111162017004498

# SECURITIES AND EXCHANGE COMMISSION

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Company Information

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| SEC Registration No. | 0000028788 |
| Company Name | MAKATI FINANCE CORP. |
| Industry Classification | FINANCING COMPANY OPERATIONS |
| Company Type | Stock Corporation |

**Document Information**

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|---|---|
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| Remarks | |

MAKATI FINANCE
FINANCIAL SERVICES AND ADVISORY
WE ARE HERE TO MAKE YOUR DREAMS HAPPEN

November 10, 2017

**The Disclosure Department**
**SECURITIES AND EXCHANGE COMMISSION**
SEC Building, Mandaluyong City

Attention **: MS. JANET A. ENCARNACION**
Head, Disclosure Department

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

Attention : **Mr. Jose Valeriano B. Zuño**
OIC, Head of Disclosure Department

Gentlemen:

We are sending herewith the Quarterly Report for the period ended September 30, 2017 (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/CIO

# COVER SHEET

| | | 2 | 8 | 7 | 8 | 8 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|

S.E.C. Registration Number

MAKATI FINANCE CORPORATION

(Company's Full Name)

3 RD FLOOR MAZDA MAKATI
BUILDING 2301 CHINO ROCES
BARANGAY MAGALLANES
AVENUE MAKATI CITY 1231

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

| MARCOS E. LAROSA | (02) 751-8132 |
|---|---|
| Contact Person | Company Telephone Number |

| 1 2 | 3 1 | SEC Form 17Q<br>3rd Qtr. 2017 | 0 7 | |
|---|---|---|---|---|
| *Month* | *Day* | FORM TYPE | *Month* | *Day* |
| Fiscal Year | | | Annual Meeting | |
| **2017** | | | **Every last Thursday of July** | |

Secondary License Type, If Applicable

| C F D | |
|---|---|
| Dept. Requiring this Doc. | Amended Articles Number/Section |

Total Amount of Borrowings

| 104 | | |
|---|---|---|
| Total No. of Stockholders | Domestic | Foreign |

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To be accomplished by SEC Personnel concerned

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**SECURITIES AND EXCHANGE COMMISSION**

# SEC FORM 17-Q

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

1. For the quarterly period ended **September 30, 2017**

2. Commission identification number **28788**

3. BIR Tax Identification No. **000-473-966**

**MAKATI FINANCE CORPORATION**
4. Exact name of issuer as specified in its charter

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

6. Industry Classification Code: [ ] (SEC Use Only)

**3/F Mazda Makati Bldg. 2301 Don Chino Roces Ave, Brgy. Magallanes, Makati City 1231**
7. Address of issuer's principal office Postal Code

(**0632) 751-8132**
8. Issuer's telephone number, including area code

**7823 MAKATI AVENUE, POBLACION, MAKATI CITY 1210**
9. Former name, former address and former fiscal year, if changed since last report

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

| Title of each Class | Number of shares of common stock outstanding and amount of debt outstanding |
|---|---|
| **COMMON STOCK** | **223,412,301 *** |

**as reported by the stock transfer agent as of September 30, 2017*

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

Yes [X] 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 Period Ending September)*

| | *2017* | *2016* |
|---|---|---|
| NET INTEREST INCOME | 78.12% | 76.93% |
| EBIT MARGIN | 27.74% | 41.09% |
| RETURN ON ASSETS(annualized) | 0.90% | 1.83% |
| DEBT TO EQUITY | 143.63% | 210.08% |
| RETURN ON EQUITY(annualized) | 2.19% | 5.67% |

Net interest income (NII) increased by 1.19% from 76.93% as of September 30, 2016 to 78.12% in 2017; NII is computed by deducting the cost of borrowings from the gross interest revenues. The EBIT margin, which measures profitability performance as annualized net income before interest and taxes over the total interest income ended at 27.74% in September 2017 as against 41.09% in September 2016. Return on assets was 0.90% in 2017 as against 1.83% in 2016. 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 2.19% in September 2017 as against 5.67% in the same period last year. 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 ₱ 7.57 million as of September 2017. Net interest income for the period ending September amounted to ₱ 94.5 million. The thrust in loan production is to produce more low risk, low interest yield loans for higher quality portfolio.

On operating expenses, increased salaries and benefits, rent and depreciation expenses contributed to the increase in the operating expenses as of September 30, 2017. 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 ₱1,222.4 million, of which current assets were at ₱703 million. The decrease in total assets as of September 2017 versus the same period last year is primarily due to lower loan releases this year. Total liabilities amounting to ₱661.73 million as of September 30, 2017 decreased from ₱767.5 million from December 2016 due to significant loan payments made during the year.

**Material Events or Uncertainties**

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

## 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............………....…..…………………**RENE B. BENITEZ**........…...................
Signature and Title...........……………………**CHAIRMAN**……..………..................

Date …… November 10, 2017

Principal Financial/Accounting Officer/Controller...….......**MARCOS E. LAROSA**……………………
Signature and Title.......................................................**CHIEF FINANCE OFFICER**.........................

Date …….November 10, 2017

# ANNEX A

FINANCIAL STATEMENTS
For the Period Ending September 30, 2017
With Comparative Figures for 2016

**MAKATI FINANCE CORPORATION**
**INTERIM BALANCE SHEET**
**FOR THE PERIOD ENDING SEPTEMBER 30, 2017 & 2016 AND DECEMBER 31, 2016**

| | **Sept. 30, 2017 (Unaudited)** | **Dec. 31, 2016 (Audited)** | **Sept. 30, 2016 (Unaudited)** |
|---|---|---|---|
| Current Assets: | | | |
| Cash on Hand/in Banks *(Note 8)* | 139,878,255 | 97,617,641 | 17,567,110 |
| Receivables *(Note 9)* | 635,920,669 | 849,023,273 | 946,928,082 |
| Total Current Assets | 775,798,924 | 946,640,914 | 964,495,192 |
| Investment Properties *(Note 12)* | 43,859,359 | 2,604,468 | 2,604,468 |
| Investment in Associates *(Note 10)* | 99,936,744 | 94,962,090 | 160,033,951 |
| Property & Equipment - net *(Note 11)* | 12,017,335 | 14,823,832 | 16,304,528 |
| Deferred Tax Asset | 58,437,696 | 57,706,296 | 30,662,549 |
| Other Assets - net *(Note 13)* | 132,392,104 | 110,848,563 | 164,402,089 |
| **Total Assets** | **1,122,442,162** | **1,227,586,163** | **1,338,502,777** |

| | **Sept. 30, 2017 (Unaudited)** | **Dec. 31, 2016 (Audited)** | **Sept. 30, 2016 (Audited)** |
|---|---|---|---|
| Current Liabilities: | | | |
| Notes Payable *(Note 14,21)* | 629,290,147 | 711,186,458 | 845,360,313 |
| Accounts Payable*(Note 21,18)* | 6,279,850 | 18,757,108 | 33,975,818 |
| Accrued Expenses *(Note 15)* | 26,164,511 | 37,550,118 | 27,505,060 |
| Total | 661,734,508 | 767,493,684 | 906,841,191 |
| Stockholder's Equity: | | | |
| Capital Stock – P1 par value | | | |
| Authorized – 300,000,000 shares | | | |
| Issued and Outstanding | 223,412,301 | 216,462,556 | 216,462,556 |
| Additional Paid in Capital | 5,803,922 | 5,803,922 | 5,803,922 |
| Retained Earnings | 219,434,772 | 187,002,406 | 187,002,406 |
| Remeasurement gains on retirement assets | 4,491,589 | 4,491,589 | 4,045,396 |
| Share in other comprehensive income/(loss) of an associate | 57 | 57 | 57 |
| YTD Net Income | 7,565,013 | 46,331,949 | 18,347,249 |
| Total | 460,707,654 | 460,092,479 | 431,661,586 |
| **Total Liabilities and Capital** | **1,122,442,162** | **1,227,586,163** | **1,338,502,777** |

**MAKATI FINANCE CORPORATION**
**INTERIM STATEMENT OF COMPREHENSIVE INCOME AND RETAINED EARNINGS**
**FOR THE QUARTER ENDING SEPTEMBER 30, 2017 AND 2016**

| | FOR 3 MONTHS ENDING | | FOR 9 MONTHS ENDING | |
|---|---|---|---|---|
| | 2017-SEPT 30 | 2016-SEPT 30 | 2017-SEPT 30 | 2016-SEPT 30 |
| **Interest Income – Loans** | **34,377,929** | **51,749,187** | **120,982,205** | **155,573,688** |
| Cost of Borrowings | 8,835,068 | 13,112,394 | 26,464,975 | 35,883,186 |
| Net Interest Income | **25,542,861** | 38,636,793 | 94,517,230 | 119,690,502 |
| Less: Provisions | 300,000 | 915,626 | 2,800,000 | 7,366,211 |
| **Net Interest Income** | **25,242,861** | **37,721,167** | **91,717,230** | **112,324,291** |
| Other Income | 4,694,989 | 17,933,405 | 18,757,125 | 51,139,535 |
| **Total Revenue** | **29,937,850** | **55,654,572** | **110,474,355** | **163,463,826** |
| **Operating Expenses** | | | | |
| Professional/Management Fees and Bonus | 1,706,746 | 5,445,341 | 5,343,239 | 10,636,580 |
| Salaries and Wages | 14,442,450 | 14,404,984 | 44,626,627 | 50,530,945 |
| Transportation and Representation | 1,110,960 | 2,045,637 | 4,876,982 | 5,162,188 |
| Depreciation and Amortization | 1,211,970 | 1,577,860 | 3,680,441 | 3,375,730 |
| Commissions | 2,821,592 | 693,656 | 6,887,438 | 2,015,174 |
| Loss from sale and write-down of MC inventories | -43,075 | 25,017,187 | 12,496,754 | 46,818,892 |
| Other Employee Benefits | 456,453 | 518,040 | 1,605,526 | 1,905,861 |
| Communication | 531,103 | 664,641 | 1,696,695 | 1,942,906 |
| Occupancy costs | 3,493,575 | 3,496,202 | 10,350,772 | 9,426,856 |
| Taxes, Licenses, Permits and fees | 3,831,325 | 3,270,362 | 9,893,504 | 10,625,581 |
| **Operating Expenses** | **29,563,099** | **57,133,910** | **101,457,978** | **142,440,713** |
| Other Operating Expenses | 117,368 | 2,288,757 | 1,915,759 | 6,976,896 |
| **Total** | **29,680,467** | **59,422,667** | **103,373,737** | **149,417,609** |
| **Net Income Before Income Tax** | **257,383** | **-3,768,095** | **7,100,618** | **14,046,218** |
| Provisions for Tax/Deferred Tax Adjustment | -1,024,969 | -2,925,078 | -464,395 | -4,301,032 |
| **Net Income** | **1,282,352** | **-843,017** | **7,565,013** | **18,347,249** |
| Other Comprehensive Income | - | - | **-** | **-** |
| **Total Comprehensive Income** | **1,282,352** | **-843,017** | **7,565,013** | **18,347,249** |
| **BASIC EARNINGS PER SHARE** | **0.01** | **0.00** | **0.03** | **0.08** |

***As of September 30, 2017, and December 31, 2016,** there were no shares of stock that have a dilutive effect on the earnings per share of the Company.

