

**CARD MRI Information Technology,
Inc. and Subsidiary**

Financial Statements
December 31, 2016 and 2015

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated and Parent Company Financial Statements

Opinion

We have audited the consolidated financial statements of CARD MRI Information Technology, Inc. and its subsidiary (the Group) and the parent company financial statements of CARD MRI Information Technology, Inc., which comprise the consolidated and parent company statements of financial position as at December 31, 2016 and 2015, and the consolidated and parent company statements of income, consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for the years then ended, and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and the Parent Company as at December 31, 2016 and 2015, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements* section of our report. We are independent of the Group and the Parent Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated and parent company financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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



In preparing the consolidated and parent company financial statements, management is responsible for assessing the Group's and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and the Parent Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Parent Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and the Parent Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and parent company financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.



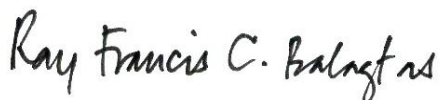
- Evaluate the overall presentation, structure and content of the consolidated and parent company financial statements, including the disclosures, and whether the consolidated and parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 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. 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.



Ray Francis C. Balagtas

Partner

CPA Certificate No. 108795

SEC Accreditation No. 1510-A

October 1, 2015, valid until September 30, 2018

Tax Identification No. 216-950-288

BIR Accreditation No. 08-001998-107-2015,

March 4, 2015, valid until March 4, 2018

PTR No. 5908666, January 3, 2017, Makati City

March 10, 2017



CARD MRI INFORMATION TECHNOLOGY, INC. AND SUBSIDIARY
STATEMENTS OF FINANCIAL POSITION

	Consolidated		Parent Company	
	December 31			
	2016	2015	2016	2015
ASSETS				
Current Assets				
Cash (Notes 6 and 21)	₱32,524,221	₱61,473,148	₱20,367,319	₱61,473,148
Receivables (Notes 7 and 21)	10,259,183	215,959	325,896	215,959
Other current assets (Notes 8 and 18)	25,959,530	3,366,282	25,906,043	3,366,282
Total current assets	68,742,934	65,055,389	46,599,258	65,055,389
Noncurrent Assets				
Investments in a subsidiary and an associate (Note 9)	10,390,076	–	62,448,507	–
Property and equipment (Note 10)	46,569,616	11,599,682	46,569,616	11,599,682
Software costs (Note 11)	97,927,737	33,670,042	97,927,737	33,670,042
Retirement asset (Note 17)	11,181,627	–	11,181,627	–
Deferred tax asset (Note 20)	–	1,907,457	–	1,907,457
Other noncurrent assets (Notes 8 and 20)	799,360	883,000	799,360	883,000
Total noncurrent assets	166,868,416	48,060,181	218,926,847	48,060,181
TOTAL ASSETS	₱235,611,350	₱113,115,570	₱265,526,105	₱113,115,570
LIABILITIES AND EQUITY				
Liabilities				
Current Liabilities				
Trade and other payables (Note 12)	₱22,449,329	₱5,972,552	₱22,399,329	₱5,972,552
Loans payable (Note 13)	25,000,000	–	25,000,000	–
Income tax payable	2,134,858	2,486,843	2,134,858	2,486,843
Total current liabilities	49,584,187	8,459,395	49,534,187	8,459,395
Noncurrent Liabilities				
Loans payable (Note 13)	26,579,545	–	26,579,545	–
Subscription payable (Notes 9 and 21)	3,850,701	–	47,878,000	–
Deferred tax liability (Note 20)	345,691	–	224,956	–
Retirement liability (Note 17)	–	682,838	–	682,838
Total noncurrent liabilities	30,775,937	682,838	74,682,501	682,838
	80,360,124	9,142,233	124,216,688	9,142,233
Equity				
Capital stock (Note 14)	97,509,596	78,271,416	97,509,596	78,271,416
Retained earnings	42,420,723	30,004,227	42,420,723	30,004,227
Remeasurement gain (loss) on retirement plan (Note 17)	1,160,752	(4,302,306)	1,160,752	(4,302,306)
Foreign currency translation adjustment (Note 9)	293,213	–	293,213	–
Share in other comprehensive loss of a subsidiary and an associate (Note 9)	(74,867)	–	(74,867)	–
	141,309,417	103,973,337	141,309,417	103,973,337
NON-CONTROLLING INTERESTS	13,941,809	–	–	–
	155,251,226	103,973,337	141,309,417	103,973,337
TOTAL LIABILITIES AND EQUITY	₱235,611,350	₱113,115,570	₱265,526,105	₱113,115,570

See accompanying Notes to Financial Statements.



CARD MRI INFORMATION TECHNOLOGY, INC. AND SUBSIDIARY
STATEMENTS OF INCOME

	Consolidated		Parent Company	
	Years Ended December 31			
	2016	2015	2016	2015
INCOME				
Service (Note 21)	₱122,003,225	₱90,785,704	₱122,003,225	₱90,785,704
Interest (Notes 6 and 21)	763,857	2,302,006	674,311	2,302,006
Dividends	157,194	153,968	157,194	153,968
Miscellaneous	365,264	580,120	365,264	580,120
	123,289,540	93,821,798	123,199,994	93,821,798
COST OF INFORMATION TECHNOLOGY SERVICES				
(Note 15)	64,482,594	27,597,667	64,482,594	27,597,667
GENERAL AND ADMINISTRATIVE EXPENSES				
Salaries, wages and other benefits (Notes 16, 17 and 21)	9,890,901	9,467,665	9,890,901	9,467,665
Program, monitoring and evaluation	3,626,365	–	3,626,365	–
Information technology expense	2,722,653	9,517,882	2,722,653	9,517,882
Taxes and licenses	2,311,595	503,017	501,043	503,017
Honorarium (Note 21)	1,966,333	1,991,252	1,966,333	1,991,252
Interest expense (Notes 13 and 21)	1,824,908	–	1,824,908	–
Staff training and development	1,500,879	956,378	1,500,879	956,378
Travelling expenses	1,232,312	–	1,231,252	–
Fuel and lubricants	1,190,318	2,220,029	1,189,218	2,220,029
Management and other professional fees	1,021,579	3,877,458	971,579	3,877,458
Miscellaneous (Note 19)	4,986,366	15,137,210	4,698,291	15,137,210
	32,274,209	43,670,891	30,123,422	43,670,891
	96,756,803	71,268,558	94,606,016	71,268,558
INCOME BEFORE SHARE IN NET LOSS OF A SUBSIDIARY AND AN ASSOCIATE	26,532,737	22,553,240	28,593,978	22,553,240
SHARE IN NET LOSS OF A SUBSIDIARY AND AN ASSOCIATE (Note 9)	(1,147,325)	–	(1,645,502)	–
INCOME BEFORE INCOME TAX	25,385,412	22,553,240	26,948,476	22,553,240
PROVISION FOR INCOME TAX (Note 20)	8,549,889	6,592,340	8,531,980	6,592,340
NET INCOME	₱16,835,523	₱15,960,900	₱18,416,496	₱15,960,900
ATTRIBUTABLE TO:				
Parent Company	₱18,416,496	₱15,960,900	₱–	₱–
Non-controlling interests	(1,580,973)	–	–	–
	₱16,835,523	₱15,960,900	₱–	₱–

See accompanying Notes to Financial Statements.



