

CARD MRI Information Technology, Inc.

Financial Statements
December 31, 2013 and 2012
and Years Ended December 31, 2013 and 2012

and

Independent Auditors' Report



INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
CARD MRI Information Technology, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of CARD MRI Information Technology, Inc., which comprise the statements of financial position as at December 31, 2013 and 2012, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, 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 the 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 CARD MRI Information Technology, Inc. as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 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 15-2010 in Note 24 to the financial statements is presented for the 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 CARD MRI Information Technology, Inc. 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.



Christian G. Lauron

Partner

CPA Certificate No. 95977

SEC Accreditation No. 0790-AR-1 (Group A),

March 1, 2012, valid until March 1, 2015

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BIR Accreditation No. 08-001998-64-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 4225179, January 2, 2014, Makati City

March 14, 2014



CARD MRI INFORMATION TECHNOLOGY, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31, 2013	December 31, 2012 (As restated - Notes 2 and 20)	January 1 2012 (As restated - Notes 2 and 20)
ASSETS			
Current Assets			
Cash (Note 6)	₱58,591,133	₱56,388,005	₱71,207,521
Accounts receivable (Note 7)	17,286	729,383	464,582
Other current assets (Note 8)	1,932,110	1,176,012	805,378
Total current assets	60,540,529	58,293,400	72,477,481
Noncurrent Assets			
Property and equipment (Note 9)	6,942,395	13,904,066	17,783,697
Software costs (Note 10)	4,202,844	7,384,894	43,709,706
Deferred tax asset (Note 18)	1,694,218	816,688	1,072,961
Available-for-sale investments (Note 19)	370,500	107,000	26,750
Total noncurrent assets	13,209,957	22,212,648	62,593,114
TOTAL ASSETS	₱73,750,486	₱80,506,048	₱135,070,595
LIABILITIES AND EQUITY			
Liabilities			
Current Liabilities			
Trade and other payables (Note 11)	₱13,101,739	₱10,851,098	₱56,234,183
Current portion of loans payable (Note 12)	-	5,000,000	-
Income tax payable	-	-	1,326,663
Total current liabilities	13,101,739	15,851,098	57,560,846
Noncurrent Liabilities			
Noncurrent portion of loans payable (Note 12)	-	5,000,000	30,000,000
Retirement liabilities (Note 16)	3,402,026	2,722,291	3,576,535
Total noncurrent liabilities	3,402,026	7,722,291	33,576,535
TOTAL LIABILITIES	16,503,765	23,573,389	91,137,381
Equity			
Capital stock (Note 13)	47,898,746	39,439,975	5,000,000
Deposit for stock subscription (Note 13)	-	-	24,976,175
Retained earnings (Note 13)	13,234,746	20,218,487	16,416,559
Remeasurement loss on retirement liabilities (Note 16)	(3,886,771)	(2,725,803)	(2,459,520)
Total equity	57,246,721	56,932,659	43,933,214
TOTAL LIABILITIES AND EQUITY	₱73,750,486	₱80,506,048	₱135,070,595

See accompanying Notes to Financial Statements.



CARD MRI INFORMATION TECHNOLOGY, INC.
STATEMENTS OF INCOME

	Years Ended December 31	
	2013	2012 (As restated - Notes 2 and 20)
INCOME		
Service income (Note 19)	₱55,941,411	₱78,387,147
Interest income (Note 6)	1,191,154	1,950,392
Dividend income	126,894	–
Miscellaneous income	43,923	24,968
	57,303,382	80,362,507
COST OF INFORMATION TECHNOLOGY SERVICES (Note 14)		
	30,013,719	52,846,365
GENERAL AND ADMINISTRATIVE EXPENSES (Note 14)		
Salaries, wages and other benefits (Notes 15 and 19)	3,818,732	4,231,852
Information technology expense	3,346,550	1,714,560
Staff training and development	2,888,162	1,237,734
Seminars and meetings	2,356,691	1,774,864
Fuel and lubricants	1,261,792	1,182,994
Depreciation expense (Note 9)	1,222,900	749,682
Postage, telephone, cables and telegrams	946,269	2,992,448
Power, light and water	893,269	859,901
Security, messengerial and janitorial services	620,519	599,016
Stationery and supplies used	611,682	735,917
Insurance expense	499,791	881,258
Rent expense	495,086	573,050
Interest expense (Note 12)	98,333	1,520,000
Service fee expense	65,615	195,607
Taxes and licenses	54,067	48,602
Donations and charitable contributions	500	1,500
Loss on contract termination (Note 10)	–	2,023,585
Others (Note 23)	1,666,346	760,333
	20,846,304	22,082,903
	50,860,023	74,929,268
INCOME BEFORE INCOME TAX	6,443,359	5,433,239
PROVISION FOR INCOME TAX (Note 18)	1,378,749	1,631,311
NET INCOME	₱5,064,610	₱3,801,928

See accompanying Notes to Financial Statements.



CARD MRI INFORMATION TECHNOLOGY, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
		2012
	2013	(As restated - Notes 2 and 20)
NET INCOME	₱5,064,610	₱3,801,928
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:		
Remeasurement loss on retirement liabilities (Note 16)	(1,658,526)	(380,405)
Income tax effect	497,558	114,122
TOTAL COMPREHENSIVE INCOME	₱3,903,642	₱3,535,645

See accompanying Notes to Financial Statements.



CARD MRI INFORMATION TECHNOLOGY, INC.

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 13)	Deposit for Stock Subscription (Note 13)	Retained Earnings (Note 13)	Remeasurement Loss on Retirement Liabilities (Note 16)	Total
Balances at January 1, 2013, as previously reported	₱39,439,975	₱–	₱20,064,468	₱–	₱59,504,443
Effect of retroactive application of PAS 19 (Revised) (Notes 2 and 20)	–	–	154,019	(2,725,803)	(2,571,784)
Balances at January 1, 2013, as restated	39,439,975	–	20,218,487	(2,725,803)	56,932,659
Issuance of capital stock	8,458,771	–	–	–	8,458,771
Total comprehensive income for the year	–	–	5,064,610	(1,160,968)	3,903,642
Dividend declared for the year	–	–	(12,048,351)	–	(12,048,351)
Balances at December 31, 2013	₱47,898,746	₱–	₱13,234,746	(₱3,886,771)	₱57,246,721
Balances at January 1, 2012, as previously reported	₱5,000,000	₱24,976,175	₱16,573,420	₱–	₱46,549,595
Effect of retroactive application of PAS 19 (Revised) (Notes 2 and 20)	–	–	(156,861)	(2,459,520)	(2,616,381)
Balances at January 1, 2012, as restated	5,000,000	24,976,175	16,416,559	(2,459,520)	43,933,214
Issuance of capital stock	34,439,975	(24,976,175)	–	–	9,463,800
Total comprehensive income for the year	–	–	3,801,928	(266,283)	3,535,645
Dividend declared for the year	–	–	–	–	–
Balances at December 31, 2012	₱39,439,975	₱–	₱20,218,487	(₱2,725,803)	₱56,932,659

See accompanying Notes to Financial Statements.