**MAKATI FINANCE CORPORATION**
**INTERIM CASH FLOW STATEMENTS**
**FOR THE PERIOD ENDING SEPTEMBER 30, 2017 AND 2016**

| | 2017<br>30-SEPT | 2016<br>30-SEPT |
|---|---|---|
| **Cash Flow From Operating Activities** | | |
| Net Income Before Tax and Extra-Ordinary Items | 7,100,618 | 14,046,218 |
| Adjustments for: | | |
| Provisions for probable losses | 2,800,000 | 17,426,018 |
| Depreciation and amortization | 4,060,184 | 3,375,730 |
| Share in the net income of an associate | (4,974,654) | (36,944,594) |
| Change in operating Assets and Liabilities | | |
| Decrease (increase) in the amounts of: | | |
| Receivables | 169,047,713 | (42,509,570) |
| Other Assets | (22,190,289) | 24,403,664 |
| Increase (decrease) in the amounts of: | | |
| Accrued Expenses Payable | (6,634,001) | (2,204,160) |
| Other Payable | (14,424,927) | 7,467,550 |
| **Net cash provided by (used in) operating activities** | **134,784,645** | **(14,939,144)** |
| Income Tax Paid | (2,803,937) | (1,287,000) |
| **Net Cash provided by (used in) operating activities** | **131,980,708** | **(16,226,144)** |
| | | |
| **Cash Flow From INVESTING Activities** | | |
| Acquisition of Property and Equipment | (873,944) | (15,826,517) |
| Pre-termination of short-term money market placement | - | - |
| Cash Dividends from AIB | - | 36,000,000 |
| Proceeds from Sale of Property and Equipment | - | - |
| **Net cash provided by (used in) investing activities** | **(873,944)** | **20,173,483** |
| | | |
| **Cash Flow From FINANCING Activities** | | |
| Cash dividend paid | (6,949,838) | (6,887,194) |
| Loan availments | 141,337,160 | 133,503,758 |
| Pre-Termination) | (223,233,471) | (131,402,912) |
| **Net cash provided by (used in) financing activities** | (88,846,149) | (**4,786,348**) |
| | | |
| Net cash provided by (used in) Cash and Cash Equivalents | **42,260,614** | **(839,009)** |
| | | |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 97,617,641 | 18,406,119 |
| **CASH AND CASH EQUIVALENTS AT END OF QUARTER** | **139,878,255** | **17,567,110** |

**MAKATI FINANCE CORPORATION**
**STATEMENTS OF CHANGES IN EQUITY**
**FOR THE PERIOD ENDING SEPTEMBER 30, 2017 AND 2016 AND DECEMBER 31, 2016**

| | **SEPT 30, 2017** | **Dec. 31, 2016** | **SEPT 30, 2016** |
|---|---|---|---|
| **Capital Stock** | | | |
| Authorized 300,000,000 par value P1 | | | |
| Issued and outstanding | ₱216,462,556 | ₱209,565,483 | ₱209,565,483 |
| Stock dividends | 6,949,745 | 6,897,073 | 6,897,073 |
| Issuance during the year | | | |
| | **₱223,412,301** | **₱216,462,556** | **₱216,462,556** |
| **Additional paid-in capital** | | | |
| Balance, beginning of year | 5,803,922 | 5,803,922 | 5,803,922 |
| Issuance during the year | | | |
| | **₱5,803,922** | **₱5,803,922** | **₱ 5,803,922** |
| **Retained earnings (deficit)** | | | |
| Balance, beginning of year | ₱233,334,355 | ₱200,796,673 | ₱200,796,673 |
| Adjustment to RE | | | |
| Stock dividends | (6,949,745) | (6,897,073) | (6,897,073) |
| Cash dividends | (6,949,839) | (6,897,194) | (6,897,194) |
| Total Comprehensive Income | 7,565,013 | 46,331,949 | 18,347,249 |
| **Balance, end of quarter/year** | **₱226,999,784** | **₱233,334,355** | **₱205,349,655** |
| Remeasurement gains on retirement assets | **₱4,491,589** | **₱4,491,589** | **₱4,045,396** |
| Share in other comprehensive income/loss of an associate | **57** | **57** | **57** |
| Net unrealized loss on investments | | | |
| **Total Equity** | **₱460,707,654** | **₱460,092,479** | **₱ 431,661,586** |

**MAKATI FINANCE CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

( With Comparative Figures of 2016)

## 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.

On October 21, 2015, the Philippine Securities and Exchange Commission (SEC) approved the request of the Company to amend its Articles of Incorporation for the extension of the corporate term for another 50 years.

The Company's principal place of business is at 3/F Mazda Makati Bldg., 2301 Chino Roces Avenue, Makati City. Amalgamated Investment Bancorporation (AIB) owns 42.46% and 69.42% of the Company as at December 31, 2016 and 2015, respectively. The Company has an ownership in AIB of 20% and 36% as at December 31, 2016 and 2015, respectively.

On March 11, 2002, the Board of Directors (BOD) and stockholders approved the offer of up to 19,560,000 shares from the Company's unissued common stock through initial common public offering (IPO). The application for the IPO of the Company was approved by the SEC and the Philippine Stock Exchange (PSE), on December 9, 2002 and November 28, 2002, respectively. The Company was listed in the PSE under the Small and Medium Enterprise Board on January 6, 2003, with an offer price of P1.38 per share.

## 2. Basis of Preparation

Statement of Compliance

The 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 liability which is measured at present value of the defined benefit liability less fair value of plan assets.

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.

Approval of Issuance of Financial Statements

The accompanying financial statements of the Company were approved by the Audit Committee, as authorized for issue by the BOD, on April 4, 2017.

## 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, 2016 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.

- *Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to PAS 16, Property, Plant and Equipment* and *PAS 38, Intangible Assets).* The amendments to PAS 38 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 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.

- *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, Non-current Assets Held for Sale and Discontinued Operations).* 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.

  - *'Continuing involvement' for servicing contracts (Amendment to PFRS 7, Financial instruments: Disclosures).* 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.'

  - *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.

  - *Discount rate in a regional market sharing the same currency - e.g., the Eurozone (Amendment to PAS 19, Employee Benefits)*. The amendment to PAS 19 clarifies that high-quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid. Consequently, the depth of the market for high-quality corporate bonds should be assessed at the currency level and not at the country level.

- *Disclosure of information 'elsewhere in the interim financial report' (Amendment to PAS 34, Interim Financial Reporting).* 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.

▪ *Disclosure Initiative (Amendments to PAS 1, Presentation of Financial Statements)* addresses some concerns expressed about existing presentation and disclosure requirements and to ensure that entities are able to use judgment when applying PAS 1. The amendments clarify that:

- Information should not be obscured by aggregating or by providing immaterial information.

- Materiality considerations apply to all parts of the financial statements, even when a standard requires a specific disclosure.

- The list of line items to be presented in the statements of financial position and statements of comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

- An entity's share of other comprehensive income (OCI) of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

<u>Interest income and expense</u>
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 financial asset using the effective interest method.

Interest from bank deposit accounts is recognized as the interest is earned. Interest income is presented net of tax unless final tax is deemed significant.

<u>Revenue Recognition</u>
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:
*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.

*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.

Cash and Cash Equivalents
Cash includes cash on hand, cash in banks and cash equivalents. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placement and that are subject to an insignificant risk of changes in value.

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 statements 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) financial assets, 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 at September 30, 2017 and December 31, 2016, the Company has no HTM investments, AFS financial assets and financial assets and liabilities at FVPL.

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

a. *Financial Assets at FVPL*
Financial assets 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' in the Statements of Comprehensive 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 financial assets at FVPL, HTM investments or loans and receivables. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

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 as 'net unrealized loss on AFS financial assets in OCI.

When the AFS financial assets are disposed, 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 financial assets at FVPL or as AFS financial assets.

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 financial assets, and would prevent the Company from classifying investment securities as HTM for the current and the following two (2) 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 financial assets 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 non-performing 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 - net' in the statements of financial position.

Included in this category are 'Cash and cash equivalents', 'Loans and other receivables - net' and 'Security deposits' presented under 'Other assets – net' in the statements of financial position.

e. *Financial Liabilities at FVPL*
A financial liability is classified as at FVPL if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at FVPL are measured at fair value and changes therein, including any interest expense, are recognized in profit or loss.

f. *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.

*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 Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Fair value measured using unadjusted quoted prices in active market for identical assets or liabilities.

- Level 2: Fair value measured using inputs other than quoted prices included in Level 1 that are observable for the asset and liability, either directly of (i.e., prices) or indirectly (i.e., derived from prices).

- Level 3: Fair value measured using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Transfers between levels of the fair value hierarchy, when applicable, are recognized at the end of the reporting period which the change has occurred.

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 the 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.

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.

*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 or 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 or 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 or 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 profit or loss, the impairment loss is reversed to the extent of the carrying amount of the debt security 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 debt 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.

*Offsetting*
Financial assets and financial liabilities are offset and the net amount presented in the statements 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 pertain 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 has no 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 statements of comprehensive income report 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 statements 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 statement of comprehensive income 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 net of '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.

<u>Property and Equipment</u>
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.

<u>Investment Properties</u>
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 real estate 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 these 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 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 NRV is recognized as a loss from write-down of motorcycle inventories in profit or loss. Motorcycle inventories account is presented under 'Other asset – net' in the statements of financial position.

Software Costs

Software costs that are not an integral part of the hardware are classified as intangible assets. This is included under "Other assets - net" account in the statements 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 asset 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 asset 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 (excluding security deposits) 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.

<u>Equity</u>
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.

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

<u>Dividends on Common Shares</u>
Cash dividends on common shares are recognized as a liability and deducted from equity once approved by the 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.

<u>Foreign Currency Transactions and Translation</u>
Foreign currency-denominated assets and liabilities are translated to Philippine peso at the prevailing Philippine Dealing & Exchange Corp 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.

<u>Leases</u>
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 risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments received are recognized as an income in profit or loss 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 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 'Salaries and employee 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; or
- 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 has 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.

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 deferred tax 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 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 statements 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 statements 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, 2016 and have not been applied in preparing these financial statements. Based on management's assessment, none of these is expected to have a significant impact on the Company's financial statements.