CARD MRI INFORMATION TECHNOLOGY, INC. AND SUBSIDIARY
STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated		Parent Company	
	Years Ended December 31			
	2016	2015	2016	2015
NET INCOME	₱16,835,523	₱15,960,900	₱18,416,496	₱15,960,900
OTHER COMPREHENSIVE INCOME				
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:				
Change in remeasurement loss on retirement plan (Note 17)	7,804,369	(8,726,809)	7,804,369	(8,726,809)
Income tax effect	(2,341,311)	2,618,043	(2,341,311)	2,618,043
	5,463,058	(6,108,766)	5,463,058	(6,108,766)
Other comprehensive income may be reclassified to profit or loss in subsequent periods:				
Foreign currency translation adjustment	821,325	-	418,876	-
Tax effect	(246,398)	-	(125,663)	-
	574,927	-	293,213	-
Share in the other comprehensive loss of a subsidiary and an associate (Note 9)	(146,799)	-	(74,867)	-
	428,128	-	218,346	-
OTHER COMPREHENSIVE INCOME (LOSS)	5,891,186	(6,108,766)	5,681,404	(6,108,766)
TOTAL COMPREHENSIVE INCOME	₱22,726,709	₱9,852,134	₱24,097,900	₱9,852,134
ATTRIBUTABLE TO:				
Parent Company	₱24,097,900	₱9,852,134	₱-	₱-
Non-controlling interests	(1,371,191)	-	-	-
	₱22,726,709	₱9,852,134	₱-	₱-

See accompanying Notes to Financial Statements.



CARD MRI INFORMATION TECHNOLOGY, INC. AND SUBSIDIARY
STATEMENTS OF CHANGES IN EQUITY

	Consolidated						Non-controlling interest	Total
	Equity attributable to the equity holders of the Parent Company							
	Capital stock (Note 14)	Retained earnings	Remeasurement gain (loss) on retirement plan (Note 17)	Share in other comprehensive loss of an associate (Note 9)	Foreign currency translation adjustment (Note 9)	Subtotal		
Balances at January 1, 2016	₱78,271,416	₱30,004,227	(₱4,302,306)	₱-	₱-	₱103,973,337	₱-	₱103,973,337
Issuance of capital stock (Note 14)	19,238,180	-	-	-	-	19,238,180	-	19,238,180
Investment of non-controlling interest	-	-	-	-	-	-	15,313,000	15,313,000
Total comprehensive income (loss) for the year	-	18,416,496	5,463,058	(74,867)	293,213	24,097,900	(1,371,191)	22,726,709
Dividend declared during the year (Note 14)	-	(6,000,000)	-	-	-	(6,000,000)	-	(6,000,000)
Balances at December 31, 2016	₱97,509,596	₱42,420,723	₱1,160,752	(₱74,867)	₱293,213	₱141,309,417	₱13,941,809	₱155,251,226
Balances at January 1, 2015	₱53,763,158	₱17,269,117	₱1,806,460	₱-	₱-	₱72,838,735	₱-	₱72,838,735
Issuance of capital stock	24,508,258	-	-	-	-	24,508,258	-	24,508,258
Total comprehensive income (loss) for the year	-	15,960,900	(6,108,766)	-	-	9,852,134	-	9,852,134
Dividend declared during for the year (Note 14)	-	(3,225,790)	-	-	-	(3,225,790)	-	(3,225,790)
Balances at December 31, 2015	₱78,271,416	₱30,004,227	(₱4,302,306)	₱-	₱-	103,973,337	₱-	₱103,973,337

See accompanying Notes to Financial Statements.



CARD MRI INFORMATION TECHNOLOGY, INC. AND SUBSIDIARY
STATEMENTS OF CHANGES IN EQUITY

	Parent Company					Total
	Capital stock (Note 14)	Retained earnings	Remeasurement gain (loss) on retirement plan (Note 17)	Share in other comprehensive income of a subsidiary (Note 9)	Foreign currency translation adjustment (Note 9)	
Balances at January 1, 2016	₱78,271,416	₱30,004,227	(₱4,302,306)	₱-	₱-	₱103,973,337
Issuance of capital stock	19,238,180	-	-	-	-	19,238,180
Total comprehensive income for the year	-	18,416,496	5,463,058	(74,867)	293,213	24,097,900
Dividend declared during the year (Note 14)	-	(6,000,000)	-	-	-	(6,000,000)
Balances at December 31, 2016	₱97,509,596	₱42,420,723	₱1,160,752	(₱74,867)	₱293,213	₱141,309,417
Balances at January 1, 2015	₱53,763,158	₱17,269,117	₱1,806,460	₱-	₱-	₱72,838,735
Issuance of capital stock (Note 14)	24,508,258	-	-	-	-	24,508,258
Total comprehensive income for the year	-	15,960,900	(6,108,766)	-	-	9,852,134
Dividend declared during for the year (Note 14)	-	(3,225,790)	-	-	-	(3,225,790)
Balances at December 31, 2015	₱78,271,416	₱30,004,227	(₱4,302,306)	₱-	₱-	₱103,973,337

See accompanying Notes to Financial Statements.



CARD MRI INFORMATION TECHNOLOGY, INC. AND SUBSIDIARY
STATEMENTS OF CASH FLOWS

	Consolidated		Parent Company	
	Years Ended December 31			
	2016	2015	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	₱25,385,412	₱22,553,240	₱26,948,476	₱22,553,240
Adjustments for:				
Depreciation and amortization (Notes 10 and 11)	8,400,675	7,087,356	8,400,675	7,087,356
Retirement expense (Note 17)	2,402,945	807,202	2,402,945	807,202
Interest expense (Note 13)	1,824,908	-	1,824,908	-
Share in net loss of a subsidiary and an associate (Note 9)	1,147,325	-	1,645,502	-
Interest income (Note 6)	(763,857)	(2,302,006)	(674,311)	(2,302,006)
Loss on disposal of property and equipment (Note 10)	501,553	-	501,553	-
Provision for impairment losses	-	31,966	-	31,966
Changes in operating assets and liabilities:				
Decrease (increase) in the amounts of:				
Receivables	(10,092,323)	422,225	(159,036)	422,225
Other current and non-current assets (Note 22)	(24,880,475)	(2,484,660)	(24,826,988)	(2,484,660)
Increase (decrease) in the amounts of:				
Trade and other payables (Note 22)	(17,102,556)	(1,734,112)	(17,152,556)	(1,734,112)
Net cash generated from (used in) operations	(13,176,393)	24,381,211	(1,088,832)	24,381,211
Income tax paid	(6,800,069)	(3,401,520)	(6,782,160)	(3,401,520)
Contributions to retirement fund	(6,463,041)	(5,058,239)	(6,463,041)	(5,058,239)
Interest paid	(1,824,908)	-	(1,824,908)	-
Interest received	812,956	2,252,907	723,410	2,252,907
Net cash provided by (used in) operating activities	(27,451,455)	18,174,359	(15,435,531)	18,174,359
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of:				
Software (Notes 11 and 22)	(50,166,917)	(33,613,914)	(50,166,917)	(33,613,914)
Property and equipment (Notes 10 and 22)	(17,890,316)	(12,648,430)	(17,890,316)	(12,648,430)
Investment in a subsidiary and an associate (Notes 9 and 22)	(7,077,674)	-	(15,937,500)	-
Cash used in investing activities	(75,134,907)	(46,262,344)	(83,994,733)	(46,262,344)
CASH FLOWS FROM FINANCING ACTIVITIES				
Availment of loans (Note 13)	57,456,490	-	57,456,490	-
Proceeds from issuance of shares of stocks from settlement of subscription receivable (Note 14)	19,238,180	24,508,258	19,238,180	24,508,258
Investment of non-controlling interest	15,313,000	-	-	-
Settlement of loans (Note 13)	(12,370,235)	-	(12,370,235)	-
Dividend distribution (Note 14)	(6,000,000)	(3,222,027)	(6,000,000)	(3,222,027)
Net cash provided by financing activities	73,637,435	21,286,231	58,324,435	21,286,231
NET DECREASE IN CASH	(28,948,927)	(6,801,754)	(41,105,829)	(6,801,754)
CASH AT BEGINNING OF YEAR	61,473,148	68,274,902	61,473,148	68,274,902
CASH AT END OF YEAR (Note 6)	₱32,524,221	₱61,473,148	₱20,367,319	₱61,473,148

See accompanying Notes to Financial Statements



CARD MRI INFORMATION TECHNOLOGY, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

1. Company Information

CARD MRI Information Technology, Inc. (the Parent Company) was registered with the Philippine Securities and Exchange Commission (SEC) on March 12, 2010 and started commercial operations on May 2, 2010 primarily to provide Center for Agriculture and Rural Development - Mutually Reinforcing Institutions (CARD-MRI)'s major information technology (IT) services.

