

# COVER SHEET

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S.E.C. Registration Number

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(Company's Full Name)

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(Business Address No. Street/City/Province)

CYNTHIA M. GACAYAN
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Contact Person

897-0749
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Company Telephone Number

1	2
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Month

3	1
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Day

Fiscal Year

2012

SEC Form 17-A
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FORM TYPE

0	7
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Month

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Day

Annual Meeting

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Secondary License Type, If Applicable

C	R	M	D
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Dept. Requiring this Doc

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Amended Articles Number/Section

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Total No. of Stockholders

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Domestic

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Foreign

Total Amount of Borrowings

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To be accomplished by SEC Personnel concerned

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File Number

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Document I.D.

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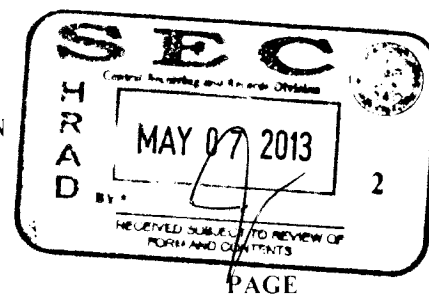
\_\_\_\_\_ Cashier

STAMPS
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2012

MAKATI FINANCE CORPORATION  
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 SEC FORM 17-A



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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, 2012.....
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..... 6. [ ] (SEC Use Only)
Province, Country or other jurisdiction of Industry Classification Code:
incorporation or organization
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
Table with 2 columns: Title of Each Class, Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding. Row 1: common stock, 197,402,011

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 ("MFC" or "The Company") is a company providing quality financial services and advisory to its clients. The Company has been in the financial services sector since 1966, navigated its way out of the Asian Financial Crisis in 1997-1999, and was listed in the PSE following a successful initial public offering (IPO) in 2003. Since listing, MFC has posted net profits and has consistently declared 30% of its net income as dividends every year which is the Company's dividend policy established in 2003. Moving forward, the Company plans to significantly expand its loan portfolio in the next years.

The Company's main product lines are Rx Cashline – loans especially tailored to medical professionals, MFC Factors – a receivables factoring service for SMEs, and MC Financing, and MC Financing – loans for motorcycle buyers. These are offered domestically, hence there are no foreign sales. Also, no government approval is needed for these products. The management continues to implement cost-cutting measures and impose higher standards of credit evaluation.

**Corporate Mission Statement**

The Company believes in reaching its goals by focusing on its mission as follows:

*"...to become one of the leading financial institutions in the country. Its objective is to become the best rather than the biggest. The Company pursues this objective through the following:*

- *Efficiency in all aspects of operations*
- *Client satisfaction at all levels of service*
- *In-depth market penetration*
- *Creativity in the provision of competent solutions*

*In the long run, Makati Finance sees itself as being the finance company known for excellence in financial service in its niche market."*

MFC recognizes its role not only as a source of funding for consumers and businesses but as a partner to its clients in the improvement of their livelihood.

### **History and Background**

On February 17, 1966 the Company was incorporated as Makati Investment & Finance Corporation (MIFC) under SEC registration number 28788. MFC's commercial operations started with engaging in stock dealership functions, credit line extensions, and acceptance of private placements.

The Philippine economy was in an upswing during the 1990s. Consequently, the Company focused on the growth and expansion of its operations and lending activities. Under the new management, the Company focused on the growth of its loan portfolio to take advantage of the improving Philippine economy. It was during this time when MFC introduced new products and services as well as established additional credit lines with major commercial banks.

In 2005, MFC ventured into motorcycle financing. Seeing that motorcycle financing is a growth area and a profitable market niche, MFC has put considerable effort in developing its MC Financing business line. As part of its efforts to grow this product, the Company has partnered with two motorcycle dealers located in Alabang and Bacoor and through MFC's business relationship with the two dealers, MFC secured a contract which gives the Company a rights of first refusal over the financing of motorcycle sales for the aforementioned locations. All motorcycle financing applications will first be processed by MFC unless they are rejected by the Company. Rejected applications on the other hand are sent to other finance companies. At the end of 2005, MC Financing accounted for 10.9% of the loan portfolio.

In 2006, the Company expanded its motorcycle financing business. MC Financing loans doubled to ₱ 39.8 million in 2006 from 2005, representing 18.3% of the loan portfolio. In order to grow their MC Financing loan portfolio without investing heavily on capital expenditures, MFC leveraged on the existing plethora of motorcycle outlets<sup>1</sup> and after market parts repair shops to increase the Company's sales point networks.

In 2007, MFC focused on having a balanced loan portfolio in order to diversify its revenue sources. The Company further grew its MC Financing portfolio by 56.8% in 2007. At the end of the year it contributed 26.5% of MFC's entire interest income.

The year 2008 was focused on setting the baseline for its Growth. We called this our "Clean Up Year".

Early 2008, MFC encountered unusually higher repossessions of motorcycles they were financing. A review of procedures and process resulted to a subsequent revamp and restructure in the organization, most specially in the MC Financing product line. A re-tooling of manpower resources was also done. Accounts generated and existing in 2007 were reviewed to confirm good quality accounts remain and better control measures put in place to ensure of no repeats in control lapses.

The review likewise steered the direction for the Company to evaluate and implement an automated infra structure specific to its financing activity to ensure better control and monitor of all the accounts it handles. New infrastructure triggered renovation on office premises and other leasehold improvements.

The Company saw 2009 as its take off point for growth. Together with the slowly recovering global and domestic economies, MFC is now back in track with more than double its Net Income Before Tax as compared to that of the year 2008.

The Philippine motorcycle industry is expected to grow in the double digits range. While the improving Philippine economy will increase the purchasing power of the average Filipino, rising gas prices have made purchasing motorcycles the more practical alternative to taking long daily commutes. Motorcycle offer an alternative to public transportation and offer a more cost-effective way for the average Filipino to commute. For the next 5 years, the Company is planning to capitalize on this growth by providing financing services in tandem with the aggressive expansion of its dealer-partners.

In 2010 MFC continued to pursue its aggressive expansion in the motorcycle financing side of the business. The expansion took off in 2009 where we ended the year doing financing transactions on twelve (12) outlets of our dealer-partners. The aggressive thrust in motorcycle financing saw us ending 2010 doing financing leasing sales transactions for twenty eight (28) of our dealer-partners' outlets. As such, volume of motorcycle units financed increased by 84.6%, from 2,713 motorcycle units in 2009 to 5,008 motorcycle units in 2010.

Given the dramatic increase in our volume of transactions for motorcycles financed, portfolio share for motorcycle financing wet up from 60% to 78%, or an 18% rise in 2010 versus 2009. Consequently, interest income went up from P69.9M in 2009 to P113.0M in 2010, or a 62% increase. We borrowed funds from financing institutions to support the substantial growth in our volume of amounts financed and consequently interest expense increased by 174 percent or from P11.7M in 2009 to P32.1M in 2010.

As expected in any expansion activity, expenses also dramatically increased. Manpower hirings were timed to allow at least six (6) months on-the-job training for all positions prior to deployment. Office supplies and forms were acquired in bulk to ensure ready and sufficient supply of forms. Advertising and promotion expenses were also higher than normal. All expansion related expenses were incurred without any corresponding income generation. For 2010, expenses went up from P48.4M in 2009 to P71.3M in 2010, or a 47 percent increase.

MFC continues to be on track ending 2010 with Net Income After Tax of P12.4M, a modest 15 percent increase from its 2009 performance.

For the next 3 years, the Company is planning to capitalize on this growth by providing financing services in tandem with the aggressive expansion of its dealer-partners. The Philippine motorcycle industry is expected to grow on the double digit range. The improving Philippine economy will increase the purchasing power of the average Filipino while the rising gas prices have made purchasing motorcycles the more practical alternative to taking daily commutes. Motorcycle offer an alternative to public transportation and offer a more cost-effective way for the average Filipino to commute.

In 2011, the motorcycle financing side of the business continued to hold the biggest share in the total portfolio of the Company. MFC serviced a total of 30 motorcycle financing outlets by year end.

Taking off from the plans of our dealer-partners, MFC had projected being able to service thirteen (13) additional outlets in 2011. However, a number of adverse tell tale signs and incidents triggered the change in plans. The unrest in the Middle East plus the European & US economic crisis affected the Peso volatility and the job security of our OFWs which constituted a great percentage of our motorcycle financing market. Likewise, minimal government spending stunted economic growth and drastically affected our direct customers. Finally, Luzon experienced the highest number of typhoons and bad weather and this had adirect effect on our marketing efforts and the ability to collect from existing customers. As such, Management, in consultation with our dealer-partners, decided not to proceed with the planned expansion and focus instead with first growing and strengthening the Company's operations and services in existing outlets before embarking on another aggressive expansion.

Despite adversities cited above and stiffer competition encountered, volume of motorcycle units financed increased by 25%, from 5,008 motorcycle units in 2010 to 6,266 motorcycle units in 2011. The past five (5) years saw the steady growth of the motorcycle; industry growing 138% since the year 2007 in terms of the number of units sold. The local motorcycle population is now estimated at 4.5M, with a population of nearly 100 million Filipinos, the density ratio is about 34:1, which means that for every 34 Filipinos, one owns a motorcycle. Compared to Thailand and Vietnam which have a motorcycle density ratio of 3:1 and 4:1 respectively, the potential for growth in the Philippine motorcycle industry in the coming years is quite huge.

MFC continued to be on track ending 2011 with Net income After Tax of P13.8M, a 12% increase from its 2010 performance.

For the next three (3) years, the Company is planning to capitalize on this growth by providing financing services in tandem with the aggressive expansion of its dealer partners as the Philippine motorcycle industry expects to grow on a double digit range. Likewise, the rising gas prices have made purchasing motorcycles the more practical alternative to taking daily commutes. Motorcycles offer an alternative to public transportation and offer a more cost-effective way for the average Filipino to commute.

The Company shall continue to explore other financial products and also continue to pursue the plan to expand into the savings bank sector. Meanwhile, our thrust is to ensure further growth in our motorcycle financing accounts. MFC also intend to do a modest uptake in the doctor's loan market and continue to maintain a strong quality portfolio in our factoring accounts.

MFC reiterates its commitment to providing a source of funding for consumers and businesses which are considered partners to their improved livelihood.

In 2012, the motorcycle financing side of the business continued to hold the biggest share in the total portfolio of the Company. MFC continued to be on track ending 2012 with Net Income After Tax of P16.2M, 17.3% increase from its 2011 performance.

The year 2012 was a good year for the Philippine economy. The Philippines enjoyed positive assessments and forecasts by global rating agencies and financial services firms, most of them citing governance reforms and their impact on attracting investments and doing business in the country. The Philippines is poised to grab more economic stability and power in 2013 and may join the "tiger economies".

In 2013, MFC intends to continue on capitalizing on the expected hefty growth of the local motorcycle industry. The Company believes that there is big room for growth despite the rising use of motorcycle in the country. The Philippine's double digit motorcycle density ratio of as compared to the single digit density ratio of our other Asian neighbors provide the huge potential for growth in the Philippine motorcycle industry in the coming years. Likewise, the rising gas prices and the traffic in the metropolis have made purchasing motorcycles the more practical alternative to taking daily commutes.

We continue to explore other financial products and continue to pursue our plan to expand into the savings bank sector. MFC reiterates its commitment to providing source of funding for consumers and businesses which are considered partners to their improved livelihood.

### **Operating Departments and Units**

The Company has three (3) main operating units that represent each main business line. The following is a brief description of each:

#### **Rx Cashline Group**

The Rx Cashline group is mainly responsible for the Rx Cashline product. This group is tasked with: (i) sales and promotion of the Rx Cashline product to medical professionals, (ii) assist in credit application, investigation, evaluation, and recommendation, (iii) collection as well as (iv) research and development.

The Rx Cashline group also has a network of accredited referral agents that bring in qualified loan clients.

#### **MFC Factors Group**

The MFC Factors Group is responsible for running the receivables factoring business of the Company. Among its basic tasks are: (i) sales and promotion, (ii) credit application, investigation, evaluation, recommendation, and (iii) collection. The account officers are responsible for the research of businesses that seek to factor their receivables for extra liquidity. Factoring leads come from accredited referral agents as well as current clients.

#### **MC Financing Group**

The MC Financing Group is tasked with: (i) sales and promotion, (ii) credit application, investigation, evaluation, recommendation, and (iii) collection for the motorcycle financing business of the Company.



## **Business Operations**

The Company's business operations involve: (a) sales and marketing; (b) evaluation and approval of loan applications; and (c) collection of loan accounts. The following discussion presents the various components of the Company's business operations.

### *Sales and Marketing*

The Company's sales and marketing effort is led by the Account Officers/Credit Sales Representatives of each operating department. The AOs/CSRs are responsible for generating new loan accounts as well as monitoring the existing ones. Moreover, each account officer is tasked with generating and monitoring their accounts in their respective service areas.

In addition to the AOs/CSRs of each operating department, the Company also has a large network of accredited agents that refer loan applicants to the Company. The Company's network of referral agents includes both individuals and accredited institutions, such as medical organizations and distributors of medical and dental equipment.

As part of the Company's marketing efforts, the AOs/CSRs employ the following promotional tools: (i) direct mail; (ii) advertisements in trade publications; (iii) fax and e-mail marketing; (iv) tele-marketing; (v) door-to-door marketing; (vi) attendance of special events/trade shows; (vii) loan renewal program; and (viii) referral network and programs.

### *Loan Evaluation and Approval Process*

For consumer finance companies, there is prime importance in a complete and adequate evaluation and stringent screening process for new loan applications. Given the country's economic environment, assessing credit risk and quality of new loan accounts become one of the core processes of finance companies such as MFC.

