Responsible Investments for Solidarity and Empowerment (RISE) Financing Company, Inc.

Financial Statements
December 31, 2013
and Year Ended December 31, 2013
(With Corresponding Figures for December 31, 2012
and Year Ended December 31, 2012)

and

Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Responsible Investments for Solidarity and
Empowerment (RISE) Financing Company, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Responsible Investments for Solidarity and Empowerment (RISE) Financing Company, Inc. (the Company), which comprise the statement of financial position as at December 31, 2013, and the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Responsible Investments for Solidarity and Empowerment (RISE) Financing Company, Inc. as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

Other Matter

The financial statements of Responsible Investments for Solidarity and Empowerment (RISE) Financing Company, Inc. for the years ended December 31, 2012 and 2011 (not presented herein) were audited by another auditor who expressed an unmodified opinion on those statements on April 11, 2013. As part of our audit of the 2013 financial statements, we also audited the adjustments described in Note 19 that were applied to the 2012 financial statements and the statement of financial position as at December 31, 2011 to come up with statement of financial position as at January 1, 2012 presented herein as corresponding figures. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2012 and 2011 financial statements of the Company other than with respect to the adjustments, and accordingly, we do not express an opinion or any other form of assurance on the 2012 and 2011 financial statements taken as a whole.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audit was 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 22 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 Responsible Investments for Solidarity and Empowerment (RISE) Financing Company, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

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

March 31, 2014

RESPONSIBLE INVESTMENTS FOR SOLIDARITY AND EMPOWERMENT (RISE) FINANCING COMPANY, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2013
(With Corresponding Figures for December 31, 2012)

	December 31		January 1
	2013	2012 (As restated - Note 19)	2012 (As restated - Note 19)
ASSETS			
Current Assets			
Cash (Note 6)	**₱10,600,619**	₱10,904,518	₱7,242,978
Finance and lease receivables (Note 7)	**11,630,921**	24,534,891	27,297,177
Other current assets (Note 8)	**203,203**	246,761	465,977
Total Current Assets	**22,434,743**	35,686,170	35,006,132
Noncurrent Assets			
Finance and lease receivables - net of current portion (Note 7)	**22,003,571**	11,943,459	1,696,614
Property and equipment (Note 9)	**809,126**	1,089,277	2,119,723
Investment properties (Note 10)	**5,134,992**	9,974,604	10,563,970
Deferred tax assets (Note 16)	**–**	246,677	758,143
Total Noncurrent Assets	**27,947,689**	23,254,017	15,138,450
	₱50,382,432	₱58,940,187	₱50,144,582
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts and other payables (Note 11)	**₱492,520**	₱1,862,475	₱48,059
Interest payable (Note 13)	**250,000**	600,000	600,000
Total Current Liabilities	**742,520**	2,462,475	648,059
Noncurrent Liabilities			
Retirement liabilities (Note 12)	**607,029**	548,017	473,558
Deposit for future stock subscription (Note 13)	**–**	7,142,250	23,000
Preferred stock classified as liability (Note 13)	**7,500,000**	7,500,000	7,500,000
Total Noncurrent Liabilities	**8,107,029**	15,190,267	7,996,558
Total Liabilities	**8,849,549**	17,652,742	8,644,617
Equity			
Common stock (Note 13)	**42,500,000**	42,489,000	42,429,000
Treasury stock (Note 13)	**(2,901,307)**	–	–
Retained earnings (deficit)	**1,934,190**	(1,201,555)	(929,035)
Total Equity	**41,532,883**	41,287,445	41,499,965
	₱50,382,432	₱58,940,187	₱50,144,582

See accompanying Notes to Financial Statements.

RESPONSIBLE INVESTMENTS FOR SOLIDARITY AND EMPOWERMENT (RISE) FINANCING COMPANY, INC.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2013
(With Corresponding Figures for the Year Ended December 31, 2012)

	Years Ended December 31	
	2013	2012 (As restated - Note 19)
REVENUE (Notes 7 and 14)	**₱4,556,117**	₱4,164,561
OPERATING EXPENSES (Note 15)	**7,294,171**	4,537,437
OPERATING LOSS	**(2,738,054)**	(372,876)
OTHER INCOME		
Gain on sale of investment properties (Note 10)	**6,116,252**	612,142
Interest income (Note 6)	**90,428**	98,516
INCOME BEFORE INCOME TAX	**3,468,626**	337,782
PROVISION FOR INCOME TAX (Note 16)	**332,881**	610,302
NET INCOME (LOSS) AFTER TAX	**3,135,745**	(272,520)
OTHER COMPREHENSIVE INCOME	–	–
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱3,135,745**	(₱272,520)

See accompanying Notes to Financial Statements.

RESPONSIBLE INVESTMENTS FOR SOLIDARITY AND EMPOWERMENT (RISE) FINANCING COMPANY, INC.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2013
(With Corresponding Figures for the Year Ended December 31, 2012)

	Common Stock (Note 13)	**Treasury Stock** (Note 13)	**Retained Earnings (Deficit)**	**Total**
Balances at January 1, 2013, as previously reported	**₱42,489,000**	**₱–**	**(₱1,440,281)**	**₱41,048,719**
Adjustments (Note 19)	**–**	**–**	**238,726**	**238,726**
Balances at January 1, 2013, as restated	**42,489,000**	**–**	**(1,201,555)**	**41,287,445**
Collection of subscription receivable	**11,000**	**–**	**–**	**11,000**
Repurchase of stock	**–**	**(2,901,307)**	**–**	**(2,901,307)**
Total comprehensive income for the year	**–**	**–**	**3,135,745**	**3,135,745**
Balances at December 31, 2013	**₱42,500,000**	**(₱2,901,307)**	**₱1,934,190**	**₱41,532,883**
Balances at January 1, 2012, as previously reported	₱42,429,000	₱–	(₱988,554)	₱41,440,446
Adjustments (Note 19)	–	–	59,519	59,519
Balances at January 1, 2012, as restated	42,429,000	–	(929,035)	41,499,965
Collection of subscription receivable	60,000	–	–	60,000
Total comprehensive loss for the year	–	–	(272,520)	(272,520)
Balances at December 31, 2012	₱42,489,000	₱–	(₱1,201,555)	₱41,287,445

See accompanying Notes to Financial Statements.