CARD MRI INFORMATION TECHNOLOGY, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2013	2012 (As restated - Notes 2 and 20)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱6,443,359	₱5,433,239
Adjustments for:		
Depreciation and amortization (Notes 9 and 10)	15,077,580	28,871,349
Interest income (Note 6)	(1,191,154)	(1,950,392)
Interest expense (Note 12)	98,333	1,520,000
Loss on contract termination (Note 10)	-	2,023,585
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Accounts receivable (Note 21)	713,459	208,983
Other current assets	(2,276,715)	(2,677,017)
Increase (decrease) in the amounts of:		
Trade and other payables	2,250,641	(27,276,641)
Retirement liabilities	(978,791)	(1,234,649)
Net cash generated from operations	20,136,712	4,918,457
Interest received	1,191,154	2,008,425
Final taxes paid	(238,104)	(400,143)
Net cash flows from operating activities	21,089,762	6,526,739
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Note 9)	(2,308,505)	(5,550,805)
Software (Note 10)	(2,626,716)	(3,659,000)
Available-for-sale investments (Note 19)	(263,500)	(80,250)
Cash flows used in investing activities	(5,198,721)	(9,290,055)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of capital stock (Note 13)	8,458,771	9,463,800
Repayment of loans payable (Note 12)	(10,000,000)	(20,000,000)
Interest paid	(98,333)	(1,520,000)
Dividend distribution (Note 13)	(12,048,351)	-
Net cash flows used in financing activities	(13,687,913)	(12,056,200)
NET INCREASE IN CASH	2,203,128	(14,819,516)
CASH AT BEGINNING OF YEAR	56,388,005	71,207,521
CASH AT END OF YEAR (Note 6)	₱58,591,133	₱56,388,005

See accompanying Notes to Financial Statements



CARD MRI INFORMATION TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

1. Company Information

CARD MRI Information Technology, Inc. (the Company) is a member of Center for Agriculture and Rural Development - Mutually Reinforcing Institutions (CARD-MRI) and was created primarily to provide CARD-MRI's major information technology services.

Supporting eleven institutions with more than 2.3 million clients, the Company is leveraging internally-developed and externally-sourced solutions to create an integrated business environment to enable the continuous growth of CARD MRI's operation. As a major service offered to its sister institutions, data migration has become the expertise of the Company.

The Company was registered with the Philippine Securities and Exchange Commission (SEC) on March 12, 2010 and started commercial operations on May 2, 2010.

The Company's principal place of business is at 20 M.L. Quezon Street, City Subdivision, San Pablo City, Laguna.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis and are presented in Philippine peso, the Company's functional currency. All values are rounded to the nearest peso unless otherwise indicated.

The financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the earliest comparative period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the financial statements. An additional statement of financial position as at January 1, 2012 is presented in these financial statements due to retrospective application of certain accounting policies.

Statement of Compliance

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

The Company qualifies as a Small and Medium-Sized Entity (SME) under SRC Rule 68, As Amended (2011). The Company availed of the exemption from adoption of the PFRS for SMEs on the basis that the Company is an associate of other CARD entities reporting under full PFRS.

Presentation of Financial Statements

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation and as specifically disclosed in the accounting policies of the Company.



In prior years, the Company presented a single statement of comprehensive income. Starting 2013, the Company decided to separate the single statement into statement of income and statement of comprehensive income to give a clear and more relevant information to the users of the financial statements for the difference of profit or loss and other comprehensive income. The change in presentation has no impact to the financial position or performance of the Company.

Changes in Accounting Policies and Disclosures

The Company applied, for the first time, the following applicable new and revised accounting standards. Unless otherwise indicated, these new and revised accounting standards have no impact to the Company. Except for these standards and amended PFRS which were adopted as at January 1, 2013, the accounting policies adopted are consistent with those of the previous financial year.

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. 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 have no impact on the Company's financial position and performance.

PFRS 13, Fair Value Measurement

PFRS 13 establishes a single source of guidance under PFRSs 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. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

As a result of the guidance in PFRS 13, the Company re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Company has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Company. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 4.



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

The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or “recycled”) to statements of income 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.

PAS 19, Employee Benefits (Amendment) (PAS 19R)

On January 1, 2013, the Company adopted the revised PAS 19.

For defined benefit plans, the revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in the statement of income when incurred.

Prior to adoption of the revised PAS 19, the Company recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the revised PAS 19, the Company changed its accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in the statement of income in the period they occur.

The revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net statement of financial position defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as of the beginning of the annual period.

The revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee’s entitlement to the benefits. In addition, the revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Company’s financial position and financial performance.

The changes in accounting policies have been applied retrospectively. The effects of adoption on the financial statements are as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Increase (decrease) in:			
<u>Statements of financial position</u>			
Retirement liability	₱679,735	(₱2,722,291)	₱3,576,535
Retained earnings	5,939,686	154,019	(156,861)
Deferred tax asset	877,530	816,688	1,072,961
Deferred tax liability	-	(267,990)	(48,358)



	<u>2013</u>	<u>2012</u>
<u>Statements of Income</u>		
Salaries, wages and other benefits	₱15,274,928	₱17,389,053
Income before income taxes		
Provision for income tax	1,140,645	1,011,535
Net income	5,939,686	3,801,928
	<u>2013</u>	<u>2012</u>
<u>Statements of Comprehensive Income</u>		
Net income	₱5,939,686	₱3,801,928
Other comprehensive income:		
Remeasurement loss on retirement liability	(1,658,526)	(380,405)
Income tax effect	497,558	114,122
Total comprehensive income	4,778,718	3,535,645

The adoption did not have an impact on the consolidated statement of cash flows. There is no significant impact on the Company's basic and diluted EPS.

The revised PAS 19 also requires more extensive disclosures. These have been provided in Note 16. The Company obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The Company chose to close to remeasurement loss on retirement liability the net effect of all transition adjustments as at January 1, 2012 (the transition date) upon retrospective application of PAS 19 (Revised).

Annual Improvements to PFRSs (2009-2011 cycle)

The *Annual Improvements to PFRSs (2009-2011 cycle)* contain non-urgent but necessary amendments to PFRSs. The Company adopted these amendments for the current year.

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 statement of financial position (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. During the period, the Company restated its 2012 and 2011 financial statements to effect the retrospective application of revised PAS 19 (Note 20).

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 has no 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 amendment has no significant impact on the Company's financial position or performance.

Summary of Significant Accounting Policies

Foreign Currency Transaction

For financial reporting purposes, foreign-currency-denominated monetary assets and liabilities are translated into their equivalents in Philippine peso based on the Philippine Dealing System (PDS) closing rate at the end of the year and foreign-currency-denominated income and expenses, at the PDS weighted average rate for the year.

Foreign exchange differentials arising from foreign currency transactions and restatements of foreign-currency-denominated assets and liabilities are credited to or charged against statement of income in the year in which the rates change.

Fair Value Measurement

The Company initially measures its financial and non-financial instruments at fair value. Fair values of financial instruments measured at amortized cost are disclosed in Note 4.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities in the absence of a principal market, in the most advantageous market for the asset or liability



- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at every reporting date.

Financial Instruments

Date of recognition

The Company recognizes a financial asset or financial liability on 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 trade date.

Initial recognition of financial instruments

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

The Company does not have any financial instruments at FVPL and HTM investments as at December 31, 2013 and 2012.

Determination of fair value

Fair value is the price that would be received to sell an asset or that would be paid to transfer a liability in an orderly transaction between market participants under current market conditions (i.e., an exit price) at the measurement date.

The fair values of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading on the statement of financial position date. Where an instrument measured at fair value has a bid and an ask price, the Company used the price within that range that is most representative of the fair value.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. The valuation techniques used aim to make minimum use of market inputs and rely as little as possible on entity-specific inputs and may include reference to other instruments that are judged to be substantially the same.



Day 1' difference

Where the transaction price in a non-active market is different from the fair value or from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where data are not observable, the difference between the transaction price and model value is only recognized in the statement of 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.