*To be Adopted January 1, 2017*

- *Disclosure initiative (Amendments to PAS 7, Statement of Cash Flows).* The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g., by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

  The amendments are effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted. When an entity first applies the amendments, it is not required to provide comparative information for preceding periods.

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12, Income Taxes)*. The amendments clarify that:

  - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;

  - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;

  - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and

  - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

  The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2017. Early adoption is permitted. On initial application, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If an entity applies the relief, it shall disclose that fact.

*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.

The Company will assess the potential impact on its financial statements resulting from the application of PFRS 9.

*To be Adopted January 1, 2019*

- PFRS 16*, Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 Revenue from Contracts with Customers at or before the date of initial application of PFRS 16. The Company is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date.

*Deferral of the local implementation of Amendments to PFRS 10, Consolidated Financial Statements and PAS 28, Investment in Associate: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

- *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.

  Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016 with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date of these amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

## 4. Significant Accounting Judgments and Estimates

The preparation of the financial statements in conformity with PFRSs requires the Company to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under circumstances, the results of which form the basis of making the judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the periods of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements follows:

<u>Judgments</u>

*(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 statements 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 (see Note 23).

<u>Estimates</u>

*(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 assessed that allowance for impairment loss necessary for its loans and receivables as at September 30, 2017 and December 31, 2016 amounted to ₱95.4 million and ₱92.61 million, respectively (see Note 9).

The carrying value of loans and receivables amounted to ₱635.9 million and ₱947.78 million as at September 30, 2017 and December 31, 2016, respectively, net of allowance for credit losses (see Note 9).

*(b) Impairment of Investment in an Associate, Property and Equipment, Investment Properties*

*and Software Costs*

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.

As at September 30, 2017 and December 31, 2016, the Company did not recognize impairment on investment in an associate, property and equipment, investment properties and software costs.

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.

(c) *Write-down of Motorcycle Inventories to NRV*

The Company recognizes loss on write-down 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. Increase in the NRV will increase the carrying amount of inventories but only to the extent of their original acquisition cost.

As at September 30, 2017 and December 31, 2016, the carrying value of motorcycle inventories amounted to ₱120.54 million and ₱112.56 million, respectively (see Note 13).

(d) *Recognition of Deferred Tax Assets*

The Company reviews the carrying amounts of deferred taxes at each reporting date and reduce deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Company will generate sufficient taxable income to allow all or part of deferred tax assets to be utilized. The Company looks at its projected performance in assessing
the sufficiency of future taxable income. The amount of deferred tax assets are disclosed in Note 20.

(e) *Estimating Useful Lives of Property and Equipment, Investment Properties and Software Costs*

The Company estimates the useful lives of its property and equipment, investment properties and software cost based on the period over which these properties are expected to be available for use. The estimated useful lives of the properties are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these properties. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The estimated useful lives are disclosed in Note 3.

(f) *Valuation of Retirement Liability*

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. Further details on the retirement liability are provided in Note 18.

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.

As at December 31, 2016 and 2015, the net retirement liability amounted to ₱1.55 million and ₱0.61 million, respectively (see Note 18).

(g) *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.

As at September 30, 2017 and December 31, 2016, the Company did not recognize provisions nor contingencies related to legal obligations or claims.

## 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 and Cash Equivalents*
Carrying amounts approximate fair values due to the relatively short-term maturities of these financial assets.

*Loans and Other Receivables*
The carrying amounts 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.

*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.

## 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. There is no change in the financial risk management objectives and policies of the Company.

<u>Credit Risk</u>
*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, and enters into collateral arrangements with counterparties to limit 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 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.

| | **September 30, 2017 (Unaudited)** | | | December 31, 2016 (Audited) | | |
|---|---|---|---|---|---|---|
| | **Gross Maximum Exposure** | **Fair Value of Collateral or Credit Enhancement** | **Net Maximum Exposure After Financial Effect of Collateral and Credit Enhancements** | Gross Maximum Exposure | Fair Value of Collateral or Credit Enhancement | Net Maximum Exposure After Financial Effect of Collateral and Credit Enhancements |
| **Loans and Other Receivables** | | | | | | |
| Cash and cash equivalents* | **P139,878,255** | **0** | **P139,878,255** | ₱ 96,800,856 | ₱ - | ₱96,800,856 |
| Receivable from customers: | | | | | | |
| Consumer | **574,692,141** | **551,704,455** | **22,987,686** | 770,797,008 | 746,006,867 | 24,790,141 |
| Services | **137,534,038** | **6,876,702** | **130,657,336** | 151,855,672 | 7,155,357 | 144,700,315 |
| Dividend receivable | **0** | **0** | **0** | - | - | - |
| Other receivables | **15,722,003** | **0** | **15,722,003** | 18,982,734 | - | 18,982,734 |
| Security deposits** | **3,384,627** | **0** | **3,384,627** | 3,384,627 | - | 3,384,627 |
| | **P871,211,065** | **P558,581,157** | **P312,629,908** | ₱1,041,820,897 | ₱753,162,224 | ₱288,658,673 |

**Excluding cash on hand*
***Presented under 'Other assets - net'*

The tables below show a comparison of the credit quality of the Company's financial assets (net of unearned interest income and client's equity).

| | **September 30, 2017 (Unaudited)** | | | | | |
|---|---|---|---|---|---|---|
| | **Neither Past Due nor Impaired** | | | | | |
| | **High Grade** | **Medium Grade** | **Low Grade** | **Past Due but not Impaired** | **Impaired** | **Total** |
| Loans and Other Receivables | | | | | | |
| Cash and cash equivalents* | **P139,878,255** | **P --** | **P -** | **P -** | **P -** | **P139,878,255** |
| Receivable from customers: | | | | | | |
| Consumer | **362,056,049** | - | **17,240,764** | **120,685,350** | **74,709,978** | **574,692,141** |
| Services | - | - | **103,150,529** | - | **34,383,510** | **137,534,038** |
| Dividend receivable | - | - | - | - | - | - |
| Other receivables | - | - | **15,642,003** | - | - | **15,642,003** |
| Security deposits | - | - | **3,384,627** | - | - | **3,384,627** |
| Other investments** | **-** | - | **80,000** | - | - | **80,000** |
| | **P501,934,304** | **P -** | **P139,497,923** | **P120,685,350** | **P109,093,488** | **P871,211,065** |

** Excluding cash on hand*
***Includes investments in golf shares which is presented under 'Other assets - net'*

| | December 31, 2016 ( Audited) | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | | | Past Due | | |
| | High Grade | Medium Grade | Low Grade | but not Impaired | Impaired | Total |
| Loans and Other Receivables | | | | | | |
| Cash and cash equivalents* | **₱ 96,800,856** | **₱ --** | **₱ -** | **₱ -** | **₱ -** | **₱ 96,800,856** |
| Receivable from customers: | | | | | | |
| Consumer | **490,990,459** | - | **13,924,086** | **165,398,649** | **100,483,814** | **770,797,008** |
| Services | - | - | **121,621,267** | - | **30,234,405** | **151,855,672** |
| Dividend receivable | - | - | - | - | - | - |
| Other receivables | - | - | **18,982,734** | - | - | **18,982,734** |
| Security deposits | - | - | **3,384,627** | - | - | **3,384,627** |
| Other investments** | **-** | - | **80,000** | - | - | **80,000** |
| | **₱587,791,315** | **₱ -** | **₱157,992,714** | **₱165,398,649** | **₱130,718,219** | **₱1,041,900,897** |

** Excluding cash on hand*
***Includes investments in golf shares which is presented under 'Other assets - net'*

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 ten (10) rank.

*Cash Equivalents*
High grade pertains to short term placements with AIB which have high probability of collection, as evidenced AIB's the ability to satisfy its obligations.

*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 is as follows:

| | **September 30, 2017** | | | | | |
|---|---|---|---|---|---|---|
| | **1-30 Days** | **30-60 Days** | **61-90 Days** | **91-120 Days** | **More than120 Days** | **Total** |
| Consumer | **₱62,943,169** | **₱25,919,385** | **₱13,216,026** | **₱5,157,006** | **₱13,449,763** | **₱120,685,350** |
| Services | **-** | **-** | **-** | **-** | **-** | **-** |
| | **₱62,943,169** | **₱25,919,385** | **₱13,216,026** | **₱5,157,006** | **₱13,449,763** | **₱120,685,350** |

| | December 31, 2016 (Audited) | | | | | |
|---|---|---|---|---|---|---|
| | 1-30 Days | 30-60 Days | 61-90 Days | 91-120 Days | More than 120 Days | Total |
| Consumer | ₱70,240,018 | ₱26,315,422 | ₱22,606,684 | ₱8,442,800 | ₱37,793,725 | ₱165,398,649 |
| Services | - | - | - | - | - | - |
| | ₱70,240,018 | ₱26,315,422 | ₱22,606,684 | ₱8,442,800 | ₱37,793,725 | ₱165,398,649 |

*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** | | | | | |
|---|---|---|---|---|---|---|---|
| | | **September 30, 2017 (Unaudited)** | | | | | |
| | **Carrying Amount** | **Up to 3 Months** | **3 to 6 Months** | **6 to 12 Months** | **1 to 3 Years** | **More than 3 Years** | **Total** |
| **Financial Assets** | | | | | | | |
| Cash and cash equivalents | **P139,878,255** | **P139,878,255** | **P -** | **P -** | **P -** | **P -** | **P139,878,255** |
| Loans and other receivables | | | | | | | |
| Receivable from customers: | | | | | | | |
| Consumer | **574,692,141** | **116,228,508** | **104,917,777** | **183,651,102** | **331,103,089** | **22,661,176** | **758,561,651** |
| Services | **137,534,038** | **114,143,340** | **12,713,889** | **22,325,130** | **40,076,511** | **11,366,602** | **200,625,473** |
| Other receivables | **19,026,630** | **18,896,746** | **1,175,029** | **2,350,057** | **-** | **-** | **22,341,832** |
| Dividend receivable | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Security deposits | **3,384,627** | **-** | **-** | **-** | **-** | **3,384,627** | **3,384,627** |
| Other investments* | **80,000** | **-** | **-** | **-** | **-** | **80,000** | **80,000** |
| | **P874,595,692** | **P389,146,849** | **P118,806,695** | **P208,326,290** | **P371,179,600** | **P37,492,405** | **P1,124,871,838** |
| **Financial Liabilities** | | | | | | | |
| Notes payable | **629,290,147** | **201,000,000** | **33,355,556** | **57,500,000** | **337,434,591** | | **629,290,147** |
| Accounts payable | **6,279,850** | **6,279,850** | **-** | **-** | **-** | **-** | **6,279,850** |
| Accrued interest | **10,246,565** | **10,246,565** | **-** | **-** | **-** | **-** | **10,246,565** |
| | **645,816,562** | **217,526,415** | **33,355,556** | **57,500,000** | **337,434,591** | **-** | **645,816,562** |
| Net liquidity gap | **P228,779,130** | **P171,620,434** | **P85,451,139** | **P150,826,290** | **P33,745,008** | **P P37,492,405** | **P479,055,276** |