Along with a proprietary credit scoring system, MFC's in-house loan process evaluation includes business and residential visits and ocular inspections. The Company also verifies new loan applications with the Credit Management Association of the Philippines (CMAP) and the Credit Investigation Bureau, Inc. (CIBI) to determine if there exists negative credit findings on a loan applicant. The Account Officer then thoroughly analyzes the application and makes a recommendation.

The Company's Credit Committee makes the final decision on the application for Rx Cashline and MFC Factors group while the Branch Manager and the bookkeeper approves the application for MC Financing based on the AO/CSR's analysis. The Credit Committee is composed of the Senior Managing Director, the COO and the group heads.

Once an application has been approved by the Credit Committee, a check will be prepared for the loan release. The clients are notified of the approval before the loan is released. The clients are also requested to furnish some final documentation prior to the release of the funds. The post-dated checks and other loan requirements from the client are submitted to the cashier. If the required documents are clear and in order, the loan proceeds are then released to the client. Various documents are then provided by the various departments and groups to the Account Officers to facilitate in account monitoring and collection.

Once the MC Financing application is approved by the Branch Manager then various documentations are prepared for the release of the motorcycle unit. The borrower pays for the down payment, registration and the insurance, signs the chattel mortgages and other release forms before the units may be pulled out or delivered to the customer.

#### *Loan Collection Process*

Monitoring the loan accounts is the responsibility of the Account Officer or Credit Sales Representative of each of the operating departments. The subsidiary ledger of their respective approved clients contains the schedule of the loan amortization payments. Because the Rx Cashline clients have already given their post-dated checks for the loan repayments, the Account Officers are well advised of the status of each account. Account Officers are always updated on clients that have completed their amortization payments and those that have incurred returned-check payments. Clients whose checks have bounced are immediately advised by the Account Officer in charge to settle the payment as soon as possible with consequent late payment charges and handling fees. With this, it is important to take note that MFC normally evaluates the circumstances of bounced checks on a case-to-case basis to maintain profitable relations with their clients as much as possible. The Credit Sales Representatives, on the other hand, most often directly and personally collects the loan amortizations. Some customers prefer to pay directly to the branch office, but this is only a few.

Customers that do not remit payment on the due date are classified as past due accounts while those that are more than 90 days past due are reclassified as delinquent accounts. Legal action or foreclosure of collateral may be endorsed for accounts that turn delinquent. MC Financing clients' will have their motorcycles units repossessed for 60 days past due. Clients may get them back upon payment of amortization in arrears.

Despite instituting a firm and stringent credit and collection policy, the Company maintains its goal of providing quality service to its clients.

#### **Employees**

As of December 31, 2012, the Company accounted for a total of 224 employees, distributed as follows:

	2012	Projected 2013
Rank	No. of Employees	No. of Employees
Officers	1	1
Managerial/Supervisory	21	25
Rank and File	200	265
Consultant	2	
Total	224	291
Employment Status	No. of Employees	
Project/Consultant	2	
Regular	182	
Probationary	40	
Total	224	

The employees of the Company are not subject to any collective bargaining agreement (CBA).

## Item 2. Properties

As part of its normal operations, the Company acquires or forecloses on several properties that are mortgaged to secure customers' loans. There are no other mortgages or liens on these properties except those under the name of the Company. These properties have subsequently been transferred to the Company. The Company tries to eventually dispose or sell these properties. The list of these properties is found in the following table:

<b>List of Foreclosed Properties as of December 31, 2012</b>		
<b>Location</b>	<b>Size(Sqm)</b>	<b>Description</b>
Capitol Homesite Subd., Brgy. Cotta, Lucena City (2 lots)	561	Transferred
Bo. De Ocampo, Trece Martires City, Cavite	1,410	Transferred
LF Flores, Teachers Village, Brgy. Cotta, Lucena City (6 lots)	900	Transferred
<b>TOTAL</b>	<b>2,871</b>	

## 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 matter that require voting decisions were submitted to the Security Holders in the fourth quarter of the year 2012.

## PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

#### Share Capital

The Company has an authorized capital of [₱ 300,000,000], divided into [300,000,000] Common Shares, with a par value of ₱1.00 per share, out of which [₱ 197,402,011], divided into [197,402,011] shares are issued and outstanding.

Subject to the authorization of the SEC, the Company may increase or decrease its authorized capital with the approval of a majority of the Board of Directors and Stockholders representing at least two-thirds (2/3) of the issued and outstanding capital stock of the Company.

## **Amendments to Authorized Capital Stock and Par Value**

In year 2000, the BOD and stockholders approved, as part of the quasi-reorganization, the decrease in the Company's authorized capital stock of P100,000,000, with a subscribed and paid-up capital of P45,149,780 to P9,949,040 with a subscribed and paid-up capital of P2,487,260. There was no return of capital, thus, the surplus arising from the reduction in the capital amounting to P 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 P9,949,040 to P127,000,000, divided into 12,700,000 common shares with a par value of P10 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 P87,078,288, resulting to an additional paid-in capital of P55,092,938.

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 P97,781,211 as of that date was applied against the Company's deficit as of July 31, 2000 amounting to P97,781,211.

On December 11, 2001, the BOD and stockholders approved the reduction in the Company's authorized capital stock from P127,000,000 to P100,000,000 and from par value of P10 per share to P 1 per share. On March 11, 2002, the BOD and stockholders amended the proposed reduction in the Company's authorized capital stock from P127,000,000 to P90,000,000 and from par value of P10 per share to P1 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.

Also on March 11, 2002, the BOD and stockholders approved the offer of up to 19,560,000 shares from the Company's unissued common stock through initial common public offering (IPO). The application for the IPO of the Company was approved by the 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.

On November 6, 2007, the Board of Directors and stockholders owning or representing at least two-thirds (2/3) of the outstanding capital stock of the Company approved the increase in the Company's authorized capital stock from P90,000,000 divided into 90,000,000 Shares, with a par value of P1.00 per share, to P300,000,000, divided into 300,000,000 Shares, with a par value of P1.00 per share.

## **Stock Dividends**

On December 11, 2001, the BOD and stockholders declared stock dividends in the aggregate amount of P20,785,475 in favor of the stockholders of record as of May 31, 2002, with any fractional shares to be paid in cash.

Cash and stock dividends were declared in 2007, 2006 and 2005 equivalent to 30% of the Company's net income after tax. There was no sale of unregistered securities within the last three years.

On November 6, 2007, the Company declared stock dividends in the aggregate amount of ₱ 6.9 million out of the unrestricted retained earnings of the Company as of October 31, 2007 in favor of the stockholders of record as of December 31, 2006 in proportion to their shareholdings in the Company with any fractional shares to be paid in cash.

The Company also declared on November 6, 2007, stock dividends in the aggregate amount of ₱ 50.2 million out of the unrestricted retained earnings of the Company as of October 31, 2007 in favor of stockholders of record as of November 27, 2007 in proportion to their shareholdings in the Company with any fractional shares to be paid in cash.

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

On June 04, 2009, the Company declared stock dividends in the aggregate amount of P819,716 out of the unrestricted retained earnings of the Company as of December 31, 2008 in favor of stockholders of record as of July 2, 2009 in proportion to their shareholdings in the Company with any fractional shares to be paid in cash.

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

On June 23, 2011, the BOD approved declaration of 0.96% stock dividends amounting to 0.9578970671% of the outstanding capital stock equivalent to a maximum of 1,853,287.95 shares of stock, to be issued out of the un-issued capital stock to stockholders of record as of 21 July 2011 with a payment date not later than 15 August 2011. Fractional shares were paid in cash. On the same date, the BOD also approved declaration of Cash Dividends in the amount of P1,853,287.95 or an equivalent of P0.009578971 per share (0.9578970671%) to stockholders of record as of 21 July 2011 with a payment date of 15 August 2011. Both dividends were paid out of the audited net profits of the Corporation as of December 31, 2010.

On June 28, 2012, the BOD approved declaration of stock dividends amounting to 1.0618853764% of the outstanding capital stock equivalent to a maximum of 2,074,158.30 shares of stock, to be issued out of the un-issued capital stock to stockholders of record as of 26 July 2012 with a payment date not later than 20 August 2012. Fractional shares were paid in cash. On the same date, the BOD also approved declaration of Cash Dividends in the amount of P2,074,158.30 or an equivalent of P0.0106188538 per share (1.0618853764%) to stockholders of record as of 26 July 2012 with a payment date of 20 August 2012. Both dividends were paid out of the audited net profits of the Corporation as of December 31, 2011.

The movements in the number of shares and capital stock amount for the years ended December 31, 2012, 2011 and 2010 as follow:

	2012		2011		2010	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning of year	195,327,890	195,327,890	193,474,645	193,474,645	191,862,405	191,862,405
Increase in number of shares as a result of reduction in par value					-	-
Stock dividends	2,074,121	2,074,121	1,853,245	1,853,245	1,612,240	1,612,240
Issuance	-	-	-	-	-	-
Balance at end of year	197,402,011	197,402,011	195,327,890	193,327,890	193,474,645	193,474,645

#### MARKET SHARE INFORMATION

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

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

According to the Philippine Stock Exchange Website, latest available price information on Makati Finance's stock price is P2.5 per share as of December 2012. The Company has not gone into a business combination nor any reorganization for the year 2012.

#### Share Prices:

The latest available price information on Makati Finance's stock price is P4.80 per share as of April 15, 2013.

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

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

**HOLDERS OF COMMON STOCK As of April 05, 2013**  
**TOP 20 Stockholders**

There are a total of 100 stockholders as of April 05, 2013.

Name	Nat	Class	No. of Shares	Percentage
AMALGAMATED INV. BANCORP.	FIL	A	137,050,820	69.427266%
MF PIKEVILLE HOLDINGS INC.	FIL	A	13,617,635	6.898428%
MICHAEL WEE	FOR	A	7,939,097	4.021791%
BORROMEO BROS. ESTATE INC.	FIL	A	6,269,592	3.176053%
PCD NOMINEE CORPORATION	FIL	A	5,714,070	2.894636%
ERIC B. BENITEZ	FIL	A	5,350,773	2.710597%
MELLISSA B. LIMCAOCO	FIL	A	4,802,330	2.432767%
RENE B. BENITEZ	FIL	A	4,572,329	2.316252%
GLENN B. BENITEZ	FIL	A	4,572,329	2.316252%
JOEL FERRER	FIL	A	1,932,754	0.979095%
RODOLFO B. HERRERA MAX BORROMEO CARMEN MERCADO	FIL	A	947,197	0.479831%
REYES, MARY GRACE V.	FIL	A	580,000	0.293817%
TERESITA B. BENITEZ	FIL	A	377,019	0.190990%
MERG REALTY DEVELOPMENT	FIL	A	331,526	0.167945%
FLB DEVELOPMENT CORPORATION	FIL	A	262,457	0.132956%
ISIDRO B. BENITEZ	FIL	A	242,944	0.123071%
PCD NOMINEE CORPORATION	FOR	A	231,887	0.117469%
GLENN B. BENITEZ ITF ALESSANDRA C. BENITEZ	FIL	A	228,596	0.115802%
GLENN BENITEZ ITF ANDREA C. BENITEZ	FIL	A	228,596	0.115802%
GLENN BENITEZ ITF ALFONSO C. BENITEZ	FIL	A	228,596	0.115802%
SUB-TOTAL			<b>195,480,547</b>	<b>99.026624%</b>
OTHER STOCKHOLDERS (81)			1,921,464	0.973376%
GRAND TOTAL (101 stockholders)			<b>197,402,011</b>	<b>100.000000%</b>

Currently the Company is in compliant in the PSE continuing listing requirement rule on minimum public ownership. The rule requires a 10% minimum public float. MFC has 10.2% public float.

**DIVIDENDS**

As approved by the board of directors and upon concurrence by the stockholders of the Company, an annual dividend declaration policy was set up, amount of which will be equivalent to 30% of the Company's net earnings for the year. For the year 2009, the Board of Directors also approved the declaration of cash dividends amounting to P819,812. Fractional shares was settled in cash. For the year 2010, the Board of Directors also approved the declaration of cash dividends amounting to P1,612,316. Fractional shares related to this declaration was settled in cash. For the year 2011, the Board of Directors also approved the declaration of cash dividends amounting to P1,853,287.95. Fractional shares was settled in cash. For the year 2012, the Board of Directors also approved the declaration of cash dividends amounting to P2,074,158.30. Fractional shares was settled in cash.

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

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

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

## **EXEMPTION FROM REGISTRATION CLAIMED**

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

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

### Plans and Prospects for 2013

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

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

### Lending Activities

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

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

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



## **Funds Generation**

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

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

## ***Discussion of Past Financial Performance***

### **As of December 31, 2012**

#### **Results of Operation**

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

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

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

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

#### **Financial Condition and Capital Resources**

In 2012 total assets increased by P162.57 million as against that in 2011, from P904.92 million to P1,066.98 million which was primarily due to increase in our motorcycle financing loan portfolio. There was also a noticeable increase in our notes payable by 145.2 million as compared to that in 2011.

#### **Interest Income**

The interest income this year was up by 4.05% or P5.14 million in absolute amounts P126.94 million in 2011 to P132.08 million in 2012.

#### **Net Interest Income**

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

#### **Other Income**

Other income increased by P9.2 million or 103.4% from December 2011.

**Income Before Income Tax**

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

**Net Income**

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

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

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

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

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

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

**Financial Condition and Capital Resources**

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

**Interest Income**

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

**Net Interest Income**

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

**Other Income**

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

**Income Before Income Tax**

Due to the significant increase on interest income and operating expenses as mentioned above, income before income tax increased by 21.66% from December 2010.