RESPONSIBLE INVESTMENTS FOR SOLIDARITY AND EMPOWERMENT (RISE) FINANCING COMPANY, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2013
(With Corresponding Figures for the Year Ended December 31, 2012)

	Years Ended December 31	
	2013	2012 (As restated - Note 19)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱3,468,626**	₱337,782
Adjustments for:		
Gain on sale of investment properties (Note 10)	**(6,116,252)**	(612,142)
Provision for credit and impairment losses (Notes 7, 10 and 15)	**2,074,498**	–
Interest expense (Note 15)	**1,051,012**	600,000
Depreciation and amortization (Notes 9, 10 and 15)	**411,653**	255,645
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Finance and lease receivables (Note 20)	**(613,435)**	(5,519,849)
Other current assets (Note 20)	**(24,561)**	140,083
Increase in:		
Accounts and other payables (Note 20)	**2,306,273**	18,209
Interest payable	**(350,000)**	–
Retirement liabilities	**59,012**	74,459
Net cash generated from (used in) operations	**2,266,826**	(4,705,813)
Income taxes paid	**(18,085)**	(19,703)
Net cash provided by (used in) operating activities	**2,248,741**	(4,725,516)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from absolute disposal of investment properties (Notes 10 and 20)	**5,412,442**	1,089,968
Proceeds from conditional sale of investment properties (Note 11)	**229,880**	1,796,207
Acquisitions of property and equipment (Note 9)	**(12,700)**	(1,078,369)
Net cash provided by investing activities	**5,629,622**	1,807,806
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceed from renewal of preferred stock (Note 13)	**7,500,000**	–
Redemption of preferred stock (Note 13)	**(7,500,000)**	–
Return of deposit for future stock subscription (Note 13)	**(7,142,250)**	–
Interest paid	**(1,051,012)**	(600,000)
Proceeds from collection of subscriptions receivable	**11,000**	60,000
Receipt of deposit for future stock subscription (Note 13)	**–**	7,119,250
Net cash provided by (used in) financing activities	**(8,182,262)**	6,579,250
NET INCREASE (DECREASE) IN CASH	**(303,899)**	3,661,540
CASH AT BEGINNING OF YEAR	**10,904,518**	7,242,978
CASH AT END OF YEAR	**₱10,600,619**	₱10,904,518

See accompanying Notes to Financial Statements.

RESPONSIBLE INVESTMENTS FOR SOLIDARITY AND EMPOWERMENT (RISE) FINANCING COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Responsible Investment for Solidarity and Empowerment (RISE) Financing Company, Inc. (the Company), was registered with the Philippine Securities and Exchange Commission (SEC) on April 14, 2000 and started operations in October 2000. The Company was incorporated to perform:

1. Quasi-banking and money market operations upon prior approval of the Bangko Sentral ng Pilipinas (BSP);
2. Trust operations upon prior approval of the BSP;
3. Issuance of bonds and other capital instruments;
4. Rediscounting of its papers with government financial institutions;
5. Participate in special loan or credit programs;
6. Provide foreign currency loans and leases to enterprises that earn foreign currency by exports or other means, subject to existing laws and rules and regulations promulgated by the BSP; and
7. Engage in all operations and activities of financing companies as provided in the Financing Company Act (Republic Act No. 8556).

The Company is owned by Center for Agriculture and Rural Development, Inc. (the Parent Company), National Secretariat for Social Action, Ad Jesum Development Foundation, Inc. and individual stockholders sharing 61.92%, 22.32%, 14.43% and 1.32%, respectively, of its outstanding capital stock. The Parent Company is also the ultimate parent company.

The Company's registered and principal place of business is at Rm. 106, Ledesma Building, General Luna corner Real St., Intramuros, 1002 Manila.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis. The financial statements are presented in Philippine peso and all values are rounded to the nearest peso except when otherwise indicated.

Statement of Compliance
The accompanying financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The Company opted to avail of the exemption from adopting PFRS for Small and Medium-sized Entities and continue using full PFRS because it is a subsidiary of a parent company reporting under full PFRS.

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

PFRS 7*, Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

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

The additional disclosures required by the amendments are presented in Note 5 to the financial statements.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

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

Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Company's financial position or performance.

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

PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period.
The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. As a result, the Company has not included comparative information in respect of the opening statement of financial position as at January 1, 2012. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment does not have any significant impact on the Company's financial position or performance.

PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The amendment does not have any significant impact on the Company's financial position or performance.

Summary of Significant Accounting Policies

<u>Fair Value Measurement</u>
The Company initially measures its financial instruments and nonfinancial assets, such as investment properties acquired in exchange for a non-monetary asset, at fair value. The fair values of financial instruments measured at amortized cost and investment properties are disclosed in Note 4.

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

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

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

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

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

The Company determines the policies and procedures for non-recurring measurement, such as investment properties.

External valuers are involved for valuation of significant assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

<u>Cash</u>
Cash includes cash on hand and in banks which are immediately available for use in current operations. Cash in banks earn interest at prevailing interest rate.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
Date of recognition
The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition of financial instruments
All financial assets and financial liabilities are initially measured at fair value. Except for financial assets and financial liabilities at fair value through profit or loss (FVPL), the initial measurement includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, available-for-sale (AFS) investments, held-to-maturity (HTM) investments and loans and receivables. Financial liabilities are classified as

financial liabilities at FVPL and financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation every reporting date.

As at December 31, 2013 and 2012, the Company had no financial instruments at FVPL and AFS and HTM investments.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value or from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the profit or loss under 'Miscellaneous' unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

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

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

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

Loans and receivables
These 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 'AFS investments' or 'Financial assets at FVPL'.

After initial measurement, 'Cash', 'Finance and lease receivables', and 'Other current assets' are subsequently measured at amortized cost 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 (EIR). The amortization is included in 'Interest income' in the profit or loss. The losses arising from impairment are recognized in 'Provision for credit and impairment losses' under 'operating expenses' in the profit or loss.

This accounting policy relates to the statement of financial position captions 'Cash', 'Finance and lease receivables', and 'Other current assets'.