**Includes investments in golf shares which is presented under 'Other assets - net'*

| | | Contractual Maturities | | | | | |
|---|---|---|---|---|---|---|---|
| | | December 31, 2016 (Audited) | | | | | |
| | Carrying Amount | Up to 3 Months | 3 to 6 Months | 6 to 12 Months | 1 to 3 Years | More than 3 Years | Total |
| Financial Assets | | | | | | | |
| Cash and cash equivalents | ₱97,617,641 | ₱97,617,641 | ₱ - | ₱ - | ₱ - | ₱ - | ₱97,617,641 |
| Loans and other receivables | | | | | | | |
| Receivable from customers: | | | | | | | |
| Consumer | 770,797,008 | 164,121,114 | 145,715,459 | 261,538,969 | 467,306,510 | 31,965,890 | 1,070,647,942 |
| Services | 151,855,672 | 125,865,817 | 14,019,601 | 24,617,913 | 44,192,353 | 12,533,948 | 221,229,632 |
| Other receivables | 18,982,734 | 4,943,263 | 4,943,263 | 9,886,527 | - | - | 19,773,053 |
| Dividend receivable | - | - | - | - | - | - | - |
| Security deposits | 3,384,627 | - | - | - | - | 3,384,627 | 3,384,627 |
| Other investments* | 80,000 | - | - | - | - | 80,000 | 80,000 |
| | ₱1,042,717,682 | ₱392,547,835 | ₱164,678,323 | ₱296,043,409 | ₱511,498,863 | ₱47,964,465 | ₱1,412,732,895 |
| Financial Liabilities | Financial Liabilities | | | | | | |
| Notes payable | ₱711,186,458 | ₱64,476,724 | ₱82,776,724 | ₱543,933,010 | ₱20,000,000 | ₱ - | ₱711,186,458 |
| Accounts payable | 15,717,788 | 15,717,788 | - | - | - | - | 15,717,788 |
| Accrued interest | 11,194,105 | 11,194,105 | - | - | - | - | 11,194,105 |
| | ₱738,098,351 | ₱91,388,617 | ₱82,776,724 | ₱543,933,010 | ₱20,000,000 | ₱ - | ₱738,098,351 |
| Net liquidity gap | ₱304,619,331 | ₱301,159,218 | ₱81,901,599 | (₱247,889,601) | ₱491,498,863 | ₱47,964,465 | ₱674,634,544 |

**Includes investments in golf shares which is presented under 'Other assets - net'*

*Interest Rate Risk*

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

The Company follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. The interest rates on notes payable are fixed with maturity ranging from one (1) to three (3) years.

*Foreign Exchange Rate Risk*
The Company's exposure to foreign exchange rate risk is deemed minimal for the years ended June 30, 2017 and December 31, 2016.

*Sensitivity of Net Interest Income*
A principal part of the Company's management of market risk in non-trading portfolios is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modeling). The Company aims, through its management of market risk in non-trading portfolios, to mitigate the effect of prospective interest rate movements which could reduce future net interest income, while balancing the cost of such activities on the current net revenue stream.

## 7. Segment Information

Operating Segments
The Company's operating businesses are recognized and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit. The Company derives revenues from the following main operating business segments:

*Rx Cashline Group*
The Rx Cashline Group is tasked with the sales and promotion of the Rx cash line product - loans tailored to medical professionals, and assist in the credit application, investigation, evaluation and approval and loan collection processes.

*MFC Factors Group*
The MFC Factors Group is responsible for the research of businesses that seek to factor their receivables for extra liquidity.

*MC Financing Group*
The MC Financing Group is tasked with the sales and promotion of the MC Financing product - loans to motorcycle buyers, and assist in the credit application, investigation, evaluation and approval and loan collection processes.

*Other Segments*
This segment includes real estate-backed business loans and other segments that provide support to its core activities.

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

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment assets and liabilities comprise all of the assets and liabilities, measured in a manner consistent with that shown in the statements of financial position.

The Company's assets producing revenues are located in the Philippines (i.e., one geographical location), therefore, geographical segment information is no longer presented.

The Company does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenues.

Financial information about operating segments follows:

| | September, 2017 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | **Rx Cash Line** | **MFC Factors** | **MC Financing** | **Others** | **Total** |
| **Loans and Other Receivables** | **P113,818,090** | **P227,048,497** | **P608,207,101** | **P22,421,832** | **P971,495,520** |
| **Results of operation** | | | | | |
| Revenues | | | | | |
| Interest income | **P15,463,661** | **P23,797,782** | **P80,975,594** | **P745,167** | **P120,982,205** |
| Other income | **2,177,121** | **2,233,790** | **5,374,175** | **7,972,040** | **18,757,125** |
| | **17,640,782** | **27,031,572** | **86,349,769** | **8,717,207** | **139,739,330** |
| Expenses | | | | | |
| Interest expense | **3,382,691** | **5,205,788** | **17,713,490** | **163,006** | **26,464,975** |
| Provision for credit losses | | | **2,800,000** | **-** | **2,800,000** |
| Operating expenses | **7,332,281** | **10,510,646** | **85,530,810** | **-** | **103,373,737** |
| | **10,714,972** | **15,716,434** | **106,044,300** | **163,006** | **132,638,712** |
| **Net operating income (loss)** | **6,925,811** | **11,315,137** | **(19,694,531)** | **8,554,201** | **7,100,618** |
| **Less: Income tax expense (benefit)** | **2,077,743** | **3,394,541** | **(6,111,328)** | **174,648** | **(464,395)** |
| **Net income (loss)** | **P4,848,068** | **P7,920,596** | **(P13,583,203)** | **P8,379,553** | **P7,565,013** |
| **Statement of financial position** | | | | | |
| Total assets | **P93,067,723** | **P236,708,896** | **P769,464,574** | **P23,200,969** | **P1,222,442,162** |
| Total liabilities | **P54,867,971** | **P139,551,462** | **P453,636,970** | **P13,678,105** | **P661,734,508** |
| **Other segment information** | | | | | |
| Capital expenditures | **P-** | **P-** | **P-** | **P-** | **P-** |
| Depreciation and amortization | **P336,652** | **P856,242** | **P2,783,367** | **P83,924** | **P4,060,184** |

| | December 31, 2016 (Audited) | | | | |
|---|---|---|---|---|---|
| | Rx Cash Line | MFC Factors | MC Financing | Others | Total |
| **Loans and Other Receivables** | ₱112,327,760 | ₱275,429,083 | ₱904,120,731 | ₱19,773,053 | ₱1,311,650,627 |
| Results of operation | | | | | |
| Revenues | | | | | |
| Interest income | ₱21,177,295 | ₱24,260,173 | ₱163,215,346 | ₱ 833,601 | ₱209,486,415 |
| Other income | 5,122,861 | 4,932,221 | 10,634,450 | 135,130,091 | 155,819,623 |
| | 26,300,156 | 29,192,394 | 173,849,796 | 135,963,692 | 365,306,038 |
| Expenses | | | | | |
| Interest expense | 3,852,324 | 9,445,948 | 31,007,173 | 678,124 | 44,983,569 |
| Provision for credit losses | 8,225,600 | - | 26,258,203 | 2,215,814 | 36,699,617 |
| Operating expenses | 8,350,016 | 14,752,327 | 219,581,788 | 20,954,388 | 263,638,519 |
| | 20,427,940 | 24,198,275 | 276,847,164 | 23,848,326 | 345,321,705 |
| Net operating income (loss) | 5,872,216 | P4,994,119 | (102,997,368) | 112,115,366 | 19,984,333 |
| Less: Income tax expense (benefit) | 4,229,345 | 1,498,236 | (66,374,551) | 34,299,354 | (26,347,616) |
| Net income (loss) | ₱1,642,871 | ₱3,495,883 | (₱36,622,817) | ₱77,816,012 | ₱46,331,949 |
| Statement of financial position | | | | | |
| Total assets | ₱81,051,356 | ₱238,327,335 | ₱887,670,838 | ₱20,536,634 | ₱1,227,586,163 |
| Total liabilities | ₱56,166,608 | ₱173,371,098 | ₱523,657,014 | ₱14,298,964 | ₱767,493,684 |
| Other segment information | | | | | |
| Capital expenditures | ₱992,231 | ₱2,863,837 | ₱10,619,705 | ₱1,350,958 | ₱15,826,731 |
| Depreciation and amortization | ₱230,942 | ₱666,560 | ₱2,471,743 | ₱314,436 | ₱3,683,681 |

## 8. Cash and Cash Equivalents

This account consists of:

| | Note | Unaudited September 2017 | Audited December 2016 | Unaudited September 2016 |
|---|---|---|---|---|
| Cash equivalents | *11* | **₱98,759,441** | ₱74,665,022 | ₱ - |
| Cash in banks | | **40,567,068** | 22,246,834 | 16,495,585 |
| Cash on hand | | **551,746** | 816,785 | 1,071,525 |
| | | **₱139,878,255** | ₱97,617,641 | ₱17,567,110 |

Cash equivalents include short-term placements with AIB with maturities from three (3) to twelve (12) days at 3.4% interest per annum. Interest income on cash equivalents amounted to P0.34 million and P0.26 million in 2017 and 2016, respectively.

Cash in banks earn interest at the prevailing bank deposit rates which ranges from 0.02% to 0.25% per annum in 2017 and 2016. Interest income on cash in banks amounted to 0.009 million and P0.03 million in 2017 and 2016, respectively.