Cash

Cash includes cash on hand and in banks. Cash in banks represent demand, savings and time deposits in banks that earn interest at the respective bank deposit rates and are subject to insignificant risk of changes in value.

Receivables

Receivables include trade receivables and accruals. They 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.

Trade receivables, which are based on normal credit terms and do not bear interest, are initially recognized at the transaction price and subsequently measured at amortized cost using the effective interest method.

AFS investments

AFS investments are those which are designated as such or do not qualify to be categorized as financial assets at FVPL, HTM or loans and receivables. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. These include equity and debt investments.

Interest earned on holding AFS debt investments are reported as 'Interest income' using the effective interest method. Dividends earned on holding AFS investments are recognized in the statement of income as 'Dividend income' when the right of payment had been established. The losses arising from impairment of such investments are recognized in statement of income.

The AFS investments of the Company include investments in nonmarketable equity investments that do not have a quoted market price in an active market, and whose fair market value cannot be reliably measured. These investments are carried at cost less impairment.

Financial Liabilities at Amortized Cost

Financial liabilities at amortized cost include accounts payable and loans payable. Liabilities for trade creditors such as accounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods or services received, whether or not billed to the Company. Issued financial instruments or their components, which are not designated at FVPL, are classified as loans payable, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash.



Impairment of Financial Assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific asset may be impaired. If such evidence exists, any loss is recognized in the statement of income.

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's effective interest rate (EIR) (i.e., the EIR computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in the statement of income.

If subsequently, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in the statement of income.

In relation to receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the counterparty) that the Company will not be able to collect all of the amounts due. The carrying amount of the receivable is reduced through use of an allowance account. The receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery.

Derecognition of Financial Instruments

Financial assets

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

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

When 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 over 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 original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.



Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When 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.

Offsetting Financial Instruments

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

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 their purchase price and any directly attributable costs of bringing the property and equipment to their working condition and location for their intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged against operations in the period in which the costs are incurred. In situations when 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 their originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

When property and equipment are retired or otherwise disposed of, the costs and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Depreciation is computed using the straight-line method over the estimated useful lives (EUL) of the property and equipment. Leasehold improvements are amortized over their EUL or related lease terms, whichever is shorter. The following are the EUL of the items of property and equipment:

Furniture, fixtures and equipment	3 to 5 years
Information technology equipment	3 years
Transportation equipment	3 years
Leasehold improvements	3 years

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

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 income in the period the asset is derecognized.



Software Cost

Software cost includes cost related to software purchased and used by the Company. Software cost is amortized through charges against income on a straight-line basis over a period of three (3) years.

Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Impairment of Property and Equipment and Software Cost

At each reporting date, the Company assesses whether there is any indication that its property and equipment and software assets may be impaired.

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

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

Revenue

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

Service income

Service income is recognized when services are rendered.

Interest income

Interest income on deposits in banks is recognized as interest accrues, taking into account the effective yield of the asset.

Dividend income

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

Miscellaneous income

Miscellaneous income is recognized when probable that the economic benefit will flow to the Company and amount can be measured reliably.



Cost and Expense Recognition

Cost and expenses are recognized when incurred.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as expense in the period in which these are incurred.

Retirement Benefits

The Company operates a defined benefit retirement plan which requires contributions to be made to a separately administered fund.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit retirement plan is determined using the projected unit credit method.

Retirement costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statement of income. Past service costs are recognized when the plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to remeasurement of retirement liability under other comprehensive income in the period in which they occur. Re-measurements are not reclassified to the statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period



until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

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.

When 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.

Operating lease

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

Income Taxes

Current tax

Current tax assets and liabilities for the current period 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 statement of financial position 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) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which deductible temporary differences and carryforward of unused excess of MCIT over RCIT and NOLCO can be utilized.

Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.



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 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 assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the year 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.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and such deferred taxes relate to the same taxable entity and the same taxation authority.

Equity

Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value. Consideration received in excess of par value is recognized as additional paid-in capital, net of incremental costs that are directly attributable to the issuance of new shares. Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Deposit for Future Stock Subscription

Deposit for future stock subscription represents payments made on subscription of shares which cannot be directly credited to 'Preferred stock' or 'Common stock' pending registration with the SEC (the Commission) of the amendment to the Articles of Incorporation increasing capital stock. The paid-up subscription can be classified under equity if the nature of the transaction gives rise to a contractual obligation of the Company to deliver its own shares to the subscriber in exchange of the subscription amount. In addition, deposit for future stock subscription shall be classified under equity if all of the following elements are present as at statement of financial position date:

- a. The unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;
- b. There is Board of Directors' approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);
- c. There is stockholders' approval of said proposed increase; and
- d. The application for the approval of the proposed increase has been filed with the Commission.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and 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.

Contingencies

Contingent liabilities are not recognized but are disclosed in the financial statements unless the possibility of an outflow of resources 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.



Related Party Relationships and Transactions

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance or the relationship, and not merely the legal form.

Events After the 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 financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Future Changes in Accounting Policies

The Company will adopt the following standards and interpretations when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

PAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)

These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments have no impact on the Company's financial position or performance.

Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)

These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Company.

Philippine Interpretation IFRIC 21, Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Company does not expect that IFRIC 21 will have material financial impact in future financial statements.

PAS 39, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company has not novated its derivatives during the current period. However, these amendments would be considered for future novations.



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 performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

PAS 19, Employee Benefits – Defined Benefit Plans: Employee Contributions (Amendments)

The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. The amendments have no impact on the Company’s financial position or performance.

Annual Improvements to PFRSs (2010-2012 cycle)

The *Annual Improvements to PFRSs (2010-2012 cycle)* contain non-urgent but necessary amendments to the following standards:

PFRS 2, Share-based Payment – Definition of Vesting Condition

The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Company as it has no share-based payments.

PFRS 3, Business Combinations – Accounting for Contingent Consideration in a Business Combination

The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Company shall consider this amendment for future business combinations.

PFRS 8, Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments’ Assets to the Entity’s Assets

The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments’ assets to the entity’s assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Company’s financial position or performance.



PFRS 13, Fair Value Measurement – Short-term Receivables and Payables

The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

PAS 16, Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation

The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no significant impact on the Company's financial position or performance.

PAS 24, Related Party Disclosures – Key Management Personnel

The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

PAS 38, Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization

The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Company's financial position or performance.



Annual Improvements to PFRSs (2011-2013 cycle)

The *Annual Improvements to PFRSs* (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

PFRS 1, First-time Adoption of Philippine Financial Reporting Standards – Meaning of ‘Effective PFRSs’

The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity’s first PFRS financial statements. This amendment is not applicable to the Company as it is not a first-time adopter of PFRS.

PFRS 3, Business Combinations – Scope Exceptions for Joint Arrangements

The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no impact on the Company’s financial position or performance.

PFRS 13, Fair Value Measurement – Portfolio Exception

The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Company’s financial position or performance.

PAS 40, Investment Property

The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no impact on the Company’s financial position or performance.

PFRS 9, Financial Instruments

PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace 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 statement of income. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, 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 the statement of income, unless presentation of the fair value change relating to the entity’s own credit



risk in OCI would create or enlarge an accounting mismatch in the statement of income. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation 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 significant impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Company will not adopt the standard before the completion of the limited amendments and the second phase of the project.

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 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 (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Company.

3. Significant Accounting Judgments and Estimates

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

Judgments and estimates are continually evaluated and are based on expectations of future events that are believed to be reasonable under the circumstances.