The Parent 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, software development has become the expertise of the Parent Company.

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

On October 9, 2015, the Board of Directors (BOD) approved the Parent Company's investment in CARD MRI Holdings, Inc. (CMHI). As an incorporator, the Parent Company holds 51.00% ownership interest over CMHI. CMHI's purpose is to acquire and hold investment shares of stocks, any bonds, debentures and securities, or obligations, created, negotiated or issued by any foreign or domestic corporation, association or other entity and to provide business support to its subsidiaries, affiliates and other related companies to continuously enhance service, compliance and productivity and core practices.

The Parent Company and its subsidiary (collectively referred to as "the Group") are members of CARD-MRI. The Group'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 consolidated financial statements include the financial statements of the Parent Company and its subsidiary. The accompanying financial statements have been prepared on a historical cost basis. The financial statements are presented in Philippine Peso (₱), which is the Company's functional currency, and all amounts are rounded to the nearest peso except when otherwise indicated.

Statement of Compliance

The financial statements of the Group and the Parent Company have been prepared in compliance with Philippine Financial Reporting Standard (PFRS).

Presentation of Financial Statements

The statements of financial position of the Group and of the Parent Company are presented based on current and non-current classification.

Financial assets and financial liabilities are offset and the net amount reported in the statements 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.

The Group assesses that they have a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

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

Current versus Noncurrent Classification

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when it is:

- Expected to be settled in normal operating cycle;
- Held primarily for the purpose of trading;
- Due to be settled within twelve months after the reporting period; or
- Not subject to unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Basis of Consolidation and Investment in Subsidiary

The consolidated financial statements of the Group are prepared for the same reporting year as the Parent Company, using consistent accounting policies. All significant intra-group balances, transactions and income and expenses resulting from intra-group transactions are eliminated in full.

A subsidiary is consolidated from the date on which control is transferred to the Parent Company.

The Group controls an investee if and only if the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.



When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Group and to the non-controlling interests. When necessary, adjustments are made to the financial statements of the subsidiary to bring its accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the related OCI recorded in equity and recycle the same to profit or loss or surplus;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes the remaining difference in profit or loss; and
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be recognized if the Group had directly disposed of the related assets or liabilities.

Non-Controlling Interests

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Company and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Any losses applicable to the non-controlling interest are allocated against the interests of the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amendments and improvements to PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretation which became effective as of January 1, 2016. Except as otherwise indicated, these changes in the accounting policies did not have any significant impact on the financial position or performance of the Group:

- Amendments to PFRS 10, PFRS 12, and PAS 28, *Investment Entities: Applying the Consolidation Exception*



- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, Disclosure Initiative
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*

Annual Improvements to PFRSs (2012-2014 Cycle)

- PFRS 5, *Changes in Methods of Disposal*
- PFRS 7, *Servicing Contracts*
- PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
- PAS 19, *Discount Rate: Regional Market Issue Regarding Discount Rate*
- PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

On January 1, 2016, the Group adopted the amendments to PAS 27, *Equity Method in Separate Financial Statements (Amendments)*. The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Parent Company elected to use the equity method in its separate financial statements.

Significant Accounting Policies

Foreign Currency Translations - Transactions and Balances

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Foreign currency-denominated monetary assets and liabilities are translated using the Philippine Dealing System (PDS) closing rate prevailing at the end of the year, and income and expenses are translated at PDS weighted average rates prevailing at transaction dates. Exchange differences arising from reporting foreign currency monetary items at rates different from those at which they were previously recorded, as well as foreign exchange gains or losses arising from foreign currency transactions are credited to or charged against the statement of income in the year on which the rates changed.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on translation are taken to the statement of comprehensive income under 'Foreign currency translation adjustment'. Upon actual disposal, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.



Fair Value Measurement

Fair value is the estimated 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 the Group. 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.

If an asset or a liability measured at fair value has a bid price and an ask price, the price between the bid-ask price spread that is most representative of fair value in the circumstances shall be used to measure fair value, regardless of where the input is categorized within the fair value hierarchy.

The Group 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
- 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 Group 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 - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition of financial instruments

All financial instruments are initially recognized at fair value plus transaction costs that are attributable to acquisition of financial assets, except for financial instruments at fair value through profit or loss (FVPL). The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments and receivables while its financial liabilities are classified as financial liabilities at FVPL and at amortized cost. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.



The Group has no financial assets and liabilities at FVPL and HTM investments as at December 31, 2016 and 2015.

Cash

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

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL or designated as AFS investments.

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

Other financial liabilities

This category represents issued financial instruments or their components, which are not designated at FVPL, where the substance of the contractual arrangements result in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. These are initially measured at transaction price less directly attributable transaction costs.

After initial measurement, financial liabilities not qualified and not designated as FVPL are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

This accounting policy relates to the statement of financial position captions, 'Trade and other payables', 'Loans payable' and 'Subscription payable'.

Impairment of Financial Assets

The Group and Parent Company assess at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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 Group or the Parent Company will not be able to collect all of the amounts due. 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 Group 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 Group 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 substantially all the risks and rewards of the asset but has transferred control of the asset.

Where the Group 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 risk and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes form of a guarantee over the transferred asset is measured at the lower of carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, or 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. The difference in the respective carrying amounts is recognized in the statement of income.

Investment in an Associate

An associate is an entity over which the Group has a significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over the those policies. The Group’s investment in an associate is accounted for using the equity method.

Under the equity method, investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group’s share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

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



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

The financial statements of the associates are prepared for the same reporting period as the Group. The associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Investment in a Subsidiary

In the parent company financial statements, investment in subsidiary is accounted for under the equity method of accounting similar to the investment in an associate.

Property and Equipment

Property and equipment, such as information technology equipment, furniture and fixtures and office and transportation equipment, are stated at cost less accumulated depreciation and any impairment in value. Such cost includes cost of replacing part of the Group's information technology equipment, furniture and fixtures, and transportation equipment when that cost is incurred and if the recognition criteria are met, but excluding repairs and maintenance costs.

Depreciation and amortization are computed using the straight-line method over the estimated useful life (EUL) of the depreciable assets as follows:

Information technology equipment	1 to 5 years
Furniture, fixtures and equipment	1 to 3 years
Transportation equipment	3 years
Leasehold improvements	3 years or the lease term, whichever is shorter

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 costs are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. Internally generated software costs, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. These costs are amortized over a period of three (3) years to five (5) years on a straight-line basis. Costs associated with maintaining the computer software programs are recognized as expense when incurred. Software costs are carried at cost less accumulated amortization.

Impairment of Property and Equipment and Software Cost

At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets (e.g. property and equipment and software costs) may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount.



Recoverable amount is the higher of an asset'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 (CGU) to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset (or CGU) 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.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Capital stock

Capital stock is measured at par value for all shares issued and outstanding. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. The subscribed capital stock is reported in equity less the related subscription receivable.

Retained Earnings

Retained earnings represent all accumulated profits or losses of the Group and dividend distributions to stockholders and other capital adjustments.

Dividends

Cash dividends are recognized as liability and deducted from the equity when approved by the BOD while stock dividends are deducted from equity when approved by BOD and stockholders. Stock issuance costs are accounted for as deduction from equity. Dividends for the year that are approved after the reporting date are dealt with as an event after reporting period.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured regardless of when payment is being made. Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group 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 it is probable that the economic benefit will flow to the Group and amount can be measured reliably.