## 9. Loans and Other Receivables

This account consists of:

| | Note | Unaudited September 2017 | Audited December 2016 | Unaudited September 2016 |
|---|---|---|---|---|
| Receivable from customers: | | | | |
| Consumers | | **₱749,913,720** | ₱1,070,647,942 | ₱ 1,180,079,756 |
| Services | | **199,159,968** | 221,229,632 | 230,664,991 |
| Other Receivables | | **32,535,268** | 19,773,053 | 18,958,810 |
| | | **₱ 949,073,688** | ₱1,311,650,627 | ₱1,429,703,557 |
| Unearned interest income | | **(224,673,584)** | (337,437,669) | (384,676,104) |
| Client's equity | | **(25,602,562)** | (32,577,544) | (34,277,899) |
| Allowance for credit losses | | **(95,412,141)** | (92,612,141) | (63,821,472) |
| | | **₱ 635,920,669** | ₱ 849,023,273 | ₱ 946,928,082 |

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

Loans and receivables according to product type:

| | Note | Unaudited September 2017 | Audited December 2016 | Unaudited September 2016 |
|---|---|---|---|---|
| Motorcycle financing | | **₱ 608,207,101** | ₱ 895,162,741 | ₱1,020,399,761 |
| Receivables purchased | | **85,341,878** | 108,591,813 | 114,259,665 |
| Rx cash line | | **113,818,090** | 111,172,314 | 114,451,434 |
| Business loans | | **141,706,619** | 166,837,270 | 150,233,616 |
| | | **₱ 949,073,688** | ₱1,281,764,138 | ₱1,399,344,476 |
| Unearned interest income | | **(224,673,584)** | (337,437,669) | (384,676,104) |
| Client's equity | | **(25,602,562)** | (32,577,544) | (34,277,899) |
| | | **₱ 698,797,542** | ₱ 911,748,925 | ₱ 980,390.473 |

| | | | |
|---|---|---|---|
| Accrued interest receivable | **10,113,436** | 10,113,436 | 11,400,272 |
| Sales contract receivable | **2,255,064** | 205,064 | 205,064 |
| Advances to officers and employees | **1,755,829** | 632,061 | 1,077,157 |
| Due from affiliates | **101,007** | 101,007 | 101,007 |
| Miscellaneous receivables | **18,309,932** | 18,834,921 | 17,575,581 |
| | **₱ 731,332,810** | ₱ 941,635,414 | ₱1,010,749,554 |
| Allowance for credit losses | **(95,412,141)** | (92,612,141) | (63,821,472) |
| | **₱ 635,920,669** | ₱ 849,023,273 | ₱ 946,928,082 |

Miscellaneous receivables consist of receivables from employees resulting from Company loans, other related parties and other non-related parties.

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

Interest rates on loans receivable ranges from 1.2% to 2.6% add-on rate per month plus gross receipts tax. Interest income earned from receivable from customers amounted to ₱46.5 million and ₱51 million in 2017 and 2016, respectively.

Movements in allowance for credit losses follow:

| | **September 2017 ( Unaudited)** | | | | |
|---|---|---|---|---|---|
| | **Receivable from Customers** | | | | |
| | **Construction** | **Services** | **Consumer** | **Others** | **Total** |
| **At January 1** | **₱2,793,048** | **₱13,708,309** | **₱72,945,970** | **₱3,164,814** | **₱92,612,141** |
| **Provisions during the year** | **-** | **1,050,000** | **1,750,000** | **-** | **2,800,000** |
| **At September 30** | **₱2,793,048** | **₱14,758,309** | **₱74,695,970** | **₱3,164,814** | **₱95,412,141** |
| **Total Impairment** | **₱2,793,048** | **₱14,758,309** | **₱74,695,970** | **₱3,164,814** | **₱95,412,141** |

| | December 31, 2016 (Audited) | | | | |
|---|---|---|---|---|---|
| | Receivable from Customers | | | | |
| | Construction | Services | Consumer | Others | Total |
| At January 1 | ₱2,793,048 | ₱5,482,709 | ₱46,687,767 | ₱ 949,000 | ₱55,912,524 |
| Provisions during the year | - | 8,225,600 | 26,258,203 | 2,215,814 | 36,699,617 |
| At December 31 | ₱2,793,048 | ₱13,708,309 | ₱72,945,970 | ₱3,164,814 | ₱92,612,141 |
| Total Impairment | ₱2,793,048 | ₱13,708,309 | ₱72,945,970 | ₱3,164,814 | ₱92,612,141 |

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*.

Under Section 9 of R.A. 8556, a 100% allowance for probable loss should be set up for the following:

a) Clean loans and advances past due for a period of more than six (6) months;

b) Past due loans secured by collateral such as inventories, receivables, equipment and other chattels that have declined in value by more than 50% without the borrower offering additional collateral for the loans;

c) Past due loans secured by real estate mortgage title to which is subject to an adverse claim rendering settlement through foreclosure doubtful;

d) When the borrower, and his co-maker or guarantor, is insolvent or where their whereabouts is unknown, or their earning power is permanently impaired;

e) Accrued interest receivable that remain uncollected after six (6) months from the maturity date of such loans to which it accrues; and

f) Accounts receivable past due for 361 days or more.

The Company's recorded provisions are in compliance with the provisioning requirements set out by R.A. No. 8556.

## 10. Investment in an Associate

This account consists of investment in 20% and 36% shares of stock of AIB as at September 30, 2017 and December 31, 2016 respectively:

| | *Note* | Unaudited September 2017 | Audited December 2016 |
|---|---|---|---|
| Cost at the beginning of the year | | **₱41,666,667** | ₱75,000,000 |
| Shares sold (16%) | | **-** | (33,333,333) |
| Cost at the end of the year | | **41,666,667** | 41,666,667 |
| Accumulated equity in net earnings | | | |
| Balance at the beginning of the year | | **53,295,423** | 48,089,357 |
| Share in net income | | **4,974,654** | 47,222,206 |
| Dividends | | **-** | - |
| Shares sold | | **-** | (42,016,140) |
| Balance at the end of the year | | **58,270,077** | 53,295,423 |
| | | **₱99,936,744** | ₱94,962,090 |

In a BOD resolution dated October 27, 2016, a committee was formed and authorized to negotiate, and enter into agreements, including but not limited to contract to sell, deeds of assignment, and such other documents, for the sale of the shares of stock of AIB owned by the Company, under such terms and conditions as may be mutually acceptable to the parties. On December 19, 2016, the Company transferred, assigned and conveyed 4.80 million (16%) shares of stocks of AIB, with a par value of P10.00 per share, for an aggregate par value of P48.00 million, in favor of AIB, for and in consideration of a total purchase price of P159.98 million or P33.33 per share which resulted to a gain of P84.63 million (see Note 21). The related capital gains tax amounting to P12.00 million was accrued as at December 31, 2016 (see Note 15).

## 11. Property and Equipment

The rollforward analysis of this account follows:

| | September 2017 (Unaudited) | | | |
|---|---|---|---|---|
| | **Furniture, Fixtures and Equipment** | **Leasehold Rights and Improvements** | **Transportation Equipment** | **Total** |
| **Cost** | | | | |
| At January 1 | **₱14,447,146** | **₱7,476,840** | **₱8,523,396** | **₱30,447,382** |
| Additions | **620,575** | **-** | **795,936** | **1,416,511** |
| Disposals | **(90,899)** | **-** | **(451,667)** | **(532,566)** |
| At September 30 | **₱14,976,822** | **₱7,476,840** | **₱8,867,665** | **₱31,321,327** |
| **Accumulated Depreciation and Amortization** | | | | |
| At January 1 | **₱10,693,469** | **₱1,693,436** | **₱3,236,645** | **₱15,623,550** |
| Depreciation and amortization | **1,603,521** | **1,096,389** | **645,521** | **3,345,431** |
| Disposals | **-** | **-** | **-** | **-** |

| | | | | |
|---|---|---|---|---|
| At September 30 | **₱12,296,990** | **₱2,789,825** | **₱3,882,166** | **₱18,968,981** |
| **Carrying Amount** | **₱ 2,679,832** | **₱4,687,015** | **₱4,985,499** | **₱12,352,346** |

| | December 31, 2016 (Audited) | | | |
|---|---|---|---|---|
| | Furniture, Fixtures and Equipment | Leasehold Rights and Improvements | Transportation Equipment | Total |
| Cost | | | | |
| At January 1 | ₱10,151,694 | ₱1,424,681 | ₱4,854,746 | ₱16,431,121 |
| Additions | 4,295,452 | 6,052,159 | 5,479,120 | 15,826,731 |
| Disposals | - | - | (1,810,470) | (1,810,470) |
| At December 31 | ₱14,447,146 | ₱7,476,840 | ₱8,523,396 | ₱30,447,382 |
| Accumulated Depreciation and Amortization | | | | |
| At January 1 | ₱8,908,721 | ₱889,099 | ₱2,779,560 | ₱12,577,380 |
| Depreciation and amortization | 1,784,748 | 804,337 | 1,094,596 | 3,683,681 |
| Disposals | - | - | (637,511) | (637,511) |
| At December 31 | 10,693,469 | 1,693,436 | 3,236,645 | 15,623,550 |
| Carrying Amount | ₱3,753,677 | ₱5,783,404 | ₱5,286,751 | ₱14,823,832 |

Motorcycle inventories are transferred to transportation equipment when these are used in the business operations by the employees (see Note 13). The transportation equipment is valued at the inventory's carrying amount. In 2016 and 2015, the Company transferred motorcycle inventories amounting to P0.67 million and P0.16 million, respectively (shown as additions). In 2016, the Company transferred from transportation equipment to motorcycle inventories amounting to P0.96 million (shown as disposals).

As at December 31, 2016 and 2015, the Company has fully depreciated property and equipment that are still in use with original cost amounting to P2.28 million and P1.75 million, respectively.

As at September 30, 2017 and December 31, 2016, there were no property and equipment pledged as collateral for liabilities.

## 12. Investment Properties - net

This account consists of cost of land:

| | **(Unaudited) September 2017** | Audited December 2016 | **(Unaudited) September 2017** |
|---|---|---|---|
| Cost | **₱ 3,544,001** | ₱ 3,544,001 | ₱ 3,544,001 |
| Recovery of loan receivable | **(1,630,802)** | - | - |
| Addition | **42,453,359** | - | - |
| | **44,366,558** | 3,544,001 | 3,544,001 |
| Allowance for impairment losses | | | |
| Balance at beginning of the year | **(939,533)** | (939,533) | (939,533) |
| Allowance for impairment losses recovery | **432,334** | - | - |
| Balance at the end of the year | **(507,199)** | (939,533) | (939,533) |
| | **₱43,859,359** | ₱ 2,604,468 | ₱ 2,604,468 |

The aggregate fair value of the investment properties of the Company amounted to P4.33 million as at December 31, 2016 and 2015. No sale of investment property occurred in 2016 and 2015. 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. Direct operating expenses with regard to the investment properties pertain to local property taxes amounting to P2,906 and P1,171 in 2016 and 2015 reported under ‘Taxes and licenses’ in the statements of comprehensive income.

No income was generated relating to these investment properties in 2017 and 2016.

## 13. Other Assets - net

This account consists of:

| | *Note* | **Unaudited September 2017** | Audited December 2016 | Unaudited September 2016 |
|---|---|---|---|---|
| Motorcycle inventories | | **₱120,548,674** | ₱103,177,184 | ₱156,209,983 |
| Prepaid expenses | | **6,365,763** | 3,722,630 | 4,284,950 |
| Security deposits | | **3,398,656** | 3,384,627 | 3,264,549 |
| Software costs | | **1,999,011** | 484,122 | 562,607 |
| Other investments | | **80,000** | 80,000 | 80,000 |
| | | **₱132,392,104** | ₱110,848,563 | ₱164,402,089 |

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. Loss from sale and write-down of motorcycle inventories included in profit or loss amounted to ₱104.70 million, ₱44.00 million and ₱48.73 million in 2016, 2015 and 2014, respectively.