Critical judgments and estimates that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

Judgments

a. *Going concern*

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

b. *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.

c. *Fair value 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 a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These judgments may include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

d. *Operating leases - Company as a lessee*

The Company has entered into a lease agreement on the premises it occupies. The Company has determined that the lessor retains all the significant risks and rewards of ownership of the premises it leases.

e. *Classification of quoted or unquoted financial assets*

The Company classified 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 not 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 transactions.

f. *Assessment of functional currency*

Philippine Accounting Standards (PAS) 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to determine its functional currency such that it must faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Company. In making this judgment, the Company considers the following:

- the currency that mainly influences sales prices for financial instruments and services;
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.



g. *Contingencies*

The amount of probable costs for the resolution of possible claims has been developed in consultation with outside legal counsel handling the Company's defense and is based upon the analysis of potential results.

Estimates

a. *Impairment of trade receivables*

The Company assesses its receivables for impairment at each reporting date. In determining whether a credit loss should be recorded in the statement of income, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from its receivable. This evidence may include observable data indicating that there has been an adverse change in the payment status of its debtors.

As at December 31, 2013 and 2012, the carrying amounts of trade receivables are disclosed in Note 7.

b. *Impairment of property and equipment 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 the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Recoverable amounts are estimated for individual assets, or if it is not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that can materially affect the financial statements. No impairment loss was recognized in 2013 and 2012. As at December 31, 2013 and 2012, the carrying values of property and equipment and software cost are disclosed in Note 9 and 10, respectively.

c. *Estimated useful lives of property and equipment and software cost*

The Company determines the EUL of its property and equipment and software cost based on the period over which the assets are expected to be available for use. The Company reviews annually the EUL based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets. A reduction in the EUL of property and equipment and software cost would increase the recorded depreciation and amortization and decrease the assets. The EUL of property and equipment and software cost are disclosed in Note 2.



d. Recognition of deferred tax asset and liability

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable income will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and level of future taxable income together with future tax planning strategies.

The Company reviews the carrying amount of deferred tax asset at each reporting date and reduces this 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. Recognized deferred tax asset is disclosed in Note 18.

e. Present value of retirement obligation

The cost of defined retirement pension plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and the long-term nature of these plans, such estimates are subject to significant uncertainty. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at reporting date. The present values of the retirement liability of the Company are disclosed in Note 16.

4. Fair Value Measurement

The Company uses a hierarchy for determining and disclosing the fair value of its assets and liabilities (see accounting policy on Fair Value Measurement).

As at December 31, 2013 and 2012, the Company has no financial instruments carried at fair value. The Company's unquoted AFS investments are carried at cost less any impairment because the fair value could not be reliably determined.

The Company assessed that the fair values of its financial assets and liabilities approximate their carrying amounts due to the short-term maturities of these instruments, except for the loans payable in 2012. As at December 31, 2012, fair value of the loan as at December 31, 2012 amounted to ₱10.1 million.

The fair value of the Company's loans payable is determined using discounted cash flows method using the discount rate that reflects the Company's borrowing rate as at the end of the reporting period.

There have been no changes in in determining the fair value of financial instruments and no transfer of financial instruments between Level 1, 2, and 3 in 2013 and 2012.

5. Financial Risk Management Objectives and Policies

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Foreign currency risk



In line with the CARD MRI's mission of "*providing continued access to integrated microfinance and social development services to an expanding membership base by organizing and empowering women and their families*", risk management framework of the Company involves identifying and assessing risks, designing strategies and implementing policies to mitigate risks, and conducting evaluation for adjustments needed to minimize risks.

The Board of Directors (BOD) is responsible for monitoring the Company's implementation of risk management policies and procedures and for reviewing the adequacy of risk management framework in relation to the risks faced by the Company. Risk Management of the Company is strengthened in conjunction with the Internal Audit (IA) functions of CARD MRI Group. IA undertakes both regular audit examination and ad hoc reviews of risk management controls and procedures, the results of which are reported to the BOD.

Credit Risk

The Company manages its credit risk by constantly monitoring its credit exposure to counterparties.

Maximum exposure to credit risk

The maximum exposure of the Company's financial instruments is equivalent to the carrying values as reflected in the statement of financial position and related notes. The Company holds no collateral and other credit enhancements against its credit risk exposure as at December 31, 2013 and 2012.

The Company assessed that it has no credit risk exposures relating to off-statement of financial position items.

The Company has no financial instruments with right of set-off in accordance with PAS 32 as at December 31, 2013 and 2012. There are also no financial instruments that are subject to an enforceable master netting arrangements of similar agreements which require disclosure in the financial statements in accordance with amendments of PFRS 7.

Concentration of credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Company's financial instruments are concentrated to financial intermediaries.

Credit quality per class of financial assets

The Company's financial instruments are with reputable financial institutions and related parties and are deemed to be standard grade.

As at December 31, 2013 and 2012, the Company has no past due and impaired receivables.

Liquidity Risk

Liquidity risk is the risk arising from potential inability to meet obligations when they become due at a reasonable cost and timely manner. The Company manages liquidity risk by assessing the gap for additional funding and determining the best source and cost of funds on a monthly basis. To ensure sufficient liquidity, the Company sets aside funds to pay currently maturing obligations. These funds are placed in credible banks. Monitoring of daily cash position is being done to guide the management in making sure that sufficient liquidity is maintained. The Treasury Committee of CARD MRI Group reviews monthly the liquidity position of the Company.



The tables below summarize the maturity profile of the financial instruments of the Company based on contractual undiscounted cash flow as at December 31:

2013						
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Assets						
Cash	₱58,591,133	₱-	₱-	₱-	₱-	₱58,591,133
Accounts receivable	-	17,286	-	-	-	17,286
Refundable deposits	-	-	-	-	51,400	51,400
Available-for-sale-investments	-	-	-	-	370,500	370,500
Total financial assets	58,591,133	17,286	-	-	421,900	59,030,319
Financial Liabilities						
Trade and other payables	-	-	4,174,096	-	-	4,174,096
Total financial liabilities	-	-	4,174,096	-	-	4,174,096
Net undiscounted cash flows	₱58,591,133	₱17,286	(₱4,174,096)	₱-	₱421,900	₱55,856,223

2012						
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Assets						
Cash	₱56,388,005	₱-	₱-	₱-	₱-	₱56,388,005
Accounts receivable	-	729,383	-	-	-	729,383
Refundable deposits	-	-	-	-	23,000	23,000
Available-for-sale-investments	-	-	-	-	107,000	107,000
Total financial assets	56,388,005	729,383	-	-	130,000	57,247,388
Financial Liabilities						
Trade and other payables	-	4,203,253	4,028,925	-	1,539,247	9,771,425
Loans payable*	-	-	5,150,000	225,000	5,075,000	10,450,000
Total financial liabilities	-	4,203,253	9,178,925	225,000	6,614,247	20,221,425
Net undiscounted cash flows	₱56,388,005	(₱3,473,870)	(₱9,178,925)	(₱225,000)	(₱6,484,247)	₱37,025,963

*Includes future interest

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's principal transactions are carried out in Philippine peso and its exposure to foreign currency risk arises primarily with respect to the Company's cash in bank amounting to ₱0.5 million (US\$0.10) and ₱1.3 million (US\$0.03 million) as at December 31, 2013 and December 31, 2012, respectively. In translating the foreign currency into Philippine peso amount, the exchange rates used was ₱44.40 and ₱41.05 to US\$1.0 as at December 31, 2013 and 2012, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the US\$ exchange rate, with all other variables held constant, of the Company's income before income tax as at December 31, 2013 and 2012.

Year	US\$ appreciates (depreciates) by	Effect on income before income tax
2013	+5%	(₱22,756)
	-5%	22,756
2012	+5%	(67,116)
	-5%	67,116



There is no other impact on the Company's equity other than those already affecting the statement of income.