Expense Recognition

Expense is recognized in the statement of income when it is probable that a decrease in future economic benefits related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to same transaction or other event are recognized simultaneously. Expenses are recognized as incurred.

Retirement Benefits

The Parent Company operates a defined benefit retirement plan and hybrid 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; and
- 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.

Remeasurements comprising of actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements 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 Parent Company, nor can they be paid directly to the Parent 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 Parent 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).

Group as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Any rental payments are accounted for on a straight-line basis over the lease term and included in 'Miscellaneous expense' in the statement of income.

Income Taxes

Current tax

Current tax assets and current tax 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 as 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.



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 deferred tax 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 deferred tax 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.

Value-Added Tax (VAT)

Revenue, expenses and assets are recognized net of the amount of VAT except:

- Where the VAT incurred on the purchase of an asset or service is not recoverable from the tax authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from the tax authority is included as part of 'Other current assets' in the statement of financial position.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingent liabilities are not recognized in the financial statements but are disclosed 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.

Events after the Reporting Period

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



Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)
- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Pronouncements that are deemed to have significant impact on the financial statements of the Group are described below.

Effective beginning on or after January 1, 2018

- PFRS 9, *Financial Instruments*
PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory.

The adoption of PFRS 9 will have an effect on the classification and measurement, impairment methodology and credit losses of the Group's financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities.

- PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the



consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Group plans to adopt the new standard on the required effective date but has yet to assess the method of application.

The Group is currently assessing the impact of adopting this standard.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The Group is currently assessing the impact of adopting this standards.

3. Significant Accounting Judgments and Estimates

The preparation of financial statements in accordance with PFRS requires the Group 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 at reporting date. 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.

Estimates

a. *Present value of retirement obligation*

The determination of the Group's retirement cost is dependent on certain assumptions used by the actuary in calculating such amount. Those assumptions are described in Note 17 to the financial statements and include, among others, discount rate, future salary increase and average remaining working lives of employees. While management believes that the assumptions are reasonable and appropriate, significant differences in the Group's actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligation.

As at December 31, 2016 and 2015, the carrying values of retirement asset of the Parent Company are disclosed in Note 17.

The present value of the defined benefit pension liability is disclosed in Note 17.



b. *Recognition of deferred tax asset*

Deferred tax assets are recognized for 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 Group 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 and unrecognized deferred tax asset are disclosed in Note 20.

As at December 31, 2016 and 2015, management assessed that there is no significant accounting judgment exercised in respect to the preparation of the financial statements.

4. **Fair Value Measurement**

Cash, receivables, refundable deposits classified under other current assets and trade and other payables

The fair value of 'Cash', 'Receivables', refundable deposits classified under 'Other current assets' and 'Trade and other payables' approximate their carrying values due to their short-term maturities.

Refundable deposits classified under other noncurrent assets

As at December 31, 2016 and 2015, the Group's refundable rental deposits recorded under 'Other noncurrent assets' are carried at cost and are not significant in relation to the Group's asset portfolio.

Loans payable

Fair value of 'Loans payable' is estimated using discounted cash flow methodology using interpolated risk-free rate. The Parent Company's 'Loans payable' amounting to ₱51.58 million and nil as at December 31, 2016 and 2015, respectively has fair value amounting to ₱53.26 million and nil as at December 31, 2016 and 2015, respectively which are considered using Level 3 inputs in measuring fair values.

As at December 31, 2016 and 2015, the Group has no financial instruments carried at fair value.

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
- Market 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 Group involves identifying and assessing risks, designing strategies and implementing policies to mitigate risks, and conducting evaluation for adjustments needed to minimize risks. The subsidiary has their own risk



management process but are structured similar to that of the Parent Company. To large extent, the respective risk management programs and objectives are the same across the Group. The gravity of the risks, the magnitude of the financial instruments involved, and regulatory requirements are primary considerations to the scope and extent of the risk management processes put in place for the subsidiary.

The BOD is responsible for monitoring the Parent 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 Parent 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 Group manages its credit risk by constantly monitoring its credit exposure to counterparties.

Maximum exposure to credit risk

The maximum exposure of the Group's financial instruments is equivalent to the carrying values as reflected in the statements of financial position and related notes. The Group holds no collateral and other credit enhancements against its credit risk exposure as at December 31, 2016 and 2015.

The Group has no financial instruments with right to offset in accordance with PAS 32, *Financial Instruments: Presentation*, as at December 31, 2016 and 2015. 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 Group's financial instruments are concentrated to financial intermediaries.

Credit quality per class of financial assets

The Group's financial instruments are with reputable financial institutions and related parties and are deemed to be standard grade. Standard grade is rated on entities that meet performance expectation, unlikely to be affected by external factors and have competent management that uses current business models.

As at December 31, 2016 and 2015, the Group 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 Group 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 Group sets aside funds to pay currently maturing obligations which 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 reviews monthly the liquidity position of the Group.



The tables below summarize the maturity profile of the financial instruments of the Group and the Parent Company based on contractual undiscounted cash flow as at December 31, 2016 and 2015:

2016	Consolidated					Total
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	
Financial Assets						
Cash*	₱26,510,569	₱-	₱6,057,838	₱-	₱-	₱32,568,407
Receivables	10,259,183	-	-	-	-	10,259,183
Other assets:						
Advances to officers and employees	6,459	-	-	-	-	6,459
Total financial assets	36,776,211	-	6,057,838	-	-	42,834,049
Financial Liabilities						
Trade and other payables	20,611,920	-	-	-	-	20,611,920
Subscriptions payable	47,878,000	-	-	-	-	47,878,000
Loans payable	-	210,270	631,977	27,526,739	27,773,545	56,142,531
Total financial liabilities	68,489,920	210,270	631,977	27,526,739	27,773,545	124,632,451
Net undiscounted cash flows	(₱31,713,709)	(₱210,270)	₱5,425,861	(₱27,526,739)	(₱27,773,545)	(₱81,798,402)

*Includes accrued interest

2016	Parent Company					Total
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	
Financial Assets						
Cash*	₱14,353,667	₱-	₱6,057,838	₱-	₱-	₱20,411,505
Receivables	10,259,183	-	-	-	-	10,259,183
Other assets:						
Advances to officers and employees	6,459	-	-	-	-	6,459
Total financial assets	24,619,309	-	6,057,838	-	-	30,677,147
Financial Liabilities						
Trade and other payables	20,661,920	-	-	-	-	20,661,920
Subscriptions payable	3,850,701	-	-	-	-	3,850,701
Loans payable*	-	210,270	631,977	27,526,739	27,773,545	56,142,531
Total financial liabilities	24,512,621	210,270	631,977	27,526,739	27,773,545	80,655,152
Net undiscounted cash flows	₱106,688	(₱210,270)	₱5,425,861	(₱27,526,739)	(₱27,773,545)	(₱49,978,005)

*Includes accrued interest

2015	Consolidated and Parent Company					Total
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	
Financial Assets						
Cash*	₱30,420,577	₱15,094,188	₱16,064,188	₱-	₱-	₱61,578,953
Receivables	117,747	34,233	-	14,880	-	166,860
Total financial assets	30,538,324	15,128,421	16,064,188	14,880	795,700	62,541,513
Financial Liabilities						
Trade and other payables	-	5,612,998	-	-	-	5,612,998
Net undiscounted cash flows	₱30,538,324	₱9,515,423	₱16,064,188	₱14,880	₱795,700	₱56,928,515

*Includes accrued interest

Market Risk

Market risk is the risk of loss of future earnings, of fair value or future cash flows of a financial instrument. The Group has no significant exposure to interest rate risk and foreign currency risk.