Other financial liabilities
Other financial liabilities pertain to issued financial instruments that are not classified or designated as financial liabilities at FVPL and contains contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than the exchange of a fixed amount of cash 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.

Other financial liabilities are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process.

This accounting policy applies primarily to the Company's accounts and other payables.

Residual Value of Leased Assets
The residual value of leased assets is the estimated proceeds from the disposal of the leased asset at the end of the lease term.

Classification of Financial Instruments between Debt and Equity
A financial instrument is classified as debt if it provides for a contractual obligation to:
a. deliver cash or another financial asset to another entity; or
b. exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
c. 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.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Derecognition of Financial Assets and Liabilities
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of the group of financial assets) is derecognized when:
- the rights to receive cash flows from the asset have expired; or
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control over the asset.

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

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss.

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

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial asset carried at amortized cost
For cash in banks, finance and lease receivables and other current assets, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparties' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the profit or loss. Financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account.

If a future write-off is later recovered, any amounts formerly charged are credited to the ‘Miscellaneous income’.

For the purpose of a collective assessment for impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively assessed for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

When a financial asset is uncollectible, it is written off against the related allowance for credit losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the loan loss provision and are recognized in the profit or loss.

If, subsequently, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor’s credit rating), the previously recognized impairment loss is reversed by adjusting the provision. The amount of the reversal is recognized in the profit or loss.

Restructured receivables
Where possible, the Company seeks to restructure receivables, which may involve extending the payment arrangements and the agreement of new receivable conditions. Once the terms have been renegotiated, the receivable is no longer considered past due. Management continuously reviews restructured receivables to ensure that all criteria are met and that future payments are likely to occur.

The receivables continue to be subject to an individual or collective impairment assessment, calculated using the receivable’s original EIR. The difference between the recorded value of the original receivable and the present value of the restructured cash flows, discounted at the original EIR, is recognized in ‘Provision for credit and impairment losses’ under “Operating expenses’ in the profit or loss.

<u>Offsetting Financial Instruments</u>
Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and the Company intends to either settle on a net basis, or to realize the asset and the liability simultaneously. This is not generally the case with master-netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

<u>Property and Equipment</u>
Property and equipment are carried at cost less accumulated depreciation and any impairment loss. The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs to bring the asset to its working condition and location for its intended use. Expenditures incurred after items of property and equipment have been put into

operation, such as repairs and maintenance are normally charged against profit or loss in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed using the straight-line method over the estimated useful lives (EUL) of the respective assets.

The EUL of the property and equipment follow:

Office vehicle	5 years
Office equipment	3 to 5 years
Furniture and fixtures	3 to 5 years

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

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the profit or loss.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under 'Investment properties' upon either:

- entry of judgment in case of judicial foreclosure;
- execution of sheriff's certificate of sale in case of extra-judicial foreclosure; or
- notarization of the deed of dacion en payment in kind (dacion en pago).

The difference between the fair value of the asset acquired and the carrying amount of the asset given up is recognized under 'Gain on sale of investment properties' in the profit or loss.

Subsequent to initial recognition, investment properties are stated cost less accumulated depreciation and accumulated impairment losses, if any.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the profit or loss in the period of retirement or disposal. Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are charged against income in the year in which the costs are incurred.

Depreciation on condominium property is calculated on a straight-line basis over the estimated useful life of 25 years from the time of acquisition of the investment properties.

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

For transfers from investment property to owner-occupied property, the deemed cost of property for subsequent accounting is its depreciated cost at the date of change in use. If the property occupied by the Company as an owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under 'Property and equipment' up to the date of change in use.

As at December 31, 2013 and 2012, the Company had tract of land and condominium property classified as investment properties.

Impairment of Nonfinancial Assets

At each reporting date, the Company assesses whether there is any indication that its nonfinancial assets, which include advances, prepaid expenses, property and equipment and investment properties may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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 profit or loss. After such a reversal, the depreciation and amortization 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.

Revenue Recognition

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

Leasing income
The excess of aggregate lease rentals plus the estimated residual value over the cost of the leased equipment constitutes the unearned lease income. Residual values represent estimated proceeds from the disposal of equipment at the time the lease is terminated. The unearned lease income is amortized over the term of the lease, commencing on the month the lease is executed, using the effective interest method.

Finance income
Finance charges are included in the face value of the loans receivables financed and with a corresponding credit to the 'Unearned interest income' account. This is amortized to income over the term of the financing agreement using the effective interest method.

Unearned lease and interest income ceases to be amortized when finance receivables become past due for more than three months.

Gain on sale of investment properties
Gain on sale is recognized upon absolute sale of the investment properties.

Interest income
Interest on cash in banks are recognized as interest accrues, taking into account the effective yield on the asset.

Expense Recognition
Expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized when incurred.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:
a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. There is a substantial change to the asset.

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

Company as lessor
Finance leases, where the Company transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are included in the statement of financial position under "Finance and lease receivables". A lease receivable is recognized at an amount equivalent to the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. All income resulting from the receivable is included under "Revenue" in the profit or loss. The lease payments received from the lessee are treated as repayments of principal and lease income.

Company as lessee
Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the profit or loss on a straight-line basis over the lease term.

Retirement Liabilities
The Company operates a defined benefit retirement plan. The defined benefit liability is the aggregate of the present value of the defined benefit obligation at the end of the reporting period. The defined benefit liability is increased by the defined benefit cost, which consists of the current service cost.

The cost of providing benefits under the defined benefit plans is determined using the provisions of R.A. 7641. The management determines this method is not materially different from the projected unit credit method. In case of retirement, employees shall be entitled to receive such retirement benefits as may have been earned under the existing laws plus similar amount of benefits is added.

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

Deferred tax
Deferred tax is provided, using the balance sheet method, on all temporary differences at 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 exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and carryforward of unused excess MCIT over RCIT and unused NOLCO can be utilized.

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

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 future taxable income will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at 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 deferred taxes related to the same taxable entity and the same taxation authority.

Current tax and deferred tax relating to items recognized directly in equity is recognized in other comprehensive income, and not in the profit or loss.

