COVER SHEET

2 8 7 8 3

S.E.C. Registration Number

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

C O R P O R A T I O N

(Company's Full Name)

2 ND Floor, Makati

Finance Center 7823

Makati Ave., Makati City

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

EMMANUEL F. LAFORTEZA

Contact Person

896-0221

Company Telephone Number

1 2 | 3 1

Month | Day

Fiscal Year

2005

SEC Form 17-A

FORM TYPE

0 6 |

Month | Day

Annual Meeting

Secondary License Type, If Applicable

C R M D

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. Use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the fiscal year ended ......**December 31, 2005**.......................

2. SEC Identification Number .....**28788**.......... 3. BIR Tax Identification No. **000-473-966**

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

5. ......Makati, Philippines.....................
Province, Country or other jurisdiction of incorporation or organization

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

7. 7823 Makati Avenue, Makati City........................ ....1210..................
Address of principal office Postal Code

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

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

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
common stock	**78,858,121**

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

Yes [/] No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange common stock

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [/] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [/] No [ ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in "Annex B").

APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes [✓]   No [ ]

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

Makati Finance Corporation is a finance company incorporated last February 1966. In the mid-2000, the Company formed a new management team, which after thorough analysis of our operations decided to drop its less profitable product lines. MFC focused on three (3) main loan products, namely: (a) consumer loans to medical professionals, (b) corporate loan via factoring of receivables and (c) secured business loans. These were offered domestically, hence there were no foreign sales. Also, no government approval is needed for these products. The management continued to implement cost-cutting measures and imposed higher standards of credit evaluation. These decisions eventually led to the turnaround of the Company's operations in 2001. In 2004, the total loan portfolio contributed 89% to income, the rest mostly came from sale of acquired assets and recovery of written off receivable via payment of property. In July 2005, motorcycle financing was introduced to further diversify the Company's loan portfolio and spread the risk from big factoring accounts and unsecured consumer loans.

The Company's business operations essentially involve: (a) sales and marketing; (b) evaluation and approval of loan applications; and (c) collection of loan accounts, with 19 employees. None of these employees is subject to a Collective Bargaining Agreement. Clerical and maintenance work were outsourced. The following discussion presents the various components of the Company's business operations:

Sales and Marketing

The Company's sales and marketing effort is done by its Account Management Group(AMG). The AMG is responsible for generating new loan accounts. It is also responsible for monitoring existing loan accounts and ensuring that these accounts are up to date with their payments. AMG presently employs a team of five Account Officers and an in-house collector that includes the AMG head. The Account Officers are tasked with generating and monitoring their own portfolio of accounts in their assigned service areas. The service areas that have been identified by the Company include: Metro Manila, Rizal, Laguna, Cavite and Bulacan.

In addition to AMG, the Company also has a network of around 350 accredited agents that refer loan applicants to the Company. The Company's network of referral agents include both individuals and accredited institutions, such as medical organizations and distributors of medical and dental equipment. Under its "Client Get Client" program, the Company encourages existing clients to also act as referral agents.

The activities currently being conducted by the AMG as part of its sales and marketing efforts include: (a) direct mail; (b) advertisements in trade publications and souvenir programs; (c) fax and e-mail marketing; (d) telemarketing; (e) door-to-door marketing; (f) attendance of special events; (g) loan renewal program; and (h) referral network.

Loan Evaluation and Approval Process

The Company is aware of the importance of instituting an adequate evaluation and screening process for its loan applications. Given the current economic environment, credit risk and the quality of loan accounts become very important considerations for finance companies.

Applications checked by the Company are cleared with the Credit Management Association of the Philippines ("CMAP") and the Credit Investigation Bureau, Inc. ("CIBI") to determine if there are any negative findings on the applicants. The Account Officer then drafts his evaluation and recommendation on the application.

The Company's Credit Committee, which consists of the Senior Managing Director, Comptroller and the group heads, studies the Account Officer's evaluation and recommendation. It is the Credit Committee that makes the final decision on the application.

Once approved by the Credit Committee, the Finance and Accounting Group prepares the check for the loan and forwards it to the Cashier for releasing. Clients are advised of the approval and the required documents prior to loan releases. The clients' post-dated checks and other required loan documents are submitted to the Cashier, and, if these are in order, the loan proceeds are released to the client. The Cashier then provides the various departments and groups with the appropriate documents for account monitoring and collection.

Loan Collection Process

Account Officers are in charge of monitoring their loan accounts. They maintain a tick card and a computer file of their approved clients that contain, among others, the schedule of the loan amortization payments. Since clients already provide the Company with post-dated checks for the repayment of the loan, the Account Officers are regularly advised of the status of their accounts. They are informed on clients that have completed their monthly amortization payments and those that have incurred returned-check payments. Clients with returned checks are immediately advised by their Account Officers to settle the amount due as soon as possible. The repayment of returned checks would include late payment charges as well as handling fees.

Clients who do not remit payment on the due date are classified by the Company as past due accounts. Ioan accounts which are more than 90 days past due are reclassified as delinquent accounts. These accounts may be endorsed for legal action and/or the foreclosure of collateral. Despite instituting a firm credit and collection policy, the Company maintains its goal of providing quality service to its clients. The Company normally evaluates the circumstances of returned checks on a case-to-case basis.

Item 2. Properties

As part of its normal operations, the Company acquired or foreclosed on several properties that were mortgaged to it to secure customers' loans. There were no other mortgages or liens on these properties except those under the name of the Company. These properties have subsequently been transferred, or currently in the process of being transferred to the Company. Development of the Merville property was finished already and the Villanueva property is currently being developed to command a higher selling price. The Company will eventually dispose or sell these properties. The list of these properties is found in the following table:

List of Foreclosed Properties as of December 31, 2005		
Location	Size(Sqm)	Description
Brgy. Bacayao, Guimba Nueva Ecija	5,539	Transferred
Capitol Homesite Subd., Brgy. Cotta, Lucena City (2 lots)	561	Transferred
Merville, Paranaque City	195	Transferred
Brgy. Sibul, San Miguel, Bulacan	40,817	Transferred
Brgy. Cotta, Iyam, Lucena City (3 parcels)	23,847	In process
Bo. De Ocampo, Trece Martires City, Cavite	1,410	Transferred
LF Flores, Teachers Village, Brgy. Cotta, Lucena City (6 lots)	900	In process
Villanueva, Paranaque City	522	Transferred
Lot 29, Block 24, Lower Bicutan, Taguig	138	Transferred
Sun Valley, Paranaque City	111	Transferred
Rosario, La Union	3,943	Under redemption
TOTAL	77,983	

Item 3. Legal Proceedings

There are no legal proceedings against Makati Finance Corporation (referred to as 'the Company'), except collection and/or foreclosure cases in the normal course of its operations.

Item 4. Submission of Matters to a Vote of Security Holders

No matters that require voting decisions were submitted to the Security holders in the fourth quarter of the year 2005.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

In year 2000, the BOD and stockholders approved, as part of the quasi-reorganization, the decrease in the Company's authorized capital stock of ₱100,000,000, with a subscribed and paid-up capital of ₱45,149,780 to ₱9,949,040 with a subscribed and paid-up capital of ₱ 2,487,260. There was no return of capital, thus, the surplus arising from the reduction in the capital amounting to ₱42,662,520 was credited to additional paid-in capital.

On the same date, the BOD and stockholders approved the increase in the Company's authorized capital stock from ₱9,949,040 to ₱127,000,000, divided into 12,700,000 common shares with a par value of ₱10 per share.

On January 23, 2001, the Company issued additional 3,198,535 shares to the shareholders against their deposits for future subscriptions amounting to ₱87,078,288, resulting to an additional paid-in capital of ₱55,092,938.

On the same date, the Securities and Exchange Commission (SEC) approved the quasi-reorganization as described above.

Accordingly, upon such approval, the additional paid-in capital amounting to ₱ 97,781,211 as of that date was applied against the Company's deficit as of July 31, 2000 amounting to ₱97,781,211.

On December 11, 2001, the BOD and stockholders approved the reduction in the Company's authorized capital stock from ₱127,000,000 to ₱100,000,000 and from par value of ₱ 10 per share to ₱1 per share. On March 11, 2002, the BOD and stockholders amended the proposed reduction in the Company's authorized capital stock from ₱127,000,000 to ₱ 90,000,000 and from par value of ₱10 per share to ₱1 per share. The reduction in authorized capital stock was approved by the SEC on May 9, 2002. The reduction in par value resulted in the issuance of 31,025,349 additional shares to existing shareholders.

On the same date, the BOD and stockholders declared stock dividends in the aggregate amount of ₱20,785,475 in favor of the stockholders of record as of May 31, 2002, with any fractional shares to be paid in cash.

Also on March 11, 2002, the BOD and stockholders approved the offer of up to 19,580,000 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 & Medium Enterprise Board on January 6, 2003 with an offer price of PhP1.38 per share. Underwriter was Abacus Capital & Investment Corporation.

The movements in the number of shares and capital stock amount for the years ended December 31, 2005, 2004 and 2003 follow:

	2005		2004		2003	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning of year	76,733,409	₱76,733,409	74,818,068	₱74,818,068	74,818,068	₱74,818,068
Increase in number of shares as a result of reduction in par value	–	–	–	–	–	–
Stock dividends	2,124,712	2,124,712	1,915,341	1,915,341	–	–
Issuance	–					
Balance at end of year	78,858,121	₱78,858,121	[illegible]	[illegible]	[illegible]	[illegible]

Cash and stock dividends were declared in 2005 and 2004 equivalent to 30% of the Company's net income after tax. No cash dividends were declared in year 2003 and there was also no sale of unregistered securities within the last three years.