6. Cash

This account consists of:

	Consolidated		Parent Company	
	2016	2015	2016	2015
Cash on hand	₱15,000	₱15,000	₱15,000	₱15,000
Cash in banks - peso (Note 21)	32,266,599	60,248,017	20,109,697	60,248,017
Cash in banks - dollar	242,622	1,210,131	242,622	1,210,131
	₱32,524,221	₱61,473,148	₱20,367,319	₱61,473,148

Cash in banks consist of demand deposits, time deposits and a dollar account. The Group's demand deposits are used in its day-to-day operations and are non-interest bearing. Time deposits with affiliate banks earn interest rates ranging from 2.00% to 3.75% and from 2.50% to 4.25% in 2016 and 2015, respectively. The Group's dollar account earns interest of 0.25% in 2016 and 2015.

Interest income earned by the Group from cash in banks amounted to ₱0.76 million and ₱2.30 million in 2016 and 2015, respectively while the interest income earned by the Parent Company from cash in banks amounted to ₱0.67 million and ₱2.30 million in 2016 and 2015, respectively (Note 21).

7. Receivables

This account consists of:

	Consolidated		Parent Company	
	2016	2015	2016	2015
Receivable from related parties (Note 21)	₱9,959,129	₱2,267	₱25,892	₱2,267
Interest receivables (Note 6)	–	49,099	–	49,099
Others	300,054	164,593	300,004	164,593
	₱10,259,183	₱215,959	₱325,896	₱215,959

8. Other Assets

Other current assets consist of:

	Consolidated		Parent Company	
	2016	2015	2016	2015
Financial assets				
Refundable deposits (Notes 18 and 21)	₱7,991,976	₱489,700	₱7,991,976	₱489,700
Advances to officers and employees	6,459	–	6,459	–
	7,998,435	489,700	7,998,435	489,700

(Forward)



	Consolidated		Parent Company	
	2016	2015	2016	2015
Nonfinancial assets				
Input VAT	₱9,631,663	₱848,707	₱9,631,663	₱848,707
Prepaid expenses	5,769,588	1,964,939	5,716,101	1,964,939
Work-in-process	2,448,484	–	2,448,484	–
Stationery and supplies	111,360	62,936	111,360	62,936
	17,961,095	2,876,582	17,907,608	2,876,582
	₱25,959,530	₱3,366,282	₱25,906,043	₱3,366,282

Other noncurrent assets consist of:

	Consolidated		Parent Company	
	2016	2015	2016	2015
Financial assets				
Refundable deposits (Notes 18 and 21)	₱43,860	₱306,000	₱43,860	₱306,000
Other investments	755,500	577,000	755,500	577,000
	₱799,360	₱883,000	₱799,360	₱883,000

Prepaid expenses pertain to unexpired subscriptions to software licenses and servers that are usable for one year and prepayments for insurance.

Work-in-process pertains to services for a particular IT software project but not yet billed to the buyers.

9. Investments in a Subsidiary and an Associate

This account consists of the following investments:

	Consolidated	Parent Company
	2016	2016
Acquisition cost		
Subsidiary:		
CMHI - 51.00% owned in 2016	₱–	₱63,750,000
Associate:		
Fortress Data Services Pte. Ltd. (FAPL) - 23.97% indirect Interest	10,862,875	–
	10,862,875	63,750,000
Accumulated equity in net earnings		
Share in loss of the subsidiary and associate for the year	(1,147,325)	(1,645,502)
	(1,147,325)	(1,645,502)
Accumulated equity in other comprehensive income		
Share in other comprehensive loss of the subsidiary and associate for the year	(146,799)	(74,867)
	(146,799)	(74,867)
Effect of foreign currency translation	821,325	418,876
	₱10,390,076	₱62,448,507



In 2016, the Parent Company together with the various investors incorporated CMHI. As incorporator, the Parent Company has 51.00% ownership and voting interest in CMHI, with initial investment of ₱63.75 million and subscription payable of ₱47.88 million. The Group accounts for the investment in CMHI as a controlled subsidiary under PFRS 10, *Consolidated Financial Statements*.

On June 6, 2016, CMHI contributed ₱10.86 million to incorporate FAPL. CMHI owns 47.00% voting interest in FAPL. Subscription payable arising from this investment amounted to ₱3.79 million. FAPL is involved in development of other software and programming activities. Its primary place of business is 60 Albert Street, #14-01 OG Albert Complex, Singapore. FAPL's functional currency is US Dollars. The investment in FAPL is accounted for as an associate in accordance with PAS 28, *Investment in Associate and Joint Ventures*.

The following table presents the summarized consolidated financial information of the FAPL as at December 31, 2016:

Assets	₱40,692,250
Liabilities	18,585,704
Net Assets	₱22,106,546

Summarized financial information in the consolidated statement of comprehensive income of FAPL follow:

Revenue	₱-
Cost and expenses	(2,441,117)
Net loss	(2,441,117)
Foreign currency translation adjustment	(312,338)
Total comprehensive loss	(₱2,753,455)

10. Property and Equipment

The Group and the Parent Company's property and equipment consists of

	2016				Total
	Information Technology Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	
Cost					
Balance at beginning of year	₱36,548,757	₱4,968,279	₱1,728,034	₱1,181,426	₱44,426,496
Additions	36,443,657	853,457	-	2,522,687	39,819,801
Disposals	(1,113,107)	(355,224)	(744,881)	(725,370)	(2,938,582)
Balances at end of year	71,879,307	5,466,512	983,153	2,978,743	81,307,715
Accumulated Depreciation					
Balance at beginning of year	27,766,726	2,822,524	1,728,033	509,531	32,826,814
Depreciation and amortization (Notes 15 and 19)	3,156,954	773,064	-	418,296	4,348,314
Disposals	(1,113,107)	(205,340)	(744,881)	(373,701)	(2,437,029)
Balance at end of year	29,810,573	3,390,248	983,152	554,126	34,738,099
Net book value at end of year	₱42,068,734	₱2,076,264	₱1	₱ 2,424,617	₱46,569,616



	2015				
	Information Technology Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱27,280,294	₱2,376,782	₱1,728,034	₱392,956	₱31,778,066
Additions	9,268,463	2,591,497	–	788,470	12,648,430
Balance at end of year	36,548,757	4,968,279	1,728,034	1,181,426	44,426,496
Accumulated Depreciation					
Balance at beginning of year	25,171,189	1,746,750	1,591,485	264,709	28,774,133
Depreciation and amortization (Notes 15 and 19)	2,595,537	1,075,774	136,548	244,822	4,052,681
Balance at end of year	27,766,726	2,822,524	1,728,033	509,531	32,826,814
Net book value at end of year	₱8,782,031	₱2,145,755	₱1	₱671,895	₱11,599,682

Depreciation and amortization charged to the statements of income is presented under:

	2016	2015
Depreciation and amortization of property and equipment		
Cost of information technology services	₱4,157,541	₱2,595,537
General and administrative expenses	190,773	1,457,144
	4,348,314	4,052,681
Amortization of software costs (Note 11)		
Cost of information technology services	4,012,530	3,034,674
General and administrative expenses	39,831	–
	4,052,361	3,034,674
	₱8,400,675	₱7,087,355

Cost of fully depreciated assets still in use as at December 31, 2016 and 2015 amounted to ₱28.66 million and ₱28.49 million, respectively.

Additions in 2016 include checkpoint firewall, safenet HSM, cisco access switches, WIFI routers, hard disk and furniture and fixture used in staff houses. Additions in 2015 include network firewall, uninterruptible power supply, generator set, and supply and installation of fabric and modular partition on leased offices. As at December 31, 2016, depreciable assets amounting to ₱30.93 million Which were acquired during the second quarter of 2016 as they are still not available for use.

Disposals in 2016 include laptops and printer. In 2016, loss on disposal of property and equipment amounting to ₱0.50 million is presented in others under cost of IT services amounting to ₱0.14 million and maintenance under miscellaneous expense amounting to ₱0.36 million.