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

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

Preferred Stock Classified as Liability
Preferred stock of the Company is a stock that has features not possessed by a common stock. It provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date. Non-discretionary dividends related to preferred stocks are recognized under "Interest expense" in the profit or loss.

Equity
Capital stock is measured at par value for all shares issued and outstanding. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. 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 not collectible currently.

Retained earnings (deficit) represent accumulated earnings of the Company less dividends declared, if any.

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

Related Party Transactions
Related party transactions pertain to transfers of resources, services or obligations between related parties, regardless of whether a price is charged. Related party transactions are recorded upon actual transfer of resources, services or obligations. Related party transactions are reported under "Other current assets" or "Accounts and other payables" accounts in the statement of financial position, as appropriate.

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

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

Effective in 2014

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

Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities* and PAS 27, *Separate Financial Statements*)
These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Company since none of the entities in the Company would qualify to be an investment entity under PFRS 10. The amendments have no impact on the Company's financial position or performance.

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

PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The amendments have no impact on the Company's financial position or performance.

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central

clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Company's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

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

Annual Improvements to PFRSs (2010-2012 cycle)

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

PFRS 2, *Share-based Payment - Definition of Vesting Condition*
The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Company as it has no share-based payments.

PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9, *Financial Instruments* (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Company shall consider this amendment for future business combinations.

PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments do not affect disclosures and have no impact on the Company's financial position or performance.

PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*
The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

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

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

PAS 24, *Related Party Disclosures - Key Management Personnel*
The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*
The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

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

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

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

Annual Improvements to PFRSs (2011-2013 cycle)

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

PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*
The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Company as it is not a first-time adopter of PFRS.

PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

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

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

PFRS 9, *Financial Instruments*
PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including

the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

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

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

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Company.

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3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRS requires the management to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosures of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates will be reflected in the financial statements as they become reasonably determinable. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

<u>Judgments</u>

(a) Assessment of functional currency

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

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

(b) *Operating leases*
The Company has entered into property lease as a lessee for its office premises. The Company has determined that the lessors retained all the significant risks and rewards of ownership of property.

(c) *Finance leases*
The Company has entered into finance leases. The Company has determined that it transfers all the significant risks and rewards of ownership of these properties which are leased out under finance leases.

(d) *Fair value of financial instruments*
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

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

(f) *Contingencies*
The amount of probable costs for the resolution of possible claims has been developed in consultation with outside legal counsel handling the Company's defense and is based upon the analysis of potential results. It is probable, however, that future results of operations will not be materially affected by changes in the estimates or in the effectiveness of the strategies relating to this proceeding (see Note 18).

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

<u>Estimates</u>
(a) *Credit losses on loans and receivables*
The Company reviews its loans and receivables to assess impairment annually. In determining whether an impairment loss should be recorded in the profit or loss, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers or national or local economic conditions that correlate with defaults on the loans and receivables. As at December 31, 2013 and 2012, the carrying values of finance and lease receivables and related allowance for credit losses are disclosed in Note 7.

(b) *Recognition of deferred tax assets*
The amount of deferred tax asset and liability recognized by the Company is based on the estimate of future taxable income. Significant management judgment is required to determine the amount of deferred tax asset that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning.

The Company reviews the carrying amount of deferred tax asset at each reporting date and reduces this to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax asset to be utilized. However, there is no assurance that the Company will generate sufficient future taxable profit to allow all or part of its deferred tax assets to be utilized. The Company did not set up deferred tax assets as at December 31, 2013, but recognized deferred tax assets in 2012 as discussed in Note 16.

(c) *Present value of retirement obligation*
The determination of the Company's obligation and cost of pension and other retirement benefits is based on R.A. No. 7641 as its arrangement is to provide retirement benefits to regular employees, where provision for benefit is over and above the existing law.

The retirement obligation amounted to ₱0.61 million and ₱0.55 million as at December 31, 2013 and 2012, respectively (see Note 12).

(d) *Impairment of nonfinancial assets*
The Company assesses impairment on property and equipment, investment properties and other current assets whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

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

The Company recognizes an impairment loss whenever the carrying amounts of nonfinancial assets exceed their recoverable amounts. As at December 31, 2013 and 2012, the Company recognized impairment of its investment properties as discussed in Note 10.

(e) *Estimated useful lives of property and equipment and investment properties*
The Company estimates the useful lives of its property and equipment and investment properties. This estimate is reviewed periodically to ensure that the periods of depreciation are consistent with the expected pattern of economic benefits from the items of property and equipment and investment properties. Refer to accounting policy of property and equipment and investment properties in Note 2 for the estimated useful lives.

4. Fair Value Measurement

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

The fair values of cash, current portion of finance and lease receivables, advances, security deposits, accrued expenses and other payables approximate their carrying values due to their short-term maturities.

The following table summarizes the carrying amounts and the fair values by level of the fair value hierarchy of the Company's financial assets as at December 31:

	2013	
	Carrying Value	**Fair value measurement using significant unobservable inputs (Level 3)**
Assets for which fair values are disclosed:		
Finance and lease receivables		
Lease receivables	**₱17,164,032**	**₱18,894,265**
Finance receivables	**16,461,460**	**20,287,771**
Investment properties	**5,134,992**	**8,556,147**
	₱38,760,484	**₱47,738,183**

	2012	
	Carrying Value	Fair value measurement using significant unobservable inputs (Level 3)
Assets for which fair values are disclosed:		
Finance and lease receivables		
Lease receivables	₱13,596,568	₱14,734,446
Finance receivables	22,573,161	23,516,147
Investment properties	9,974,604	20,542,000
	₱46,144,333	₱58,792,593

The fair values of finance and lease receivables are computed by discounting the expected cash flows using the bank average lending rates as at December 31, 2013 and 2012. Fair value of the investment properties are based on appraisal made by an independent appraisers as at December 31, 2013 and 2012 (see Note 10).

The Company does not have financial instruments carried at fair value as at December 31, 2013 and 2012.