Share Prices:

First Quarter, 2006	High	Low
Market Price	₱ 2.00	₱ 2.00

HOLDERS OF COMMON STOCK As of March 31, 2006:
TOP 20 Stockholders

Name	Nat	Class	No. of Shares	Percentage
PCD NOMINEE CORP. (FILIPINO)	FIL	A	54,079,346.00	68.578030%
AMALGAMATED INV. BANCORP.	FIL	A	18,728,754.00	23.749937%
PCD NOMINEE CORP. (NON-FIL.)	FOR	A	4,392,582.00	5.570234%
ERIC B. BENITEZ	FIL	A	379,439.00	0.481167%
MELLISSA B. LIMCAOCO ITF DANIELLE B. LIMCAOCO	FIL	A	126,479.00	0.160388%
RENE B. BENITEZ ITF LORENZO L. BENITEZ	FIL	A	126,479.00	0.160388%
RENE B. BENITEZ ITF CARMELA L. BENITEZ	FIL	A	126,479.00	0.160388%
GLENN B. BENITEZ ITF ALESSANDRA C. BENITEZ	FIL	A	126,479.00	0.160388%
GLENN B. BENITEZ ITF ALFONSO C. BENITEZ	FIL	A	126,479.00	0.160388%
GLENN B. BENITEZ ITF ANDREA C. BENITEZ	FIL	A	126,479.00	0.160388%
MELLISSA B. LIMCAOCO ITF MICHEALA LIMCAOCO	FIL	A	126,479.00	0.160388%
MELLISSA B. LIMCAOCO	FIL	A	126,479.00	0.160388%
EMMANUEL F. LAPORTEZA	FIL	A	115,939.00	0.147022%
LINNETTE SERRANO	FIL	A	10,540.00	0.013366%
BEBERLY S. SANTOS	FIL	A	10,540.00	0.013366%
VENUS B. PAGUDAR	FIL	A	10,540.00	0.013366%
GLORIA A. HILVANO	FIL	A	10,540.00	0.013366%
KARLO DELA CUESTA	FIL	A	10,540.00	0.013366%
ALFREDO REYES	FIL	A	10,540.00	0.013366%
RICHARD L. FRANCISCO	FIL	A	10,540.00	0.013366%
SUB TOTAL			78,644,653.00	99.729301%
OTHER STOCKHOLDERS (34)		A	213,468.00	0.270699%
GRAND TOTAL (54 stockholders)			78,858,121.00	100.000000%

Item 6. Management's Discussion and Analysis or Plan of Operation.

Plans and Prospects for 2006

The Company has outlined plans geared towards its goal of improving the quality of its service and further increasing its shareholder value. The Company has chosen to adopt sales and marketing strategies that are expected to strengthen its foothold in its existing niche markets and, at the same time, enter new niche markets. The Company also intends to expand its distribution reach through the geographical expansion of its trading areas.

The Company's future plans and prospects can be categorized primarily into changes it intends to undertake and implement with regard to its lending activities and funds generation.

Share Prices:

First Quarter, 2006	High	Low
Market Price	₱ 2.00	₱ 2.00

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The Company's future plans and prospects can be categorized primarily into changes it intends to undertake and implement with regard to its lending activities and funds generation.

Lending Activities

Being its core operations, the Company has formulated plans to expand its lending operations that will guarantee sustained growth even beyond the year 2005. Its lending activities and loan products will still be focused on the niche consumer loan market and SME markets, due to the experience it has gained from these segments. MFC will also undertake steps to raise the quality of service it provides to its current and future clients. As part of its future plans and prospects the Company has outlined the following for its lending activities for the forecast period 2004 to 2006.

- Expansion of the Company's distribution network for its Rx Cashline, MFC Factors and secured business loan products to provincial areas such as Batangas in the South and Tarlac and Pampanga in the North;
- Continuation and expansion of individual and corporate motorcycle unit financing through a tie-up with Honda Motor World;
- Develop new niche markets related to medical professionals, and design loan products that would cater to the requirements of these markets;
- Adopt an integrated information system that will match the changes and expansion of loan products and services of the Company;
- Updating and finalization of MFC's operating manuals.

Funds Generation

Serving as the lifeblood of the firm's operations, the Company is aware of the need to have a constant flow of funds to support its lending operations. Although part of that requirement will be met by loans collections, the Company will need to have additional resources if it intends to undertake further expansion in the future. The Company intends to meet this additional requirement through the following:

- Availment of additional credit lines from banks;
- Disposal of other acquired assets such as real estate properties in the provinces of Nueva Ecija, Bulacan, and Lucena.

<u>Year 2005</u>

Results of Operations

Net income after tax from tentative audited financial statements for the year 2005 was ₱11.5 million. The drop was primarily due to the changes in financial reporting standards being imposed effective January 1, 2005. Unadjusted net operating income would have been ₱15.4 million, which was 120% of year 2004's audited net income. The difference between the tentative net results against the unadjusted net income was due to various adjustments in recognition of certain income and on certain expense items - revaluation of financial assets.

Financial Condition and Capital Resources

For the year ended December 31, 2005, the company's total assets reached ₱171.6 million. Despite the revaluation in assets because of the implementation of new international accounting standards, the increase in assets was 25.3% of last year's restated amount of assets. Increase in the Company's borrowings was due to increased loan production towards the latter part of the year. Motorcycle financing and increased factoring beefed up the loan portfolio for the year.

Year 2004

Results of Operations

Net income after tax for the year 2004 was ₱14.2 million while net income after tax for the year 2003 was ₱12.7 million, an increase of 10.9%. The company continued to produce more quality loans despite the increase in expenses for the year. Other income increased by 171.7% mainly due to a recovery of charged off receivable through payment of property. Deferred tax asset amounting to ₱5.9 million were reversed to reflect realizable value of this asset.

Financial Condition and Capital Resources

For the year ended December 31, 2004, MFC's total assets amounted to ₱136.68 million. Receivables which were already uncollectible totaling P19.5 million were written-off. A property in Rosario, La Union was acquired as payment of a written off receivable valued at ₱4.0 million.

The year's net income increased the retained earnings to ₱33.7 million for 44.2% of year 2003. Earnings per share for the year was ₱0.18 while return on assets was 10.4%. ₱3.8 million or thirty percent of the net income for 2003 were declared as dividends, fifty percent were paid in cash and the other fifty percent were stock dividends.

Year 2003

Results of Operations

Net income for the year 2003 was ₱12.7 million while net income for the year 2002 was ₱10.6 million, an improvement of 19.9%. The company continued to produce more quality loans and maintain its level of expenses for the year. Part of the funds generated from the initial public offering were used to pay off the company's outstanding obligations which reduced the cost of borrowings by 73.8%.

Financial Condition and Capital Resources

For the year ended December 31, 2003, MFC's total assets amounted to ₱111.79 million. Receivables which proved to be uncollectible totaling P16.1 million were written-off. The proceeds of the initial public offering were used to pay off maturing obligations and fund new releases of approved loans. Acquired assets in Makati, Tagaytay and a portion of the Merville property were sold during the year. There were no additions to the company's foreclosed properties. Gain on sale of the acquired assets amounted to ₱0.52 million.

The year's net income increased the retained earnings to ₱23.4 million for 20.6% of year 2002. Return on equity for the year was 17.07% while return on assets was 12.2%.

Item 7. Financial Statements

The audited financial statements are herewith attached as "ANNEX A".

Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

There are none.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

Board of Directors

The following are the incumbent members of the Board of Directors of the Company as of December 31, 2005.

Dr. Isidro B. Benitez, Chairman, 77, **Mr. Benitez has served as a Director since the Company's incorporation. He is also the Chairman of Obstetrics and Gynecology of the Makati Medical Center, MERG Realty Corporation and Amalgamated Development Corporation. Concurrently, Dr. Benitez is the Vice-Chairman of AIB and a director of Nationwide Health Systems. He was formerly the Chairman of Obstetrics and Gynecology of the University of the Philippines / Philippine General Hospital where he worked from 1955 to 1988. He is presently the Chairman of the Examining Board of SGOP, Philippines, and a member of the American College of Surgeons, the Philippine College of Surgeons and the Philippine OB-Gyne Society. He obtained his Doctor of Medicine degree from the University of the Philippines, specialized in Obstetrics and Gynecology at John Hopkins University, Baltimore, Maryland and took courses in the Senior Executive MBA Program of the Ateneo de Manila University.**

Mr. Juan Carlos del Rosario, Vice Chairman, 54, **He has served as a Director since 1996. Mr. Del Rosario is currently the Chairman of AIB and Global Alliances, Inc. He was formerly the Senior Vice President and Chief Investment Officer of the Philippine American Life Insurance ("AIG Philippines") where he served as a Board of Director in several of the company's subsidiaries and affiliate companies. He was a Director of AIG Investment Corporation (Asia) Ltd., Investment and Capital Corporation of the Philippines, Beacon Property Ventures, Inc. Prior to joining the AIG/Philamlife Group, he had worked for 18 years for Chase Manhattan Bank. He received his Master's Degree in Finance and Marketing from Colombia University in 1973 and joined the Executive Development Program of Cornell University.**

Mr. Maximo O. Borromeo, Senior Managing Director, 55, **He has been a Director since 2000. Aside from being a Director of the Company, Mr. Borromeo is concurrently the President and a Director of Honda Cars Cebu, Inc., Honda Motor World, Inc., HMW Lending Investors, Dearborn Motors Co., Inc, Astron Gestus, Inc., Visayas Auto Ventures, Inc., Cebu Maxi Management Corporation, Maxi Agricultural Corporation, Cebu Parkland, Inc. He is also a Director in the following companies: Cebu Holdings Inc., Borromeo Brothers Estate, Inc., Margarita Agro-Industrial Corp., Salud Borromeo Foundation, Inc. and McBros Development Corporation. At present, Mr. Borromeo is the governor of the Cebu Business Park. He graduated with a Bachelor of Arts degree in Economics from the Ateneo de Manila University.**

