurement

The methods and assumptions used by the Company in estimating the fair value of its financial instruments are as follows:

*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*

The carrying value of loans and receivables approximates the fair values due either to the relatively short-term maturities of these assets or the fact that the interest rates reflect the prevailing market rates.

*AFS Financial Assets*

This is carried at cost less any allowance for impairment losses due to lack of other suitable method to arrive at a reliable measure of fair value.

*Notes Payable*

The carrying amounts of notes payable approximate fair values as the interest rates are repriced quarterly.

*Accounts Payable and Accrued Interest Payable*

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



In 2015 and 2014, there were no transfers of financial instruments between Levels 1, 2 and 3. No instruments were measured based on Level 3.

The Company recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

## 6. Financial Risk Management Objectives and Policies

The main risks arising from the Company's financial instruments are credit risk, liquidity risk and interest rate 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 Company evaluates the concentration of risk with respect to receivable from customers as low, as its customers are located in several areas around Southern Luzon.

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.

	2014			2013		
	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
<b>Loans and Other Receivables</b>						
Receivable from customers:						
Consumer	P741,387,854	P712,873,125	P28,514,729	P900,377,609	P855,678,405	P44,699,204
Services	102,295,193	2,041,589	100,253,604	78,145,735	-	78,145,735
Construction	1,199,301	-	1,199,301	4,929,112	-	4,929,112



Manufacturing	-	-	-	723,717	-	723,717
	P844,882,348	P714,914,714	P 129,967,634	P984,176,173	P855,678,405	P128,497,768

The carrying values of cash on hand and in banks and prepaid expenses represent the 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).

	2014					
	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired	Total
	High Grade	Medium Grade	Low Grade			
Loans and other receivables						
Cash in banks	P45,147,929	P -	P -	P -	P -	P45,147,929
Receivable from customers:						
Consumer	545,539,655	-	11,648,195	369,810,986	145,870,068	1,072,868,904
Services	-	-	136,745,990	8,541,531	7,420,535	152,708,056
Construction	-	-	2,041,589	-	-	2,041,589
Manufacturing	-	-	-	-	-	-
Other receivables	-	-	13,099,048	-	-	13,099,048
Other assets*	-	-	80,000	-	-	80,000
	P590,687,584	P -	P163,614,822	P378,352,517	P153,290,603	P1,285,945,526

\*Includes investments in Golf shares

	2013					
	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired	Total
	High Grade	Medium Grade	Low Grade			
Loans and other receivables						
Cash in banks	P36,305,836	P -	P -	P -	P -	P36,305,836
Receivable from customers:						
Consumer	781,268,139	-	24,275,459	414,177,847	98,846,817	1,318,568,262
Services	-	-	94,413,065	20,914,828	5,492,560	120,820,453
Construction	-	-	7,041,589	-	-	7,041,589
Manufacturing	-	-	1,033,881	-	-	1,033,881
Other receivables	-	-	21,322,555	-	949,000	22,271,555
Other assets*	-	-	80,000	-	-	80,000
	P817,573,975	P -	P148,166,549	P435,092,675	P105,288,377	P1,506,121,576

\*Includes investments in Golf shares

The Company's basis in grading its financial assets is 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:

2014						
	<30 Days	30-60 Days	61-90 Days	91-120 Days	>120 Days	Total
Consumer Services	P131,591,357	P73,943,815	P55,498,381	P -	P108,777,433	P369,810,986
	6,973,276	801,213	767,042	-	-	8,541,531
	P138,564,633	P74,745,028	P56,265,423	P -	P108,777,433	P378,352,517

2013						
	<30 Days	30-60 Days	61-90 Days	91-120 Days	>120 Days	Total
Consumer Services	P166,702,431	P93,662,717	P53,239,031	P39,300,744	P61,272,924	P414,177,847
	18,641,876	1,316,875	956,077	-	-	20,914,828
	P185,344,307	P94,979,592	P54,195,108	P39,300,744	P61,272,924	P435,092,675