The movements in software costs follow:

| | **Unaudited September 2017** | Audited December 2016 | Unaudited September 2016 |
|---|---|---|---|
| **Cost** | | | |
| At January 1 | **₱4,869,996** | ₱4,523,179 | ₱4,523,179 |
| Additions | **1,894,633** | 346,817 | 346,817 |
| At September 30 and December 31 | **6,764,629** | 4,869,996 | 4,869,996 |
| **Accumulated Amortization** | | | |
| At January 1 | **4,385,874** | 4,055,546 | 4,055,546 |
| Amortization for the year | **379,744** | 330,328 | 251,843 |
| Accumulated amortization | **4,765,618** | 4,385,874 | 4,307,389 |
| At September 30 and December 31 | **₱1,999,011** | ₱484,122 | ₱562,607 |

## 14. Notes Payable

This account consists of:

| | *Note* | **Unaudited September 2017** | Audited December 2016 | Unaudited September 2016 |
|---|---|---|---|---|
| Related parties | *21* | **₱405,249,567** | ₱413,106,895 | ₱576,744,044 |
| Banks | | **213,840,580** | 288,379,563 | 258,916,269 |
| Individuals | | **10,200,000** | 9,700,000 | 9,700,000 |
| | | **₱629,290,147** | ₱711,186,458 | ₱845,360,313 |

Interest rates from borrowings range from 4.00% to 5.75% per annum in 2017 and 2016.

Notes payable to related parties and individuals are unsecured, with maturity of up to one (1) year. Notes payable to banks are secured, with maturity of up to three (3) years.

## 15. Accrued Expenses

This account consists of:

| | Note | Unaudited September 2017 | Audited December 2016 | Audited September 2016 |
|---|---|---|---|---|
| Accrued capital gains tax | 10 | **₱ -** | ₱ 11,995,000 | ₱ - |
| Accrued interest | 21 | **10,246,565** | 11,194,105 | 13,505,329 |
| Accrued taxes | | **2,581,807** | 3,769,612 | 2,929,141 |
| Accrued occupancy costs | | **3,238,733** | 3,327,362 | 1,685,055 |
| Accrued management and professional fees | | **2,185,379** | 2,084,266 | 2,043,144 |
| Accrued administrative expenses | | **5,299,409** | 893,428 | 4,650,224 |
| Accrued government payable | | **384,260** | 553,332 | 642,601 |
| Others | | **2,228,358** | 3,733,013 | 2,049,566 |
| | | **₱21,242,873** | ₱ 37,550,118 | ₱27,505,060 |

Others include accrual on SSS, Pag-ibig and Philheath payable.

## 16. Maturity Analysis of Assets and Liabilities

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

| | September 2017 (Unaudited) | | | December 31, 2016 (Audited) | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | Over 12 Months | Total | Less than 12 Months | Over 12 Months | Total |
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | ₱139,878,255 | ₱ - | ₱ 139,878,255 | ₱ 97,617,641 | ₱ - | ₱ 97,617,641 |
| Loans and other receivables - gross | 616,495,516 | 365,113,440 | 981,608,956 | 755,651,926 | 555,998,701 | 1,311,650,627 |
| Other assets | 5,757,037 | - | 5,757,037 | - | 3,464,627 | 3,464,627 |
| | ₱762,130,808 | ₱365,113,440 | ₱1,127,244,248 | ₱853,269,567 | ₱559,463,328 | ₱1,412,732,895 |
| **Nonfinancial Assets** | | | | | | |
| Investment in an associate | - | ₱99,936,744 | ₱99,936,744 | - | 94,962,090 | 94,962,090 |
| Property and equipment | - | 12,017,335 | 12,017,335 | - | 14,823,832 | 14,823,832 |
| Investment properties - gross | - | 43,859,359 | 43,859,359 | - | 3,544,001 | 3,544,001 |
| Deferred tax assets | - | 58,437,696 | 58,437,696 | - | 57,706,296 | 57,706,296 |
| Other assets | 120,548,674 | 6,086,393 | 126,635,067 | 106,899,814 | 484,122 | 107,383,936 |
| | ₱120,548,674 | ₱220,337,527 | ₱340,886,201 | ₱106,899,814 | ₱171,520,341 | ₱278,420,155 |
| Less: Allowance for credit and impairment losses | ₱ - | ₱ (94,750,141) | ₱ (94,750,141) | - | (93,551,674) | (93,551,674) |
| Unearned interest income | (148,284,565) | (76,389,019) | (224,673,584) | (220,752,554) | (116,685,115) | (337,437,669) |
| Client's equity | (25,602,562) | - | (25,602,562) | (32,577,544) | - | (32,577,544) |
| | ₱ (173,887,127) | ₱ (171,801,160) | ₱ (345,688,287) | ₱ (253,330,098) | ₱ (210,236,789) | ₱ (463,566,887) |
| | ₱ 708,792,355 | ₱413,649,807 | ₱1,122,442,162 | ₱ 706,839,283 | ₱520,746,880 | ₱1,227,586,163 |
| **Financial Liabilities** | | | | | | |
| Notes payable | ₱291,855,556 | 337,434,591 | 629,290,147 | ₱691,186,458 | ₱20,000,000 | ₱711,186,458 |
| Accounts payable | 6,279,850 | - | 6,279,850 | 15,717,788 | - | 15,717,788 |
| Accrued interest | 10,246,565 | - | 10,246,565 | 11,194,105 | - | 11,194,105 |
| | ₱308,381,971 | 337,434,591 | 663,838,818 | ₱718,098,351 | ₱20,000,000 | ₱738,098,351 |
| **Nonfinancial Liabilities** | | | | | | |
| Accrued expenses | ₱14,515,558 | ₱ - | ₱ 14,515,558 | ₱26,356,013 | ₱ - | ₱26,356,013 |
| Retirement liability | - | 2,449,370 | 2,449,370 | - | 1,549,370 | 1,549,370 |
| Income tax payable | (1,046,982) | - | (1,046,982) | 1,489,950 | - | 1,489,950 |
| | ₱13,468,576 | ₱ 2,449,370 | ₱ 15,917,946 | 27,845,963 | 1,549,370 | 29,395,333 |
| | ₱321,850,547 | ₱339,883,961 | ₱661,734,508 | ₱745,944,314 | ₱21,549,370 | ₱767,493,684 |

## 17. Equity

On July 27, 2017, the BOD and stockholders approved the declaration of 3.21% stock dividends in the amount of P6,949,745 to stockholders of record as of August 24, 2017 with distribution date not later than September 19, 2017. On the same date, the BOD also approved the declaration of cash dividends amounting to ₱6,949,792. Fractional shares related to this declaration were settled in cash with a total amount of ₱47.00.

On July 28, 2016, the BOD and stockholders approved the declaration of 3.29% stock dividends in the amount of P6,897,073 to stockholders of record as of August 26, 2016 with distribution date not later than September 21, 2016. On the same date, the BOD also approved the declaration of cash dividends amounting to ₱6,897,133. Fractional shares related to this declaration were settled in cash with a total amount of ₱61.00.

On July 30, 2015, the BOD and stockholders approved the declaration of 3.08% stock dividends in the amount of P6,252,710 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 ₱6,252,777. Fractional shares related to this declaration were settled in cash with a total amount of ₱67.00.

As at September 30, 2017, the Company has 223,412,301 common shares issued and outstanding which were owned by 104 shareholders.

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

| | **Sept 2017 (Unaudited)** | | December 31, 2016 (Audited) | | December 31, 2015 (Audited | |
|---|---|---|---|---|---|---|
| | **Number of Shares** | **Amount** | Number of Shares | Amount | Number Of Shares | Amount |
| Authorized - 300,000,000 shares; P1 par value | | | | | | |
| At January 1 | **216,462,556** | **₱216,462,556** | 209,565,483 | ₱209,565,483 | 203,312,773 | ₱203,312,773 |
| Stock dividends | **6,949,745** | **6,949,745** | 6,897,073 | 6,897,073 | 6,252,710 | 6,252,710 |
| At September 30, 2017 | **223,412,301** | **₱223,412,301** | 216,462,556 | ₱216,462,556 | 209,565,483 | ₱209,565,483 |

On January 21, 2016, the BOD of AIB resolved to approve the block sale of 25% (52,391,311) common shares of MFC at P1.40 per share to Motor Ace Philippines, Inc. This was approved by the PSE and executed on May 13, 2016.

The block sale effectively reduced AIB's ownership of the company from 69.42% to 42.46% as at December 31, 2016.

Capital Management

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares. The Company considers its total equity as capital. No changes were made in the objectives, policies or processes in 2016.

Under R.A. No. 8556, the Company is required to maintain the following capital requirements:

(a) minimum paid-up capital of ₱10.00 million; and

(b) additional capital requirements for each branch of ₱1.00 million for branches established in Metro Manila, ₱0.50 million for branches established in other classes of cities and ₱0.25 million for branches established in municipalities.

For the quarter ended September 30, 2017 and for the year ended December 31, 2016, the Company was in compliance with the minimum paid-up capital.

The Company is compliant with the minimum public float of 10% that is required by the PSE where the Company's shares are traded.

## 18. Retirement Plan

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

The Company is subject to the minimum retirement benefit under the R.A. 7641, '*The Philippine Retirement Law',* which provides for retirement pay to qualified employees in the absence of any retirement plan. R.A. 7641 requires the Company to provide minimum retirement benefits to employees who have reached the age of sixty (60) years or more, but not beyond sixty-five (65) years which is considered as the compulsory retirement age, and who have served at least five (5) years in the Company.

The plan is non-contributory and of the defined benefit type which provides a retirement benefit equal to one hundred percent (100%) of the latest monthly salary for every year of credited service. Benefits are paid in lump sum upon retirement or separation in accordance with the terms of the plan. Normal retirement age is at age 60.

Net benefit cost is included in the Company's profit or loss under 'Salaries and employee benefits.'