Mr. Rene B. Benitez, Managing Director, 42, **He has been a Director since 1996. Mr. Benitez is the Managing Director of the Company. Prior to joining the Company, he held the position of Country Manager of the Development Bank of Singapore ("DBS") Securities, Inc. He has had extensive experience in foreign and local investment banking and capital market operations, having been connected with Insular Investment and Trust Corporation, Shearson Lehman Brothers (USA), Prudential Bache Securities (USA) and the World Bank. He was formerly a member of the Philippine Stock Exchange and is currently Director of H. Thomas Group, Inc., Vision Air Flight Support Service, Inc., Pikeville, Inc., MERG Realty and Development Corporation, Commercial Consumer Credit Corporation, Global Credit and Management Group, JCR Realty and Management and Interglobal Alliances. He graduated from Claremont Colleges / Pitzer College with a double degree in Business Economics and Organizational Studies. He also has a Master's Degree in Economics from Yale University.**

Ms. Teresita B. Benitez, Director, 70, She has been a Director since 2001 and is currently the President of Makati Finance. She had previously worked for the Philippine Bank of Commerce as Assistant Personnel Manager and United Coconut Bank as Assistant Corporate Secretary. She had also been a director at Asiatrust Bank and Amalgamated Development Corporation. At present she is the Treasurer and Director of Nationwide Health Systems and FLB Development Corporation and the President of MERG Realty and Development Corporation. Ms. Benitez obtained a Bachelor of Science degree in Commerce from the University of San Francisco.

Mr. Joel S. Ferrer, Director, 50, He has served as a Director since 1998. Mr. Ferrer is currently the President of PARMAN Inc., an overseas recruitment company. At the same time he also manages his family's aquaculture business. Previous to this, he had worked for ERECSA, Inc. where he was the Executive Vice President. His other work experience includes being an investment executive at the Summa International Bank of Indonesia and a Lending Officer at the Bank of America. He obtained his Masters Degree in Business Management from the Asian Institute of Management and completed the Strategic Business Economics Program of the University of Asia and the Pacific.

Mr. Augusto P. Nilo, Director, 61, He was elected as a Director in 2002 and concurrently a director of Amalgamated Investment Bancorporation. Mr. Nilo had been the Executive Director of Sinar Mas Group of Companies and the Managing Director of Borneo Pulp & Paper Sdn. Bhd. He also held the position of President & CEO of China Tire Holding. Mr. Nilo graduated with a Bachelor of Science in Chemical Engineering Degree from the University of Santo Tomas and entered the Business Graduate School at the University of the Philippines. He attended a Tado Finance Seminar at the Chase Manhattan Bank in the United States in 1983.

Atty. Eugenio E. Reyes, 68, He was elected as a Director only in the last quarter of 2003. Atty. Reyes is with Jacob Jacob & Associates, concurrently the Corporate Secretary of Parman, Inc. and Executive Secretary of the Philippine Association of Securities Brokers and Dealers, Inc. He was also a former Director of the Securities & Exchange Commission from 1999 to 2001. Atty. Reyes finished his Bachelor of Laws at the University of Southern Philippines in Cebu City.

Mr. Chia Yan Heng, Director, 37, He has been a Director since 2001. In addition to being a Director of the Company, Mr. Chia is concurrently the Vice President for Finance of SNP Corporation Ltd. He has been with the company since 1995. Previous to this, he had worked as an Accounting Analyst for Fisher Controls Pte Ltd. Mr. Chia graduated with Bachelor of Accountancy Degree from the Nanyang Technological University.

Mr. Michael Wee Soon Lock, Director, 68, He has served as a Director since 1998. Mr. Wee is a senior ASEAN banker and retired Executive Chairman of Development Bank of Singapore Securities Holding PTE Ltd. He has held the positions of the Chairman of NatSteel Ltd., Deputy Chairman of DBS Land, Executive Vice President of the Development Bank of Singapore, General Securities Investments Ltd., Singapore Bus Service Ltd., Laguna National Golf and Country Club, Ltd. and was the Director of NTC Merchant Bank, Ltd. Mr. Wee graduated with a Bachelor of Science Degree in Chemical Engineering from the University of Birmingham and obtained his Masters Degree in Finance from the University of British Colombia.

Messrs. Michael Wee Soon Lock and Atty. Eugenio E. Reyes act as the two (2) independent directors of the Company.

Senior Management

The following comprise the Company's management team. No one is considered a significant employee since all current employees are under regular employment contracts and no special or change-in-control arrangements were entered into by the Company and its employees. The following discussion gives a brief background on their accomplishments and their respective areas of responsibility.

Mr. Emmanuel F. Laforteza, Comptroller, 43, He has been employed by the Company since 2001. Concurrent to his current position as the Company's Comptroller, Mr. Laforteza also acts as Comptroller and Corporate Secretary for AIB, positions that he has held since 2001. He has had more than 17 years of experience in the finance and banking industry. Previous to this, he had worked as a Senior Manager at Keppel Bank Philippines and at Urban Bank of the Philippines. Mr. Laforteza obtained his Bachelor of Science Degree in Accounting from the University of Sto. Tomas. He also has a Masters Degree in Business Administration from the Ateneo Graduate School of Business.

Mr. Victor L. Guerrero, Senior Manager of Account Management Group, 36, He has been employed by the Company since 1996. Previous to his employment in the Company, Mr. Guerrero has had close to 11 years of experience in the finance business. He had served in various positions in the United Coconut Planters Bank until 1995 and was Manager of the Product Management and Development Department of the First Women's Credit Corporation until 1997. Mr. Guerrero graduated with a Bachelor of Arts Degree in Economics from the University of Santo Tomas.

Ms. Felvirina C. Cruz, Chief Accountant, 37, She has been employed by the Company since 1995. Ms. Cruz is a Certified Public Accountant with more than 11 years of experience in the finance business. Before MFC, she had previously been employed with Fortune Savings and Loan Association as Audit Assistant and First Women's Credit Corporation as a Branch Accountant. For a time she also served as the accounting head of Commercial & Consumer Credit Corporation, a MFC subsidiary. Ms. Cruz graduated with a Bachelor of Science Degree in Business Administration from the National College of Business and Arts.

Mr. Albert J. Batacan, Office Manager, Office Operations and Acquired Assets, 47, He has been employed by the Company since 2000. Prior to his employment with the Company, Mr. Batacan had served in various functions in a number of companies through the years. His more recent job experiences were with PARMAN, Inc. as Administrative Assistant, Toyota Bel-Air, Inc. as Financing Coordinator and YL Finance, Inc. as a Marketing Officer. Mr. Batacan graduated with a Bachelor of Science in Management Degree from the Letran College.

Item 10. Executive Compensation

The Company has an existing management contract with Honda Motor World for advice and assistance to be provided by Mr. Maximo O. Borromeo as Senior Managing Director and with Pikeville, Inc. for advice and assistance to be provided by Mr. Rene B. Benitez as Managing Director. The directors receive per diem each amounting to ₱10,000 for every Board meeting they attend.

Executive Compensation		
Year	**Name and Principal Position**	**Aggregate Compensation (₱)**
For the twelve (12) Months Ended December 31, 2005 (Actual)	Executive Officers Maximo O. Borromeo – Senior Managing Director Rene B. Benitez – Managing Director Victor L. Guerrero – Senior Manager Felvirina C. Cruz – Manager Albert J. Batacan – Manager	
	All Executive Officers as a Group	**4,198,362**
	All Board Directors and Officers as a Group	**4,980,143**
For the twelve (12) Months Ended December 31, 2004 (Actual)	Executive Officers Maximo O. Borromeo – Senior Managing Director Rene B. Benitez – Managing Director Victor L. Guerrero – Senior Manager Felvirina C. Cruz – Manager Albert J. Batacan – Manager	
	All Executive Officers as a Group	**3,808,026**
	All Board Directors and Officers as a Group	**3,973,526**

Item 11. Security Ownership of Certain Beneficial Owners and Management

A. BOD AND OFFICERS OWNING MORE THAN 5% EQUITY

Title and Class		**No. of Shares**	**% to Total**
	DIRECT		
Common	Amalgamated Investment Bancorporation	48,531,697	61.54%
Common	Pikeville Bancshares	7,534,402	9.55%
Common	Michael Wee Son Lock	4,392,582	5.57%
	TOTAL	**60,458,681**	**76.67%**
	INDIRECT		
	NONE	-	0%
	TOTAL	**60,458,681**	**76.67%**

B. BOD AND OFFICERS WITH DIRECT OWNERSHIP

Title/Class		**No. of Shares**	**% to Total**
Common	Michael Wee Son Lock	4,392,582	5.57%
Common	Rene B. Benitez	2,529,793	3.21%
Common	Rene B. Benitez in trust for Matias L. Benitez	126,479	0.16%
Common	Rene B. Benitez in trust for Carmela L. Benitez	126,479	0.16%
Common	Rene B. Benitez in trust for Lorenzo L. Benitez	126,479	0.16%
	Rene Benitez	2,909,230	3.69%

Common	Joel S. Ferrer	1,072,470	1.36%
Common	Teresita B. Benitez	368,473	0.47%
Common	Maximo O. Borromeo	212,917	0.27%
Common	Isidro B. Benitez	134,059	0.17%
Common	Emmanuel Laforteza	115,939	0.15%
Common	Chia Yan Heng	16	0.00%
Common	Juan Carlos del Rosario	16	0.00%
Common	Augusto P. Nilo	10	0.00%
Common	Atty. Eugenio E. Reyes	10	0.00%
	TOTAL	**9,205,752**	**11.67%**

C. BOD AND OFFICERS WITH INDIRECT OWNERSHIP

Title/Class		**No. of Shares**	**% to Total**
Common	Isidro B. Benitez	425,834	0.54%
Common	Teresita B. Benitez	220,803	0.28%
Common	Rene B. Benitez	102,516	0.13%
Common	Maximo O. Borromeo	18,964	0.02%
	TOTAL	**768,117**	**0.97%**

Item 12. Certain Relationships and Related Transactions

Dr. Isidro B. Benitez and Ms. Teresita B. Benitez are spouses, and Mr. Rene B. Benitez is their son.