**Net Income**

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

**As of December 31, 2010****Results of Operation**

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

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

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

**Financial Condition and Capital Resources**

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

**Interest Income**

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

### **Net Interest Income**

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

### **Other Income**

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

### **Income Before Income Tax**

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

### **Net Income**

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

## **As of December 31, 2009**

### **Results of Operations**

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

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

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

### **Financial Condition and Capital Resources**

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

### **Interest Income**

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

**Net Interest Income**

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

**Other Income**

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

**Income Before Income Tax**

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

**Net Income**

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

## KEY PERFORMANCE INDICATORS

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

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

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

#### **TRENDS, EVENTS OR UNCERTAINTIES WITH MATERIAL IMPACT ON LIQUIDITY**

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

#### **EVENTS THAT WILL TRIGGER DIRECT OR CONTINGENT FINANCIAL OBLIGATION**

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

#### **MATERIAL OFF-BALANCE SHEET TRANSACTIONS, ARRANGEMENT OR OBLIGATION**

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

#### **CAPITAL EXPENDITURES**

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

#### **TRENDS, EVENTS OR UNCERTAINTIES WITH MATERIAL IMPACT ON SALES**

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

#### **SIGNIFICANT ELEMENTS OF INCOME OR LOSS**

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

#### **SEASONAL ASPECTS**

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

#### **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.

### **INDEPENDENT PUBLIC ACCOUNTANTS**

The auditing firm of SGV & Co. is the incumbent external auditor of the Company for the calendar year 2012.

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

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

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

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

### **INFORMATION ON EXTERNAL AUDITOR**

There had been no disagreements with SGV & Co. with regards to accounting policies and financial disclosures of the Company. Ms. Jessie Cabaluna, SGV Partner, has been the reviewer/auditor of the Company since year 2006, and not yet having completed the five-year cap requirement of SEC. has been replaced by Ms. Janeth Nuñez, SGV partner effective year 2009. The change in handling partner was part of SGV & Co.'s internal policy of account rotation. There was no disagreement with prior handling partner on accounting and financial disclosures. Ms. Janeth T. Nuñez replaced Ms. Jessie D. Cabaluna both partners of SGV & Co. for the year ended December 31, 2012.

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

## **PART III - CONTROL AND COMPENSATION INFORMATION**

### **Item 9. Directors and Executive Officers of the Issuer**

#### **Directors and Executive Officers**

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



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

**Mr. Juan Carlos del Rosario**, 63, Filipino, is the Vice Chairman of the Board. He has served as a Director since 1996. Mr. Del Rosario is currently the Chairman of AIB and Inter Global Alliances Inc. He was formerly the Senior Vice President and Chief Investment Officer of the Philippine American Life Insurances Co. (AIG Philippines) where he served as a member of the Board of Directors in several of its subsidiaries and affiliated companies. He was a Director of AIG Investment Corporation (Asia) Ltd., Cosmos Bottling Co., Bacnotan Cement Corporation, Investment Capital Corporation of the Philippines and Science Park of the Philippines Inc. Prior to joining the AIG/Philamlife Group, he had worked for 17 years for Chase Manhattan Bank in New York Head Office, and overseas postings in Saudi Arabia, Brazil and the Philippines. He is a graduate of De La Salle University, Manila with Bachelor of Arts (History) and Bachelor of Science (Commerce) degrees. He received his MBA (Finance and Marketing) from Columbia University, New York City and also completed the Executive Development Program at Cornell University Graduate School of Management Ithaca, New York and the Strategic Business Economics Program at the University of Asia and the Pacific, Manila.

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

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

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

with a double degree in Business Economics and Organizational Studies. He also has a Master's Degree in Economics from Yale University.

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

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

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

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

**Mr. Jose V. Cruz**, 78, Filipino, has served as a Director since 2010. Mr. Cruz is currently the President and CEO of Amalgamated Investment Bancorporation ("AIB"). Prior to joining AIB, he has had extensive experience in foreign and local investment banking, commercial banking, and capital market operations, having been based in New York, London, the Middle East, Singapore, and Hongkong. He was formerly Managing Director in AIA Capital Corporation, a Hongkong based regional investment bank (focused on corporate finance in Asia) previously owned by the publicly listed pan-Asian insurance group, AIA Group Limited. He was also a Board Member of AIA Capital's investment banking subsidiaries located in Taiwan, India, and the Philippines. Prior to AIA Capital, he was Senior Vice President of AFC Merchant Bank, a Singapore-based consortium bank owned by leading Southeast Asian banks, including DBS Bank, Bangkok Bank, and Malayan Bank. He was previously Vice President and CFO of MERALCO and a Board member of Royal Dutch Shell's subsidiary in the Philippines. He started his career as an officer in the 1970s in Citigroup (then called Citibank) head office, New York. He received his MBA from Columbia University, New York City.

**Mr. Eric B. Benitez**, 46, Filipino, has served as a Director since 2011. Mr. Benitez was formerly a Director in Credit Risk Management at Eurohypo AG (wholly-owned subsidiary of Commerzbank AG) in New York. Prior to Eurohypo, Mr. Benitez was a senior consultant within the Real Estate Business Advisory Services Group at the New York office of PricewaterhouseCoopers, LLP. He began his career in

1988) as an analyst in the trust department at Sanwa Bank (now part of The Bank of Tokyo-Mitsubishi UFJ) in San Francisco, CA. Previously, Mr. Benitez was formerly a Board Member of the Philippine Finance Association. He earned his BA in Applied Mathematics from the University of California, Berkeley and his MS in Real Estate from Columbia University in New York.

#### Independent Directors

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

#### Senior Management

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

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

#### FAMILY RELATIONSHIP

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

#### INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

None of the Directors and Executive Officers was involved during the past five years up to April 15, 2013 in any bankruptcy proceedings up to April 15, 2013. Neither have they been convicted by final judgment in any criminal proceeding or been subject to any order, judgment or decree of competent jurisdiction, permanently or temporarily enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, not any action by any court or administrative body to have violated a securities or commodities law.

## Item 10. Executive Compensation

The Company has an existing management contract with Honda Motor World for advice and assistance in the MC Financing product assisted by Mr. Max O. Borromeo, President and with Pikeville, Inc. for advice and assistance to be provided by Mr. Rene B. Benitez, Chairman. Each of the directors receive per diem amounting to ₱50,000 for every Board meeting they attend.

### COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

SUMMARY COMPENSATION TABLE				
YEAR	NAME AND PRINCIPAL POSITION	SALARY/MANAGEMENT FEE	BONUS	OTHER COMPENSATION
2013 (Estimate)	Top 5 Executive Officers: Max Borromeo – Senior Managing Director Teresita Benitez – President Rene B. Benitez – Managing Director Cynthia M. Gacayan – COO/CFO Aldrin B. Pontanares – Operation Manager	7,000,000		500,000
	ALL BOARD DIRECTORS AND OFFICERS AS A GROUP	7,000,000	600,000	2,210,000
2012 (Actual)	Top 5 Executive Officers: Max Borromeo – Senior Managing Director Teresita Benitez – President Rene B. Benitez – Managing Director Cynthia M. Gacayan – COO/CFO Aldrin B. Pontanares – Operation Manager	7,000,000	400,000	400,000
	ALL BOARD DIRECTORS AND OFFICERS AS A GROUP	7,000,000	913,672	2,010,000
2011 (Actual)	Top 5 Executive Officers: Max Borromeo – Senior Managing Director Teresita Benitez – President Rene B. Benitez – Managing Director Cynthia M. Gacayan – COO/CFO Albert J. Batacan - Manager	7,850,000	484,000	400,000
	ALL BOARD DIRECTORS AND OFFICERS AS A GROUP	7,850,000	1,150,000	1,900,000
2010 (Actual)	Top 4 Executive Officers: Max Borromeo – Senior Managing Director Teresita Benitez – President Rene B. Benitez – Managing Director Cynthia M. Gacayan – COO/CFO Albert J. Batacan - Manager	7,041,000	437,000	330,000
	ALL BOARD DIRECTORS AND OFFICERS AS A GROUP	7,041,000	829,000	1,010,000
2009 (Actual)	Top 4 Executive Officers: Max Borromeo – Senior Managing Director Teresita Benitez – President Rene B. Benitez – Managing Director Cynthia M. Gacayan – COO/CFO			
	TOTAL	6,000,000	800,000	240,000
	ALL BOARD DIRECTORS AND OFFICERS AS A GROUP	6,300,000	1,025,000	720,000

## IDENTITY OF SIGNIFICANT EMPLOYEES

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

## Item 11. Security Ownership of Certain Beneficial Owners and Management

### Security ownership of record/beneficial owners of more than 5% Equity

Title of class	Name, address of record owner and relationship	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares	Percent Held
Common	<i>DIRECT</i> Amalgamated Investment Bancorporation IFF Multinational Bancorporation, 6805 Ayala Avenue, Makati City	Record and beneficial owner	Filipino	139,479,889	70.6578%
Common	Pikeville Bancshares Inc. IFF Multinational Bancorporation, 6805 Ayala Avenue, Makati City	Record and beneficial owner	Filipino	14,010,820	7.0976%

### Security ownership of BOD and Officers with Direct Ownership

Title of class	Name, address of record owner and relationship	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares	Percent Held
Common	Michael Wee Son Lock IFF Multinational Bancorporation, 6805 Ayala Avenue, Makati City	Beneficial owner	Singaporean	8,168,324	4.1379%
Common	Rene B. Benitez 19 Mercedes St., Bel-Air Village, Makati City	Beneficial owner	Filipino	5,505,267	2.7889%
Common	Rene B. Benitez 35 Aries St., Bel-Air III, Bel-Air Village, Makati City	Beneficial owner	Filipino	4,704,345	2.3831%
Common	Rene B. Benitez IFF Carmela Benitez 55 Aries St., Bel-Air III, Bel-Air Village, Makati City	Beneficial owner	Filipino	235,193	0.1191%
Common	Rene B. Benitez IFF Lorenzo Benitez 55 Aries St., Bel-Air III, Bel-Air Village, Makati City	Beneficial owner	Filipino	235,193	0.1191%
Common	Joel S. Ferrer 2137 Fountain St., San Miguel Village, Makati City	Beneficial owner	Filipino	1,988,557	1.0074%
Common	Teresita B. Benitez 19 Mercedes St., Bel-Air Village, Makati City	Beneficial owner	Filipino	393,612	0.1994%

Common	Isidro B. Benitez 19 Mercedes St., Bel-Air Village, Makati City	Beneficial owner	Filipino	249,957	0.1266%
Common	Max O. Borromeo Maria Luisa Park, Bantad, Cebu City	Beneficial owner	Filipino	397,892	0.2016%
Common	Juan Carlos Del Rosario Unit 9 17-A, McKinley Road, Forbes Park, Makati City	Beneficial owner	Filipino	29	0.00002%
Common	Francisco C. Fajmendi, Jr. 31 Cecery Drive, Valle Verde 5, Pasig City	Beneficial owner	Filipino	15	0.00001%
Common	Atty. Eugenio F. Reyes 39 Road A St., Anthony Village, Quezon City	Beneficial owner	Filipino	15	0.00001%
Common	Jose V. Cruz 111 Multinational Bancorporation Bldg., 6805 Ayala Avenue, Makati City	Beneficial owner	Filipino	1	0.00000%
Common	Cynthia M. Garcayan c/o Makati Finance Corporation	Beneficial owner	Filipino	101,061	0.0512%

Makati Finance Corporation complied with the minimum percentage requirements of listed securities held by the public of 10% of the listed company's issued and outstanding share. The Company will endeavor to increase its public float.

#### Item 12. Certain Relationships and Related Transactions

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

#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS – NOTE 22

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

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

The following transactions have been entered into with related parties:

Category	December 31, 2012		
	Statement of Comprehensive Income	Statement of Financial Position	Nature, Terms and Condition
Parent Company			
<i>Investment</i>			

<i>Bankcorporation</i>			Unsecured, 30-day non-interest bearing receivable. This refers to the Company's claim for reimbursement representing additional FWT payment equal to 18% of interest expense.
Accounts receivables		<b>P520,307</b>	
Other Receivables		<b>101,007</b>	non-interest bearing, unsecured, 30-day non-interest bearing receivable.
AFS Investments		<b>75,000,000</b>	Shares of AIB held as AFS securities by the Company.
Notes Payables		<b>512,300,000</b>	Unsecured, 1-year interest bearing placement at 6.75% annual interest.
Accrued expenses		<b>782,090</b>	30-day unsecured, non-interest bearing broker's fee payable to Parent for arranging the approved bank loan applications of the Company equal to 1.75% of the loan amount and interest payable on notes payable.
Interest Expense	<b>P34,000,327</b>		Interest payment for notes payable.
Professional Fees	<b>2,187,500</b>		Payment's of broker's fee payable to Parent.
Dividend Income	<b>5,400,150</b>		Cash dividend on P9M shares of AIB equal to Php 0.6 per share.
<i>Entity under Common Control</i>			
<i>Moto-acc Philippines, Inc.</i>			
Other receivables		<b>112,000</b>	non-interest bearing, unsecured, 30-day unsecured, non-interest bearing liability representing billings for motorcycle units financed by the Company.
Accounts payable		<b>27,253,037</b>	This refers to the payment of management fees.
<i>100% of the Bank shares</i>			
Professional Fees	<b>1,107,000</b>		
<i>Directors and other stockholders</i>			
Notes payable		<b>30,083,701</b>	Unsecured, 1-year interest bearing placement at 6.50% annual interest rate.
Interest Expense	<b>1,855,360</b>		Interest payments for notes payable.
Notes payable		<b>51,118,726</b>	Unsecured, 1-year interest bearing placement at 6.50% annual interest rate.
Interest Expense	<b>3,355,505</b>		Interest payments for notes payable.
<i>Key Management Personnel</i>			
Notes payable		<b>12,400,000</b>	Unsecured, 1-year interest bearing placement at 6.50% annual interest rate.
Interest Expense	<b>614,304</b>		Interest payments for notes payable.