6. Cash

This account consists of:

	2013	2012
Cash in banks	₱58,576,133	₱56,373,005
Cash on hand	15,000	15,000
	₱58,591,133	₱56,388,005

Cash in banks consist of demand deposits, time deposits and a dollar account. The Company's demand deposits are used in its day to day operations. Time deposits to CARD SME Bank, Inc., CARD Bank, Inc. and Rizal Rural Bank, Inc. earn interest rate ranging from 2.50% to 4.25% and from 3.50% to 4.50% in 2013 and 2012, respectively. The Company's dollar account earns interest rate of 0.25% in 2013 and 2012.

Interest income earned from cash in banks amounted to ₱1.2 million and ₱2.0 million as at December 31, 2013 and 2012, respectively.

7. Accounts Receivable

This account consists of:

	2013	2012
Trade receivable - affiliates	₱17,286	₱725,440
Others	-	3,943
	₱17,286	₱729,383

8. Other Current Assets

This account consists of:

	2013	2012
Prepaid expenses	₱868,598	₱19,829
Creditable taxes	689,583	1,083,731
Advances to employees	247,064	14,017
Stationery and supplies	75,465	35,435
Refundable deposits	51,400	23,000
	₱1,932,110	₱1,176,012

Advances to employees pertain to staff advances subject for liquidation. Prepaid expenses pertain to unexpired software licenses and servers' cost usable for one year.



9. Property and Equipment

This account consists of:

2013					
	Information Technology Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost					
Balances at beginning of year	₱24,073,552	₱2,335,163	₱1,728,034	₱293,720	₱28,430,469
Additions	2,285,237	23,268	-	-	2,308,505
Disposals	(144,082)	(37,723)	-	-	(181,805)
Balances at end of year	26,214,707	2,320,708	1,728,034	293,720	30,557,169
Accumulated Depreciation					
Balances at beginning of year	13,206,803	355,715	872,202	91,683	14,526,403
Depreciation	8,047,270	743,506	391,565	87,829	9,270,170
Disposals	(144,078)	(37,721)	-	-	(181,799)
Balance at end of year	21,109,995	1,061,500	1,263,767	179,512	23,614,774
Net book value	₱5,104,712	₱1,259,208	₱464,267	₱114,208	₱6,942,395

2012					
	Information Technology Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost					
Balances at beginning of year	₱22,994,821	₱531,525	₱744,881	₱133,581	₱24,404,808
Additions	2,572,477	1,835,036	983,153	160,139	5,550,805
Disposals	(1,493,746)	(31,398)	-	-	(1,525,144)
Balances at end of year	24,073,552	2,335,163	1,728,034	293,720	28,430,469
Accumulated Depreciation					
Balances at beginning of year	6,038,110	123,543	425,646	33,812	6,621,111
Depreciation	8,134,920	245,255	446,556	57,871	8,884,602
Disposals	(966,227)	(13,083)	-	-	(979,310)
Balance at end of year	13,206,803	355,715	872,202	91,683	14,526,403
Net book value	₱10,866,749	₱1,979,448	₱855,832	₱202,037	₱13,904,066

Depreciation charged to the statement of comprehensive income is under:

	2013	2012
Cost of information technology services (Note 14)	₱8,047,270	₱8,134,920
General and administrative expenses	1,222,900	749,682
Balance at the end of the year	₱9,270,170	₱8,884,602

Cost of fully depreciated assets still in use as at December 31, 2013 and 2012 amounted to ₱2.6 million and ₱0.6 million, respectively.



10. Software Costs

This account consists of:

	2013	2012
Cost		
Balance at beginning of year	₱17,185,532	₱61,519,488
Additions	2,626,716	3,659,000
Write-off	(4,068)	(47,992,956)
Balance at end of year	19,808,180	17,185,532
Accumulated amortization		
Balance at beginning of year	9,800,638	17,809,782
Amortization for the period (Note 14)	5,807,410	19,986,747
Write-off	(2,712)	(27,995,891)
Balance at end of year	15,605,336	9,800,638
Net book value	₱4,202,844	₱7,384,894

In 2011, Infosys Technology Limited (Infosys) granted the Company a license to use Infosys' proprietary software (Finacle Core Banking version 7.0.26) for a contract price amounting to ₱48.0 million. This was in line with the Company's plan to improve the information system of the entire CARD MRI Group. However, the parties have mutually decided to terminate the contract on December 12, 2012 resulting to a loss to the Company of ₱2.0 million.

Additions in 2013 and 2012 pertain to software licenses purchased by the Company used for operations.

11. Trade and Other Payables

This account consists of:

	2013	2012
Financial liabilities		
Accrued expenses	₱5,797,143	₱5,568,172
Accounts payable (Note 19)	5,049,172	3,033,553
	10,846,315	8,601,725
Nonfinancial liabilities		
Deposit for future stock subscription	1,770,510	669,700
Value-added tax (VAT) payable	419,226	1,363,925
Withholding taxes	65,688	215,748
	2,255,424	2,249,373
	₱13,101,739	₱10,851,098

Accrued expenses include unpaid operating expenses and accrual of expenses such as travelling expenses, management and professional fee, monetized vacation leave, 13th month pay and other benefits. Accounts payable consists of billings received from CARD Inc., CARD Bank, Inc., and other CARD MRI institutions for services received or goods bought and share in expenses.

As at December 31, 2013, the Company has pending application for increase in authorized capital stock. The Company's deposit for future stock subscription is classified as liability having not met the criteria for classification as equity (Note 2).



12. Loans Payable

This account represents the loans advanced by CARD Mutual Benefit Association (MBA), Inc. to support the Company's implementation of Core Banking System (CBS) Project. The loan amounting to ₱30.0 million was granted on December 6, 2010 and bears interest of 6.0% per annum with various maturities until March 1, 2016.

On March 29, 2012, the Company paid a portion of the loans payable amounting to ₱5.0 million. Furthermore, a prepayment of ₱15.0 million was made on November 26, 2012 as a result of Management's decision to terminate the CBS Project.

As at December 31, 2012, outstanding balance of the loans payable and the interest paid amounted ₱10.0 million and ₱1.5 million, respectively.

On March 1, 2013, the Company paid in full the remaining balance of ₱10.0 million with interest payment amounting to ₱0.1 million for the period.

13. Equity

Capital Stock

As at December 31, 2013 and 2012, the Company's capital stock consists of:

	2013		2012	
	Shares	Amount	Shares	Amount
Common stock – ₱100 par value, 1,000,000 authorized shares				
Issued and outstanding	478,987	₱47,898,746	394,399	₱39,439,975
Subscribed	521,013	52,101,254	605,601	60,560,025
Subscription receivable	–	(52,101,254)	–	(60,560,025)
	1,000,000	₱47,898,746	1,000,000	₱39,439,975

During the year, the Company issued 84,588 shares for a total outstanding of 478,987 shares.

On September 16, 2013, the BOD approved declaration of cash dividend amounting to ₱12.0 million or 75% of the Company's unappropriated retained earnings as at December 31, 2012. Total cash dividend was paid in full during the year.

On December 23, 2010, the BOD approved the amendment of the Company's articles of incorporation to increase its authorized capital stock from ₱5.0 million to ₱100.0 million which was approved by the Commission on June 6, 2012.

As at December 31, 2011, the Company received ₱25.0 million as 'deposit for future stock subscription' presented within the 'Equity' section of the statement of financial position. This was reclassified as part of capital stock in 2012.