The amounts of retirement benefit reserve recognized in the statements of comprehensive income follow:

| | **Unaudited Septembr 2017** | Audited December 2016 |
|---|---|---|
| **Components of retirement benefit liability recorded in profit or loss as retirement benefit expense** | | |
| Current service cost | **₱2,117,250** | ₱2,117,250 |
| Net interest expense: | | |
| Interest expense | **320,352** | 320,352 |
| Interest income on plan assets | **(290,366)** | (290,366) |
| Interest expense on effect of asset ceiling | **-** | - |
| | **2,147,236** | 2,147,236 |
| **Components of retirement benefit liability recorded in OCI** | | |
| Remeasurement gain on defined benefits obligation | **(1,184,373)** | (1,184,373) |
| Remeasurement loss (gain) on plan assets | **(26,714)** | (26,714) |
| Remeasurement gain on the change in the effect of asset ceiling | **-** | - |
| | **(1,211,087)** | (1,211,087) |
| Total components of retirement benefit liability | **₱936,149** | ₱936,149 |

The net retirement benefit liability recognized in the statements of financial position follows:

| | **Unaudited September 2017** | Audited December 2016 |
|---|---|---|
| Present value of retirement benefits obligation | **₱7,804,403** | ₱7,804,403 |
| Fair value of plan assets | **(6,255,033)** | (6,255,033) |

| | | |
|---|---|---|
| Net defined benefit liability | **₱1,549,370** | ₱1,549,370 |

The movements of the present value of retirement benefits obligation of the Company follow:

| | **Unaudited September 2017** | Audited December 2016 |
|---|---|---|
| Balance at beginning of year | **₱6,551,174** | ₱6,551,174 |
| Current service cost | **2,117,250** | 2,117,250 |
| Interest expense | **320,352** | 320,352 |
| Remeasurement gains on obligation arising from: | | |
| Change in financial assumptions | **(543,030)** | (543,030) |
| Experience adjustment | **(641,343)** | (641,343) |
| Balance at end of year | **₱7,804,403** | ₱7,804,403 |

The movements of the fair value of plan assets of the Company follow:

| | **Unaudited September 2017** | Audited December 2016 |
|---|---|---|
| Balance at beginning of year | **₱5,937,953** | ₱5,937,953 |
| Interest income | **290,366** | 290,366 |
| Remeasurement loss on plan assets | **26,714** | 26,714 |
| Balance at end of year | **₱6,255,033** | ₱6,255,033 |

The changes in the effect of asset ceiling are as follows:

| | **Unaudited September 2017** | Audited December 2016 |
|---|---|---|
| Balance at beginning of year | **P -** | P - |
| Remeasurement (gain) on the change in the effect of asset ceiling | **-** | **-** |
| Interest expense on effect of asset ceiling | **-** | **-** |
| Balance at end of year | **P -** | **P -** |

Changes in the retirement benefit liability follow:

| | **Unaudited September 2017** | Audited December 2016 |
|---|---|---|
| Balance at beginning of year | **₱ 613,221** | ₱ 613,221 |
| Current service cost | **2,117,250** | 2,117,250 |
| Net interest cost on the retirement liability | **29,986** | 29,986 |
| Remeasurement loss (gain) on plan assets | **(26,714)** | (26,714) |
| Actuarial gains on retirement liability arising from: | | |
| Experience adjustment | **(641,343)** | (641,343) |
| Changes in assumptions | **(543,030)** | (543,030) |
| Changes in the effect of asset ceiling | **-** | - |
| Balance at end of year | **₱1,549,370** | ₱1,549,370 |

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The fair values of plan assets by each class as at the end of the reporting period follow:

| | **Unaudited September 2017** | Audited December 2016 |
|---|---|---|
| Cash and cash equivalents | **₱80,205,502** | ₱ 900,725 |
| AFS financial assets | **5,049,688** | 5,049,688 |
| Accrued and other receivables | **304,620** | 304,620 |
| | **₱ 6,255,033** | ₱6,255,033 |

All debt instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

In 2017 and 2016, the cash and cash equivalent and AFS financial assets have high grade credit quality while accrued and other receivable have standard credit quality.

The cost of defined benefit plans and other post-employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension and post-employment medical benefit obligations for the defined benefit plans are shown below:

| | **January 1** | |
|---|---|---|
| | **2016** | 2015 |
| Discount rate | **5.38%** | 4.89% |
| Future salary increases | **5.00%** | 5.00% |
| Average remaining working life (in years) | **28.4** | 29.1 |

Assumptions for mortality and disability rate are based on the adjusted 1994 Group Annuity Mortality Table in which separate rates were used for males and females and the 1952 Disability Study of the US Society for Actuaries adjusted to suit local experience.

There were no changes from the previous period in the methods and assumptions used in preparing the sensitivity analysis. The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

| | Increase (decrease) in basis points | Increase (decrease) in present value of obligation |
|---|---|---|
| Discount rates | +100 basis point | (P866,640) |
| | -100 basis point | 1,015,121 |
| Salary increase rates | +100 basis point | 934,531 |
| | -100 basis point | (820,757) |

The Company does not expect to contribute to the defined benefit plan in 2017.

The Company is not required to pre-fund the future defined benefits payable under the retirement plan before they become due.

The plan assets’ concentration risks are limited to financial services.

The average duration of the defined benefit plan at the end of the reporting date is 15.9 years.

## 19. Miscellaneous

Miscellaneous income consists of the following items:

| | **Unaudited September 2017** | Audited December 2016 |
|---|---|---|
| Penalties | **₱7,626,344** | ₱11,735,907 |
| Recoveries | **3,198,516** | 6,812,744 |
| Others | **2,957,611** | 95,410 |
| | **₱13,782,471** | ₱18,644,061 |

Miscellaneous expenses consists of the following items:

| | **Unaudited September 2017** | Audited December 2016 |
|---|---|---|
| Communication | **₱1,697,696** | ₱2,837,607 |
| Insurance | **1,425,602** | 2,494,214 |
| Stationeries and supplies | **368,591** | 1,653,120 |
| Repairs and maintenance | **779,011** | 623,579 |
| Meetings and conferences | **253,095** | 518,330 |
| Training and development | **193,697** | 201,748 |
| Others | **120,545** | 746,016 |
| | **₱4,838,237** | ₱9,074,614 |

## 20. Income Taxes

Current tax regulations provide that the RCIT rate is 30%. The regulations also provide for MCIT of 2% on modified gross income and allow NOLCO. The MCIT and NOLCO may be applied against the Company's income tax liability and taxable income, respectively, over a three-year period from the year of incurrence.

The components of the Company's income tax expense (benefit) for the years ended June 30, 2017 and December 31, 2016 follow:

| | **Unaudited September 2017** | Audited December 2016 |
|---|---|---|
| Current: | | |
| MCIT | **₱-** | ₱2,833,371 |
| RCIT | **375,605** | - |
| Deferred | **(840,00)** | (29,180,987) |
| | **(₱464,395)** | (₱26,347,616) |

The components of deferred tax assets follow:

| | **Unaudited September 2017** | Audited December 2016 |
|---|---|---|
| Deferred tax assets on: | | |
| Allowance for impairment and credit losses | **₱28,515,042** | ₱27,783,642 |
| Inventory write-down of motorcycle | **19,302,690** | 19,302,690 |

| | | |
|---|---|---|
| NOLCO | **11,135,654** | 11,135,654 |
| Accrued expenses | **981,160** | 981,160 |
| Past service cost | **80,095** | 80,095 |
| | **60,014,641** | 59,283,241 |
| Deferred tax liabilities on: | | |
| Remeasurement gain on defined benefit obligation | **1,576,945** | 1,576,945 |
| | **₱58,437,696** | ₱57,706,296 |

The Company incurred a NOLCO of ₱37.12 million for the year ended December 31, 2016. This will be carried over as a deduction from taxable income and will expire after the year ending December 31, 2019.

The Company did not recognize deferred tax asset on the MCIT amounting to ₱2.83 million as at December 31, 2016.

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

| | **Unaudited September 2017** | Audited December 2016 |
|---|---|---|
| Income before income tax | **₱7,100,618** | ₱19,984,333 |
| Income tax computed at statutory rate (30%) | **P2,130,185** | P5,995,300 |
| Additions to (reduction in) income tax resulting from the tax effects of: | | |
| Nondeductible expense | **(840,000)** | 4,089,080 |
| Non-deductible interest expense | **-** | 35,467 |
| Interest income subjected to final tax and dividend income | **-** | (85,982) |
| Tax exempt income and nontaxable income | **(1,754,580)** | (39,621,496) |
| Others | **-** | 3,240,015 |
| Effective Income tax benefit | **(₱464,395)** | (₱26,347,616) |

Interest allowed as deductible expense is reduced by an amount equivalent to 33.00% of interest income subjected to final tax.

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

In addition, current tax regulations provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expenses that can be claimed as a deduction against taxable income. Under the regulations, EAR expenses allowed as deductible expense is limited to the actual EAR paid or incurred but not to exceed 1.00% of the gross revenue of a company engaged in the sale of services. EAR expenses amounted to ₱0.61 million, ₱0.24 million and ₱ 1.74 million in 2016, 2015 and 2014, respectively.

## 21. Related Party Transactions

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

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

The following transactions have been entered into with related parties:

| | | **2016** | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | | | **Outstanding Balances** | | | Outstanding Balances | | |
| **Category/Transaction** | *Ref* | **Amount of Transactions** | **Due from Related Parties** | **Due to Related Parties** | Amount of Transactions | Due from Related Parties | Due to Related Parties | **Nature, Terms and Condition** |
| *Parent Company* | | | | | | | | |
| *Amalgamated Investment Bancorporation* | | | | | | | | |
| Miscellaneous receivables | *a* | **P -** | **P80,514** | **P -** | P80,514 | P80,514 | P - | Non-interest bearing, unsecured; no impairment |
| Notes payable | *b* | | **-** | **364,900,000** | - | - | 484,500,000 | Unsecured, 1-year interest bearing placement at 5.75% annual interest rate |
| Availments | | **53,400,000** | **-** | | 45,000,000 | - | - | |
| Settlements | | **173,000,000** | **-** | **-** | 171,300,000 | - | - | |
| Interest expense | | **29,062,864** | **-** | **6,030,664** | 31,048,706 | - | 9,710,632 | |
| Share in net income of an associate | *c* | **47,222,206** | **-** | **-** | 40,787,135 | - | - | Share in income from investee's profit |
| Dividends | | **36,000,000** | **-** | **-** | 36,000,000 | 36,000,000 | - | Cash dividend received from AIB |
| Gain on sale of AIB shares | *d* | **84,634,527** | **-** | **-** | - | - | - | Gain on sale of 4,800,000 shares sold to AIB for P33.33/share |
| Short-term placements | *e* | **600,711,817** | **-** | **-** | - | - | - | Short-term interest bearing placements at 3.4% annual interest rate |
| Interest income | | **257,796** | **-** | **-** | - | - | - | |
| *Other Related Parties* | | | | | | | | |
| *Motor Ace Philippines Inc.* | | | | | | | | |
| Miscellaneous Receivables | *a* | **-** | **1,903,297** | **-** | - | 2,381,267 | - | Non-interest bearing, unsecured; no impairment |
| Availments | | **322,379** | **-** | **-** | 361,693 | - | - | |
| Settlements | | **800,349** | **-** | **-** | 132,134 | - | - | |