**December 31, 2011**

<u>Category</u>	<u>Statement of Comprehensive Income</u>	<u>Statement of Financial Position</u>	<u>Nature, Terms and Condition</u>
Parent Company			
<i>Amalgamated Investment</i>			
<i>Bankcorporation</i>			

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

Borrowings availed from related parties amounted to P610.90 million, P428.00 million and P231.37 million in 2012, 2011 and 2010, respectively, and settlement from borrowings amounted to P103.61 million, P206.38 million and P66.12 million in 2012, 2011 and 2010, respectively. Interest rates from borrowings range from 5.44% to 7.75% in 2012, 5.44% to 7.75% in 2011 and 7.5% to 8.00% in 2010. Borrowings from related parties are unsecured and to be settled in cash.

As of December 31, 2012 and 2011, notes payable and accrued interest payable arising from borrowings through other stockholders amounted to P512.30 million and P485.8 million, respectively, and P0.075 million and P6.88 million, respectively. Interest expense from these borrowings amounted to P34.0 million, P34.76 million and P27.27 million in 2012, 2011 and 2010, respectively.

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



## **PART IV – CORPORATE GOVERNANCE**

### **Item 13. Corporate Governance**

#### **COMPLIANCE WITH LEADING PRACTICE ON CORPORATE GOVERNANCE**

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

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

## **PART V - EXHIBITS AND SCHEDULES**

### **Item 14. 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, 2012 are hereby attached "ANNEX B".

Quarterly Financial Reports ending March 31, 2012 were submitted to the SEC on May 14, 2012; quarterly ending June 30, 2012 on August 15, 2012 and for the quarter ending September 30, 2012 on November 14, 2012.

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

**ANNEX A**





7823 Makati Avenue, 3rd

Floor, Makati City

1200 10th Avenue, 10th

Floor, Pasig City

1000 10th Avenue, 10th

Floor, Pasig City

1000 10th Avenue, 10th

Floor, Pasig City

1000 10th Avenue, 10th

Floor, Pasig City

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Makati Finance Corporation, which comprise the statements of financial position as at December 31, 2012 and 2011, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

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

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



*Opinion*

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

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

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

SYCIP GORRES VELAYO & CO.

*Janeeth T. Nuñez*  
Janeeth T. Nuñez

Partner

CPA Certificate No. 111092

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

Valid until May 31, 2013

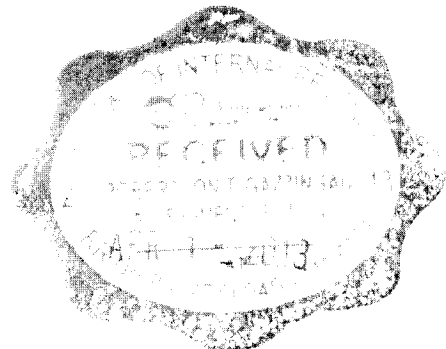
Tax Identification No. 900-322-673

BIR Accreditation No. 08-001998-69-2012

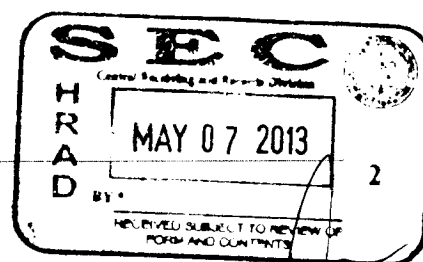
April 11, 2012, valid until April 10, 2015

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

April 8, 2013



**MAKATI FINANCE CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**



	December 31	
	2012	2011
<b>ASSETS</b>		
Cash on Hand and in Banks (Note 7)	P28,259,851	P31,701,374
Loans and Other Receivables (Notes 8)	516,085,697	40,971,001
Available-for-Sale Investments (Note 9)	75,090,000	75,150,000
Investment Properties (Note 10)	2,604,468	2,604,468
Investment in Subsidiaries (Note 11)	100,000	100,000
Property and Equipment (Note 12)	6,107,926	7,829,527
Deferred Tax Assets (Note 21)	8,900,582	10,549,898
Other Assets (Note 13)	129,832,187	36,916,363
	<b>P1,066,980,711</b>	<b>P904,922,631</b>

**LIABILITIES AND EQUITY**

<b>Liabilities</b>		
Notes payable (Notes 5 and 22)	P763,293,385	P618,095,937
Accounts payable (Note 22)	38,945,222	22,564,527
Accrued expenses (Note 16)	10,579,071	18,182,894
Income tax payable	3,049,834	9,673,646
Pension liability (Note 19)	1,504,548	991,970
	<b>817,372,060</b>	<b>669,487,974</b>
<b>Equity (Note 18)</b>		
Capital stock - P1 par value	197,402,011	195,327,890
Additional paid-in capital	5,803,922	5,803,922
Retained earnings	46,562,718	34,409,345
Net unrealized loss on available-for-sale investments (Note 9)	(160,000)	(100,000)
	<b>249,608,651</b>	<b>235,441,157</b>
	<b>P1,066,980,711</b>	<b>P904,922,631</b>

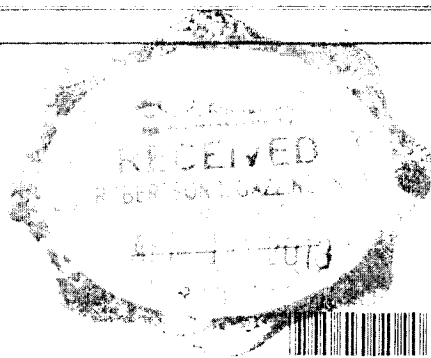
*See accompanying Notes to Financial Statements*



**MAKATI FINANCE CORPORATION**  
**STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2012	2011	2010
<b>INTEREST INCOME</b> (Notes 7 and 8)	P176,556,651	P156,570,939	P113,002,063
<b>INTEREST EXPENSE</b> (Notes 15 and 22)	44,478,344	29,625,753	32,086,742
<b>NET INTEREST INCOME</b>	132,078,307	126,945,186	80,915,321
<b>OTHER INCOME</b>			
Dividends (Note 9)	5,400,150	3,600,000	7,300
Service charges	1,334,248	1,365,657	2,078,130
Net gain (loss) on sale of investment properties and property and equipment	(213,697)	-	1,479,043
Miscellaneous (Note 20)	11,656,750	4,018,690	5,538,688
<b>TOTAL OTHER INCOME</b>	18,177,451	8,984,347	9,103,161
<b>TOTAL OPERATING INCOME</b>	150,255,758	135,929,533	90,018,482
<b>OPERATING EXPENSES</b>			
Salaries and employee benefits (Notes 19 and 22)	40,422,217	33,913,896	22,506,133
Loss from sale and writedown of motorcycle inventories (Note 13)	17,879,007	13,254,167	7,812,039
Taxes and licenses	13,896,518	12,597,156	7,940,861
Management and professional fees (Note 22)	10,386,468	13,696,011	10,401,479
Travel and transportation	7,788,926	5,270,858	2,422,324
Commissions	5,111,842	6,295,054	4,314,422
Occupancy costs (Note 25)	4,144,628	5,814,053	2,679,986
Depreciation and amortization (Note 12)	3,605,296	4,981,031	4,431,968
Provision for credit losses (Note 14)	3,239,114	11,109,652	5,118,007
Entertainment, amusement and recreation (Note 21)	1,636,742	1,627,795	1,098,574
Amortization of software costs (Note 13)	644,789	595,296	478,491
Miscellaneous (Note 20)	18,757,103	10,538,138	4,984,648
<b>TOTAL OPERATING EXPENSES</b>	127,512,650	116,793,087	74,288,929
<b>INCOME BEFORE INCOME TAX</b>	22,743,108	19,136,446	15,729,553
<b>PROVISION FOR INCOME TAX</b> (Note 21)	6,441,419	5,308,724	3,374,300
<b>NET INCOME</b>	16,301,689	13,827,722	12,355,253
<b>OTHER COMPREHENSIVE LOSS</b>	(60,000)	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	P16,241,689	P13,827,722	P12,355,253
<b>Basic/Diluted Earnings Per Share</b> (Note 23)	P0.08	P0.07	P0.06

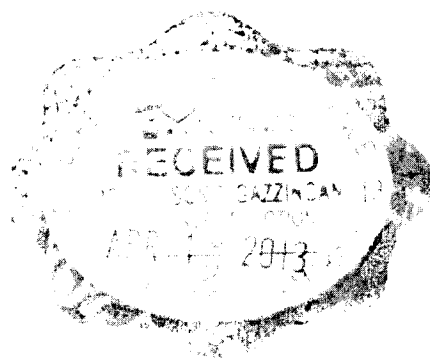
See accompanying Notes to Financial Statements



**MAKATI FINANCE CORPORATION**  
**STATEMENTS OF CHANGES IN EQUITY**

	Capital Stock (Note 18)	Additional Paid-In Capital	Retained Earnings (Note 18)	Net Unrealized Loss on Available- For-Sale Investments (Note 9)	Total Equity
Balance at January 1, 2012	P195,327,890	P5,803,922	P34,409,345	(P100,000)	P235,441,157
Stock dividends (Note 18)	2,074,121	--	(2,074,121)	--	--
Cash dividends (Note 18)	--	--	(2,074,195)	--	(2,074,195)
Total comprehensive income (loss) for the year	--	--	16,501,689	(60,000)	16,241,689
<b>Balance at December 31, 2012</b>	<b>P197,402,011</b>	<b>P5,803,922</b>	<b>P46,562,718</b>	<b>(P100,000)</b>	<b>P249,698,651</b>
Balance at January 1, 2011	P193,474,645	P5,803,922	P24,288,199	(P100,000)	P223,466,766
Stock dividends (Note 18)	1,853,215	--	(1,853,215)	--	--
Cash dividends (Note 18)	--	--	(1,853,331)	--	(1,853,331)
Total comprehensive income (loss) for the year	--	--	13,827,722	--	13,827,722
<b>Balance at December 31, 2011</b>	<b>P195,327,890</b>	<b>P5,803,922</b>	<b>P34,409,345</b>	<b>(P100,000)</b>	<b>P235,441,157</b>
Balance at January 1, 2010	P191,862,405	P5,803,922	P15,157,502	(P100,000)	P212,723,829
Stock dividends (Note 18)	1,612,240	--	(1,612,240)	--	--
Cash dividends (Note 18)	--	--	(1,612,316)	--	(1,612,316)
Total comprehensive income (loss) for the year	--	--	12,355,253	--	12,355,253
<b>Balance at December 31, 2010</b>	<b>P193,474,645</b>	<b>P5,803,922</b>	<b>P24,288,199</b>	<b>(P100,000)</b>	<b>P223,466,766</b>

See accompanying Notes to Financial Statements.

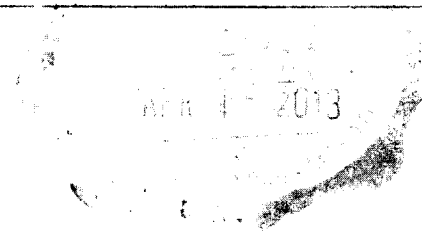




**MAKATI FINANCE CORPORATION**  
**STATEMENTS OF CASH FLOWS**

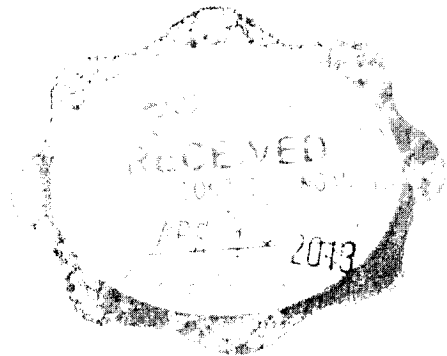
	Years Ended December 31		
	2012	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	P22,743,108	P19,136,446	P15,729,553
Adjustments for:			
Dividend income (Note 9)	(5,400,150)	(3,600,000)	(7,300)
Depreciation and amortization (Notes 10 and 12)	3,605,296	4,081,031	4,431,965
Provision for credit losses (Note 14)	3,239,114	11,109,652	5,118,007
Amortization of software costs (Note 12)	644,789	65,796	478,39
Gain on sale of investment properties and property and equipment	213,697	-	(4,211,155)
Loss on write-off of software cost (Notes 12 and 13)	-	101,600	-
Loss on write-off of investment properties	-	-	2,732,092
Operating income before changes in working capital	25,045,854	31,424,034	24,271,673
Changes in operating assets and liabilities:			
Increase in:			
Loans and other receivables	(79,253,810)	(205,309,411)	(211,034,912)
Other assets	(93,636,410)	(28,593,974)	(3,444,933)
Increase (decrease) in:			
Accounts payable	16,380,695	(38,964,903)	31,717,941
Accrued expenses	(7,573,323)	7,159,155	3,345,393
Pension liability	509,578	(779,291)	824,394
Net cash used in operations	(138,527,415)	(235,064,393)	(154,320,444)
Income taxes paid	(11,415,915)	(4,812,492)	(5,289,040)
Net cash used in operating activities	(149,943,330)	(239,876,885)	(159,609,484)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of:			
Property and equipment (Note 12)	(2,092,449)	(3,815,978)	(1,571,190)
Software costs (Note 12)	(133,400)	(481,807)	(420,000)
Cash dividends received (Note 9)	5,400,150	3,600,000	7,300
Proceeds from sale of:			
Property and equipment	804,253	110,827	-
Investment properties	-	-	6,349,471
Net cash provided by (used in) investing activities	3,378,554	(606,958)	2,365,581
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Availments of notes payable	330,920,041	458,337,524	231,369,502
Payments of notes payable	(185,722,593)	(206,384,373)	(66,124,664)
Cash dividends paid (Note 18)	(2,074,195)	(1,853,331)	(1,612,316)
Net cash provided by financing activities	143,123,253	250,099,820	163,632,522
<b>NET INCREASE (DECREASE) IN CASH ON HAND AND IN BANKS</b>	(3,441,523)	9,615,977	6,388,619
<b>CASH ON HAND AND IN BANKS AT BEGINNING OF YEAR</b>	31,701,374	22,085,397	15,696,778
<b>CASH ON HAND AND IN BANKS AT END OF YEAR (Note 7)</b>	<b>P28,259,851</b>	<b>P31,701,374</b>	<b>P22,085,397</b>

(Forward)



	Years Ended December 31		
	2012	2011	2010
<b>OPERATIONAL CASH FLOWS FROM INTEREST</b>			
Interest received	P171,950,172	P152,570,939	P109,365,082
Interest paid	53,529,352	32,418,496	21,806,903

See accompanying Notes to Financial Statements



# MAKATI FINANCE CORPORATION

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## NOTES TO FINANCIAL STATEMENTS

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### 1. General Information

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

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

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

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### 2. Summary of Significant Accounting Policies

#### Basis of Preparation

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

#### Statement of Compliance

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

#### Presentation of Financial Statements

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

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

Income and expense are not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

#### Changes in Accounting Policies and Disclosures

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



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

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

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

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

**Significant Accounting Policies**

Cash on Hand and In Banks

Cash includes cash on hand and in banks.