Related Party Transactions

The following transactions have been entered into with related parties:

			Elements of Transactions			
	Nature of Related	Nature of	Balance Sheet Amount		Income Statement Amount	
Related party	Party Relationship	Transaction	2005	2004	**2005**	2004
AIB	Stockholder	Receivables		₱95,950		₱–
		Payables		9,000,000		–
		Car Lease Contract	₱4,314,425		**₱364,670**	
		Interest Expense		–	719,859	28,000
		Professional fees		–	**4,360,000**	4,900,000
		Interest Income			**177,148**	
Marg Realty and Development Corporation	Stockholder	Receivables		2,401		–
		Payables	3,345,710	6,401		
		Rental		–	**456,000**	452,545
		Interest expense		–	**43,778**	9,619
Borromeo Bros. Estate	Stockholder	Transportation/ Others		–	**87,901**	127,753
3C	Subsidiary	Receivables		11,802,603		–
	Subsidiary	Payment of Advances	11,739,608			
3C Pawnshop	Subsidiary	Receivables		67,014		–
	Subsidiary	Advanced Expenses	67,014			
GCMGI/3C	Subsidiary	Receivables		4,486,780		–
	Subsidiary	Payment of Advances	4,486,780			
MF Insurance Services	Subsidiary	Receivables		80,702		–
	Subsidiary	Advanced Expenses	80,702			

Related party	Nature of Related Party Relationship	Nature of Transaction	Elements of Transactions: Balance Sheet Amount 2005	Balance Sheet Amount 2004	Income Statement Amount 2005	Income Statement Amount 2004
Honda Motor World	Affiliates	Professional Fee			**500,000**	
Others	Stockholders	Receivables		310,805		–
	Affiliates	Professional Fee		–	700,000	–
	Directors	Professional fees		–		1,200,000
	Directors	Management fees	1,639,572	–	2,306,982	1,296,647

PART IV - EXHIBITS AND SCHEDULES

Item 13. Exhibits and Reports on SEC Form 17-C

(a) Exhibits

The Company's audited financial statements are hereby attached as "ANNEX A".

(b) Reports on SEC Form 17-C

The reports on SEC Form 17-C filed during the last six months ended December 31, 2005 are hereby attached "ANNEX B".

Quarterly Financial Reports (Form Type FCFQ1) for the quarter ending December 31, 2005 were submitted to the SEC on February 14, 2006 and for the quarter ending September 30, 2005 on November 15, 2005.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of ______________________ on __________, 20__.

By:

TERESITA B. BENITEZ
Principal Executive Officer

EMMANUEL F. LAFORTEZA
Principal Financial Officer/Comptroller

MAXIMO O. BORROMEO
Principal Operating Officer

FELVIRINA C. CRUZ
Principal Accounting Officer

ATTY. DANILO ENRIQUE CO
Corporate Secretary

SUBSCRIBED AND SWORN to before me this 17[th] day of April 2006 affiant(s) exhibiting to me his/their Residence Certificates, as follows:

NAMES	RES. CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
Teresita B. Benitez	24781360	01/02/2006	Makati City
Max O. Borromeo	13838745	01/31/2005	Cebu City
Emmanuel Laforteza	24805788	01/12/2006	Makati City
Felvirina C. Cruz	24805790	01/12/2006	Makati City
Danilo Enrique Co	08398668	01/04/2006	San Juan, M.M.

Notary Public

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The Management of Makati Finance Corporation is responsible for all information and representations contained in the audited financial statements as of December 31, 2005, 2004 and 2003. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on best estimates and informed judgment of management with an appropriate consideration to materiality.

It is in this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that the transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the company's audit committee and to its external auditor (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data (ii) material weaknesses in the internal controls; (iii) and fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the Company.

Sycip, Gorres & Velayo, the independent auditors appointed by the Board of Directors and Stockholders, have audited the financial statements of the company in accordance with generally accepted auditing standards in the Philippines and have expressed their opinion on the fairness of presentation upon completion of such audit, in the report to the Company's Board of Directors and stockholders as shown in the succeeding page.

ISIDRO B. BENITEZ, M.D.	**TERESITA B. BENITEZ**	**EMMANUEL F. LAFORTEZA**
Chairman of the Board	**Chief Executive Officer**	**Comptroller**

ACKNOWLEDGEMENT

REPUBLIC OF THE PHILIPPINES
CITY OF) SS

APR 18 2006 QUEZON CITY

Personally came and appeared before on this ____ day of April 2006, at Makati City, **Dr. Isidro B. Benitez, Mrs. Teresita B. Benitez and Mr. Emmanuel Laforteza** with Community Tax Certificate Nos. 24761359, 24761360 and 24505788 issued on 01/02/2006 at Makati City, 01/02/2006 at Makati City and 01/12/2006 at Makati City respectively, known to me and to me known to be the same persons who executed the foregoing STATEMENT OF MANAGEMENT'S RESPONSIBILITY and acknowledged that the same is their free act and voluntary deed.

This instrument consisting of 1 page including this whereon the acknowledgement is written, together with its ANNEXES, has been signed by the party and witnesses on each and every page thereof.

WITNESS MY HAND AND SEAL, at the place and on the date first above written.

Notary Public

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Book No. 07
SERIES OF 20

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

ANNEX A

MAKATI FINANCE CORPORATION

Financial Statements
December 31, 2005 and 2004
and Years Ended December 31, 2005, 2004 and 2003

and

Report of Independent Auditors

COVER SHEET

2 8 7 8 8

SEC Registration Number

MAKATI FINANCE CORPORATION

(Company's Full Name)

2nd Floor, Makati FinanCe Centre,
7823 Makati Avenue, MaKati City

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

Ms. Felvirina C. Cruz

(Contact Person)

896-0221

(Company Telephone Number)

1 2 3 1

Month *Day*

(Fiscal Year)

A A F S

(Form Type)

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SGV & Co

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-F

Report of Independent Auditors

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

We have audited the accompanying balance sheets of Makati Finance Corporation as of December 31, 2005 and 2004, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Makati Finance Corporation as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Philippines.

SYCIP GORRES VELAYO & COMPANY

Renato Galvo

Renato J. Galve
Partner
CPA Certificate No. 37759
SEC Accreditation No. 0081-A
Tax Identification No. 102-087-055
PTR No. 4180840, January 2, 2006, Makati City

March 16, 2006

MAKATI FINANCE CORPORATION
BALANCE SHEETS

	December 31	
	2005	2004 (As restated - Note 2)
ASSETS		
Cash and Cash Equivalents	**₱3,291,906**	₱5,240,774
Loans and Receivables - net (Notes 6 and 16)	**128,725,748**	88,310,243
Investment Properties (Note 7)	**23,288,212**	25,526,072
Property and Equipment - net (Note 8)	**6,800,653**	2,683,665
Deferred Tax Asset (Note 14)	**6,092,585**	12,805,900
Other Assets - net (Note 9)	**3,021,574**	2,446,004
	₱171,220,678	₱137,012,658
LIABILITIES AND STOCKHOLDERS' EQUITY		
Notes Payable (Notes 11 and 16)	**₱37,308,333**	₱13,500,000
Accrued Expenses (Note 18)	**3,699,554**	4,734,802
Accounts Payable and Other Liabilities (Note 12)	**3,940,001**	2,504,237
	44,947,888	20,739,039
Stockholders' Equity (Note 13)		
Capital stock	**78,858,118**	76,733,409
Additional paid-in capital	**4,347,611**	4,347,611
Retained earnings	**43,137,061**	35,192,599
Net unrealized loss on available-for-sale investments (Note 9)	**(70,000)**	–
	126,272,790	116,273,619
	₱171,220,678	₱137,012,658

See accompanying Notes to Financial Statements.

MAKATI FINANCE CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31	
	2005	2004 (As restated - Note 2)
INTEREST INCOME	**₱33,943,286**	₱36,400,318
INTEREST EXPENSE (Notes 11 and 16)	**1,000,030**	150,625
NET INTEREST INCOME	**32,943,256**	36,249,693
PROVISION FOR IMPAIRMENT LOSSES (Note 10)	**1,168,642**	1,411,203
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT LOSSES	**31,774,614**	34,838,490
OTHER INCOME		
Service charges	**1,088,552**	1,489,283
Gain on sale of acquired assets	**743,411**	45,360
Recovery on asset charged off	–	4,000,000
Miscellaneous	**4,921,726**	666,189
	6,753,689	6,200,832
OTHER EXPENSES		
Salaries and employees' benefits (Notes 15 and 16)	**3,649,757**	4,704,798
Depreciation and amortization (Notes 7 and 8)	**2,468,552**	1,173,089
Taxes and licenses	**2,299,195**	2,313,704
Professional fees (Note 16)	**2,131,650**	5,969,463
Management fees (Note 16)	**1,875,868**	1,296,047
Transportation and travel (Note 16)	**674,525**	625,352
Rent (Notes 16 and 19)	**499,315**	452,545
Amortization of deferred charges (Note 9)	**420,930**	420,930
Entertainment, amusement and recreation (Note 14)	**375,525**	322,888
Commissions	**367,915**	410,944
Unrealized foreign exchange loss	**222,531**	–
Litigation/asset acquired expenses	**51,520**	1,170,464
Miscellaneous (Notes 16 and 18)	**3,117,438**	2,693,517
	18,154,721	21,553,741
INCOME BEFORE INCOME TAX	**20,373,582**	19,485,581
PROVISION FOR INCOME TAX (Note 14)		
Current	**1,466,363**	900,250
Deferred	**6,713,315**	5,922,762
	8,179,678	6,823,012
NET INCOME	**₱12,193,904**	₱12,662,569
Earnings Per Share (Note 17)	**₱0.15**	₱0.17

See accompanying Notes to Financial Statements.