11. Software Costs

The Parent Company's software costs consists of:

	2016	2015
Cost		
Balance at beginning of year	₱54,134,723	₱20,520,809
Additions	68,310,056	33,613,914
Balance at end of year	122,444,779	54,134,723
Accumulated amortization		
Balance at beginning of year	20,464,681	17,430,007
Amortization (Notes 15 and 19)	4,052,361	3,034,674
Balance at end of year	24,517,042	20,464,681
Net book value at end of year	₱97,927,737	₱33,670,042



Additions in 2016 include Temenos software, Db2 enterprise, HCIS and payroll system. As at December 31, 2016 and 2015, software costs amounting to ₱48.07 and ₱26.31 million, respectively, which are not available for use were not amortized.

Additions in 2015 include set up fee and license fees for the Core Banking System project of the Group which will be used by the Group in servicing bank entities of the CARD-MRI.

12. Trade and Other Payables

This account consists of:

	Consolidated		Parent Company	
	2016	2015	2016	2015
Financial liabilities				
Accounts payable (Note 21)	₱16,210,944	₱2,836,602	₱16,160,944	₱2,836,602
Accrued expenses	4,450,978	2,776,396	4,450,978	2,776,396
	20,661,922	5,612,998	20,611,922	5,612,998
Nonfinancial liabilities				
VAT payable	1,054,337	–	1,054,337	–
Withholding taxes payable	489,576	359,554	489,576	359,554
Statutory payable	243,494	–	243,494	–
	1,787,407	359,554	1,787,407	359,554
	₱22,449,329	₱5,972,552	₱22,399,329	₱5,972,552

Accounts payable consists of amounts due to suppliers.

Accrued expenses include unpaid operating expenses such as travelling expenses, management and professional fee, monetized vacation leave, 13th month pay and other benefits.

Statutory payable includes payment of regulatory remittance (Social Security System, Philhealth and Pag-ibig).

13. Loans Payable

Loans payable pertains to borrowings that the Group availed from CARD MRI Multi-Employer Retirement Plan (MERP), CARD Mutual Benefit Association (MBA), and CARD Leasing and Finance Corporation in 2016 and which bears annual interest rates ranging from 4.00% to 4.75%.



An analysis of the Parent Company's loans payable as at December 31, 2016 is presented as follows:

Loans payable	₱51,579,545
Less: noncurrent portion	26,579,545
Current portion	<u>₱25,000,000</u>

Interest expense on loans payable amounted to ₱1.82 million in 2016.

14. Equity

Capital Stock

As at December 31, 2016 and 2015, the Parent Company's capital stock consists of:

	2016		2015	
	Shares	Amount	Shares	Amount
Common stock - ₱100 par value, 1,000,000 authorized shares				
Common stock at the beginning of the year	782,714	₱78,271,416	537,632	₱53,763,158
Issuance of shares of stocks from settlement of subscriptions receivable	192,381	19,238,180	245,082	24,508,258
Common stock at the end of the year	975,095	97,509,596	782,714	78,271,416
Subscribed	24,905	2,490,404	217,286	21,728,584
Subscription receivable	-	(2,490,404)	-	(21,728,584)
	1,000,000	₱97,509,596	1,000,000	₱78,271,416

Dividends

On June 10, 2016, the Parent Company's BOD declared and approved cash dividends of ₱6.00 per share to common stockholders amounting to ₱6.00 million. On May 8, 2015, the BOD declared cash dividends of ₱6.00 per share to common stockholders, whose shares were issued and outstanding at the beginning of the year amounting to ₱3.23 million. Cash dividends paid in 2016 and 2015 were ₱6.01 million and ₱3.22 million, respectively.

Capital Management

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



15. Cost of Information Technology Services

This account consists of direct costs attributable to rendering IT services incurred by the Parent Company as follows:

	2016	2015
Salaries, wages and other benefits (Notes 16 and 21)	₱18,749,262	₱14,449,618
IT expenses (Note 21)	17,636,207	-
Postage, telephone, cables & telegrams	8,831,043	41,415
Depreciation of IT equipment (Note 10)	4,157,541	2,595,537
Amortization of software cost (Note 11)	4,012,530	3,034,674
Staff training and development	2,785,993	-
Rent (Note 18)	2,152,399	1,197
Power, light and water	1,249,596	-
Others	4,908,023	7,475,226
	₱64,482,594	₱27,597,667

16. Salaries, Wages and Other Benefits

The Parent Company's salaries, wages and other benefits consist of:

	2016	2015
Salaries, wages and other benefits	₱16,268,191	₱13,465,258
Other short-term employee benefits	9,969,027	9,644,823
Retirement expense (Note 17)	2,402,945	807,202
	₱28,640,163	₱23,917,283

Salaries, wages and other benefits account is presented in the Parent Company's statements of income under the following:

	2016	2015
Cost of information technology services (Note 15)	₱18,749,262	₱14,449,618
General and administrative expense	9,890,901	9,467,665
	₱28,640,163	₱23,917,283

The Group uses specific identification to allocate salaries, wages and other benefits into 'Cost of information technology services' and 'General and administrative expenses'.

17. Retirement Benefits

The Parent Company, CARD SME Bank, Inc. (CSMEB), CARD MBA, Inc., CARD Bank, Inc., CARD MRI Insurance Agency (CAMIA), Inc., CARD Business Development Service Foundation (BDSF), Inc., CARD MRI Development Institute, Inc. (CMDI), Responsible Investments for Solidarity and Empowerment (RISE) Financing Company, Inc., BotiCARD, Inc., and CARD, Inc. maintain a funded and formal noncontributory defined benefit retirement plan - the CARD MRI MERP - covering all of their regular employees and CARD Group Employees' Retirement Plan (Hybrid Plan) applicable to employees hired on or after July 1, 2016. MERP is valued using the projected unit cost method and is financed solely by the Parent Company and its related parties.



MERP and Hybrid Plan comply with the requirements of Republic Act No. 7641 (Retirement Law). MERP provides lump sum benefits equivalent to up to 120% of final salary for every year of credited service, a fraction of at least six (6) months being considered as one whole year, upon retirement, death, total and permanent disability, or voluntary separation after completion of at least one year of service with the participating companies.

Hybrid Plan provides a retirement benefit equal to 100% of the member's employer accumulated value (the Parent Company's contributions of 8% plan salary to Fund A plus credited earnings) and 100% of the Member's Employee accumulated value (member's own contributions up to 10% of plan salary to Fund B plus credited earnings), if any. Provided that in no case shall 100% of the Employee Accumulated Value in Fund A be less than 100% of plan salary for every year of credited service.

The Group has no employees which are part of Hybrid Plan as at December 31, 2016 and 2015.

The latest actuarial valuation report covers reporting period as at December 31, 2016.