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

	Contractual Maturities						Total
	Carrying amount	2014					
		Up to 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 Years	More than 3 Years	
<b>Financial Assets</b>							
Cash on hand and in banks	P46,375,048	P46,375,048	P -	P -	P -	P -	P46,375,048
Loans and other receivables							
Receivable from customers:							
Consumer Services	729,245,200	267,687,700	137,172,276	240,853,728	427,155,200	-	1,072,868,904
Construction Manufacturing	102,295,193	94,466,182	12,894,867	20,181,276	22,625,441	2,540,291	152,708,057
Other receivables	1,199,301	2,041,589	-	-	-	-	2,041,589
	12,142,653	4,838,388	6,739,561	700,960	537,610	282,528	13,099,047
	P891,257,395	P415,408,907	P156,806,704	P261,735,964	P450,318,251	P2,822,819	P1,287,092,645
<b>Financial Liabilities</b>							
Notes payable	P828,082,702	P152,266,905	P174,068,726	P496,956,162	P4,790,909	P -	P828,082,702
Accounts payable	21,860,364	21,860,364	-	-	-	-	21,860,364
Accrued interest	13,239,361	13,239,361	-	-	-	-	13,239,361





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.

	2014				
	Rx Cash Line	MC Factors	MC Financing	Others	Total
<b>Loans</b>	P77,834,119	P75,736,750	P1,040,772,261	P20,448,448	P1,214,791,578
<b>Results of operation</b>					
Revenues					
Interest income	P21,455,935	P5,403,389	P189,802,656	P3,531,643	P220,193,623
Other income	1,785,593	5,167,238	8,013,224	40,172,568	55,138,623
	23,241,528	10,570,627	197,815,880	43,704,211	275,332,246
Expenses					
Interest expense	3,454,546	2,731,296	43,538,099	847,295	50,571,236
Provision for credit losses	4,074,910	260,540	13,108,119	-	17,443,569
Operating expenses	7,094,236	1,398,226	157,634,099	786,160	166,912,721
	14,623,692	4,390,062	214,280,317	1,633,455	234,927,526
Net operating income	8,617,836	6,180,565	(16,464,437)	42,070,756	40,404,720
Less provision for income tax	2,585,351	1,854,169	(7,284,884)	1,564,905	(1,280,459)
<b>Net income (loss)</b>	<b>P6,032,485</b>	<b>P4,326,396</b>	<b>(P9,179,553)</b>	<b>P40,505,851</b>	<b>P41,685,179</b>
<b>Statement of financial position</b>					
Total assets	P54,149,192	P55,048,544	P942,066,655	P208,903,928	P1,260,168,319
Total liabilities	P36,992,545	P37,606,946	P665,442,330	P140,637,372	P880,679,193
<b>Other segment information</b>					
Capital expenditures	P -	P -	P -	P -	P -
Depreciation and amortization	P6,051	P1,836	P1,252,470	P1,256,787	P2,517,144
	2013				
	Rx Cash Line	MC Factors	MC Financing	Others	Total
<b>Loans</b>	P70,928,089	P57,967,833	P1,293,154,644	P23,446,887	P1,445,497,453
<b>Results of operation</b>					
Revenues					
Interest income	P19,702,999	P6,090,386	P169,520,667	P3,293,308	P198,607,360
Other income	575,059	1,199,522	7,970,637	60,963,646	70,708,864
	20,278,058	7,289,908	177,491,304	64,256,954	269,316,224
Expenses					
Interest expense	5,187,930	3,688,982	34,787,003	4,876,508	48,540,423
Provision for credit losses	2,776,062	581,749	64,979,697	-	68,337,508
Operating expenses	2,600,453	703,333	91,560,593	35,335,808	130,200,187
	10,564,445	4,974,064	191,327,293	40,212,316	247,078,118
Net operating income	9,713,613	2,315,844	(13,835,989)	24,044,638	22,238,106
Less provision for income tax	2,369,851	549,803	(545,496)	(3,239,981)	(865,823)
<b>Net income (loss)</b>	<b>P7,343,762</b>	<b>P1,766,041</b>	<b>(P13,290,493)</b>	<b>P27,284,619</b>	<b>P23,103,929</b>
<b>Statement of financial position</b>					
Total assets	P43,921,842	P53,669,253	P967,805,138	P227,747,750	P1,293,143,983
Total liabilities	P11,000	P8,000	P51,184,691	P902,462,563	953,666,254



Other segment information					
Capital expenditures	P -	P -	P -	P -	P -
Depreciation and amortization	P10,926	P756	P1,050,698	P2,385,035	P3,447,415

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

## 8. Loans and Other Receivables

This account consists of:

	Sept. 30, 2015 (Unaudited)	Dec 31, 2014 (Audited)
Loans Receivable	P1,368,827,852	P1,227,618,549
Others	14,528,885	13,099,048.
	1,383,356,737	1,240,717,597
Unearned interest income/discount	(375,686,967)	(336,429,699)
Client's equity	(33,605,631)	(22,721,025)
Allowance for credit losses	(44,406,470)	(36,684,525)
	<b>P929,657,669</b>	<b>P844,882,348</b>

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 2.1% plus gross receipts tax. Interest income earned from receivable from customers amounted to P162.52 million and P167.72 million in September 2015 and September 2014, respectively.