As at December 31, 2013 and 2012, the Company received additional 'deposit for future stock subscription' amounting to ₱1.1 million and ₱0.7 million, respectively. These were presented within the 'Liability' section as criteria for equity classification were not satisfied (Note 11).



Capital Management

The Company's capital management aims to ensure that it maintains strong credit ratings and healthy capital ratios in order to support and sustain its business growth towards maximizing the shareholders' value.

The Company considers its equity as its capital and is not subject to any externally imposed regulatory capital requirements.

14. Cost of Information Technology Services

This account consists of direct costs attributable to rendering IT services as follow:

	2013	2012
Depreciation of information technology equipment and amortization of software cost (Notes 9 and 10)	₱13,854,680	₱28,121,667
Salaries, wages and other benefits (Note 15)	11,456,196	12,695,558
Management and other professional fees	1,970,026	2,352,377
Program monitoring and evaluation	1,354,798	2,353,753
Travelling expense	1,051,867	3,477,161
System maintenance - CBS	-	2,262,876
Program development cost - CBS	-	1,281,555
Others	326,152	301,418
	₱30,013,719	₱52,846,365

15. Salaries, Wages and Other Benefits

This account consists of:

	2013	2012 (As Restated - Note 2)
Salaries, wages and other benefits	₱7,258,479	₱8,827,905
Short-term employee benefits	5,957,455	5,939,773
Retirement benefits (Note 16)	2,058,994	2,621,375
	₱15,274,928	₱17,389,053

The allocation of this account is:

	2013	2012 (As Restated - Note 2)
Cost of information technology (Note 14)	₱11,456,196	₱12,695,558
General and administrative expense	3,818,732	4,231,852
	₱15,274,928	₱16,927,410

The total salaries, wages and other benefits is allocated into two, 75% is charged to Cost of information technology services, and 25% is charged to General and administrative expenses.



16. Retirement Benefits

The Company, CARD Bank, Inc., CARD MRI Development Institute, Inc. (CMDI), CARD MBA, Inc., CARD SME Bank, Inc. (formerly Rural Bank of Sto. Tomas, Inc.), CARD MRI Insurance Agency (CAMIA), Inc., CARD Business Development Service Foundation (BDSF), Inc., BotiCARD, Inc., CARD Leasing and Finance Co. (CLFC), RRBI and CARD, Inc. maintain a funded and formal noncontributory defined benefit retirement plan - the CARD MRI Multi-Employer Retirement Plan (the Plan) - covering all of their regular employees. The Plan has a projected unit cost format and is financed solely by the Company and its related parties. The Plan complies with the requirement of Republic Act No. 7641 (The Philippine Retirement Law). The Plan provides lump sum benefits equivalent to at least 120% of latest month salary for every year of service, a fraction of at least six (6) months being considered as one whole year upon retirement, death, total and permanent disability, involuntary separation (except cause) or voluntary separation after completion of at least one year of service with the participating companies.



Changes in net defined benefit liability of funded funds in 2013 are as follow:

	Net benefit cost in statement of income*				Transfer to the Plan	Benefits paid	Remeasurements in other comprehensive income				Contribution by employer	December 31, 2013
	January 1, 2013 (As restated - Notes 2)	Current service cost	Net interest	Subtotal			Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from demographic assumptions	Actuarial changes arising from financial assumptions	Subtotal		
Present value of defined benefit obligation	₱10,959,800	₱2,005,735	₱679,508	₱2,685,243	₱785,026	(₱96,263)	₱1,397,999	₱-	(₱661,290)	₱1,521,735	₱-	₱15,070,515
Fair value of plan assets	(8,237,509)	-	(629,249)	(626,249)	(785,026)	96,263	921,817	-	-	136,791	(3,037,785)	(11,668,489)
Net defined benefit liability (asset)	₱2,722,291	₱20,005,735	₱53,259	₱2,058,994	₱-	₱-	₱2,319,816	₱-	(₱661,290)	₱1,658,526	(₱3,037,785)	₱3,402,026

Changes in net defined benefit liability of funded funds in 2012 are as follow:

	Net benefit cost in statements of income*				Transfer to the Plan	Benefits paid	Remeasurements in other comprehensive income				Contribution by employer	December 31,
	January 1, 2012 (As restated - Notes 2)	Current service cost	Net interest	Subtotal			Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from demographic assumptions	Actuarial changes arising from financial assumptions	Subtotal		(As restated - Notes 2)
Present value of defined benefit obligation	₱10,811,500	₱2,102,016	₱763,292	₱2,865,308	(₱3,010,082)	₱-	(₱1,248,726)	₱-	₱1,541,800	(₱2,717,008)	₱-	₱10,959,800
Fair value of plan assets	(7,234,965)	-	(705,576)	(705,576)	3,010,082	-	87,331	-	-	3,097,413	(3,394,381)	(8,237,509)
Net defined benefit liability (asset)	₱3,576,535	₱2,102,016	₱57,716	₱2,159,732	₱-	₱-	(₱1,161,395)	₱-	₱1,541,800	₱380,405	(₱3,394,381)	₱2,722,291

* The net benefit cost is recorded under 'Salaries, wages and other benefits' in the statement of income.



The maximum economic benefit available is a combination of expected refunds from the plan and reduction in future contributions. The fair value of plan assets by each class as at the end of the reporting period are as follow:

	December 31, 2013	December 31, 2012 (As restated - Notes 2)
Cash and cash equivalents	₱6,325,488	₱5,782,731
Investments:		
Debt securities - Government bonds	4,251,997	2,454,778
Equity securities	73,512	-
Loans	721,113	-
Mutual funds	161,025	-
Other assets	135,354	-
Fair value of plan assets	₱11,668,489	₱8,237,509

All plan assets do not have quoted prices in active market except government bonds. Cash and cash equivalents are with reputable financial institutions and related parties and are deemed to be standard grade. Equity securities, mutual fund, loans and other assets are unrated.

The plan assets have diverse investments and do not have any concentration risk.

The management performed an Asset-Liability Matching Study (ALM) annually. The overall investment policy and strategy of the Company's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans.

The Company's current strategic investment strategy consists of 40% government securities, 30% of time deposit, 15% of mutual fund and 5% commercial paper.

The cost of defined retirement plan as well as the present value of the defined benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension for the defined benefit plans are shown below:

	2013	2012
	%	%
Discount rates	6.38%	6.20%
Future salary increases	12.00	12.00



The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Present Value of Obligation
Discount rates	+250 bps	(₱6,597,690)
	-100 bps	4,109,739
Future salary increases	+250 bps	8,289,314
	-100 bps	(2,937,234)

The Company plans to contribute ₱3.4 million to the defined benefit retirement plan in 2014.

The average duration of the defined benefit obligation at the end of the reporting period is 26.9 years.

Shown below is the maturity analysis of the undiscounted benefit payments:

	2013	2012
Less than 1 year	₱-	₱-
More than 1 year to 5 years	-	350,006
More than 5 years to 10 years	-	895,589
More than 10 years to 15 years	-	2,015,932
More than 15 years to 20 years	31,009,503	17,478,014
More than 20 years to 25 years	22,031,979	31,942,299
More than 25 years	860,083,222	373,891,977

17. Leases

The Company leases its office premises for a period from one year to five years renewable upon mutual agreement between the Company and lessors. Rental expense in 2013 and 2012 amounting to ₱0.5 million and ₱0.6 million, respectively, are included under 'Other expenses' in the statement of income (Note 19).