Changes in the Parent Company's net defined benefit liability (asset) in 2016 and 2015 follow:

	2016											
	Net benefit cost in statement of income*					Remeasurements in other comprehensive income						
	January 1	Current service cost	Net interest	Subtotal	Transfers from the Plan	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in the effect of asset ceiling	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31
Present value of defined benefit obligation	₱18,700,796	₱2,519,624	₱942,520	₱3,462,144	(₱457,482)	₱82,844	₱-	(₱912,088)	(₱10,817,734)	(₱11,646,978)	₱-	₱10,058,480
Fair value of plan assets	(18,017,958)	-	(1,059,199)	(1,059,199)	457,482	598,305	-	-	-	598,305	(6,463,041)	(24,484,411)
Asset ceiling	-	-	-	-	-	-	3,244,304	-	-	3,244,304	-	3,244,304
Net defined benefit liability (asset)	₱682,838	₱2,519,624	(₱116,679)	₱2,402,945	₱-	₱681,149	₱3,244,304	(₱912,088)	(₱10,817,734)	(₱7,804,369)	(₱6,463,041)	(₱11,181,627)

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

	2015											
	Net benefit cost in statements of income*					Remeasurements in other comprehensive income						
	January 1	Current service cost	Net interest	Subtotal	Transfers from the Plan	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in the effect of asset ceiling	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31
Present value of defined benefit obligation	₱9,268,112	₱1,068,987	₱413,358	₱1,482,345	(₱904,864)	₱940,970	₱-	₱260,967	₱7,653,266	₱8,855,203	₱-	₱18,700,796
Fair value of plan assets	(13,475,941)	-	(693,647)	(693,647)	904,864	305,005	-	-	-	305,005	(5,058,239)	(18,017,958)
Asset ceiling	414,895	-	18,504	18,504	-	-	(433,399)	-	-	(433,399)	-	-
Net defined benefit liability (asset)	(₱3,792,934)	₱1,068,987	(₱261,785)	₱807,202	₱-	₱1,245,975	(₱433,399)	₱260,967	₱7,653,266	₱8,726,809	(₱5,058,239)	₱682,838

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

In 2016 and 2015, transfers from the plan pertain to the transfer of employees from the Parent Company to other affiliates within CARD-MRI.



The maximum economic benefit of plan assets 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:

	2016		2015	
	Amount	%	Amount	%
Debt securities - government securities	₱11,497,880	46.96%	₱8,236,009	45.71%
Cash and cash equivalents	10,170,824	41.54%	7,335,111	40.71%
Loans	1,848,573	7.55%	1,902,696	10.56%
Other unquoted debt securities	509,276	2.08%	—	—
Mutual funds	127,318	0.52%	140,540	0.78%
Other assets	330,540	1.35%	403,602	2.24%
Fair value of plan assets	₱24,484,411	100.00%	₱18,017,958	100.00%

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

The plan assets have diverse investments and do not have any concentration risk other than those government debt securities which are considered low risk. The plan assets' cash and cash equivalents are held by affiliate banks.

The overall investment policy and strategy of the Group'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 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 plan as of December 31 are shown below:

	2016	2015
Discount rates	5.86%	5.04%
Future salary increases	7.00%	10.00%

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

	2016		2015	
	Increase (decrease) in basis points	Increase (decrease) in present value of obligation	Increase (decrease) in basis points	Increase (decrease) in present value of obligation
Discount rates	+1	(₱1,697,797)	+1	(₱3,974,986)
	-1	2,150,937	-1	5,182,089
Future salary increases	+1	1,990,484	+1	4,665,405
	-1	(1,616,911)	-1	(3,719,355)

The Parent Company plans to contribute ₱8.02 million to the defined benefit retirement in 2016.

The average duration of the DBO is 19.1 years as at December 31, 2016.



Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2016 and 2015:

	2016	2015
More than 1 year to 5 years	₱1,579,913	₱878,460
More than 15 years to 20 years	24,692,673	14,817,821
More than 20 years to 25 years	55,462,673	61,426,631
More than 25 years	175,803,229	724,969,477

18. Leases

The Parent Company leases its office premises for a period of one year to five years renewable upon mutual agreement between the Parent Company and lessors. The Parent Company's total expense in 2016 and 2015 amounting to ₱20.36 million and ₱9.52 million, respectively, are included under 'Cost of information technology services' and 'General and administrative expenses' in the statements of income.

Security deposits required by the lease agreements amounting to ₱8.04 million and ₱0.80 million as at December 31, 2016 and 2015, respectively, are included in 'Other assets' (Note 8).

19. Miscellaneous Expenses

This account consists of:

	Consolidated		Parent Company	
	2016	2015	2016	2015
Seminars and meetings	₱941,886	₱2,595,654	₱941,886	₱2,595,654
Stationery and supplies used	897,437	1,345,394	889,547	1,345,394
Security, messengerial and janitorial services	717,279	1,329,243	717,279	1,329,243
Rent expense (Note 18)	410,556	1,681,135	410,556	1,681,135
Power, light and water	331,807	1,055,084	331,807	1,055,084
Repairs and maintenance	313,508	-	313,508	-
Unrealized foreign exchange loss	266,076	-	-	-
Depreciation and amortization expense (Notes 10 and 11)	230,604	1,457,144	230,604	1,457,144
Insurance expense	222,778	494,959	212,081	494,959
Postage, telephone, cables and telegrams	170,243	2,533,593	167,883	2,533,593
Representation and entertainment (Note 19)	91,967	93,443	91,967	93,443
Supervision and examination	38,772	253,782	38,772	253,782
Advertising and publicity	37,200	30,000	37,200	30,000
Donations and charitable contributions	25,900	11,500	25,900	11,500
Bank service charges	20,946	13,204	20,896	13,204
Penalties and other charges	16,000	1,456,096	16,000	1,456,096
Membership fees and dues	10,714	12,000	10,714	12,000
Others	242,693	774,979	241,691	774,979
	₱4,986,366	₱15,137,210	₱4,698,291	₱15,137,210

Others include reimbursements for medical expenses of employees and petty cash expenses.



20. Income Taxes

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

The Group's and Parent Company's provision for income tax consists of:

	Consolidated		Parent Company	
	2016	2015	2016	2015
Current:				
Regular	₱8,730,062	₱5,952,779	₱8,730,062	₱5,952,779
Final	154,389	458,763	136,480	458,763
	8,884,451	6,411,542	8,866,542	6,411,542
Deferred	(334,562)	180,798	(334,562)	180,798
	₱8,549,889	₱6,592,340	₱8,531,980	₱6,592,340

Republic Act 9337, *An Act Amending National Internal Revenue Code*, provides that RCIT rate shall be 30.00%. Interest expense allowed as a deductible expense is reduced by 33.00% 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 'Miscellaneous' in the statements of income) but not to exceed 1.00% of net revenue for companies engaged in the sale of services.

An MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. Under current tax regulations, a corporation is subject to MCIT on the fourth taxable year immediately following the year in which the corporation commenced its business operations. In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the date of inception. Current tax regulations further provide that the optional standard deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. For 2016, the Group elected to claim itemized expense deductions instead of OSD.

As at December 31, 2016, the Group did not recognize deferred tax asset on pre-operating expenses, those arising from deficit of its investments in foreign associate, NOLCO, and unrealized foreign exchange loss amounting to ₱1.5 million, ₱1.13 million, ₱0.33 million and ₱0.28 million, respectively, as it believes that it is highly probable that these temporary differences will not be realized in the foreseeable future by the subsidiary.



Components of the net deferred tax assets (liabilities) shown in the consolidated statements of financial position follows:

	Consolidated		Parent Company	
	2016	2015	2016	2015
Deferred tax assets on:				
Unamortized past service cost	₱2,107,844	₱1,609,307	₱2,107,844	₱1,609,307
Accrued other expenses	1,147,351	105,793	1,147,351	105,793
Retirement liability	–	204,851	–	204,851
	3,255,195	1,919,951	3,255,195	1,919,951
Deferred tax liabilities on:				
Retirement asset	(3,354,488)	–	(3,354,488)	–
Unrealized foreign exchange gains	–	12,494	–	12,494
Foreign currency translation adjustment	(246,398)	–	(125,663)	–
	(3,600,886)	12,494	(3,480,151)	12,494
	(₱345,691)	₱1,907,457	(₱224,956)	₱1,907,457

Deferred income tax on remeasurements on retirement plan that was charged directly to OCI in 2016 and 2015 amounted to a provision of ₱2.34 million and a benefit of ₱2.62 million, respectively.