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

5. Financial Risk Management Objectives and Policies

Integral to the Company's business process is risk management. The Company operates an integrated risk management system to address the risk it faces in its financial activities particularly credit risk, market risk, interest rate and liquidity risk. Exposures across these risks areas are regularly identified, measured, controlled and monitored and reported to the Board of Directors (BOD). The BOD directs the Company's overall risk management strategy and performs an oversight function on the Company's implementation of its risk policies. Furthermore, the BOD reviews, approves and ensures effective implementation of the risk management framework. It approves risk-related policies, oversees limits to discretionary authority that delegates to management and evaluate the magnitude, distribution and direction of risk in the Company.

Credit Risk

Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company drives credit risk management fundamentally via its credit policy system, the provisions of which are regularly reviewed and updated to reflect changing risk conditions. The credit policy system defines the principles and parameters governing credit activities, ensuring that each account's credit worthiness is thoroughly examined and regularly reviewed.

Management of credit risk

The Company faces potential credit risks every time it extends loans to borrowers and enters to finance lease transactions.

Exposure to credit risk is managed through regular analysis of the ability of the borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate.

Maximum exposure to credit risk

The carrying value of the Company's cash, finance and lease receivables and other financial current assets reflects its maximum exposure to credit risk.

An analysis of the maximum exposure to credit risk as at December 31, 2013 and 2012:

	2013			
	Maximum credit exposure	**Fair value of collateral**	**Net exposure**	**Financial effect of collateral or credit enhancement**
Lease receivables	**₱17,164,032**	**₱5,536,056**	**₱11,627,976**	**₱5,249,279**
Finance receivables	**16,461,460**	**5,808,000**	**10,653,460**	**5,808,000**
	₱33,625,492	**₱11,344,056**	**₱22,281,436**	**₱11,057,279**

	2012			
	Maximum credit exposure	Fair value of collateral	Net exposure	Financial effect of collateral or credit enhancement
Lease receivables	₱13,596,568	₱4,264,830	₱9,331,738	₱3,871,601

The collaterals held by the Company for lease receivables pertain to postdated checks provided by the client. The collaterals for finance receivables pertain to tract of land.

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

Additionally, the tables below show the distribution of maximum credit exposure by industry sector of the Company as at December 31, 2013 and 2012:

	2013			
	Cash in Banks	**Finance and Lease Receivables**	**Other Financial Current Assets**	**Total**
Financial institutions	**₱10,585,619**	**₱11,714,663**	**₱–**	**₱22,300,282**
Education	**–**	**16,409,911**	**–**	**16,409,911**
Health and social work	**–**	**6,065,904**	**–**	**6,065,904**
Real estate	**–**	**–**	**49,600**	**49,600**
Other community, social and personal service activities	**–**	**–**	**23,102**	**23,102**
	10,585,619	**34,190,478**	**72,702**	**44,848,799**
Less allowance for credit losses	**–**	**555,986**	**–**	**555,986**
Total	**₱10,585,619**	**₱33,634,492**	**₱72,702**	**₱44,292,813**

	2012			
	Cash in Banks	Finance and Lease Receivables	Other Financial Current Assets	Total
Financial institutions	₱10,889,518	₱13,816,281	₱–	₱24,705,799
Education	–	12,038,591	–	12,038,591
Health and social work	–	10,623,478	–	10,623,478
Real estate	–	–	49,600	49,600
Other community, social and personal service activities	–	–	64,374	64,374
	10,889,518	36,478,350	113,974	47,481,842
Less allowance for credit losses	–	–	–	–
Total	₱10,889,518	₱36,478,350	₱113,974	₱47,481,842

Credit quality per class of financial assets
The credit quality of financial assets is monitored and managed based on the credit standing and history.

High grade - These are bank deposits, receivables or advances which have a high probability of collection. The counterparty has the apparent ability to satisfy its obligation and the securities on the receivables are readily enforceable.

Standard grade - These are bank deposits, receivables or advances where collections are probable due to the reputation and the financial ability of the counterparty to pay but with experience of default.

The table below shows the credit quality per class of loans and receivables (gross of allowance for credit losses and unearned interest) as at December 31, 2013 and 2012:

	2013				
	Neither past due nor impaired				
	High Grade	**Standard grade**	**Past due but not impaired**	**Impaired**	**Total**
Cash in banks	**₱10,157,871**	**₱427,748**	**₱–**	**₱–**	**₱10,585,619**
Receivable from customers:					
Lease receivables	–	**18,209,023**	**823,445**	**1,082,875**	**20,115,343**
Finance receivables	–	–	–	**16,903,488**	**16,903,488**
Other receivables:					
Interest receivable	–	**9,000**	–	–	**9,000**
Other current assets:					
Advances	–	**23,102**	–	–	**23,102**
Security deposits	–	**49,600**	–	–	**49,600**
	₱10,157,871	**₱18,718,473**	**₱823,445**	**₱17,986,363**	**₱47,686,152**

	2012				
	Neither past due nor impaired				
	High Grade	Standard grade	Past due but not impaired	Impaired	Total
Cash in banks	₱10,889,518	₱–	₱–	₱–	₱10,889,518
Receivable from customers:					
Lease receivables	–	13,669,756	1,654,932	–	15,324,688
Finance receivables	–	20,353,125	2,312,500	–	22,665,625
Other receivables:					
Interest receivable	–	251,590	57,031	–	308,621
Other current assets:					
Advances	–	64,374	–	–	64,374
Security deposits	–	49,600	–	–	49,600
	₱10,889,518	₱34,388,445	₱4,024,463	₱–	₱49,302,426

The breakdown of "past due but not impaired" are as follows:

	2013				
	Past due but not impaired				
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 90 days**	**Total**
Lease receivables	**₱648,090**	**₱175,355**	**₱–**	**₱–**	**₱823,445**

	2012				
	Past due but not impaired				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Receivable from customers:					
Lease receivables	₱797,714	₱658,471	₱198,747	₱–	₱1,654,932
Finance receivables	1,312,500	–	437,500	562,500	2,312,500
Other receivables:					
Interest receivable	–	–	57,031	–	57,031
	₱2,110,214	₱658,471	₱693,278	₱562,500	₱4,024,463

Carrying amount per class of finance and lease receivables which terms have been renegotiated
Restructured receivables have principal terms and conditions that have been modified in accordance with an agreement setting forth a new plan of payment or a schedule of payment on a periodic basis. When the receivable account becomes past due and is being restructured or extended, the approval of the BOD is required before loan restructuring. No finance lease contracts were restructured as at December 31, 2013 and 2012. Restructured finance receivables have carrying amount of ₱16.46 million and nil in 2013 and 2012, respectively.