Financial Instruments - Initial Recognition and Subsequent Measurement

*Date of recognition*

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

*Initial recognition of financial instruments*

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

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



*Determination of fair value*

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

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

*'Day 1' difference*

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

*Loans and receivables*

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

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

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

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

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



*AFS investments*

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

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

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

*Other financial liabilities*

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

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

Derecognition of Financial Assets and Liabilities

*Financial asset*

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

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

Where the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

*Financial liability*

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



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

#### Impairment of Financial Assets

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

#### *Loans and receivables*

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

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

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

#### *AFS investments*

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



Investments in Subsidiaries

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

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

Property and Equipment

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

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

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

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

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

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

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

Investment Properties

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





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

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

Foreclosed properties are classified under investment properties on foreclosure date.

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

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

#### Motorcycle Inventories

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

#### Software Costs

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

#### Impairment of Nonfinancial Assets

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

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



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

#### Equity

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

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

#### Dividends on Common Shares

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

#### Revenue Recognition

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

#### *Interest income*

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

#### *Service charges*

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

#### *Dividend income*

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

#### *Miscellaneous income*

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

#### Expenses

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



### Leases

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

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

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

### *Company as lessee*

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

### Borrowing Costs

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

### Retirement Cost

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

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

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

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



### Income Taxes

#### *Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

#### *Deferred tax*

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

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), if any, and unused net operating loss carryover (NOLCO), if any, to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized.

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

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

#### Provisions

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

#### Contingent Liabilities and Contingent Assets

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



### Earnings Per Share

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

### Events after Reporting Date

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

### Segment Reporting

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

### **New Standards and Interpretations**

#### Future Changes in Accounting Policies

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

#### Effective 2013

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

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

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

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



*PFRS 10, Consolidated Financial Statements*

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

*PFRS 11, Joint Arrangements*

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

*PFRS 12, Disclosure of Interests in Other Entities*

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

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

*PFRS 13, Fair Value Measurement*

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

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

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

*PAS 19, Employee Benefits (Revised)*

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



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

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

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

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

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

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

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

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

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



Effective 2014

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

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

Effective 2015

*PFRS 9, Financial Instruments: Classification and Measurement*

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

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

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

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





*Annual Improvements to PFRSs (2009-2011 cycle)*

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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### 3. Significant Accounting Judgments and Estimates

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

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

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

#### Judgments

##### *(a) Classification of financial instruments*

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

##### *(b) Fair values of financial instruments*

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

##### *(c) Financial assets not quoted in an active market*

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

##### *(d) Operating leases*

###### *Company as a lessee*

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



*(e) Contingencies*

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

Estimates

*(a) Impairment of AFS equity investment*

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

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

*(b) Valuation of unquoted equity investments*

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

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

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

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

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

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



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

*(d) Writedown of motorcycle inventories*

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

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

*(e) Recognition of deferred tax assets*

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

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

*(f) Present value of retirement obligation*

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

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

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

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#### 4. Fair Value Measurement

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

*Cash on hand and in banks*

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



*Loans and other receivables*

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

*AFS investments*

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

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

*Liabilities*

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

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

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

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

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

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## 5. Financial Risk Management Objectives and Policies

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

### Credit Risk

*Credit risk management and collateral and other credit enhancements*

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

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



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

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

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

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

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

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

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

**2012**

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



2011

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

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

*Cash in banks*

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

*Loans and other receivables*

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

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

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

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

*Impairment assessment*

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

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



*Liquidity risk*

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

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

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

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

*Interest rate risk*

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

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





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

*Foreign exchange risk*

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

## 6. Segment Information

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

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

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

	2012				
	Rx Cash Line	MC Factors	MC Financing	Others	Total
<b>Loans</b>	<b>P62,248,108</b>	<b>P82,380,435</b>	<b>P895,420,201</b>	<b>P31,850,682</b>	<b>P1,071,899,426</b>
<b>Results of operation</b>					
<b>Revenues</b>					
Interest income	P16,842,621	P7,320,698	P159,533,011	P2,428,234	P186,124,564
Other income	463,145	1,389,027	(6,301,802)	13,059,168	8,609,538
	17,305,766	8,709,725	153,231,209	15,487,402	194,734,102
<b>Expenses</b>					
Interest expense	3,574,384	1,857,947	31,778,427	7,267,586	44,478,344
Provision for credit losses	485,707	-	2,753,407	-	3,239,114
Operating expenses	5,479,626	2,378,841	91,688,962	24,726,107	124,273,536
	9,539,717	4,236,788	126,220,796	31,993,693	171,990,994
<b>Net operating income</b>	<b>7,766,049</b>	<b>4,472,937</b>	<b>27,010,413</b>	<b>(16,506,291)</b>	<b>22,743,108</b>
<b>Less provision for income tax</b>	<b>2,199,540</b>	<b>1,266,848</b>	<b>7,650,027</b>	<b>(4,674,996)</b>	<b>6,441,419</b>
<b>Net income (loss)</b>	<b>P5,566,509</b>	<b>P3,206,089</b>	<b>P19,360,386</b>	<b>(P11,831,295)</b>	<b>P16,301,689</b>
<b>Statement of financial position</b>					
Total assets	P46,156,540	P 61,746,055	P810,898,315	P148,179,801	P1,066,980,711
Total liabilities	P204,100	P76,650	P46,796,594	P770,294,716	P817,372,060
<b>Other segment information</b>					
Capital expenditures	P	P	P1,450,103	P1,242,345	P2,692,448
Depreciation and amortization	P86,596	P6,312	P1,883,843	P2,381,668	P4,358,419



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

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

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

## 7. Cash on Hand and in Banks

This account consists of:

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



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

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

## 8. Loans and Other Receivables

This account consists of:

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

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

Loans and receivables according to product type:

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

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



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

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

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

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#### 9. Available-for-Sale Investments

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

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

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#### 10. Investment Properties

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

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

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



## 11. Investment in Subsidiaries

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

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

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

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

## 12. Property and Equipment

The rollforward analysis of this account follows:

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



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

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

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

Depreciation and amortization consists of:

	2012	2011	2010
Property and equipment	₱3,605,296	₱4,081,031	₱4,094,349
Investment properties	-	-	337,616
	<b>₱3,605,296</b>	<b>₱4,081,031</b>	<b>₱4,431,965</b>

### 13. Other Assets

This account consists of:

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

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



The movements in software costs follow:

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

#### 14. Allowance for Credit Losses

Movements in allowance for credit losses follow:

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

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

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

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



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#### 15. Notes Payable

This account consists of:

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

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

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

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#### 16. Accrued Expenses

This account consists of:

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

Other accrued expenses consist of:

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





## 17. Maturity Analysis of Assets and Liabilities

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

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

## 18. Equity

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

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

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



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

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

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

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

#### Capital Management

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

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

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

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

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

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#### 19. Retirement Plan

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



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

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

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

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

	2012	2011
Present value of fund obligation	P4,409,797	P2,505,589
Fair value of plan assets	(4,527,769)	(4,003,551)
Surplus	(117,972)	(1,497,962)
Unrecognized actuarial gains	1,622,520	2,492,932
Net pension liability	P1,504,548	P994,970

Movement in the pension liability during the year follows:

	2012	2011
At January 1	P994,970	P1,774,261
Contributions	(300,000)	(1,800,000)
Retirement expense	809,578	1,020,709
At December 31	P1,504,548	P994,970

Movements in the present value of plan obligation follow:

	2012	2011
At January 1	P2,505,589	P2,560,001
Current service cost	1,032,720	1,051,006
Actuarial loss (gain)	694,844	(1,308,426)
Interest cost	176,644	203,008
At December 31	P4,409,797	P2,505,589
Experience adjustments	P175,816	(P620,526)

Movements in the fair value of plan assets recognized follow:

	2012	2011
At January 1	P4,003,551	P1,984,150
Contributions	300,000	1,800,000
Expected return on plan assets	332,284	201,891
Actuarial gain	(108,066)	17,510
At December 31	P4,527,769	P4,003,551
Experience adjustments	(P108,066)	P17,510

Actual return on plan assets amounted to P0.22 million in 2012 and 2011.



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

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

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

The categories of plan assets follow:

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

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

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

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

## 20. Miscellaneous

Miscellaneous income consists of the following items:

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



Miscellaneous expenses consist of the following items:

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

Miscellaneous expenses include donations, membership dues and other expenses.

## 21. Income Taxes

Provision for income tax consists of:

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

The components of deferred tax assets follow:

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

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

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



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

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

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

## 22. Related Party Transactions

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

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

The following transactions have been entered into with related parties:

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



December 31, 2012			
Category	Statement of Comprehensive Income	Statement of Financial Position	Nature, Terms and Condition
<b>Entities under Common Control</b>			
<i>Motor Ace Philippines, Inc.</i>			
Other receivables		112,000	Non-interest bearing, unsecured 30-day unsecured, non-interest bearing liability representing billings for motorcycle units financed by the Company.
Accounts payable		27,253,037	
<i>Pikeville Bancshares</i>			
Professional fees	1,107,000		This refers to the payment of management fees.
<i>Directors and other stockholders</i>			
Notes payable		30,083,701	Unsecured, 1-year interest bearing placement at 6.50% annual interest rate
Interest expense	1,855,360		Interest payments for notes payable.
Notes payable		51,118,726	Unsecured, 1-year interest bearing placement at 6.50% annual interest rate
Interest Expense	3,355,505		Interest payments for notes payable.
<i>Key Management Personnel</i>			
Notes Payable		12,400,000	Unsecured, 1-year interest bearing placement at 6.50% annual interest rate
Interest Expense	614,304		Interest payments for notes payable.
December 31, 2011			
Category	Statement of Comprehensive Income	Statement of Financial Position	Nature, Terms and Condition
<i>Parent Company</i>			
<i>Amalgamated Investment Bancorporation</i>			
Investments (AFS)		₱75,000,000	Shares of AIB held as AFS securities by the Company.
Accounts receivables		9,892	Unsecured, 30-day non-interest bearing receivable
Other Receivables		101,007	Non-interest bearing, unsecured
Notes payable		485,800,000	Unsecured, 1-year interest bearing placement at 6.75% annual interest rate
Accrued expenses		6,878,269	30-day unsecured, non-interest bearing broker's fee payable to Parent for arranging the approved bank loan applications of the Company equal to 1.75% of the loan amount and interest payable on notes payable.
Interest Expense	₱34,756,449		Interest payments for notes payable.
Dividend income	3,600,000		Cash dividend on 9.0 million shares of the Parent Company equal to ₱0.6 per share.
<i>Entities under common control</i>			
<i>Motor Ace Philippines, Inc.</i>			
Other receivables		112,000	Non-interest bearing, unsecured
Accounts payable		14,501,287	30-day unsecured, non-interest bearing liability representing billings for motorcycle units financed by the Company.
<i>Pikeville Bancshares</i>			
Professional fees	938,000		Payments of management fees
<i>Directors</i>			
Notes payable		29,934,355	Secured, 1-year interest bearing placement at 6.50% annual interest rate
Interest expense	2,456,960		Interest payments for notes payable.
<i>Other Stockholders</i>			
Notes payable		6,200,000	Secured, 1-year interest bearing placement at 6.50% annual interest rate
Interest Expense	1,742,542		Interest payments for notes payable.
<i>Key Management Personnel</i>			
Notes Payable		2,500,000	Secured, 1-year interest bearing placement at 6.50% annual interest rate
Interest Expense		150,853	Interest payments for notes payable.

Borrowings availed from related parties amounted to ₱610.90 million, ₱428.00 million and ₱231.37 million in 2012, 2011 and 2010, respectively, and settlement from borrowings amounted



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

As of December 31, 2012 and 2011, notes payable and accrued interest payable arising from borrowings through other stockholders amounted to ₱512.30 million and ₱485.80 million, respectively, and ₱0.075 million and ₱6.88 million, respectively. Interest expense from these borrowings amounted to ₱34.0 million, ₱34.76 million and ₱27.27 million in 2012, 2011 and 2010, respectively.

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

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### 23. Earnings Per Share

EPS amounts were calculated as follows:

	2012	2011	2010
a. Net income	<b>₱16,219,137</b>	₱13,827,722	₱12,355,253
b. Weighted average number of outstanding common shares	<b>197,402,011</b>	197,402,011	197,402,011
c. Basic/diluted earnings per share (a/b)	<b>₱0.08</b>	₱0.07	₱0.06

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

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### 24. Contingent Liability

In 2003, the Company received a preliminary assessment notice from the BIR for various tax liabilities covering the taxable year 1999 amounting to ₱5.33 million. In 2004, the Company entered into a compromise settlement with the BIR for the settlement of this assessment at ₱0.72 million. Of this amount, ₱0.39 million were paid representing basic deficiency tax and compromise penalty. The balance represents interest. On December 19, 2006, the Company filed an abatement on its outstanding tax liability amounting to ₱0.33 million and received the termination letter dated November 10, 2011 indicating the tax liability is closed and terminated.