Reconciliation of the Group's and the Parent Company's statutory income tax to effective income tax follows:

	Consolidated		Parent Company	
	2016	2015	2016	2015
Statutory income tax	₱7,615,625	₱6,765,972	₱8,084,544	₱6,765,972
Tax effects of:				
Unrecognized deferred tax asset	989,143	–	–	–
Nondeductible expense	67,047	104,396	560,407	104,396
Interest income subject to final tax	(74,768)	(231,838)	(65,813)	(231,838)
Non-taxable income	(47,158)	(46,190)	(47,158)	(46,190)
Effective income tax	₱8,549,889	₱6,592,340	₱8,531,980	₱6,592,340

21. 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 Group'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 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 MERP is a stand-alone entity assigned in facilitating the contributions to retirement starting 2005.

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 Group, directly or indirectly. The Group 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 statements of income are as follows:

	2016	2015
Short-term employee benefits	₱3,568,740	₱2,450,463
Post-employment benefits	3,150,055	2,350,482
	₱6,718,795	₱4,800,945

Other related party transactions

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

Cash and cash equivalents, accounts payable and receivables

Cash and cash equivalents, accounts payable and receivables held by the Group and the Parent Company for key management personnel and affiliates as at December 31, 2016 and 2015 follow:

Category	2016 Consolidated		Nature, Terms and Conditions
	Amount/ Volume	Outstanding Balance	
Shareholder			
Staff training and development	₱4,297,273		Expenses incurred for staff development programs
Rent expense	453,775		Rentals for lease of office premises
Associate			
Subscription payable		₱3,850,701	Represents payable for share of stocks
Other related party			
Cash in bank		6,084,128	These are time deposit accounts with annual interest rate ranging from 2.00% to 4.00%
Deposits	2,826,064		
Withdrawals	(27,794,508)		
Receivables		25,892	Billings of service fee and other charges by the Company to other CARD MRI entities
Charges to affiliates	87,853,502		
Collections	(87,829,877)		
Accounts payable		-	Rentals for lease of office premises, seminar and training fees and share of various expenses
Charges from affiliates	(2,060,289)		
Payments	2,065,765		
Loans payable		51,579,545	Payable to CARD MRI entities for loans granted to the Company for the acquisition of IT equipment
Charges from affiliates	(63,949,780)		
Payments	12,370,235		
Service income	122,003,226		Income earned from IT services provided by the company to other CARD MRI entities
Interest income	560,853		Income earned from time deposits to CARD MRI entities
Dividend income	157,194		Dividends received from equity investments held at cost
Rent expense	1,047,055		Rentals for lease of office premises
Refundable deposits		7,706,505	This pertains to rental deposits for office space and IT equipment leased out by the Parent Company
IT expense	3,796,695		This pertains to IT equipment leased out by the Parent Company



2016			
Parent Company			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Shareholder			
Staff training and development	₱4,297,273		Expenses incurred for staff development programs
Rent expense	453,775		Rentals for lease of office premises
Subsidiary			
Subscription payable		₱47,878,000	Represents payable for share of stocks
Other related party			
Cash in bank		6,084,128	These are time deposit accounts with annual interest rate ranging from 2.00% to 4.00%
Deposits	2,826,064		
Withdrawals	(27,794,508)		
Receivables		25,892	Billings of service fee and other charges by the Company to other CARD MRI entities
Charges to affiliates	87,853,502		
Collections	(87,829,877)		
Accounts payable		-	Rentals for lease of office premises, seminar and training fees and share of various expenses
Charges from affiliates	(2,060,289)		
Payments	2,065,765		
Loans payable		51,579,545	Payable to CARD MRI entities for loans granted to the Company for the acquisition of IT equipment
Charges from affiliates	(63,949,780)		
Payments	12,370,235		
Service income	122,003,226		Income earned from IT services provided by the company to other CARD MRI entities
Interest income	560,853		Income earned from time deposits to CARD MRI entities
Dividend income	157,194		Dividends received from equity investments held at cost
Rent expense	1,047,055		Rentals for lease of office premises
Refundable deposits		7,706,505	This pertains to rental deposits for office space and IT equipment leased out by the Parent Company
IT expense	3,796,695		This pertains to IT equipment leased out by the Parent Company

2015			
Consolidated and Parent Company			
Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Shareholder			
Receivables		₱-	Billings of service fee and other charges by the Company to other CARD MRI entities
Charges to shareholders	₱37,327,661		
Collections	(37,371,409)		
Accounts payable		-	Rentals for lease of office premises, seminar and training fees and share of various expenses
Charges from shareholders	1,861,516		
Payments	(1,863,326)		
Service income	32,692,592		Income earned from IT services provided by the Company to other CARD MRI entities
Staff training and development	(50,040)		Expenses incurred for staff development programs
Rent expense	(516,163)		Rentals for lease of office premises
Other related party			
Cash in bank		31,052,572	These are time deposit accounts with annual interest rate ranging from 2.5% to 4.25%
Deposits	10,769,010		
Withdrawals	(42,643,591)		
Receivables		2,267	Billings of service fee and other charges by the Company to other CARD MRI entities
Charges to affiliates	47,632,615		
Collections	(47,639,921)		
Accounts payable		-	Rentals for lease of office premises, seminar and training fees and share of various expenses
Charges from affiliates	22,749		
Payments	(22,749)		
Service income	58,093,112		Income earned from IT services provided by the company to other CARD MRI entities
Interest income	2,270,573		Income earned from time deposits to CARD MRI entities
Dividend income	153,968		Dividends received from equity investments held at cost
Refundable deposits		395,985	This pertains to rental deposits for office space and IT equipment leased out by the Parent Company
IT expense		3,259,240	This pertains to IT equipment leased out by the Parent Company

The Group has an outstanding receivable from FAPL amounting to ₱9.93 million as at December 31, 2016.



22. Supplemental Disclosure of Non-cash Activities

The following are the activities of the Group and the Parent Company that affect recognized assets and liabilities but do not result in cash payments in 2016 and 2015.

	Consolidated		Parent Company	
	2016	2015	2016	2015
Investing activities				
Acquisition of:				
Software on account	₱18,143,139	₱-	₱18,143,139	₱-
Property and equipment on account	15,436,195	-	15,436,195	-
Property and equipment through loans	6,493,290	-	6,493,290	-
Unpaid subscriptions to:				
Shares of a subsidiary	-	-	47,812,500	-
Shares of an associate	3,785,201	-	-	-

In 2016 and 2015, creditable withholding taxes amounting to ₱2.44 million and ₱1.82 million, respectively, were applied against the Bank's income tax liability.

23. Approval of the Release of the Financial Statements

The accompanying consolidated and parent company financial statements were approved and authorized for issue by the Parent Company's BOD on March 10, 2017.

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

In compliance with the requirements set forth by RR 15-2010, hereunder are the details of 'Taxes and licenses' paid or accrued by the Parent Company in 2016.

Business permits and licenses	₱55,069
Documentary stamp tax	50,023
Annual registration	9,359
Community tax certificate	3,200
Other taxes	383,392
	₱501,043

The following withholding taxes remitted in 2016 or outstanding as of December 31, 2016:

	Total Remittances	Balance as at December 31, 2016
Expanded withholding taxes	₱2,425,247	₱347,866
Withholding tax on compensation and benefits	1,601,682	141,710
Final withholding taxes	86,658	-
	₱4,113,587	₱489,576



VAT

The National Internal Revenue Code of 1997 also provides for the imposition of VAT on sales of goods and services. Accordingly, the Parent 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 Parent Company's net sales/receipts output VAT and input VAT accounts in 2016 are as follow:

- a. Net sales/receipts and output VAT declared in the Parent Company's VAT returns filed in 2016:

	Net Sales/Receipts	Output VAT
Taxable Sales:		
Service income	₱122,003,226	₱14,640,387

- b. Input VAT

Balance at beginning of period	₱848,707
Current year's domestic purchases/payments	13,691,895
Input tax used	(4,908,939)
Balance at end of period	₱9,631,663

Tax Assessment

As at December 31, 2016, there are no outstanding tax assessments and/or tax cases under investigations, litigations nor persecution in courts or bodies outside the Bureau of Internal Revenue.