*Forward*

| Category/Transaction | Ref | 2016 Amount of Transactions | 2016 Outstanding Balances Due from Related Parties | 2016 Outstanding Balances Due to Related Parties | 2015 Amount of Transactions | 2015 Outstanding Balances Due from Related Parties | 2015 Outstanding Balances Due to Related Parties | Nature, Terms and Condition |
|---|---|---|---|---|---|---|---|---|
| Accounts payable | *f* | | **P -** | **P6,985,826** | | | P22,527,325 | 30-day unsecured, non-interest bearing |
| Availments | | **P213,727,286** | **-** | **-** | P357,660,360 | P - | - | |
| Settlements | | **229,268,785** | **-** | **-** | 352,413,225 | - | - | |
| *Honda Motor World Inc.* | | | | | | | | |
| Miscellaneous receivables | *a* | **-** | **2,446,093** | **-** | - | 2,345,171 | - | Non-interest bearing, unsecured; no impairment |
| Availments | | **114,049** | - | **-** | - | - | - | |
| Settlements | | **13,127** | - | **-** | - | - | - | |
| Accounts payable | *f* | | - | **5,995,224** | - | - | 4,580,255 | 30-day unsecured, non-interest bearing |
| Availments | | **58,828,867** | | | 73,665,047 | - | - | |
| Settlements | | **57,413,898** | | | 75,227,428 | - | - | |
| Notes payable | *b* | **-** | - | **-** | - | - | - | Unsecured, interest-bearing |
| Availments | | **13,300,000** | - | **-** | - | - | - | placement at |
| Settlements | | **13,300,000** | - | **-** | - | - | - | 10.0% annual interest rate |
| Interest expense | | **42,472** | - | **-** | - | - | - | |
| *Pikeville Bancshares* | | | | | | | | |
| Professional fees | | **1,102,080** | - | **-** | 1,102,080 | - | - | Payment of professional fees for consultancy |
| *MERG Realty Development Corporation* | | | | | | | | |
| Miscellaneous Receivables | *a* | **-** | **18,057** | **-** | - | 18,057 | - | Non-interest bearing, no impairment |
| Availments | | **-** | - | **-** | - | - | - | |
| Settlements | | **-** | - | **-** | - | 17,779 | - | |
| Notes Payable | *b* | **-** | - | **13,000,000** | - | - | 13,000,000 | Unsecured interest-bearing placement at |
| Settlement | | **-** | - | **-** | 23,000,000 | - | - | 5.5% annual interest rate; no impairment |
| Interest expense | | **726,917** | - | **726,917** | 830,653 | - | 830,653 | |
| <u>*Directors and other stockholders*</u> | | | | | | | | |
| Notes payable | *b* | **-** | - | **35,206,895** | - | - | 65,653,363 | Unsecured, 1-year interest bearing |
| Availments | | **19,771,610** | - | **-** | 8,046,219 | - | - | placement at |
| Settlements | | **50,218,078** | - | **-** | 11,968,752 | - | - | 6.0% annual interest rate |
| Interest expense | | **2,539,861** | - | **1,054,752** | 4,636,886 | - | 1,875,699 | |
| Professional fees and other management fees | | **4,379,191** | **c** | **-** | 4,789,339 | - | - | Payment of professional fees |
| **TOTAL** | | | **P4,447,961** | **P433,900,278** | | P40,842,788 | P602,677,927 | |

a. This includes various receivables from the Parent Company and other related parties pertaining to availment of comprehensive insurance and other claims for reimbursement.

b. As at December 31, 2016 and 2015, notes payable and accrued interest payable arising from borrowings from stockholders amounted to ₱413.11 million and P563.15 million, respectively, and ₱7.81 million and ₱12.42 million, respectively. Interest expense from these borrowings amounted to ₱32.37 million and ₱36.52 million in 2016 and 2015, respectively (see Note 14).

   Borrowings availed from related parties amounted to ₱86.47 million and ₱53.05 million in 2016 and 2015, respectively. Settlement from borrowings amounted to ₱ 236.52 million and ₱206.27 million in 2016 and 2015, respectively. Interest rates from borrowings range from 5.5% to 10% and from 5.5% to 6.25% in 2016 and 2015, respectively. Borrowings from related parties are unsecured and to be settled in cash.

c. Share in net income of an associate is the share of the Company in the net income of its associate (see Note 10).

d. Gain on sale of AIB shares resulted from the buy-back transaction of AIB of its own 4.8 million shares with a cost of ₱33.33 million and accumulated equity in net earnings of ₱ 42.02 million, for a total purchase price of ₱159.98 million (see Note 10).

e. In 2016, the Company had short-term placements with AIB amounting to ₱600.71 million. As at December 31, 2016, ₱74.55 million of these placements remain outstanding. Interest income from these placements amounted to ₱0.26 million and nil in 2016 and 2015, respectively (see Note 8).

f. Accounts payable represents billings for motorcycle units sold by the related parties that are financed by the Company.

The remuneration of directors and other members of key management personnel consist of short-term benefits amounting to ₱17.07 million and ₱15.64 million in 2016 and 2015, respectively, included in the 'Salaries and employee benefits' and 'Management and professional fees' account in the statements of comprehensive income.

## 22. Earnings Per Share (EPS)

EPS amounts were calculated as follows:

| | | **Unaudited September 2017** | Audited December 2016 |
|---|---|---|---|
| a. | Net income | **₱7,565,013** | ₱46,331,949 |
| b. | Weighted average number of outstanding common shares | **223,412,301** | 216,462,556 |
| c. | Basic/diluted earnings per share (a/b) | **₱0.03** | ₱0.21 |

The weighted average number of outstanding common shares in 2017 and 2016 was recomputed after giving retroactive effect to stock dividends declared on July 28, 2016, July 30, 2015, and July 31, 2014, however, the impact to the EPS was immaterial (see Note 17).

## 23. Lease Commitment

The Company entered into a new lease contract for a period of five (5) years starting from February 1, 2016 to January 31, 2021. Total rent expense included under 'Occupancy cost' account in the statements of comprehensive income, incurred in 2016 and 2015 amounted to

₱14.89 million and ₱7.14 million, respectively.

The aggregate future minimum lease payments for the lease commitments are as follows:

| | Unaudited September 2017 | Audited December 2016 |
|---|---|---|
| Less than one year | **₱8,836,109** | ₱8,836,109 |
| Between one and five years | **24,795,708** | 24,795,708 |
| | **₱33,631,817** | ₱33,631,817 |

## 24. Supplementary Information Required by the Bureau of Internal Revenue (BIR)

In addition to the disclosures mandated under PFRSs, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRSs.

The following are the tax information required for the period ended June 30, 2017 based on Revenue Regulation No. 15-2010:

### A. Other Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, licenses, and permit fees lodged under 'Taxes and licenses' account in the Company's statement of comprehensive income. Details for September 2017 consist of the following:

| | |
|---|---|
| Gross receipts tax (GRT) | **₱6,744,986** |
| Documentary stamp tax (DST) on loan instruments | **1,052,191** |
| License and permit fees | **1,140,414** |
| | **₱8,937,591** |

As at December 31, 2016, accrued CGT, GRT and DST amounted to ₱11.99 million, ₱1.13 million and ₱0.3 million, respectively.

### B. Withholding taxes

Details of the withholding taxes as at September 30, 2017 follow:

| | |
|---|---|
| Expanded withholding taxes | **₱ 5,162,063** |
| Withholding taxes on compensation and benefits | **4,915,133** |
| | **₱10,077,196** |

### C. Tax Cases

As at September 30, 2017 , the Company has no pending tax court cases.

### D. Tax Assessment

As at September 30, 2017, the Company has no pending tax assessment.

**MAKATI FINANCE CORPORATION**
**SCHEDULE SHOWING FINANCIAL SOUNDNESS**
**PURSUANT TO SRC RULE 68, AS AMENDED**
**September 30, 2017**

| | Sept 2017 (Unaudited) | Dec. 2016 (Audited) | Sept 2016 (Unaudited) |
|---|---|---|---|
| **SOLVENCY AND LIQUIDITY RATIOS** | | | |
| Current ratio | 216.79% | 94.44% | 107.58% |
| Debt to equity ratio | 143.63% | 166.81% | 210.00% |
| Quick ratio | 235.01% | 114.39% | 96.42% |
| **PROFITABILITY RATIOS** | | | |
| Return on assets (annualized) | 0.90% | 3.77% | 1.37% |
| Return on equity (annualized) | 2.19% | 10.07% | 4.25% |
| Net profit margin | 6.99% | 16.97% | 36.86% |
| **ASSET TO EQUITY RATIO** | 243.63% | 266.81% | 310.08% |
| **INTEREST RATE COVERAGE RATIO** | 1.27 | 1.44 | 1.75 |
| **OTHER RELEVANT RATIOS** | | | |
| Ratio or percentage of total real estate investments to total assets | 3.91% | 0.21% | 0.07% |
| Total receivables to total assets | 56.66% | 69.16% | 70.75% |
| Total DOSRI receivables to networth | 0.04% | 0.00% | 3.49% |
| Amount of receivables from a single corporation to total receivables: | | | |
| Motor Ace Philippines, Inc. (MAPI) | 0.31% | 0.22% | 0.25% |
| Honda Motor World, Inc. (HMWI) | 0.38% | 0.29% | 0.25% |
| Amalgamated Investment Bancorporation (AIB) | 0.02% | 0.02% | 0.02% |
| MAPI Lending Investors, Inc (MAPILI) | 0.01% | 0.01% | 0.01% |

**LIQUIDITY RATIOS** measure the business ability to pay short-term debt.

- Current ratio – computed as current assets divided by current liabilities
- Quick ratio – computed as cash and cash equivalents divided by current liabilities

**SOLVENCY RATIOS** measure the business' ability to pay all debts, particularly long-term debt.

- Debt to equity ratio – computed as interest bearing loans and borrowings divided by total stockholders' equity
- Interest-bearing debt to total capitalization ratio – computed as interest-bearing debt divided by interest-bearing debt plus stockholders' equity attributable to the company's shareholders.

**PROFITABILITY RATIOS**

- Net Profit Margin – computed as net profit divided by revenues

- Return on Assets – computed as net profit divided by average total assets
- Return on Equity – computed as net profit attributable to the company's shareholders divided by
  average stockholders' equity attributable to the company's shareholders.

**ASSET-TO-EQUITY RATIOS**

- measure financial leverage and long-term solvency. It shows how much of
  the assets are owned by the company. It is computed as total assets divided by stockholders' equity.

**INTEREST RATE COVERAGE RATIOS**

- measure the business' ability to meet its interest payments. It is computed as earnings before income tax and interest expense (EBIT) divided by interest payments.