MAKATI FINANCE CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Capital Stock	Additional Paid-In Capital	Retained Earnings	Net Unrealized Loss on Available For-Sale Investments (Note 9)	Total Capital Funds
Balance at December 31, 2003	₱74,818,068	₱4,347,611	₱23,360,751	₱–	₱102,526,430
Effect of change in accounting for:					
Revenues – PAS 18	–	–	1,083,222	–	1,083,222
Retirement Benefits - PAS 19	–	–	81,208	–	81,208
Investment Properties - PAS 40	–	–	1,836,046	–	1,836,046
Restated balance	74,818,068	4,347,611	26,361,227	–	105,526,906
Net income for the year	–	–	12,662,569	–	12,662,569
Total income and expense for the year	–	–	12,662,569	–	12,662,569
Stock dividends	1,915,341	–	(1,915,341)	–	–
Cash dividends		–	(1,915,856)	–	(1,915,856)
	1,915,341	–	8,831,372	–	10,746,713
Balance at December 31, 2004	₱76,733,409	₱4,347,611	₱35,192,599	₱–	₱116,273,619
Balance at December 31, 2004					
As previously reported	₱76,733,409	₱4,347,611	₱33,694,363	₱–	₱114,775,383
Effect of change in accounting for:					
Revenues – PAS 18	–	–	1,333,239	–	1,333,239
Retirement Benefits - PAS 19	–	–	(167,714)	–	(167,714)
Investment Properties - PAS 40	–	–	332,711	–	332,711
Balance at December 31, 2004 as restated	76,733,409	4,347,611	35,192,599	–	116,273,619
Effect of change in accounting for financial instruments - PAS 39	–	–	–	(100,000)	(100,000)
Balance at January 1, 2005, as adjusted	76,733,409	4,347,611	35,192,599	(100,000)	116,173,619
Change in unrealized gain on AFS	–	–	–	30,000	30,000
Net income for the year	–	–	12,193,904	–	12,193,904
Total income and expense for the year	–	–	12,193,904	30,000	12,223,904
Stock dividends	2,124,709	–	(2,124,709)	–	–
Cash dividends	–	–	(2,124,733)	–	(2,124,733)
	2,124,709	–	7,944,462	30,000	10,099,171
Balance at December 31, 2005	**₱78,858,118**	**₱4,347,611**	**₱43,137,061**	**(₱70,000)**	**₱126,272,790**

See accompanying Notes to Financial Statements.

MAKATI FINANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2005	2004 (As restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱20,373,582**	₱19,485,581
Adjustments for:		
Depreciation and amortization	**2,468,552**	1,173,089
Provision for impairment losses	**1,168,642**	1,411,203
Amortization of deferred charges	**420,930**	420,930
Unrealized foreign exchange loss	**222,531**	–
Gain on sale of investment properties	**(346,657)**	–
Gain on sale of property and equipment	**(99,999)**	(151,599)
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Receivables	**(35,372,161)**	(28,352,570)
Other assets	**(816,500)**	147,463
Increase (decrease) in the amounts of:		
Accrued expenses	**(1,035,248)**	1,909,352
Accounts payable and other liabilities	**2,732,277**	(199,414)
Net cash used in operations	**(10,284,051)**	(4,155,965)
Income taxes paid	**(2,762,876)**	(519,817)
Net cash used in operating activities	**(13,046,927)**	(4,675,782)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment	**(6,585,541)**	(3,354,254)
Purchase of notes receivable	**(4,100,000)**	–
Proceeds from sale of property and equipment	**100,000**	151,599
Net cash used in investing activities	**(10,585,541)**	(3,202,655)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of notes payable	**23,808,333**	10,471,296
Cash dividends paid	**(2,124,733)**	(1,915,856)
Net cash provided by financing activities	**21,683,600**	8,555,440

(Forward)

	Years Ended December	
	2005	2004 (As restated - Note 2)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(₱1,948,868)**	₱677,003
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**5,240,774**	4,563,771
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱3,291,906**	₱5,240,774

See accompanying Notes to Financial Statements.

MAKATI FINANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Makati Finance Corporation (the Company) operates as a domestic corporation engaged in the sale of various financial products and services, catering generally to the consumer market. The Company's principal place of business is at the 2nd Floor, Makati Finance Centre, 7823 Makati Avenue, Makati City. The Company was listed in the Philippine Stock Exchange on January 6, 2003 and is majority owned by Amalgamated Investment Bancorporation (AIB).

The accompanying financial statements of the Company were authorized for issue by the board of directors (BOD) on March 16, 2006.

2. Summary of Significant Accounting Policies

Basis of Financial Statement Preparation

The Company's financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). These are the first annual financial statements of the Company prepared in compliance with PFRS. The accompanying financial statements are prepared using the historical cost basis except for available-for-sale (AFS) investments that have been measured at fair value.

Changes in Accounting Policies

On January 1, 2005, the following new accounting standards became effective and were adopted by the Company:

- Philippine Accounting Standard (PAS) 19, *Employee Benefits,* provides for the accounting for long-term and other employee benefits. The standard requires the use of the projected unit credit method in determining the retirement benefits of the employees and a change in the manner of computing benefit expense relating to past service cost and actuarial gains and losses. It requires the Company to determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date.

  The effect of adopting this standard resulted in a transition liability amounting to ₱68,999 as of December 31, 2004. Net income in 2004 decreased by ₱248,922 with a corresponding increase in liability of the same amount.

- PAS 21, *The Effects of Changes in Foreign Exchange Rates,* prohibits the capitalization of foreign exchange losses. The standard also addresses the accounting for transactions in foreign currency and translating the financial statements of foreign operations that are included in those of the reporting enterprise by consolidation, proportionate consolidation and equity method. The adoption of this standard had no material impact on the financial statements.

- PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, provides for the required disclosure and presentation in respect of the accounts of banks and similar financial institutions. It also provides that provision for general banking risk is treated as appropriation of retained earnings and should not be included in the determination of net income for the period. In accordance with this standard, new disclosures were included in the accompanying financial statements, where applicable.

- PAS 32, *Financial Instruments: Disclosure and Presentation,* covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about the Company's financial instruments, whether recognized or unrecognized in the financial statements. In accordance with this standard, new disclosures were included in the financial statements, where applicable.

- PAS 39, *Financial Instruments: Recognition and Measurement,* establishes the accounting and reporting standards for recognizing, measuring, and disclosing information about the Company's financial assets and financial liabilities. PAS 39 also covers the accounting for derivative instruments. The standard has expanded the definition of a derivative instrument to include derivatives (derivative-like provisions) embedded in non derivative contracts. Under PAS 39, in determining whether a financial asset is impaired, reference is made to quoted market rates; in the absence of such quoted market rates, the discounted cash flow method is to be used.

  As allowed under PFRS 1, the effect of adopting PAS 32 and PAS 39 will not result in a restatement of prior year financial statements. Any cumulative effect of adopting these standards, however, will be charged against retained earnings as of January 1, 2005.

  PAS 39 requires that if there is objective evidence that impairment on loans and other financial assets carried at amortized cost are incurred, the amount of loss is measured as the difference between the assets' carrying amount and the present value of future cash flows. Prior to January 1, 2005, the adequacy of allowance for impairment losses on loans and other receivables and risk assets was determined based on management criteria. The effect of adopting PAS 39 provisions on impairment of financial assets had no impact on the financial statements.

  The effect of adopting the effective interest rate (EIR) method in measuring amortized cost for loans had no impact on the financial statements. However, the effect of adopting the provision of PAS 39 on the classification and related measurement of financial assets on the Company's financial statements decreased the stockholders' equity for the net unrealized loss on AFS amounting to ₱100,000 as of January 1, 2005.

  As of December 31, 2005, the Company has no outstanding derivatives transaction.

- PAS 40, *Investment Property*, prescribes the accounting treatment for investment property and related disclosure requirements. This standard permits the Company to choose either the fair value model or cost model in accounting for investment property. Fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the statements of income. Cost model requires that an investment property should be measured at depreciated cost less any accumulated impairment losses. The Company opted to adopt the cost method in accounting for its investment property.

  The effect of adopting the cost method in accounting for real and other properties owned or acquired (ROPOA) and investments in real estate that qualified as investment property resulted in a decrease in net income of ₱880,053 in 2004.

- PFRS 1, *First-Time Adoption of Philippine Financial Reporting Standards*, requires an entity to comply with PFRS effective at the reporting date for its first PFRS financial statements. In particular, PFRS 1 requires an entity to do the following in the opening PFRS balance sheet that it prepares as a starting point for its accounting under PFRS: (a) recognize all assets and liabilities whose recognition is required by PFRS; (b) not recognize items as assets and liabilities if PFRS do not permit such recognition; (c) reclassify items that it recognized under previous generally accepted accounting principles (GAAP) as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under PFRS; and (d) apply PFRS in measuring all recognized assets and liabilities. New disclosure requirements were included as a result of the adoption of the new standard.

  The Company's transition date is January 1, 2004. The Company prepared its opening PFRS balance sheet at that date. The Company's PFRS adoption date is January 1, 2005. In preparing financial statements in compliance with PFRS 1, the Company has applied certain mandatory exemption and certain optional exemption from full retrospective application of PFRS.