Market Risk
Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates. The Company's market risk is very minimal because the primary financial assets of the Company are finance and lease receivables which are not traded in active market and are measured at amortized cost. As regards to the Company's financial liabilities, account and other payables are non-interest bearing.

Liquidity Risk
Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Company's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

Liquidity risk is managed by the Company through holding sufficient liquid assets and appropriate assessment to ensure short-term funding requirements are met and by ensuring the high collection performance at all times. In addition, the Company maintains sufficient liquid assets to take advantage of favorable investment opportunities when it arises.

The tables below summarize the maturity profile of the financial instruments of the Company based on contractual undiscounted cash flows:

	2013					
	On demand	**Due within 1 month**	**1 to 3 months**	**3 to12 months**	**Beyond 1 year**	**Total**
Financial Assets						
Cash in banks	**₱10,585,619**	**₱–**	**₱–**	**₱–**	**₱–**	**₱10,585,619**
Finance and lease receivables – gross						
Finance receivables						
Principal	**150,964**	**151,381**	**304,026**	**1,389,851**	**14,964,402**	**16,960,624**
Interest	**168,513**	**167,003**	**329,461**	**1,406,717**	**4,907,771**	**6,979,465**
Lease receivables						
Principal	**1,257,966**	**697,333**	**1,523,325**	**6,709,622**	**7,102,264**	**17,290,510**
Interest	**219,743**	**222,638**	**414,132**	**1,353,680**	**614,640**	**2,824,833**
Interest receivables	**9,000**	**–**	**–**	**–**	**–**	**9,000**
Advances	**23,102**	**–**	**–**	**–**	**–**	**23,102**
Security deposits	**1,000**	**–**	**–**	**48,600**	**–**	**49,600**
Total Financial Assets	**12,415,907**	**1,238,355**	**2,570,944**	**10,908,470**	**27,589,077**	**54,722,753**
Financial Liabilities						
Other payables	**9,829**	**–**	**–**	**–**	**–**	**9,829**
Interest payable	**250,000**	**–**	**–**	**–**	**–**	**250,000**
Accrued expenses	**157,159**	**–**	**–**	**–**	**–**	**157,159**
Total Financial Liabilities	**416,988**	**–**	**–**	**–**	**–**	**416,988**
Net	**₱11,998,919**	**₱1,238,355**	**₱2,570,944**	**₱10,908,470**	**₱27,589,077**	**₱54,305,765**

	2012					
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Assets						
Cash in banks	₱10,889,518	₱–	₱–	₱–	₱–	₱10,889,518
Finance and lease receivables - gross						
Finance receivables						
Principal	3,312,500	945,313	959,209	9,404,879	8,043,724	22,665,625
Interest	1,134,531	88,945	78,829	663,930	495,132	2,461,367
Lease receivables						
Principal	1,371,099	712,837	1,452,715	5,876,349	3,899,734	13,312,734
Interest	283,834	154,859	282,678	766,011	524,572	2,011,954
Interest receivables	102,656	155,183	50,781	–	–	308,620
Advances	64,374	–	–	–	–	64,374
Security deposits	1,000	–	–	48,600	–	49,600
Total Financial Assets	17,159,512	2,057,137	2,824,212	16,759,769	12,963,162	51,763,792
Financial Liabilities						
Interest payable	600,000	–	–	–	–	600,000
Accrued expenses	46,407	–	–	–	–	46,407
Total Financial Liabilities	646,407	–	–	–	–	646,407
Net	₱16,513,105	₱2,057,137	₱2,824,212	₱16,759,769	₱12,963,162	₱51,117,385

6. Cash

This account consists of:

	2013	2012
Cash on hand	**₱15,000**	₱15,000
Cash in banks	**10,585,619**	10,889,518
	₱10,600,619	₱10,904,518

Cash in banks represent funds deposited with domestic banks which are used by the Company as part of its working funds. It earns interest income at annual rates ranging from 0.25% to 6.00% and 0.25% to 2.00% in 2013 and 2012, respectively. Interest income earned amounted to ₱0.09 million and ₱0.10 million in 2013 and 2012, respectively.

7. Finance and Lease Receivables

This account consists of:

	2013	2012
Receivables from customers:		
Loans receivable:		
Finance receivable	**₱16,903,488**	₱22,665,625
Less unearned interest income	**107,632**	92,464
	16,795,856	22,573,161
Lease contracts receivable:		
Lease receivable	**20,115,343**	15,324,688
Less unearned lease income	**2,729,721**	1,728,120
	17,385,622	13,596,568

(Forward)

	2013	2012
Accrued interest receivables	**₱9,000**	₱308,621
	34,190,478	36,478,350
Less allowance for credit losses	**555,986**	–
	33,634,492	36,478,350
Less noncurrent portion	**22,003,571**	11,943,459
Current portion	**₱11,630,921**	₱24,534,891

Finance receivables are restructured loans to a bank and a foundation with effective interest rates of 12.03% and 12.19% per annum on outstanding balance, payable in five years. Lease receivables pertain to finance lease of computer and other equipment (see Note 14).