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### 25. Lease Commitment

The Company leases its office space for a period of one (1) year under a lease contract expiring on May 31, 2012. The lease contract was not renewed and no new lease agreement was entered by the Company upon the expiration of the lease term. The Company treats the lease agreement as continuing and effective to date. Total rent expense incurred in 2012, 2011 and 2010 amounted to ₱ 0.87 million, ₱0.65 million and ₱0.62 million, respectively. The lease contract is renewable annually upon agreement of the lessor and the Company.





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

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

Supplementary Information Under RR No. 19-2011

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

Revenues

The composition of gross income reported in 2012 follows:

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

Cost of services

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

Expenses

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

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



Supplementary Information Under RR No. 15-2010

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

Other Taxes and Licenses

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

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

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

Withholding Taxes

Details of withholding taxes for the year follow:

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





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SEC Registration No. 001-00000-00000  
SEC Accreditation No. 0010-00000-00000  
December 15, 2012, valid until November 16, 2013.

## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Makati Finance Corporation (the Company) as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012, included in this Form 17-A, and have issued our report thereon dated April 8, 2013. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. Exhibits II-IV listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respect, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

*Janeth T. Nuñez*  
Janeth T. Nuñez

Partner

CPA Certificate No. 111092

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

Valid until May 31 2013

Tax Identification No. 900-322-673

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

April 11, 2012, valid until April 10, 2015

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

April 8, 2013



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

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

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



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

\*Not early adopted



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

\*Not early adopted



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



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





**EXHIBIT IV**  
**MAKATI FINANCE CORPORATION**  
**SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E**  
**PURSUANT TO SRC RULE 68, AS AMENDED**  
**DECEMBER 31, 2012**

**Schedule A. Financial Assets**

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the statement of financial position	Income received and accrued
<b>Available-for-sale investments:</b>			
Amalgamated Investment Bancorporation	9,000,000	₱75,000,000	₱5,400,000
Orchard golf club shares	1	90,000	-
	9,000,001	₱75,090,000	₱5,400,000

**Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)**

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of period
None	N/A	N/A	N/A	N/A	N/A	N/A	N/A

**Schedule C. Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements**

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of period
None	N/A	N/A	N/A	N/A	N/A	N/A	N/A



**Schedule D. Intangible Assets - Other Assets**

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other charges additions (deduction)	Ending balance
Loans Plus	₱896,000	₱-	₱448,000	₱-	₱-	₱448,000
Pushtech/IFCA Accounting system (QnE)	321,999	-	84,000	-	-	237,999
5 (+1) Add'l concurrent Licenses - IFCA	43,208	-	10,368	-	-	32,840
50% Payroll System (Ser-BIZ-yo)	119,000	-	28,000	-	-	91,000
Full pymt Accounting system (QnE)	-	-	-	-	-	-
50% Payroll System (intellismart)	44,073	-	10,368	-	-	33,705
Deployment of Payroll System (Ser-BIZ-yo)	77,917	-	17,004	-	-	60,913
20% DP Payroll System (intellismart)	-	-	-	-	-	-
Windows 7 Prof OEM License	31,696	-	6,804.00	-	-	24,892
10 Kaspersky business space security	19,501	116,000	36,381	-	-	99,120
	-	17,400	3,864	-	-	13,536
	₱1,553,394	₱133,400	₱644,789	₱-	₱-	₱1,042,005

**Schedule E. Long Term Debt**

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long term debt" in related statement of financial position	Amount shown under caption "Long-Term Debt" in statement of financial position
None	N/A	N/A	N/A

**Schedule F. Indebtedness to Related Parties (Long-Term Loans from Related Companies)**

Name of related party	Balance at beginning of period	Balance at end of period
None	N/A	N/A

**Schedule G. Guarantees of Securities of Other Issuers**

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by a person for which statement is filed	Nature of guarantee
None	N/A	N/A	N/A	N/A



Schedule H. Capital Stock

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related financial position caption	Number of shares reserved for options, warrants, conversion and other rights	No. of shares held by		
				Affiliates	Directors and Officers	Others
Common	137,050,820	137,050,820	—	137,050,820	—	—
Common	13,617,635	13,617,635	—	—	—	13,617,635
Common	7,939,097	7,939,097	—	—	7,939,097	—
Common	6,269,592	6,269,592	—	—	—	6,269,592
Common	5,350,773	5,350,773	—	—	5,350,773	—
Common	4,802,330	4,802,330	—	—	—	4,802,330
Common	4,572,329	4,572,329	—	—	—	4,572,329
Common	4,572,329	4,572,329	—	—	4,572,329	—
Common	5,714,070	3,725,660	—	—	—	5,714,070
Common	1,932,754	1,932,754	—	—	1,932,754	—
Common	947,197	947,197	—	—	947,197	—
Common	580,000	580,000	—	—	—	580,000
Common	377,019	377,019	—	—	377,019	—
Common	331,526	331,526	—	—	—	331,526
Common	262,457	262,457	—	—	—	262,457
Common	242,944	242,944	—	—	242,944	—
Common	228,596	228,596	—	—	—	228,596
Common	228,596	228,596	—	—	—	228,596
Common	228,596	228,596	—	—	—	228,596
Common	228,596	228,596	—	—	—	228,596
Common	228,596	228,596	—	—	—	228,596
Common	228,596	228,596	—	—	—	228,596
Common	228,596	228,596	—	—	—	228,596
Common	228,596	228,596	—	—	—	228,596
Common	212,986	212,986	—	—	212,986	—
Common	192,951	192,951	—	—	—	192,951
Common	231,887	231,887	—	—	—	231,887
Common	137,200	137,200	—	—	—	137,200
Common	63,816	63,816	—	—	—	63,816
Common	25,939	25,939	—	—	—	25,939
Common	19,047	19,047	—	—	—	19,047
Common	19,047	19,047	—	—	—	19,047
Common	19,047	19,047	—	—	—	19,047
Common	19,047	19,047	—	—	—	19,047
Common	19,047	19,047	—	—	—	19,047
Common	19,047	19,047	—	—	—	19,047
Common	19,047	19,047	—	—	—	19,047
Common	19,047	19,047	—	—	—	19,047
Common	19,047	19,047	—	—	—	19,047
Common	19,047	19,047	—	—	—	19,047
Common	19,047	19,047	—	—	—	19,047
(Forward)				—	—	

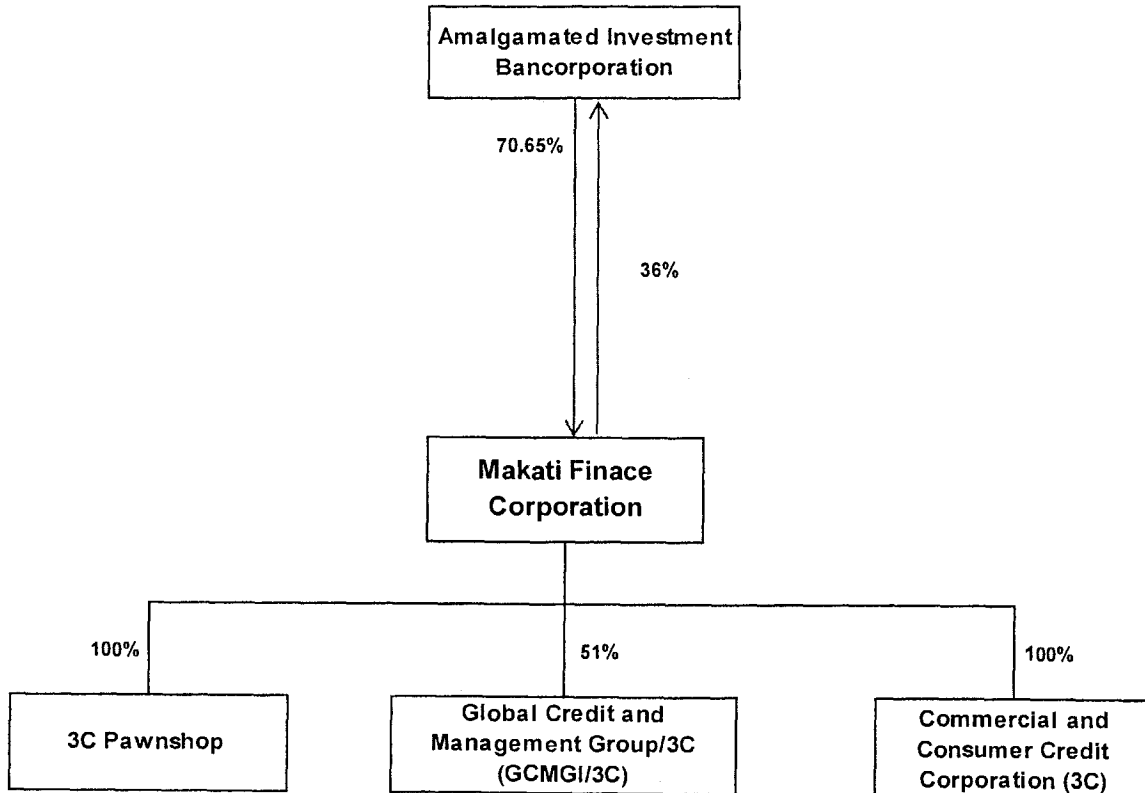




Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related financial position caption	Number of shares reserved for options, warrants, conversion and other rights	No. of shares held by		
				Affiliates	Directors and Officers	Others
Common	1,004	1,004	-	-	-	1,004
Common	575	575	-	-	-	575
Common	566	566	-	-	-	566
Common	393	393	-	-	-	393
Common	1,804	1,804	-	-	-	1,804
Common	1,156	1,156	-	-	-	1,156
Common	303	303	-	-	-	303
Common	210	210	-	-	-	210
Common	88	88	-	-	-	88
Common	88	88	-	-	-	88
Common	88	88	-	-	-	88
Common	88	88	-	-	-	88
Common	59	59	-	-	-	59
Common	29	29	-	-	-	29
Common	29	29	-	-	-	29
Common	29	29	-	-	29	-
Common	29	29	-	-	-	29
Common	29	29	-	-	-	29
Common	15	15	-	-	-	15
Common	15	15	-	-	15	-
Common	15	15	-	-	-	15
Common	15	15	-	-	15	-
Common	13	13	-	-	-	13
Common	1	1	-	-	1	-
	197,402,011	197,402,011	-	137,050,820	21,575,159	38,776,032



**EXHIBIT V**  
**MAKATI FINANCE CORPORATION**  
**A MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE**  
**COMPANY AND ITS ULTIMATE PARENT COMPANY, MIDDLE PARENT,**  
**SUBSIDIARIES OR CO-SUBSIDIARIES, AND ASSOCIATES**  
**PURSUANT TO SRC RULE 68, AS AMENDED**  
**DECEMBER 31, 2012**



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

	2012	2011
<b>Solvency and Liquidity Ratios</b>		
Current ratio	<b>165.40%</b>	99.72%
Debt to equity ratio	<b>327.46%</b>	284.35%
Quick ratio	<b>149.61%</b>	96.98%
<b>Profitability Ratios</b>		
Return on assets	<b>6.82%</b>	6.21%
Return on equity	<b>26.97%</b>	21.25%
Net profit margin	<b>34.57%</b>	29.45%
Asset to Equity Ratio	<b>427.46%</b>	384.35%
Interest Rate Coverage Ratio	<b>151.13%</b>	164.59%
<b>Other Relevant Ratios</b>		
Ratio or percentage of total real estate investments to total assets	<b>0.24%</b>	0.29%
Total receivables to total assets	<b>76.49%</b>	81.78%
Total DOSRI receivables to net worth	<b>2.20%</b>	23.76%
Amount of receivables from a single corporation to total receivables:		
Merg Realty and Development Corporation	<b>0.60%</b>	0.13%
Honda Motors World, Inc.	<b>12.21%</b>	4.59%

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


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

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

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

  
**RENE B. BENITEZ**  
Chairman

  
**MAX O. BORRROMEO**  
President

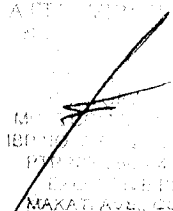
  
**JOEL S. FERRER**  
Treasurer

Signed this MAY 0 22013 day of \_\_\_\_\_ 2013.

MAKATI CITY AFFAIRS OFFICE  
MAY 0 22013  
NO. \_\_\_\_\_

DOE: AIC  
CAG: \_\_\_\_\_  
SAC: \_\_\_\_\_

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MAY 0 22013



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**REPORTS TO SEC PER SEC FORM 17-C**

**ANNEX B**

**MAKATI FINANCE**  
FINANCIAL SERVICES AND ADVISORY

January 18, 2012

**THE DISCLOSURE DEPARTMENT  
THE PHILIPPINE STOCK EXCHANGE, INC.**  
Philippine Stock Exchange Center  
Exchange Road, Ortigas Complex  
Pasig City, Metro Manila

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

Madam:

We are submitting herewith SEC 17-C to disclose some material items discussed on Makati Finance Corporation's Board of Director's Meeting. Held today, January 18, 2012 at Ascott Residences.

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

**MAKATI FINANCE CORPORATION**  
Registrant

By:

  
**CYNTHIA M. GACAYAN**  
Chief Operating Officer/CIO

2<sup>nd</sup> Floor, Makati Finance Building 7823 Makati Avenue, Makati City, Philippines  
Tel. (632) 899 4145 / 890 0526 Fax. (632) 899 4121

# COVER SHEET

2 8 7 8 8  
SEC 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<sup>N<sup>D</sup></sup> F l o o r , M a k a t i  
F i n a n c e C e n t e r 7 8 2 3  
M a k a t i A v e . , M a k a t i C i t y  
(Business Address : No. Street/City/Province)

CYNTHIA M. GACAYAN  
Contact Person

897- 0749  
Company Telephone Number

1 2 3 1  
Month Day  
Fiscal Year  
2012

SEC Form 17 - C  
FORM TYPE

Last Thursday of  
0 6  
Month Day  
Annual Meeting

Secondary License Type. If Applicable

C R M D  
Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings  
Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number  
Document I.D.