In determining the allowance for credit losses on loans and receivable, the Company also considered the provisioning requirements of Republic Act (R.A.) No. 8556, *The Financing Company Act*.

The Company is in compliance with the provisioning requirements set out by R.A. No. 8556.

## 9. Investment in an Associate

As of September 30, 2015 and December 31, 2014, investments in associate pertains to investments in 36% shares of stock of AIB.

	September 2015 (Unaudited)	December 2014 (Audited)
At cost	P75,000,000	P75,000,000
Accumulated equity in net earnings		
Balance at the beginning of the year	79,302,222	75,756,840
Share in net income	27,865,349	39,545,382
Dividends	(36,000,000)	(36,000,000)
Share in OCI	-	-
Balance at the end of the year	71,167,571	79,302,222
	<b>P146,167,571</b>	<b>P154,302,222</b>

## 10. Property and Equipment

The movements of property and equipment during the period follow:

	2015			
	Furniture, Fixtures & Equipment	Transportation	Leasehold Rights and Improvements	Total
<b>Cost</b>				
Balance, January 1, 2015	10,640,221.00	3,850,000.00	1,383,237.00	15,873,458.00
Additions	300,528.00	44,275.00	41,444.00	386,247.00
<b>Balance, September 30, 2015</b>	<b>10,940,749.00</b>	<b>3,894,275.00</b>	<b>1,424,681.00</b>	<b>16,259,705.00</b>
<b>Accumulated Depreciation and Amortization</b>				
Balance, January 1, 2015	7,365,550.00	2,101,678.00	694,959.00	10,162,187.00
Depreciation and amortization	1,127,689.00	184,217.00	146,165.00	1,458,071.00
<b>Balance, September 30, 2015</b>	<b>8,493,239.00</b>	<b>2,285,895.00</b>	<b>841,124.00</b>	<b>11,620,258.00</b>
<b>Net Book Value</b>				
<b>September 30, 2015</b>	<b>2,447,510.00</b>	<b>1,608,380.00</b>	<b>583,557.00</b>	<b>4,639,447.00</b>
<b>Dec. 31, 2014 (Audited)</b>	<b>2,331,368.00</b>	<b>2,531,452.00</b>	<b>688,278.00</b>	<b>3,219,730.00</b>

Motorcycle inventory is transferred to transportation equipment when these are used in the business operations by the employees. The transportation equipment is valued at the inventory's carrying amount.

## 11. Investment Properties

This account consists of cost of land and the related impairment:

	September 2015 (Unaudited)	December 2014 (Audited)
Cost	<b>₱3,544,001</b>	₱3,544,001
Allowance for impairment losses		
Balance at beginning of the year	(939,533)	(1,019,533)
Reversal of impairment	-	80,000
Balance at end of the year	(939,533)	(939,533)
	<b>₱2,604,468</b>	₱2,604,468

The aggregate fair value of the investment properties of the Company amounted to ₱4.33 million as of December 2014. No sale of investment property occurred in 2015 and 2014. 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 unit of comparison applied by the Company is the price per square meter. The fair value of the investment properties is based on Level 2 hierarchy.



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## 12. Other Assets

This account consists of:

	<u>September 2015</u> <u>(Unaudited)</u>	<u>December 2014</u> <u>(Audited)</u>
Motorcycle Inventories	171,007,819	182,720,097
Prepaid Expenses	4,592,365	976,195
Software Costs	376,065	701,548
Available for sale investments	80,000	80,000
	<u>₱176,056,249</u>	<u>₱184,477,840</u>

Motorcycle inventories pertain to repossessed units from the Company's motorcycle financing business carried at the lower of cost or its net realizable value. These units are intended for immediate resale.

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## 13. Notes Payable

This represents short-term loans from the banks and Company's stockholders. Interest rates from borrowings range from 4.00% to 5.75% and from 5.00% to 6.00% per annum in 2015 and 2014, respectively.

Interest expense on these notes payable amounted to P33.69 million and P50.57 million, in 2015 and 2014, respectively.