An analysis of the finance and lease receivables (excluding accrued interest) as at December 31, 2013 and 2012 is presented as follows:

	Finance Receivables		Lease Receivables	
	2013	2012	**2013**	2012
Due within 1 year	**₱1,514,315**	₱14,621,900	**₱12,398,439**	₱10,900,382
Less unearned interest income	**(5,883)**	(92,464)	**(2,112,841)**	(1,203,548)
	1,508,432	14,529,436	**10,285,598**	9,696,834
Less allowance for credit losses	**(29,890)**	–	**(142,219)**	–
	1,478,542	14,529,436	**10,143,379**	9,696,834
Due beyond 1 year but not more than 5 years	**15,389,173**	8,043,725	**7,716,904**	4,424,306
Less unearned interest income	**(101,749)**	–	**(616,880)**	(524,572)
	15,287,424	8,043,725	**7,100,024**	3,899,734
Less allowance for credit losses	**(304,506)**	–	**(79,371)**	–
	14,982,918	8,043,725	**7,020,653**	3,899,734
	₱16,461,460	₱22,573,161	**₱17,164,032**	₱13,596,568

An analysis of the finance lease receivables as at December 31, 2013 and 2012 is presented as follows:

	2013		
	Not later than one year	**Later than one year and less than five years**	**Total**
Minimum lease payments	**₱11,483,626**	**₱5,488,348**	**₱16,971,974**
Residual value of leased assets	**914,813**	**2,228,556**	**3,143,369**
Gross investment in leases	**12,398,439**	**7,716,904**	**20,115,343**
Less unearned lease income	**(2,112,841)**	**(616,880)**	**(2,729,721)**
	10,285,598	**7,100,024**	**17,385,622**
Less allowance for credit losses	**(142,219)**	**(79,371)**	**(221,590)**
Net investment in finance lease	**₱10,143,379**	**₱7,020,653**	**₱17,164,032**

	2012		
	Not later than one year	Later than one year and less than five years	Total
Minimum lease payments	₱8,964,302	₱3,684,670	₱12,648,972
Residual value of leased assets	1,936,080	739,636	2,675,716
Gross investment in leases	10,900,382	4,424,306	15,324,688
Less unearned lease income	(1,203,548)	(524,572)	(1,728,120)
	₱9,696,834	₱3,899,734	₱13,596,568

As at December 31, 2013, the movement of the allowance for credit losses for finance and lease receivables is as follows:

	Finance Receivables	Lease Receivables	Total
Balance at the beginning of year	₱–	₱–	₱–
Provisions during the year	334,396	221,590	555,986
Balance at end of year	₱334,396	221,590	555,986
Collective impairment	₱–	₱190,325	₱190,325
Individual impairment	334,396	31,265	365,661
	₱334,396	₱221,590	₱555,986
Gross amounts of receivables individually determined to be impaired, before deducting any individually assessed impairment losses	₱16,903,488	₱1,082,875	₱17,986,363

All finance receivables are subjected to specific impairment while lease receivables are subjected to specific and collective impairment. In 2012, the Company provided no specific and collective impairment.

The breakdown of revenue earned from finance and lease receivables is as follows:

	2013	2012
Finance income	**₱2,190,134**	₱2,940,013
Leasing income	**2,365,983**	1,224,548
	₱4,556,117	₱4,164,561

8. Other Current Assets

This account consists of:

	2013	2012
Financial assets		
Security deposits	**₱49,600**	₱49,600
Advances	**23,102**	64,374
Nonfinancial assets		
Prepaid expenses	**80,501**	132,787
Advances	**50,000**	–
	₱203,203	₱246,761

Advances classified as financial asset pertain to current receivables of the Company which are collectible in the next period. Advances classified as nonfinancial asset refer to receivable from a stockholder due for liquidation in the subsequent year.

Security deposits are amount paid to lessor of the office building which will be returned upon the expiration of the lease contract, which is within one year.

Prepaid expenses pertain to unexpired insurance of the Company's employees and vehicle for the year and the balance of excess quarterly income tax payments over the corporate tax computed in 2012 which is still unused as at December 31, 2013 and 2012.

9. Property and Equipment

The composition of and movements in this account follow:

	2013			
	Office Vehicle	**Office Equipment**	**Furniture and Fixtures**	**Total**
Cost				
Balance at beginning of year	**₱883,419**	**₱613,654**	**₱75,490**	**₱1,572,563**
Additions	**–**	**12,700**	**–**	**12,700**
Balance at end of year	**883,419**	**626,354**	**75,490**	**1,585,263**
Accumulated Depreciation				
Balance at beginning of year	**29,447**	**399,622**	**54,217**	**483,286**
Depreciation	**176,684**	**107,046**	**9,121**	**292,851**
Balance at end of year	**206,131**	**506,668**	**63,338**	**776,137**
Net Book Value	**₱677,288**	**₱119,686**	**₱12,152**	**₱809,126**

	2012			
	Office Vehicle	Office Equipment	Furniture and Fixtures	Total
Cost				
Balance at beginning of year	₱–	₱418,704	₱75,490	₱494,194
Additions	883,419	194,950	–	1,078,369
Balance at end of year	883,419	613,654	75,490	1,572,563
Accumulated Depreciation				
Balance at beginning of year	–	300,062	39,119	339,181
Depreciation	29,447	99,560	15,098	144,105
Balance at end of year	29,447	399,622	54,217	483,286
Net Book Value	₱853,972	₱214,032	₱21,273	₱1,089,277

As at December 31, 2013 and 2012, the cost of fully depreciated property and equipment of the Company amounted to ₱0.45 million and ₱0.23 million, respectively.

10. **Investment Properties**

The composition of and movement in this account follow:

	2013		
	Land	**Condominium**	**Total**
Cost			
Balance at beginning of year	**₱7,632,264**	**₱2,788,500**	**₱10,420,764**
Disposals	**(3,202,298)**	**–**	**(3,202,298)**
Balance at end of year	**4,429,966**	**2,788,500**	**7,218,466**
Accumulated Depreciation			
Balance at beginning of year	**–**	**446,160**	**446,160**
Depreciation	**–**	**118,802**	**118,802**
Balance at end of year	**–**	**564,962**	**564,962**
Allowance for Impairment Losses			
Balance at beginning of year	**–**	**–**	**–**
Provision for impairment losses	**508,800**	**1,009,712**	**1,518,512**
Balance at end of year	**508,800**	**1,009,712**	**1,518,512**
Net Book Value	**₱3,921,166**	**₱1,213,826**	**₱5,134,992**

	2012		
	Land	Condominium	Total
Cost			
Balance at beginning of year	₱8,110,090	₱2,788,500	₱10,898,590
Disposals	(477,826)	–	(477,826)
Balance at end of year	7,632,264	2,788,500	10,420,764
Accumulated Depreciation			
Balance at beginning of year	–	334,620	334,620
Depreciation	–	111,540	111,540
Balance at end of year	–	446,160	446,160
Net Book Value	₱7,632,264	₱2,342,340	₱9,974,604

The Company recognized gain on sale of land net of related commission amounting to ₱6.12 million and ₱0.61 million in 2013 and 2012, respectively.