LCU  
Cashier

STAMPS

Remarks = pls. Use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17  
OF THE SECURITIES REGULATION CODE (SRC)  
AND SRC RULE 17(b)(3) THEREUNDER

1. **January 18, 2012**  
(Date of earliest event reported)
2. SEC Identification Number: 28788
3. BIR Tax Identification No.: 000-473-966
4. **MAKATI FINANCE CORPORATION**  
Exact name of registrant as specified in its charter
5. **Metro Manila, Philippines**   
Province, country or other jurisdiction of  
incorporation
6. (SEC Use Only)  
Industry Classification Code:
7. **7823 Makati Avenue, Makati City** **1210**  
Address of principal office Postal Code
8. **(062) 896-02-21**  
Registrant's telephone number, including area code
9. N.A.  
Former name or former address, if changed since last report
10. Securities registered pursuant to SRC

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares	195,327,890

11. Indicate the item numbers reported herein: **Item 9 – Other Matters**

The regular quarterly meeting of the Board of Directors of MAKATI FINANCE CORPORATION (“MFC”) was held today, January 18, 2012, at which at least a majority of the members of the Board of Directors was present and acting throughout.

The Board has approved the request for P4.0M capital expenditures as embodied in the 2012 Budget which was likewise approved. The Board has also approved write off of P5.3M Receivables.


The next Board meeting was later set on 27 March, 2012 at 9:00 o'clock in the morning.

## SIGNATURES

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

**MAKATI FINANCE CORPORATION**  
Registrant

By:

  
CYNTHIA M. GACAYAN  
Chief Operating Officer/CIO

Date: 18 January 2012

# **MAKATI FINANCE**

FINANCIAL SERVICES AND ADVISORY

March 27, 2012

**THE DISCLOSURE DEPARTMENT  
THE PHILIPPINE STOCK EXCHANGE, INC.**

Philippine Stock Exchange Center  
Exchange Road, Ortigas Complex  
Pasig City, Metro Manila

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

Madam:

We are submitting herewith SEC 17-C to disclose some material items discussed on Makati Finance Corporation's Board of Director's Meeting. Held today, March 27, 2012 at Ascott Residences.

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

**MAKATI FINANCE CORPORATION**  
Registrant

By:



**CYNTHIA M. GACAYAN**  
CHIEF OPERATING OFFICER/CIO



**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-C**

**CURRENT REPORT UNDER SECTION 17  
OF THE SECURITIES REGULATION CODE (SRC)  
AND SRC RULE 17(b)(3) THEREUNDER**

1. **March 27, 2012**  
(Date of earliest event reported)
2. SEC Identification Number:   28788
3. BIR Tax Identification No.:   000-473-966
4. **MAKATI FINANCE CORPORATION**  
Exact name of registrant as specified in its charter
5. **Metro Manila, Philippines**   
Province, country or other jurisdiction of incorporation
6. (SEC Use Only)  
Industry Classification Code:
7. **7823 Makati Avenue, Makati City**  
Address of principal office
- 1210**  
Postal Code
8. **(062) 896-02-21**  
Registrant's telephone number, including area code
9. N.A.  
Former name or former address, if changed since last report
10. Securities registered pursuant to SRC

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares	195,327,890

11. Indicate the item numbers reported herein: **Item 9 – Other Matters**

The regular quarterly meeting of the Board of Directors of MAKATI FINANCE CORPORATION (“MFC”) was held today, March 27, 2012. All of the members of the Board of Directors were present and acting throughout. The following items were discussed during the meeting:

1. Nomination Committee informed the Board that it had pre-screened and shortlisted the candidate for members of the Board of Directors to be nominated during the next Annual Stockholders' Meeting. The candidates to be nominated are as follows: Isidro B. Benitez, Juan Carlos Del Rosario, Teresita B. Benitez, Max O. Borromeo, Rene B. Benitez, Francisco C. Eizmendi Jr., Joel S. Ferrer, Eugenio E. Reyes, Michael Wee, Eric B. Benitez and Jose V. Cruz.



2. The Board approved the 2011 Audited Financial Statements.
3. The Board approved the revised budget for 2012.
4. The Board scheduled the next regular Board meeting on June 28, 2012 at 3 pm.
5. The Board scheduled the Annual Stockholders' meeting on the last Thursday of June (as stated in the by-laws) June 28, 2012, at 5 pm.
6. Record date for the Annual Stockholders meeting was set on 01 June 2012.

### SIGNATURES

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

**MAKATI FINANCE CORPORATION**  
Registrant

By:



**CYNTHIA M. GACAYAN**  
CHIEF OPERATING OFFICER/CIO

Date: 27 March 2012

# **MAKATI FINANCE**

FINANCIAL SERVICES AND ADVISORY

June 28, 2012

**THE DISCLOSURE DEPARTMENT  
THE PHILIPPINE STOCK EXCHANGE, INC.**  
3<sup>rd</sup> Floor PSE Plaza, Ayala Triangle  
Ayala Avenue, Makati City

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

Ma'am:

We are submitting herewith SEC 17-C to disclose some material items discussed on Makati Finance Corporation's Board of Director's Meeting and Annual Stockholders' Meeting. Held today, June 28, 2012 at Ascott Residences.

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

**MAKATI FINANCE CORPORATION**  
Registrant

By:

  
**CYNTHIA M. GACAYAN**  
**CHIEF OPERATING OFFICER/CIO**

# COVER SHEET

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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		<sup>N</sup>	<sup>D</sup>	F	l	o	o	r	,	M	a	k	a	t	i							
F	i	n	a	n	c	e		C	e	n	t	e	r		7	8	2	3				
M	a	k	a	t	i		A	v	e	.	,	M	a	k	a	t	i		C	i	t	y

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

<b>CYNTHIA M. GACAYAN</b>
Contact Person

<b>897-07-49</b>
Company Telephone Number

1	2	3	1
<i>Month</i>		<i>Day</i>	
Fiscal Year			
<b>2012</b>			

<b>SEC Form 17 - C</b>
FORM TYPE

0	6		
<i>Month</i>		<i>Day</i>	
Annual Meeting			

Secondary License Type. If Applicable

C	R	M	D
Dept. Requiring this Doc.			

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings	
Domestic	Foreign

-----  
To be accomplished by SEC Personnel concerned

File Number									
Document I.D.									

	LCU
	Cashier

STAMPS
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Remarks = pls. Use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17  
OF THE SECURITIES REGULATION CODE  
AND SRC RULE 17.2(c) THEREUNDER

1. **June 28, 2012**  
Date of Report (Date of earliest event reported)
2. SEC Identification Number: **28788**
3. BIR Tax Identification No.: **000-473-966**
4. **MAKATI FINANCE CORPORATION**  
Exact name of registrant as specified in its charter
5. **Metro Manila, Philippines**   
Province, country or other jurisdiction of  
incorporation
6. (SEC Use Only)  
Industry Classification Code:
7. **7823 Makati Avenue, Poblacion, Makati City**      **1210**  
Address of principal office      Postal Code
8. **(632) 896-02-21**  
Registrant's telephone number, including area code
9. N. A.  
Former name or former address, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Section 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares	195,327.890

11. Indicate the item numbers reported herein:.....

I. The Regular Meeting of the Board of Directors of MAKATI FINANCE CORPORATION ("MFC") was held on 28 June 2012. The following were approved by the Board of Directors:

- a. Minutes of the Regular Board Meeting held on 27 March 2012.
- b. Stock Dividends amounting to 1.0618853764% of the outstanding capital stock equivalent to a maximum of 2,074,158.30 shares of stock, to be issued out of the un-issued capital stock to stockholders of record as of 26 July 2012 with a payment date not later than 20 August 2012. Fractional shares shall be paid in cash. The actual stock dividends to be issued may be less than the above indicated shares of stock due to the resulting fractional shares, as of 26 July 2012.

- c. Cash Dividends in the amount of P2,074,158.30 or an equivalent of P0.0106188538 per share (1.0618853764%) to stockholders of record as of 26 July 2012 with a payment date of 20 August 2012. Both dividends shall be paid out of the audited net profits of the Corporation as of December 31, 2011.
  - d. The Next Board meeting was scheduled on 19 October, 2012 at 9:00 a.m.
- II. The Annual Stockholders' Meeting was held after the Regular Board of Directors meeting. The following were approved by the Stockholders of the Corporation:
- a. Minutes of the Annual Stockholders' Meeting held on 23 June 2011.
  - b. The 2011 Annual Report and 2011 Audited Financial Statements.
  - c. Ratification of all acts, contracts, investments and resolutions of the Board of Directors and Management since the immediately previous Annual Shareholder's Meeting of 23 June 2011.
  - d. Elections of Directors of the Corporation. The following were elected as Directors of the Corporation for a term of one (1) year or until their successors shall have been elected:

ISIDRO B. BENITEZ  
JUAN CARLOS DEL ROSARIO  
TERESITA B. BENITEZ  
MAX FRANCISCO O. BORROMELO  
RENE B. BENITEZ  
FRANCISCO C. EIZMENDI, JR.  
JOEL S. FERRER  
EUGENIO E. REYES  
MICHAEL WEE  
JOSE V. CRUZ  
ERIC B. BENITEZ

Atty. Eugenio E. Reyes and Mr. Francisco C. Eizmendi, Jr. were elected as independent directors.

- e. Appointment of SYCIP GORRES VELAYO & CO. as the Corporation's External Auditor for the Year 2012.
- f. Stock Dividends amounting to 1.0618853764% of the outstanding capital stock equivalent to a maximum of 2,074,158.30 shares of stock, to stockholders of record as of 26 July 2012 with a payment date not later than 20 August 2012. The stock dividends shall be paid out of the audited net profits of the Corporation as of December 31, 2011 and shall be issued out of the un-issued capital stock. Fractional shares shall be paid in cash. The actual stock dividends to be issued may be less than the above indicated shares of stock due to the resulting fractional shares, as of 26 July 2012.
- g. Amendment of By-Laws changing the date of the Annual Stockholders' Meeting to last Thursday of July.

III. The Organizational Meeting of the Board of Directors was held immediately after the Annual Stockholders Meeting, where in the following officers and committee chairmen/members were elected.

a. OFFICERS:

- Mr. Rene B. Benitez - Chairman
- Ms. Teresita B. Benitez - Vice-Chairman
- Mr. Max Francisco O. Borrromeo - President
- Ms. Cynthia M. Gacayan - Chief Operating Officer, Chief Information Officer and Compliance Officer
- Mr. Joel S. Ferrer - Treasurer
- Atty. Danilo Enrique O. Co - Corporate Secretary
- Mr. Servando B. Alvarez, Jr. - Assistant Treasurer

b. Committees:

Executive Committee	Audit Committee
Mr. Max Francisco O. Borrromeo, Chairman Mr. Juan Carlos Del Rosario Ms. Teresita B. Benitez Mr. Rene B. Benitez Mr. Joel S. Ferrer	Francisco C. Eizmendi Jr. *, Chairman Mr. Joel S. Ferrer Mr. Juan Carlos del Rosario Mr. Jose V. Cruz
Compensation Committee	Nomination Committee
Atty. Eugenio E. Reyes*, Chairman Mr. Juan Carlos Del Rosario Mr. Jose V. Cruz Mr. Eric B. Benitez	Mr. Rene B. Benitez, Chairman Dr. Isidro B. Benitez Mr. Max Francisco O. Borrromeo Atty. Eugenio E. Reyes * Mr. Michael Wee
* Independent Directors	

c. Chairman Emeritus

Dr. Isidro B. Benitez was bestowed with the honorary title of "Chairman Emeritus" of the Corporation in recognition of his highly exemplary and invaluable service and contributions to the Corporation.

## SIGNATURES

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

Date: June 28, 2012

**MAKATI FINANCE CORPORATION**  
Registrant

By:



**CYNTHIA M. GACAYAN**  
CHIEF OPERATING OFFICER/CIO

**MAKATI FINANCE**  
FINANCIAL SERVICES AND ADVISORY

October 19, 2012

**THE DISCLOSURE DEPARTMENT  
THE PHILIPPINE STOCK EXCHANGE, INC.**  
Philippine Stock Exchange Center  
Exchange Road, Ortigas Complex  
Pasig City, Metro Manila

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


Madam:

We are submitting herewith SEC 17-C to disclose some material items discussed on Makati Finance Corporation's Board of Director's Meeting. Held today, October 19, 2012 at Makati Shangri-la Hotel.

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

**MAKATI FINANCE CORPORATION**  
Registrant

By:

  
**CYNTHIA M. GACAYAN**  
Chief Operating Officer/CIO





SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17  
OF THE SECURITIES REGULATION CODE (SRC)  
AND SRC RULE 17(b)(3) THEREUNDER

1. **October 19, 2012**  
(Date of earliest event reported)
2. SEC Identification Number: 28788
3. BIR Tax Identification No.: 000-473-966
4. **MAKATI FINANCE CORPORATION**  
Exact name of registrant as specified in its charter
5. **Metro Manila, Philippines**   
Province, country or other jurisdiction of  
incorporation
6. (SEC Use Only)  
Industry Classification Code:
7. **7823 Makati Avenue, Makati City** **1210**  
Address of principal office Postal Code
8. **(062) 896-02-21**  
Registrant's telephone number, including area code
9. N.A.  
Former name or former address, if changed since last report
10. Securities registered pursuant to SRC

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares	197,402,011

11. Indicate the item numbers reported herein: **Item 9 – Other Matters**

The regular quarterly meeting of the Board of Directors of MAKATI FINANCE CORPORATION ("MFC") was held today, October 19, 2012, at which at least a majority of the members of the Board of Directors was present and acting throughout.

The Board approved the proposal of Management to write-off identified Bad Accounts not to go over P10,000,000.00. This write off will be done in December 2012.