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## 14. Stockholders' Equity

On July 30, 2015, the BOD and stockholders approved the declaration of 3.07% stock dividends in the maximum amount of ₱6,252,710 to stockholders of record as of August 27, 2015 with distribution date not later than September 22, 2015. On the same date, the BOD also approved the declaration of cash dividends amounting to ₱6,252,776. Fractional shares related to this declaration were settled in cash amounting to ₱66.85.

On July 31, 2014, the BOD and stockholders approved the declaration of 1.73% stock dividends in the maximum amount of ₱3,465,553 to stockholders of record as of August 28, 2014 with distribution date not later than September 23, 2014. On the same date, the BOD also approved the declaration of cash dividends amounting to ₱3,465,589. Fractional shares related to this declaration were settled in cash amounting to ₱36.

On July 25, 2013, the BOD and stockholders approved the declaration of 1.24% stock dividends in the maximum amount of ₱2,445,209 to stockholders of record as of August 22, 2013 with distribution date not later than September 17, 2013. On the same date, the BOD also approved the declaration of cash dividends amounting to ₱2,445,298. Fractional shares related to this declaration were settled in cash amounting to ₱44.

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.

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.



**MAKATI FINANCE CORPORATION**  
**SCHEDULE SHOWING FINANCIAL SOUNDNESS**  
**PURSUANT TO SRC RULE 68, AS AMENDED**  
**SEPTEMBER 30, 2015**

	<u>2015</u>	<u>2014</u>
	Sept. 30	Sept. 30
<b>Solvency and Liquidity Ratios</b>		
Current ratio	105.00%	103.34%
Debt to equity ratio	226.48%	241.43%
Quick ratio	90.25%	108.25%
<b>Profitability Ratios</b>		
Return on assets	2.56%	6.73%
Return on equity	8.37%	8.12%
Net profit margin	41.12%	47.28%
<b>Asset to Equity Ratio</b>	326.48%	341.43%
<b>Interest Rate Coverage Ratio</b>	198.36%	208.10%
<b>Other Relevant Ratios</b>		
Ratio or percentage of total real estate investments to total assets	0.07%	0.21%
Total receivables to total assets	71.49%	70.15%
Total DOSRI receivables to Networth	3.79%	1.86%
Amount of receivables from a single corporation to total receivables:		
Honda Motor World, Inc.	0.25%	0.27%
Motor Ace Philippines, Inc..	0.23%	0.24%

AGING OF RECEIVABLES  
AS OF SEPTEMBER 30, 2015

CLASSIFICATION	TOTAL	CURRENT	1-30 DAYS	31-60 DAYS	61-90 DAYS	91-150 DAYS	>150 DAYS
<b>A. Trade Receivables</b>							
<b>Loan Receivable (Principal)*</b>							
As to Maturity Date:							
Within 1 year or less							
Maturity after 1 year							
<b>Loan Receivables</b>	1,368,827,852.49	1,235,778,477.95	20,298,232.04	13,372,814.62	4,361,063.14	22,037,354.65	72,979,910.09
<b>SUB-TOTAL</b>	<b>1,368,827,852.49</b>	<b>1,235,778,477.95</b>	<b>20,298,232.04</b>	<b>13,372,814.62</b>	<b>4,361,063.14</b>	<b>22,037,354.65</b>	<b>72,979,910.09</b>
Less: Allowance for Doubtful	44,406,469.25						44,406,469.25
<b>Net Trade Receivables</b>	<b>1,324,421,383.24</b>	<b>1,235,778,477.95</b>	<b>20,298,232.04</b>	<b>13,372,814.62</b>	<b>4,361,063.14</b>	<b>22,037,354.65</b>	<b>28,573,440.84</b>
<b>B. Non - Trade Receivables</b>							
<b>Due from Subsidiaries/Affiliates</b>							
As to Maturity Date:							
Within 1 year or less**							
Maturity after 1 year	14,528,884.81	14,528,884.81					
<b>SUB-TOTAL</b>							
Less: Allowance for Doubtful Accounts							
<b>Net Non - Trade Receivables</b>							
<b>NET RECEIVABLES</b>	<b>1,338,950,268.05</b>	<b>1,250,307,362.76</b>	<b>20,298,232.04</b>	<b>13,372,814.62</b>	<b>4,361,063.14</b>	<b>22,037,354.65</b>	<b>28,573,440.84</b>

\* Principal = Gross Promissory Note - Unearned Interest & Discount/Clients' Equity

\*\* Allowance for doubtful accounts is for principal only. (Please see noted on Receivables)