  Exemption from restatement of comparative financial information for PAS 32 and PAS 39.
  The Company elected to apply this exemption. It applied previous GAAP rules to derivatives, financial assets and financial liabilities and to hedging relationships for the comparative information for 2004 and prior years. The adjustments required for differences between the previous GAAP and PAS 32 and PAS 39 were determined and recognized at January 1, 2005.

  Exemption in respect of derecognition of financial assets and liabilities
  Financial assets and liabilities derecognized before January 1, 2004 are not re-recognized under PFRS. The application of the exemption from restating comparatives for PAS 32 and PAS 39 means that the Group recognized from January 1, 2005 any financial assets and financial liabilities derecognized since January 1, 2004 that does not meet the PAS 39 derecognition criteria.

- PFRS 5, *Non-current Assets Held for Sale and Discounted Operations*, specifies the accounting for assets held for sale and the presentation and disclosure of discontinued operations. It requires assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and the depreciation on such assets to cease. Furthermore, assets that meet the criteria to be classified as held-for-sale should be presented separately on the face of the balance sheets and the results of discontinued operations to be presented separately in the statements of income. The effect of adopting this standard is not material to the Company's financial statements.

  The following revised standards were also adopted in 2005 but had no material impact on the Company's financial statements. Required disclosures were included in the financial statements where applicable.

- PAS 1, *Presentation of Financial Statements,* provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying liabilities as current or non-current; prohibits the presentation of income from operating activities and extraordinary items as separate line items in the statements of income; and specifies the disclosures about key sources of estimation uncertainty and judgments management has made in the process of applying the Company's accounting policies. It also requires changes in the presentation of minority interest in the balance sheets and statements of income.

- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It defines material omission or misstatements, and describes how to apply the concept of materiality when applying accounting policies and correcting errors.

- PAS 10, *Events After the Balance Sheet Date,* provides a limited clarification of the accounting for dividends declared after the balance sheet date.

- PAS 16, *Property, Plant and Equipment,* provides additional guidance and clarification on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

- PAS 17, *Leases,* provides a limited revision to clarify the classification of a lease of land and buildings and prohibits expensing of initial direct costs in the financial statements of lessors.

- PAS 24, *Related Party Disclosures,* provides additional guidance and clarity in the scope of the standard, the definitions and the disclosures for related parties. It also requires disclosure of the compensation of key management personnel by benefit type.

Reconciliation of financial position following the adoption of PFRS follows:

		January 1, 2005 (date of transition of PAS 32 and 39)			December 31, 2004 (end of last period presented under the previous GAAP)			January 1, 2004 (date of transition)		
Account Description	**Item**	**Previous GAAP**	**Effect of Transition to PFRS**	**PFRS**	**Previous GAAP**	**Effect of Transition to PFRS**	**PFRS**	**Previous GAAP**	**Effect of Transition to PFRS**	**PFRS**
Asset Accounts										
Cash and cash equivalents		₱5,240,774	₱–	₱5,240,774	₱5,240,774	₱–	₱5,240,774	₱4,563,771	₱–	₱4,563,771
Loans and receivables		88,310,243	–	88,310,243	88,310,243	–	88,310,243	66,468,472	–	66,468,472
Property and equipment		2,683,665	–	2,683,665	2,683,665	–	2,683,665	502,500	–	502,500
Real and other properties owned or acquired - net	a	–	–	–	25,193,361	(25,193,361)	–	18,340,430	(18,340,430)	–
Investment properties - net	a	25,526,072	(250,000)	25,276,072	–	25,526,072	25,526,072	–	20,176,476	20,176,476
Other assets - net	b	15,251,904	150,000	15,401,904	15,251,904	–	15,251,904	21,911,851	–	21,911,851
		137,012,658	(100,000)	136,912,658	136,679,947	332,711	137,012,658	111,787,024	1,836,046	113,623,070
Liability Accounts										
Short-term notes payable		13,500,000	–	13,500,000	13,500,000	–	13,500,000	3,028,704	–	3,028,704
Accounts payable and other liabilities	c	7,239,039	–	7,239,039	8,404,564	(1,165,525)	7,239,039	6,231,890	(1,164,430)	5,067,460
		20,739,039	–	20,739,039	21,904,564	(1,165,525)	20,739,039	9,260,594	(1,164,430)	8,096,164
Equity Accounts										
Capital stock		76,733,409	–	76,733,409	76,733,409	–	76,733,409	74,818,068	–	74,818,068
Additional paid-in capital		4,347,611	–	4,347,611	4,347,611	–	4,347,611	4,347,611	–	4,347,611
Retained earnings	d	35,192,599	–	35,192,599	33,694,363	1,498,236	35,192,599	23,360,751	3,000,476	26,361,227
Net unrealized losses on AFS investments	b	–	(100,000)	(100,000)	–	–	–	–	–	–
		116,273,619	(100,000)	116,173,619	114,775,383	1,498,236	116,273,619	102,526,430	3,000,476	105,526,906
		₱137,012,658	(₱100,000)	₱136,912,658	₱136,679,947	₱332,711	₱137,012,658	₱111,787,024	₱1,836,046	₱113,623,070

Reconciliation of results of operations for the year ended December 31, 2004 follows:

Account Description	Note	Previous GAAP	Effect of Transition to PFRS	PFRS
		For the year ended December 31, 2004		
Interest Income		₱36,400,318	₱–	₱36,400,318
Interest Expense		150,625	–	150,625
Net Interest Income		36,249,693	–	36,249,693
Provision for Impairment Losses	e	787,921	623,282	1,411,203
Net Interest Income after Provision for Impairment Losses		35,461,772	(623,282)	34,838,490
Other Income				
Recovery on asset charged off		4,000,000	–	4,000,000
Service charges		1,489,283	–	1,489,283
Gain on sale of acquired assets		45,360	–	45,360
Miscellaneous	f	416,172	250,017	666,189
		5,950,815	250,017	6,200,832
Other Expenses				
Professional fees		5,969,463	–	5,969,463
Salaries and employee's benefits	g	4,455,875	248,922	4,704,797
Taxes and licenses		2,313,704	–	2,313,704
Management fees		1,296,047	–	1,296,047
Litigation/asset acquired expenses		1,170,464	–	1,170,464
Transportation and travel		625,352	–	625,352
Rent		452,545	–	452,545
Amortization of deferred charges		420,930	–	420,930
Commissions		410,944	–	410,944
Entertainment, amusement and recreation		322,888	–	322,888
Depreciation and amortization	h	293,036	880,053	1,173,089
Miscellaneous		2,693,518	–	2,693,518
		20,424,766	1,128,975	21,553,741
Income before Income Tax		20,987,821	(1,502,240)	19,485,581
Provision for Income Tax		6,823,012	–	6,823,012
Net Income		₱14,164,809	(₱1,502,240)	₱12,662,569

Notes to the reconciliation of balance sheet as of December 31, 2004 and January 01, 2004 and statements of income for December 31, 2004:

a. The net adjustment to Investment Properties consists of:

	January 1, 2005	December 31, 2004	January 1, 2004
Reclassification from real and other properties owned or acquired	₱–	₱25,193,361	₱18,340,430
Reclassifications of ROPOA to AFS	(250,000)	–	–
Depreciation of properties treated as investment properties under PAS 40	–	(880,053)	–
Reversal of allowance on investment properties	–	1,887,075	1,887,075
Recognition of additional allowance for impairment	–	(623,282)	–
Adjustment of the property to its fair value	–	(51,029)	(51,029)
	(₱250,000)	₱25,526,072	₱20,176,476

b. The adjustment on Other Assets pertains to reclassification of shares of stocks from ROPOA to Available-for-Sale Investments.

c. The adjustment to Accounts Payable and Other Liabilities consists of:

	December 31, 2004	January 1, 2004
Reversal of beginning LRI/MRI payable to income	(₱1,333,239)	(₱1,083,222)
Additional retirement expense under PAS 19	248,922	–
Recognition of transition liability	(81,208)	(81,208)
	(₱1,165,525)	(₱1,164,430)

d. Following is the summary of the adjustments to Retained Earnings:

	December 31, 2004	January 1, 2004
Reversal of beginning LRI/MRI payable to income (item b)	₱1,333,239	₱1,083,222
Reversal of allowance on investment property (item a)	4,861,917	5,485,199
Recognition of accumulated depreciation on Investment property	(4,478,177)	(3,598,124)
Additional retirement expense (item f)	(248,922)	–
Recognition of transition liability (item b)	81,208	81,208
Others (item a)	(51,029)	(51,029)
	₱1,498,236	₱3,000,476

e. The adjustment to Provision for Impairment Losses consists of recognition of additional impairment losses for investment property amounting to ₱623,282 as of December 31, 2004.

f. The adjustment to Miscellaneous Income amounting to ₱250,017 consists of recognition of the LRI/MRI payable as income as of December 31, 2004 in connection with the provision of PAS 18.

g. The adjustment on Salaries and Employee's Benefits pertains to the recognition of retirement expense amounting to ₱248,922.

h. The adjustment to Depreciation and Amortization pertains to the recognition of the 2004 depreciation expense on investment properties.

Cash and Cash Equivalents
Cash equivalents are short-term highly liquid instruments that are readily convertible to known amounts of cash with maturities of three months or less from the dates of placement that are subject to insignificant risk of changes in value.

Loans and Receivables
Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which the Company has no intention of trading.

Loans and receivables are stated at the outstanding balance, reduced by unearned discounts and capitalized interest on restructured loans and allowance for impairment losses.

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

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.

Investments in Subsidiaries

Investments in subsidiaries in the Company financial statements are accounted for using the cost method less any impairment in value.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest Income

Unearned interest income are recognized as income over the terms of the receivable using the EIR. Interest income on nondiscounted receivables is accrued as earned likewise using the effective interest method.