Future minimum rental payments under operating leases follow:

	2013	2012
Within one year	₱454,800	₱502,800
After one year but not more than five years	1,428,264	1,484,273
More than five years	-	218,791
	₱1,883,064	₱2,205,864



18. Income Taxes

RA 9337, *An Act Amending National Internal Revenue Code*, provides that RCIT rate shall be 30.0%. Interest expense allowed as a deductible expense is reduced by 33.0% of interest income subjected to final tax.

In addition, effective September 1, 2002, Revenue Regulation No. 10-2002 provides for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR allowed as a deductible expense is limited to the actual EAR paid or incurred (booked under 'Others' in the statements of income) but not to exceed 1.0% of net revenue for companies engaged in the sale of services.

An MCIT of 2.0% on modified gross income is computed and compared with RCIT. Any excess of MCIT over RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. Imposition of MCIT will commence on the Company's fourth taxable year immediately following the year in which the Company commenced its business operations.

In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the period of incurrence.

Under Philippine tax laws, the Company is subject to VAT and other taxes (presented under 'Taxes and licenses' in the statements of income) as well as income taxes.

The provision for income tax consists of:

	2013	2012
Current:		
Regular	₱1,520,617	₱860,772
Final	238,104	400,145
	1,758,721	1,260,917
Deferred	(379,972)	370,394
	₱1,378,749	₱1,631,311

Components of the net deferred tax assets shown in the statement of financial position follow:

	2013	2012
Deferred tax assets on:		
Net retirement liability	₱1,020,609	₱816,688
Unamortized past service cost	673,609	-
	₱1,694,218	₱816,688



Reconciliation between the statutory income tax rate and the effective income tax rate follows:

	2013	2012
Statutory income tax rate	30.00%	30.00%
Tax effects of:		
Nondeductible expense	4.53	3.88
Deductible temporary difference	(4.80)	-
Interest income subject to final tax	(1.85)	(3.72)
Non-taxable income	(0.59)	(0.14)
Others	(5.90)	-
Effective income tax rate	21.40%	30.02%

19. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Company's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
- post-employment benefit plans for the benefit of the Company's employees; and
- affiliates within the CARD MRI Group.

The Company has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

Transactions with retirement plans

Under PFRS, certain post-employment benefit plans are considered as related parties. CARD MRI's Multi-Employer Retirement Plan (MERP) is managed by the CARD Employee Multipurpose Cooperative (EMPC). Part of the plan assets are invested in time deposits and special savings accounts with the affiliated banks (Note 16).

Remunerations of Trustees and other Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The Company considers the members of the board of trustees and senior management to constitute key management personnel for purposes of PAS 24.

The compensation of key management personnel included under 'Cost of Information Technology Services' and 'General and Administrative Expenses' in the statement of income are as follows:

	2013	2012
Short-term employee benefits	₱2,906,517	₱2,461,499
Post employment benefits	1,642,046	198,000
	₱4,548,563	₱2,659,499



Other related party transactions

Transactions between the Company and its key management personnel meet the definition of related party transactions. Transactions between the Company and its affiliates within the CARD MRI also qualify as related party transactions.

Cash and cash equivalents, accounts payable and accounts receivable

Cash and cash equivalents, accounts payable and accounts receivable held by the Company for key management personnel and affiliates as at December 31, 2013 and 2012 follow:

Category	December 31, 2013		Nature, Terms and Conditions
	Amount / Volume	Outstanding Balance	
CARD Bank (Other related party)			
Cash in banks		₱20,826,608	These are time deposit accounts with annual interest rate ranging from 3.75% to 4.25%
Deposits	₱3,458,542		
Withdrawals	-		
Accounts receivable		17,286	Billings of service fee and other charges by the Company to other CARD MRI entities
Billings	26,111,725		
Collections	26,814,294		
Accounts payable		169,538	Overbilling of the Company to CARD Bank
Billings	297,576		
Payments	128,038		
CARD Inc. (Shareholder)			
Accounts receivable		-	Billings of service fee and other charges by the Company to other CARD MRI entities
Billings	30,345,306		
Collections	30,345,385		
Accounts payable		35,799	Share of various expenses
Billings	1139,032		
Payments	(1,103,233)		
CMDI (Shareholder)			
Accounts receivable		-	Billings of service fee and other charges by the Company to other CARD MRI entities
Billings	66,287		
Collections	66,287		
Accounts payable		14,918	Share of various expenses
Billings	1,076,225		
Payments	(1,061,307)		
CARD SME (Other related party)			
Cash in banks		20,563,879	These are time deposit accounts with annual interest rate ranging from 2.5% to 4.25%
Deposits	4,487,879		
Withdrawals	10,000,000		
Accounts receivable		-	Billings of service fee and other charges by the Company to other CARD MRI entities
Billings	5,651,464		
Collections	5,651,464		
RRB (Other related party)			
Cash in banks		8,041,169	These are time deposit accounts with annual interest rate ranging from 2.5% to 4.25%
Deposits	8,041,169		
Withdrawals	-		
Accounts receivable		-	Billings of service fee and other charges by the Company to other CARD MRI entities
Billings	703,221		
Collections	703,221		
CAMIA (Other related party)			
Accounts receivable		-	Billings of service fee and other charges by the Company to other CARD MRI entities
Billings	620,572		
Collections	624,221		

(Forward)



December 31, 2013			
Category	Amount / Volume	Outstanding Balance	Nature, Terms and Conditions
CARD BDSFI (Shareholder)			
Accounts receivable		₱-	Billings of service fee and other charges by the Company to other CARD MRI entities
Billings	₱56,844		
Collections	56,844		
Accounts payable		1,827	Share on rentals of tables and chairs in Kapihan
Billings	108,837		
Payments	(107,010)		
BotiCARD (Other related party)			
Accounts receivable		-	Billings of service fee and other charges by the Company to other CARD MRI entities
Billings	474,159		
Collections	476,016		
Accounts payable		1,800	To be paid for Flaurix Vaccination Of Utility
Billings	1,800		
Payments	-		
CLFC			
Accounts receivables		-	Billings of service fee and other charges by the Company to other CARD MRI entities
Billings	13,141		
Collections	13,141		
December 31, 2012			
Category	Amount / Volume	Outstanding Balance	Nature, Terms and Conditions
CARD Bank(other related party)			
Cash in banks		₱17,368,066	These are savings and time deposit accounts with annual interest rate ranging from 2.5% to 4.25%
Deposits	₱235,337,897		
Withdrawals	235,789,448		
Accounts receivable		719,855	Billings of service fee and other charges by the Company to other CARD MRI entities
Billings	31,064,196		
Collections	(30,344,341)		
CARD Inc.(shareholder)			
Accounts receivable		79	Billings of service fee and other charges by the Company to other CARD MRI entities
Billings	40,134,679		
Collections	(40,134,600)		
Accounts payable		-	Share of various expenses
Billings	105,000		
Collections	(105,000)		
CMDI(shareholder)			
Accounts receivable		-	Billings of service fee and other charges by the Company to other CARD MRI entities
Billings	872,493		
Collections	(872,493)		
CARD MBA(shareholder)			
Accounts receivable		-	Billings of service fee and other charges by the Company to other CARD MRI entities
Billings	8,542,707		
Collections	(8,542,707)		
Accounts payable		-	Loans payable by the Company to CARD MBA (Note 12)
Billings	-	10,000,000	
Collections	20,000,000		
CARD SME(other related party)			
Cash in banks		26,076,000	These are savings and time deposit accounts with annual interest rate ranging from 2.5% to 4.25%
Deposits	5,710,000		
Withdrawals	(6,379,000)		
Accounts receivable		-	Billings of service fee and other charges by the Company to other CARD MRI entities
Billings	6,529,969		
Collections	(6,637,489)		
CAMIA(other related party)			
Accounts receivable		3,649	Billings of service fee and other charges by the Company to other CARD MRI entities
Billings	397,026		
Collections	393,377		
Accounts payable		-	Share of expenses
Billings	750		
Collections	(750)		



Category	December 31, 2013		Nature, Terms and Conditions
	Amount / Volume	Outstanding Balance	
CARD BDSFI (shareholder)			
Accounts receivable		₱-	Billings of service fee and other charges by the Company to other CARD MRI entities
Billings	₱849,607		
Collection	(849,607)		
BotiCARD (other related party)			
Accounts receivable		1,857	Billings of service fee and other charges by the Company to other CARD MRI entities
Billings	118,764		
Collections	(183,999)		

Others

Other related party transactions of the Company are as follows:

	2013	2012	Nature, Terms and Conditions
Statement of financial position			
CAMIA (Other related party)			
AFS Investment	₱370,500	₱80,250	AFS investment in common stock CAMIA with 107,000 shares and 3.2% ownership.