The next Board meeting was later set on January 31, 2013 at 9:00 o'clock in the morning.

## SIGNATURES

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

**MAKATI FINANCE CORPORATION**  
Registrant

By:



CYNTHIA M. GACAYAN  
Chief Operating Officer/CIO

Date: 19 October 2012

**MAKATI FINANCE**  
FINANCIAL SERVICES AND ADVISORY

July 30, 2012

**THE DISCLOSURE DEPARTMENT  
THE PHILIPPINE STOCK EXCHANGE, INC.**  
3<sup>rd</sup> Floor PSE Plaza, Ayala Triangle  
Ayala Avenue, Makati City

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

Ma'am:

We are submitting herewith a letter to disclose payment date of cash and stock dividend of Makati Finance Corporation.

- a. Stock Dividends amounting to 1.0618853764% of the outstanding capital stock equivalent to a maximum of 2,074,158.30 shares of stock, to be issued out of the un-issued capital stock to stockholders of record as of 26 July 2012 with a payment date of 20 August 2012. Fractional shares shall be paid in cash. The actual stock dividends to be issued may be less than the above indicated shares of stock due to the resulting fractional shares, as of 26 July 2012.
- b. Cash Dividends in the amount of P2,074,158.30 or an equivalent of P0.0106188538 per share (1.0618853764%) to stockholders of record as of 26 July 2012 with a payment date of 20 August 2012. Both dividends shall be paid out of the audited net profits of the Corporation as of December 31, 2011.

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

**MAKATI FINANCE CORPORATION**  
Registrant

By:

  
**CYNTHIA M. GACAYAN**  
**CHIEF OPERATING OFFICER/CIO**

# **MAKATI FINANCE**

FINANCIAL SERVICES AND ADVISORY

June 08, 2012

**THE DISCLOSURE DEPARTMENT  
THE PHILIPPINE STOCK EXCHANGE, INC.**  
Philippine Stock Exchange Center  
Exchange Road, Ortigas Complex  
Pasig City, Metro Manila

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

Madam:

We are submitting herewith SEC 17-C to disclose List of Stockholders as of record date June 1, 2012 for the Annual Stockholders Meeting of Makati Finance Corporation.

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

**MAKATI FINANCE CORPORATION**  
Registrant

By:

  
**CYNTHIA M. GACAYAN**  
**CHIEF OPERATING OFFICER/CIO**

2<sup>nd</sup> Floor, Makati Finance Building 7823 Makati Avenue, Makati City, Philippines  
Tel. (632) 899 4145 / 890 0526 Fax. (632) 899 4121

**MAKATI FINANCE  
LIST OF STOCKHOLDERS  
AS OF JUNE 1, 2012**

<b>Name</b>	<b>No. of Shares</b>
1 AMALGAMATED INVESTMENT BANCORPORATION	137,050,820
2 BATACAN, ALBERT J.	1,804
3 BENITEZ JR., VICTORIANO B.	4,239
4 BENITEZ, ERIC B.	5,350,773
5 BENITEZ, GLEN B.	4,572,329
6 BENITEZ, ISIDRO B.	242,944
7 BENITEZ, JUDITH T.	1,804
8 BENITEZ, LOURDES BEATRIZ B.	12,394
9 BENITEZ, RENE B.	4,572,329
10 BENITEZ, TERESITA B.	377,448
11 BENITEZ,GLENN,ITF ALESSANDRA C. BENITEZ	228,596
12 BENITEZ,GLENN,ITF ALFONSO C. BENITEZ	228,596
13 BENITEZ,GLENN,ITF ANDREA C. BENITEZ	228,596
14 BENITEZ,RENE,ITF CARMELA L. BENITEZ	228,596
15 BENITEZ,RENE,ITF LORENZO L. BENITEZ	228,596
16 BONCAN III, ANTONIO S.	29
17 BONCAN JR., RAUL	7,570
18 BONCAN, ASUNCION	5,432
19 BONCAN, MARCELO	6,471
20 BONCAN, RAQUEL	13,617
21 BONCAN, RAUL A.	63,816
22 BONCAN, REBECCA	5,522
23 BONCAN, RICARDO B.	5,492
24 BORRES, CHARLEMAGNE A.	1,804
25 BORROMEEO BROS. ESTATE INC.	6,269,592
26 BORROMEEO, ANDRE R.	1,804
27 BORROMEEO, JOSE DANIEL R.	1,804
28 BORROMEEO, MARCO R.	1,804
29 BORROMEEO, MARIA VICTORIA R.	1,804
30 BORROMEEO, MAXCY R.	1,804
31 BORROMEEO, PAULO R.	1,804
32 BRIZ, BETTINA M.	88
33 BRIZ, ENRIQUE M.	88
34 BRIZ, JOSEFINA M.	575
35 BRIZ, MA. PAZ M.	88
36 BRIZ, MICHAEL M.	88
37 CELDRAN, MIGUEL F.	13,219
38 CENIZA, MA. ZENY J.	1,804
39 CHENG, GARY P.	15
40 CHIA YAN HENG	29
41 CIRILO, RONALD ALLAN A.	1,804
42 COSTILLAS, PHILIP V.	1,804

**MAKATI FINANCE  
LIST OF STOCKHOLDERS  
AS OF JUNE 1, 2012**

<b>Name</b>	<b>No. of Shares</b>
43 CRUZ, FELVIRINA C.	1,804
44 CRUZ,JOSE V.	1
45 CUMAGUN, ANTONIO	303
46 DE LA CUESTA, KARLO	19,047
47 DE LA ROSA, ROLANDO S.	59
48 DE LEON, JOSE MARI	19,047
49 DEL ROSARIO, JUAN CARLOS	29
50 EIZMENDI JR., FRANCISCO C.	15
51 ENGALAN, FREDERICK R.	19,047
52 EVANGELISTA, LYN V.	1,804
53 FABRO, ALQUINN E.	19,047
54 FERRER, JOEL	1,932,754
55 FLB DEVELOPMENT CORPORATION	262,457
56 FRANCISCO, REGINA B.	5,512
57 FRANCISCO, RICHARD L.	19,047
58 GARCIA, NINO VERGEL B.	1,804
59 GEASIN, JOELYN A.	1,804
60 GILI JR., GUILLERMO F.	1,004
61 GUERRERO, VICTOR JOSEPH L.	1,804
62 HERRERA, EVELINA H.	17,738
63 HERRERA, RODOLFO B.	15,427
64 HERRERA, RODOLFO B./MAX BORROMEIO/BERNADETTE GALLEG0	212,986
65 HERRERA, RODOLFO B./MAX BORROMEIO/CARMEN MERCADO	947,197
66 HILVANO, GLORIA A.	19,047
67 KONG, MILAGROS B.	2,101
68 LAFORTEZA, EMMANUEL F.	25,939
69 LAMSEN, ALFREDO D.	1,804
70 LIMBO, EDUARDO K.	393
71 LIMCAOCO, MELLISSA B.	4,802,330
72 LIMCAOCO, RENE B.	210
73 LIMCAOCO,MELLISSA B.,ITF DANIELLE B. LIMCAOCO	228,596
74 LIMCAOCO,MELLISSA B.,ITF MICHAELA LIMCAOCO	228,596
75 LIMJAP, SOFIA	137,200
76 LO KIN CHEUNG	15
77 LOPEZ, ADRIAN G.	1,804
78 MALONG, LOURDES V.	19,047
79 MANZANO, ROMEO M.	1,804
80 MERG REALTY DEVELOPMENT	331,526
81 MF PIKEVILLE HOLDINGS, INC.	13,617,635
82 ORIT, ADONIS M.	1,804
83 PAGUDAR, VENUS B.	19,047
84 PASCUAL, ALVIN J.	566

**MAKATI FINANCE  
LIST OF STOCKHOLDERS  
AS OF JUNE 1, 2012**

<b>Name</b>	<b>No. of Shares</b>
85 PCD NOMINEE CORPORATION (FILIPINO)	3,709,184
86 PCD NOMINEE CORPORATION (FOREIGN)	162,236
87 PEREZ, FRANCIS D.	1,804
88 PRISCILLA, GUILLERMINA E.	1,156
89 QUIAMBAO, CESAR T.	29
90 REYES, ALFREDO	19,047
91 REYES, EUGENIO E.	15
92 REYES, MARY GRACE V.	580,000
93 ROQUE, MARICAR C.	1,804
94 SALUD BORROMEIO FOUNDATION	192,951
95 SANTOS, BEBERLY S.	19,047
96 SERRANO, LINNETTE	19,047
97 TABLIZO, MERILYN	1,804
98 VICENTE JR., ALFREDO D.	29
99 VILLAMIN, ERWIN ANTHONY A.	1,804
100 WEE, MICHAEL	7,939,097
<b>TOTAL ISSUED AND OUTSTANDING</b>	<b>195,327,890</b>



**MAKATI FINANCE**  
FINANCIAL SERVICES AND ADVISORY

August 04, 2012

**THE DISCLOSURE DEPARTMENT**  
**THE PHILIPPINE STOCK EXCHANGE, INC.**  
Philippine Stock Exchange Center  
Exchange Road, Ortigas Complex  
Pasig City, Metro Manila

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

Madam:

We are submitting herewith SEC 17-C to disclose approval from PSE to list additional 2,074,121 common shares.

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

**MAKATI FINANCE CORPORATION**  
Registrant

By:



**CYNTHIA M. GACAYAN**  
**CHIEF OPERATING OFFICER/CIO**

# COVER SHEET

2 8 7 8 8

S.E.C. Registration Number

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

C O R P O R A T I O N

(Company's Full Name)

2<sup>N<sup>D</sup></sup> F L o o r , M a k a t i

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

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

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

CYNTHIA M. GACAYAN

Contact Person

897- 0749

Company Telephone Number

1 2

Month

3 1

Day

Fiscal Year

2012

SEC Form 17 - C

FORM TYPE

Last Thursday of

0 6

Month

Day

Annual Meeting

Secondary License Type. If Applicable

C R M D

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

Document I.D.

LCU

Cashier

STAMPS

Remarks = pls. Use black ink for scanning purposes

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-C**

**CURRENT REPORT UNDER SECTION 17  
OF THE SECURITIES REGULATION CODE (SRC)  
AND SRC RULE 17(b)(3) THEREUNDER**

1. **August 4, 2012**  
(Date of earliest event reported)
2. SEC Identification Number: 28788
3. BIR Tax Identification No.: 000-473-966
4. **MAKATI FINANCE CORPORATION**  
Exact name of registrant as specified in its charter
5. **Metro Manila, Philippines**   
Province, country or other jurisdiction of  
incorporation
6. (SEC Use Only)  
Industry Classification Code:
7. **7823 Makati Avenue, Makati City** **1210**  
Address of principal office Postal Code
8. **(062) 896-02-21**  
Registrant's telephone number, including area code
9. N.A.  
Former name or former address, if changed since last report
10. Securities registered pursuant to SRC

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares	195,327,890

11. Indicate the item numbers reported herein: **Item 9 – Other Matters**

We received yesterday, August 3, 2012, the Notice of Approval coming from the PSE to list additional 2,074,121 common shares, with par value of P 1.00 per share to cover the 1.0618853764% stock dividend declaration to stockholders of record as of July 26, 2012. The payment date is scheduled on August 20, 2012.

Listing date shall be scheduled three (3) trading days from compliance of various requirements.

## SIGNATURES

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

Very truly yours,

**MAKATI FINANCE CORPORATION**  
Registrant

By:



CYNTHIA M. GACAYAN  
Chief Operating Officer/CIO

Date: 04 August 2012

**MAKATI FINANCE**  
FINANCIAL SERVICES AND ADVISORY

October 01, 2012

**THE DISCLOSURE DEPARTMENT**  
**THE PHILIPPINE STOCK EXCHANGE, INC.**  
3<sup>rd</sup> Floor PSE Plaza, Ayala Triangle  
Ayala Avenue, Makati City

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

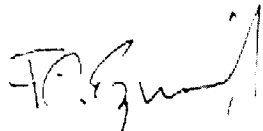
Ma'am:

We are submitting herewith SEC 17-C to disclose that Makati Finance Corporation is in the process of drafting the Audit Charter and that the Audit Committee is being guided by its manual of corporate governance.


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

MAKATI FINANCE CORPORATION  
Registrant

By:



**FRANCISCO C. EIZMENDI, JR**  
Chairman, Audit Committee



**CYNTHIA M. GACAYAN**  
Chief Operating Officer/CIO



SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17  
OF THE SECURITIES REGULATION CODE (SRC)  
AND SRC RULE 17(b)(3) THEREUNDER

1. **October 01, 2012**  
(Date of earliest event reported)
2. SEC Identification Number: 28788
3. BIR Tax Identification No.: 000-473-966
4. **MAKATI FINANCE CORPORATION**  
Exact name of registrant as specified in its charter
5. **Metro Manila, Philippines**   
Province, country or other jurisdiction of incorporation
6. (SEC Use Only)  
Industry Classification Code:
7. **7823 Makati Avenue, Makati City**  
Address of principal office
8. **1210**  
Postal Code
8. **(062) 896-02-21**  
Registrant's telephone number, including area code
9. N.A.  
Former name or former address, if changed since last report
10. Securities registered pursuant to SRC

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares	197,402,011

11. Indicate the item numbers reported herein: **Item 9 – Other Matters**

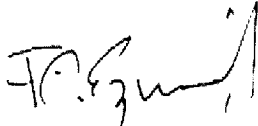
Makati Finance Corporation is in the process of drafting the Audit Charter and that the Audit Committee is being guided by its manual of corporate governance.

## SIGNATURES

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

MAKATI FINANCE CORPORATION  
Registrant

By:



**FRANCISCO C. EIZMENDI, JR**  
Chairman, Audit Committee



**CYNTHIA M. GACAYAN**  
Chief Operating Officer/CIO

Date: 01 October 2012