Service Charges

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

Investment Properties

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition investment properties are stated at cost less accumulated depreciation.

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

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.

Depreciation is calculated on a straight-line basis over the estimated useful life of 15 years from the time of acquisition of the investment property.

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

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

The initial cost of property and equipment consists of its purchase price, and any directly attributable costs to bring the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts any resulting gain or loss is credited to or charged against current operations.

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

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

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

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount (see accounting policy on Impairment of Assets).

Software Costs
Software costs (included under Other Assets in the balance sheets) include costs incurred relative to the development of the Company's software. Costs are amortized over five years on a straight-line basis from the date of its actual use.

Foreign Currency Transactions and Translation
Foreign currency denominated assets and liabilities are translated using the Philippine Dealing System weighted average rate (PDSWAR) prevailing at balance sheet date, while foreign currency income and expenses are translated into their equivalent Philippine pesos based on PDSWAR at transaction dates. Exchange gains or losses arising from foreign currency transactions and restatements of foreign currency denominated assets and liabilities are credited to or charged against current operations.

Impairment of Financial Assets

An assessment is made at each balance sheet date as to whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the income statement.

For assets carried at amortized cost such as loans and receivables, impairment is based on estimated cash flows or the fair value of the collateral if the loan is collateral dependent, discounted at the original effective interest rate.

The impairment losses for financial assets is inherently subjective because it requires material estimates, including the amounts and timing of expected recoverable future cash flows. These estimates may change significantly from time to time, depending on available information. In addition, a provision is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows. Increases to the allowance for impairment losses are charged to provision for impairment losses in the statement of income. Loans deemed to be uncollectible are charged against the allowance for impairment losses. Recoveries of previously charged off amounts are credited to recoveries from impairment losses in the statements of income.

Interest income is recognized on impaired financial assets based on the rate used to discount future cash flows to their net present value.

Impairment of Non Financial Assets

At each reporting date, the Company assesses whether there is any indication that its non financial assets may be impaired.

Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets

A previously recognized impairment loss is reversed by a credit to current operations to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

Income Taxes

Deferred income tax is provided using the balance sheet liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward of unused tax credits from excess MCIT over RCIT and unused tax losses can be utilized. Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

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

Leases

Operating lease payments are recognized as an expense in the statements of income on a straight-line basis over the lease term.

Derecognition of Financial Instruments

The derecognition of a financial instrument takes place when the Company has either (a) transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred or retained substantially all the risks and rewards but it no longer has control over the asset or a proportion of the asset.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of condition when there is a legally enforceable right to set off the recognized amounts and the Company intends to either settle on a net basis, or to realize the asset and the liability simultaneously.

Provisions and Contingencies

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

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

Retirement Cost
The Company's retirement cost is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period. The past service cost is the present value of any units of future benefits credited to the employees for services in periods prior to the commencement or subsequent amendment of the plan. Unfunded past service costs and experience adjustment are amortized over the expected remaining working lives of employees. Retirement expense includes current service cost plus amortization of past service cost, experience adjustments and actuarial gains or losses.

Earnings Per Share
Basic earnings per share (EPS) is computed based on the weighted average number of common shares outstanding after giving retroactive effect to stock dividends declared and stock rights exercised during the year.

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

3. Significant Accounting Judgments and Estimates

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

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

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

a) *Impairment losses of receivables*
The Company reviews its loan portfolios to assess impairment at least at each reporting date. In determining whether an impairment loss should be recorded in the statement of income, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. As of December 31, 2005, the carrying value of loans and receivables amounted to ₱128.7 million (Note 6).

(b) Recognition of deferred tax asset
The Company reviews the carrying amount of deferred income taxes at each balance sheet date and reduced to the extent that it is no longer probably that sufficient income will be available to all or part of the deferred income tax assets to be utilized. The Company has been in a taxable income position over the past several years. As of December 31, 2005, deferred tax assets amounted to ₱6.1 million (Note 14).

(c) Present value of retirement obligation
The determination of the obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary increase rates. As of December 31, 2005, the carrying value of the Company's net retirement liability amounted to ₱301,867 (Note 15).

4. Fair Value Measurement

The following table summarized the carrying amounts and fair values of those financial assets and liabilities not presented on the balance sheet at their fair value.

	Carrying Value	Fair Value
Financial Asset		
Receivables	128,725,748	128,725,748
Financial Liabilities		
Notes payable	37,308,333	37,308,333
Accrued expenses	4,130,588	4,130,588
Accounts payable and other liabilities	3,940,001	3,940,001

Receivables
The carrying amounts of receivables approximate fair values due to their short-term maturity.

Financial liabilities
The carrying amounts of financial liabilities approximate fair values due to their short-term maturity.

5. Financial Instruments Risk Position

Credit Risk and Concentration of Assets and Liabilities and Off Balance Sheet Items
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 credit worthiness of counterparties. In addition, the Company obtains security where appropriate, enters into collateral arrangements with counterparties, and limits the duration of exposures. Finally, credit applications go through a process of screening using the Company's credit standards to minimize risk.

Market Risk
Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of the financial instruments held by the Company may change only as a result of changes in foreign currency exchanges rates, extra ordinary changes in interest rates and other fortuitous events. The Company's market risk originates from its holdings in its foreign exchange instruments and equities.

The Company has diversified its loan products to spread both credit risk and market risk. From having only one product line in year 2000, the Company now has three strong main product lines and continues to develop other loan packages to create better value added services and discover new market niches.

6. Receivables

Receivables consist of:

	2005	2004
Loans receivable	**₱187,453,333**	₱148,759,553
Due from affiliates (Note 16)	**16,602,499**	16,847,270
Notes receivable	**3,877,469**	-
Others	**14,987,510**	7,933,557
	222,920,811	173,540,380
Unearned interest income	**(26,002,407)**	(34,250,851)
Client's equity	**(30,662,716)**	(13,948,415)
Allowance for impairment losses (Note 10)	**(37,529,940)**	(37,030,871)
	₱128,725,748	₱88,310,243

As of December 31, 2005 and 2004, nonperforming receivables amounted to ₱39.2 million and ₱38.7 million, respectively.

Receivables maturing within one year from the respective balance sheet dates amounted to ₱187.7 million and ₱132.4 million as of December 31, 2005 and 2004, respectively.

7. Investment Properties

The composition and movements in this account follow:

	Land	Improvements	Others	Total	2004 Total
Cost					
Balance at beginning of year	**₱16,207,138**	**₱14,415,644**	**₱250,000**	**₱30,872,782**	₱34,400,819
Disposals/others	**(340,873)**	**–**	**(250,000)**	**(590,873))**	(3,528,037)
Balance at end of year	**15,866,265**	**14,415,644**	**–**	**30,281,909**	30,872,782
Accumulated depreciation and amortization					
Balance at beginning of year	**–**	**4,478,177**	**–**	**4,478,177**	3,598,124
Depreciation and amortization	**–**	**900,609**	**–**	**900,609**	880,053
Disposals/others	**–**	**–**	**–**	**–**	–
Balance at end of year	**–**	**5,378,786**	**–**	**5,378,786**	4,478,177
Allowance for impairment losses (Note 10)	**–**	**1,614,911**	**–**	**1,614,911**	868,533
Net book value at end of year	**₱15,866,265**	**₱7,421,947**	**₱–**	**₱23,288,212**	₱25,526,072

The aggregate fair value of the investment properties of the Company were ₱26.53 million and ₱27.38 million as of December 31, 2005 and 2004, respectively.

The fair values of the Company's investment properties were obtained on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

8. Property and Equipment

The movements of property and equipment during the year follow:

	2005				
	Furniture, Fixtures and Equipment	**Leasehold Improvements**	**Transportation Equipment**	**Total**	2004 Total
Cost					
Balance at beginning of year	**₱2,403,191**	**₱1,010,809**	**₱3,009,320**	**₱ 6,423,320**	₱4,328,118
Additions	**19,698**	**–**	**5,676,900**	**5,696,598**	2,474,201
Disposal	**(931,722)**	**(878,831)**	**(377,098)**	**(2,187,651)**	(378,999)
Balance at end of year	**1,491,167**	**131,978**	**8,309,122**	**9,932,267**	6,423,320
Accumulated Depreciation and Amortization					
Balance at beginning of year	**2,173,760**	**977,344**	**588,551**	**3,739,655**	3,825,618
Depreciation and amortization	**103,902**	**14,829**	**1,449,212**	**1,567,943**	293,036
Disposal	**(931,722)**	**(878,831)**	**(365,431)**	**(2,175,984)**	(378,999)
Balance at end of year	**1,345,940**	**113,342**	**1,672,332**	**3,131,614**	3,739,655
Net Book Value	**₱145,227**	**₱18,636**	**₱6,636,790**	**₱6,800,653**	₱2,683,665

9. **Other Assets**

This account consists of:

	2005	2004
Prepaid expenses	**₱1,524,123**	₱395,909
Software costs	**365,875**	713,020
AFS investments	**180,000**	–
Investments in subsidiaries	**100,000**	100,000
Sales contract receivable	**–**	987,243
Miscellaneous	**851,576**	249,832
	₱3,021,574	₱2,446,004

AFS securities pertains to golf club shares reclassified form ROPOA and is net of unrealized market loss of ₱70,000 in 2005 and ₱100,000 in 2004.

The movements in software costs follow:

	2005	2004
Balance at beginning of year	**₱713,020**	₱1,100,950
Additions	**73,785**	33,000
Amortization for the year	**(420,930)**	(420,930)
Net book value at end of year	**₱365,875**	₱713,020

As of December 31, 2005 and 2004, the investments in subsidiaries pertain to investments in shares of stock of the following:

Acquisition costs:	
Commercial and Consumer Credit Corporation (3C) (100% owned)	₱1,000,000
Global Credit and Management Group/3C (GCMGI/3C) (51% owned)	1,000,000
3C - Pawnshop (100% owned)	100,000
	2,100,000
Accumulated equity in net losses	(2,000,000)
	₱100,000

The Company discontinued applying the equity method for its investments in 3C and GCMGI/3C since the acquisition costs were reduced to zero due to the accumulated share in net losses of these subsidiaries. 3C and GCMGI/3C have ceased operations in 1999 and 1996, respectively.