	2013	2012	Nature, Terms and Conditions
Statements of Comprehensive Income			
CARD MBA (Shareholder)			
Service income	₱46,145	₱7,505,706	Income earned from IT services provided by the company to other CARD MRI entities
Interest expense	98,333	1,500,000	Interest expense from loans availed from CARD MBA
Rent expense	180,000	180,000	The Company leases its office premises. Rent expense is recorded under 'Other Expense' (Note 17)
CARD Bank (Other related party)			
Service income	22,620,659	25,746,135	Income earned from IT services provided by the company to other CARD MRI entities
CARD SME (Other related party)			
Service income	4,668,033	5,868,818	Income earned from IT services provided by the company to other CARD MRI entities
CARD Inc. (Shareholder)			
Service income	27,022,312	36,978,758	Income earned from IT services provided by the company to other CARD MRI entities
Rent expense	120,000	105,000	The Company leases its office premises. Rent expense is recorded under 'Other Expense' (Note 17)
CMDI (Shareholder)			
Service income	57,774	751,226	Income earned from IT services provided by the company to other CARD MRI entities
CAMIA (Other related party)			
Dividend income	126,894		
Service income	487,704	383,899	Income earned from IT services provided by the company to other CARD MRI entities
BDSF (Other related party)			
Service income	34,945	739,701	Income earned from IT services provided by the company to other CARD MRI entities
BotiCARD (Other related party)			
Service income	357,953	112,907	Income earned from IT services provided by the company to other CARD MRI entities
EMPC (Other related party)			
Service income	8,400	-	Income earned from IT services provided by the company to other CARD MRI entities
Rent Expense	38,700	-	The Company leases its office premises. Rent expense is recorded under 'Other Expense' (Note 17)

(Forward)



	2013	2012	Nature, Terms and Conditions
Statements of Comprehensive Income			
CLFC(Other related party)			
Service income	₱9,885	₱-	Income earned from IT services provided by the company to other CARD MRI entities
RRB (Other related party)			
Service income	625,200	300,000	Income earned from IT services provided by the company to other CARD MRI entities

20. Restatement in the 2012 and 2011 Financial Statements

Change in Accounting Policy

In 2013, the Company made certain adjustments to apply the change in accounting policy on the accounting for retirement obligation in accordance with amended PAS 19, *Employee Benefits* (effective January 1, 2013) with retrospective application that requires the restatement of the latest comparative period and the beginning balance of the latest comparative period.

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 Company chose to close to remeasurement loss on retirement liability the net effect of all transition adjustments as at January 1, 2012 (the transition date) upon retrospective application of PAS 19 (Revised).

The effects of the change in accounting policy and the reclassifications made are detailed below:

	As at December 31, 2012		
	As previously reported	Change in accounting policy (Note 2)	As restated
Statement of Financial Position			
<u>Assets</u>			
Deferred tax asset	₱-	₱816,688	₱816,688
Retirement asset	934,171	(934,171)	-
<u>Liabilities and Equity</u>			
Deferred tax liability	267,990	(267,990)	-
Retirement liability	-	2,722,291	2,722,291
Retained earnings	20,064,468	154,019	20,218,487
Other comprehensive loss	-	(2,725,803)	(2,725,803)



	2012		
	As previously reported	Change in accounting policy (Note 2)	As restated
Statement of Comprehensive Income			
<u>Net Income (Loss)</u>			
Retirement expense	₱2,621,375	(₱461,643)	₱2,159,732
Provision for income tax	1,480,548	150,763	1,631,311
<u>Other Comprehensive Loss</u>			
Remeasurement loss on retirement liability	-	(380,405)	(380,405)
Income tax effect	-	114,122	114,122
As at January 1, 2012			
	As previously reported	Change in accounting policy (Note 2)	As restated
Statement of Financial Position			
<u>Assets</u>			
Deferred tax asset	₱-	₱1,072,961	₱1,072,961
Retirement asset	161,165	(161,165)	-
<u>Liabilities and Equity</u>			
Deferred tax liability	48,358	(48,358)	-
Retirement liability	-	3,576,535	3,576,535
Retained earnings	16,573,420	(156,861)	16,416,559
Other comprehensive loss	-	(2,459,520)	(2,459,520)

21. Supplemental Disclosure of Non-cash Activities

The following are the activities of the company that affect recognized assets and liabilities but do not result in cash receipts or cash payments during the year 2013 and 2012.

	2013	2012
<u>Operating activities</u>		
Income taxes paid through creditable withholding taxes	₱1,520,617	₱2,187,435
Provision for liabilities	875,076	-
Transfer of assets to another individuals or institutions	1,362	545,834
Cancelled accounts payable due to termination of CBS	-	17,973,480
	₱2,397,055	₱20,706,749



22. Approval of the Release of the Financial Statements

The accompanying comparative financial statements of the Company were reviewed and approved for release by the Company's BOD on March 14, 2014.

23. Commitments and Contingencies

In September 2013, the Company received a Letter Notice from the BIR regarding discrepancies in VAT declarations per Company and counterparty supplier for one purchase transaction amounting to ₱13.19 million. The Company filed a protest letter dated October 29, 2013 which bears justifications on the discrepancies noted. As at December 31, 2013, the Company assessed to provide provision amounting to ₱0.88 million recorded under 'Other expenses' account.

24. Supplementary Information under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the BIR issued RR 15-2010 to amend certain provisions of RR No. 21-2002 which provides that starting 2010, the notes to the financial statements shall include information on taxes, duties and licenses paid or accrued during the year. The components of 'Taxes and licenses' recognized in 2013 statement of income pertains to business permits and licenses amounting to ₱0.05 million.

The following withholding taxes are categorized into:

	Total Remittances	Balance as at December 31, 2013
Expanded withholding taxes	₱629,182	₱65,688
Withholding tax on compensation and benefits	686,515	—
Final withholding taxes	237,271	—
	<u>₱1,552,968</u>	<u>₱65,688</u>

Value-added tax (VAT)

The NIRC of 1997 also provides for the imposition of VAT on sales of goods and services. Accordingly, the Company's sales are subject to output VAT while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT. VAT rate is 12.00%, effective February 1, 2006.

Details of the Company's net sales/receipts output VAT and input VAT accounts in 2013 are as follow:

- a. Net sales/receipts and output VAT declared in the Company's VAT returns filed in 2013:

	Net Sales/Receipts	Output VAT
Taxable Sales:		
Service income	₱55,961,411	₱6,715,369



b. Input VAT

Balance at beginning of period	₱132,963
Current year's domestic purchases/payments	895,108
Input tax used	(717,636)
<u>Balance at end of period</u>	<u>₱310,435</u>