As of December 31, 2005, 3C Pawnshop has not yet started commercial operations.

10. Allowance for Impairment Losses

Changes in the allowance for impairment losses are as follows:

	2005	2004
Balance at beginning of year		
Receivables	**₱37,030,871**	₱54,554,306
Investment properties	**868,533**	4,685,208
AFS investments	**3,227,008**	–
	41,126,412	59,239,514
Provisions	**1,168,642**	1,411,203
Accounts written off	–	(19,524,305)
Recovery	**76,805**	–
Balance at end of year		
Receivables (Note 3)	**37,529,940**	37,030,871
Investment properties	**1,614,911**	868,533
AFS investments	**3,227,008**	3,227,008
	₱42,371,859	₱41,126,412

The Company's receivables were individually assessed as to impairment and those uncollected for 90 days or more were provided with 100% allowance.

11. Notes Payable

This represents unsecured short-term loans from a domestic bank and from stockholders with annual interest rates ranging from 10% to 12.5% in 2005 and 9% to 15% in 2004.

Notes payable maturing within one year from the respective balance sheet dates amounted to ₱37,308,333 and ₱13,500,000 as of December 31, 2005 and 2004, respectively.

12. Accounts Payable and Other Liabilities

This account consists of:

	2005	2004
Accounts payable	**₱3,383,506**	₱1,547,981
Others	**556,495**	956,256
	₱3,940,001	₱2,504,237

13. Stockholder's Equity

On May 25, 2004, the BOD approved the declaration of 2.56% stock dividends in the aggregate amount of ₱1,915,598 in favor of the stockholders of record as of June 25, 2004, with any fractional shares to be paid in cash. This stock dividend declaration was approved by the Company's stockholders in a meeting held on June 10, 2004.

Also on May 25, 2004, the BOD declared cash dividends amounting to ₱1,915,599 or ₱0.0256 per share.

The movements in the number of shares and capital stock amount for the years ended December 31, 2005, 2004 and 2003 follow:

	2005		2004	
	Number of Shares	**Amount***	Number of Shares	Amount*
Balance at beginning of year	**76,733,409**	**₱76,733,409**	74,818,068	₱74,818,068
Increase in the number of shares as a result of reduction in par value	–	–	–	–
Stock dividends	**2,124,709**	**2,124,709**	1,915,341	1,915,341
Issuance	–	–	–	–
Balance at end of year	**78,858,118**	**₱78,858,118**	76,733,409	₱76,733,409

*₱1 par value per share

14. Income and Other Taxes

The components of the deferred tax assets included under Other Assets account are as follows:

	2005	2004
Deferred tax assets on:		
Allowance for impairment losses	**₱6,092,585**	₱12,664,268
Nondeductible expense	–	99,783
Past service cost	–	41,849
	₱6,092,585	₱12,805,900

The Company did not set up deferred tax assets on the allowance for impairment losses amounting to ₱6.6 million and ₱3.1 million as of December 31, 2005 and 2004, respectively. The Company believes that it is not reasonably probable that this temporary difference will be realized in the future.

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

	2005	2004
Statutory income tax	**₱6,621,414**	₱6,716,103
Tax effects of:		
Nondeductible expenses	**500,751**	164,385
Tax-paid and tax-exempt income	**(125,739)**	(89,990)
Others	**1,183,252**	32,514
Effective income tax	**₱8,179,678**	₱6,823,012

Effective January 1, 2003, the Company is subject to the value-added tax (VAT) instead of the gross receipts tax (GRT). However, GRT on banks and financial intermediaries was reimposed effective January 1, 2004.

RA No. 9337, An Act Amending National Internal Revenue Code, provides that the RCIT rate shall be increased from 32% to 35% effective July 1, 2005 until December 31, 2008. Starting January 1, 2009 the RCIT rate shall be 30%. It also provides for the change in GRT rate from 5% to 7% on non-lending income. However, these amendments were the subject of a temporary restraining order (TRO) by the Supreme Court (SC). On October 8, 2005, the SC ruled that RA 9337 is constitutional and lifted the TRO. Subsequently, RA No. 9337 took effect on November 1, 2005. With the effectivity of RA No. 9337 on November 1, 2005, the RCIT rate is 35%. Interest allowed as a deductible expense is reduced by an amount equivalent to 42% of interest income subjected to final tax.

An MCIT of 2% on gross income is computed and compared with the regular income tax. Any excess of the MCIT over the regular income tax is deferred and can be used as a tax credit against future income tax liability for the next three years from the year of inception. In addition, the NOLCO is allowed as a deduction from taxable income for the next three years from the year of inception.

15. Retirement Plan

The Company has a noncontributory and funded retirement plan covering all its officers and regular employees. The valuation used in determining retirement cost is the projected unit credit method.

The principal actuarial assumptions used in determining retirement liability for the Bank's retirement plan are shown below:

	2005	2004
Discount rate	**12%**	14%
Expected rate of return on assets	**7%**	7%
Future salary increases	**10%**	10%

The amounts recognized in the balance sheets are as follow:

	2005	2004
Present value of fund obligation	**₱759,546**	₱533,591
Fair value of plan assets	**(389,313)**	(361,585)
Unrecognized actuarial gains/(losses)	**(68,366)**	–
Net pension liability	**₱301,867**	₱172,006

The movements in the present value of obligation follow:

	2005	2004
Balance, January 1	**₱533,591**	₱406,929
Retirement expense	**225,955**	126,662
Balance, December 31	**₱759,546**	₱533,591

The movements in the fair value of plan assets recognized follow:

	2005	2004
Balance, January 1	**₱361,585**	₱337,930
Expected return	**25,311**	23,655
Actuarial gains/losses	**2,417**	–
Balance, December 31	**₱389,313**	₱361,585

Actual return on plan assets amounted to ₱27,728 and ₱23,655 as of December 31, 2005 and 2004, respectively.

The amounts included in Salaries and Wages in the statements of income are as follows:

	2005	2004
Current cost	**₱91,141**	₱69,692
Interest cost	**64,031**	56,970
Expected return on plan assets	**(25,311)**	(23,655)
	₱129,861	₱103,007

16. Related Party Transactions

The following transactions have been entered into with related parties:

			Elements of Transactions			
	Nature of Related	Nature of	Balance Sheet Amount		Statement of Income Amount	
Related party	Party Relationship	Transaction	**2005**	2004	**2005**	2004
AIB	Stockholder	Receivables	**₱–**	₱96,960	**₱–**	₱–
		Payables	–	9,000,000	–	–
		Car lease contract	**4,314,425**		**364,670**	–
		Interest expense	–	–	**719,859**	28,000
		Professional fees	–	–	**4,360,000**	4,000,000
		Interest Income	–	–	**177,148**	–
Merg Realty and Development Corporation	Stockholder	Receivables	–	2,401	–	–
		Payables	**3,345,710**	6,401	–	–
		Rental	–	–	**456,000**	452,545
		Interest expense	–	–	**43,778**	9,619
Borromeo Bros. Estate	Stockholder	Transportation/ others	–	–	**87,901**	127,753
3C	Subsidiary	Receivables	–	11,802,608	–	–
	Subsidiary	Payment of advances	**11,739,608**	–	–	
3C Pawnshop	Subsidiary	Receivables	–	67,014	–	–
	Subsidiary	Advanced expenses	**67,014**	–	–	
GCMGI/3C	Subsidiary	Receivables	–	4,486,780	–	–
	Subsidiary	Payment of Advances	**4,486,780**	–	–	–
MF Insurance Services	Subsidiary	Receivables	–	80,702	–	–
	Subsidiary	Advanced expenses	**80,702**	–	–	–
Honda Motor World	Affiliates	Professional Fee	–	–	**500,000**	–
Others	Stockholders	Receivables	–	310,805	–	–
	Affiliates	Professional Fee	–	–	**700,000**	–
	Directors	Professional fees	–	–	–	1,200,000
	Directors	Management fees	**1,639,572**	–	**2,306,902**	1,296,647

The remuneration of directors and other members of key management consist of short-term benefits amounting to ₱4.9 million in 2005 and ₱3.9 million in 2004.

17. Earnings Per Share

EPS amounts were calculated as follows:

	2005	2004
a. Net income	**₱12,193,904**	₱12,662,569
b. Weighted average number of outstanding common shares	**78,858,118**	76,733,409
c. Basic earnings per share (a/b)	**₱0.15**	₱0.17

Stock dividends declared in 2005 of 1,915,341 shares have been retroactively effected in the 2004 and 2003 basic EPS.

As of December 31, 2005, 2004 and 2003, there were no shares of stock that have a dilutive effect on the earnings per share of the Company.

18. Contingent Liability

In 2003, the Company received a preliminary assessment notice from the BIR for various tax liabilities covering the taxable year 1999 amounting to ₱5,326,644. In 2004, the Company entered into a compromise settlement with the BIR for the settlement of this assessment at ₱721,700. Of this amount, ₱394,879 were paid representing basic deficiency tax and compromise penalty. The balance represented interest.

19. Lease Commitment

The Company leases its office space under a lease contract expiring on September 30, 2006. Total rent expense incurred in 2005 and 2004 amounted to ₱499,315 and ₱452,545, respectively. The rental to be paid in 2006 under the agreement amounts to ₱342,000. The lease contract is renewable annually upon agreement of the lessor and the Company.