The fair values of the Company's investment properties have been determined based on valuations made by independent appraisers on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made and based on the new definition of fair value.

	Valuation technique	**Significant unobservable inputs**
Land	Market approach	Size, location, shape and time element

Description of the valuation techniques used to valuation of the Company investment properties are as follow:

Market data approach	A comparable method wherein the value of the property is based on sales and listings of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those

	actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject property. Comparison would be premised on the factors of location, size and shape of the lot, and time element.
Size	Physical magnitude, extent or bulk, relative or proportionate dimensions. The value of the lot varies in accordance to the size of the lots. Basic rule of thumb is the bigger the lot size the lower the value, the smaller the lot size the higher the value.
Shape	Particular form or configuration. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	For a tract of land designated for a purpose or site occupied or available for occupancy, one of the key factors in land valuation is the location or area of preference.
Time element	The measured or measurable period during action or condition exist. It is usually associated with the period in which the property can be sold in an open market within reasonable time.

11. **Accounts and Other Payables**

This account consists of:

	2013	2012
Financial liabilities		
Accrued expenses	**₱157,159**	₱46,407
Other payables	**9,829**	–
	166,988	46,407
Nonfinancial Liabilities		
Installment payment on land	**229,880**	1,796,207
Advances from customer	**83,563**	–
Percentage and withholding tax payable	**12,089**	19,861
	325,532	1,816,068
	₱492,520	₱1,862,475

Accrued expenses refer to expenses incurred but not yet paid during the current year such as telephone expense, transportation and office supplies expenses.

Installment payment on land pertains to partial payment made by customers on conditional sale of lots.

Advances from customer refer to overpayment made by a lessee in 2013.

12. **Retirement Benefits**

The Company provides for the estimated retirement benefits required to be paid under RA No. 7641.

Under revised PAS 19, *Employee Benefits*, the cost of the defined retirement benefits, including those mandated under RA No. 7641, should be determined by actuarial valuation which the Company did not undertake. Management believes that the defined benefit obligation computed using the provisions of RA No. 7641 is not materially different with the amount computed using the projected unit credit method required under PAS 19R.

The composition and movement in this account follow:

	2013	2012
Balance at beginning of the year	**₱548,017**	₱473,558
Retirement benefits expense for the period	**59,012**	74,459
Balance at end of year	**₱607,029**	₱548,017

Retirement benefit expense is lumped under "Compensation and fringe benefits" account of the operating expenses (see Note 15).

13. **Equity**

The Company's authorized capital stock amounted to ₱50.00 million, consisting of 42,500 common shares and 7,500 preferred shares with par value of ₱1,000 per share.

Common Stock and Treasury Stock

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

	2013		2012	
	Shares	**Amount**	Shares	Amount
Issued and outstanding	**42,500**	**₱42,500,000**	42,489	₱42,489,000
Held in treasury	**(2,778)**	**(2,901,307)**	–	–
Subscribed	–	–	11	11,000
Subscription receivables	–	–	(11)	(11,000)
	39,722	**₱39,598,693**	42,489	₱42,489,000

In 2013, 2,778 shares were received by the Company as settlement of an outstanding loan of a stockholder. These shares were held in treasury at a cost of ₱2.90 million.

Subscription receivables amounting to ₱0.01 million and ₱0.06 million were collected in 2013 and 2012, respectively.

Preferred Stock

In 2008, the Company issued its preferred stocks amounting to ₱7.5 million which consists of 7,500 shares with par value of ₱1,000 to CARD MBA with the following conditions:

- Guaranteed dividend rate of 8% or ₱0.60 million per annum.
- Mandatory redemption after the term of 5 years, subject to renewal.

In May 2013, the Company redeemed the shares. In August 2013, CARD MBA renewed the preferred shares subject to the same terms and conditions.

The above conditions satisfy the criteria of a financial liability per PAS 39 AG25 and thus, require the presentation of preferred shares in noncurrent liability and the related guaranteed dividend as interest expense. Interest expense incurred amounted to ₱0.57 million and ₱0.60 million in 2013 and 2012, respectively. However, ₱0.25 million and ₱0.60 million remain unpaid as at December 31, 2013 and 2012, respectively.

Deposit for future stock subscription
On March 26, 2011, the BOD approved the increase of authorized capital stock to ₱200 million, consisting of 200,000 common shares with par value of ₱1,000 per share. As at December 31, 2013 and 2012, deposit for future stock subscription amounted to nil and ₱7.14 million, respectively. The application is still subject to approval of SEC and as such, does not qualify as equity in accordance with any of the criteria set under SEC Financial Reporting Bulletin No. 006.

In 2013, the planned increase in authorized capital stock did not materialize and resulted to the return of deposits to the stockholders with reimbursement for the cost of capital. Interest expense recognized in profit or loss amounted to ₱0.47 million.

Capital Management
The Company manages its capital structure and makes adjustments to it, in light of changes in business and general economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders, return capital structure of issue capital securities.

The BOD regularly reviews the Company's policies on capital management and allocation.

No changes were made in the Company's capital management objectives, policies or processes during the years ended December 31, 2013 and 2012.

14. **Leases**

Finance leases - Company as a lessor
The Company entered into finance lease agreements with various parties primarily involving educational institutions. These are paid through monthly amortization and generally have terms of 24 to 36 months with implicit rates of 13.60% to 18.59%. Leasing income amounted to ₱2.37 million and ₱1.22 million in 2013 and 2012, respectively (see Note 7).

Operating leases - Company as a lessee
The Company leases its office premises for a cancellable term of one year which is renewable every end of term.

The Company incurred rent expense of ₱0.22 million in both 2013 and 2012 (see Note 13).

15. **Operating Expenses**

This account consists of:

	2013	2012
Provision for credit and impairment losses (Notes 7 and 10)	**₱2,074,498**	₱–
Compensation and fringe benefits (Note 17)	**1,209,151**	1,221,393
Interest (Note 13)	**1,051,012**	600,000
Travelling and transportation	**769,259**	715,230
Depreciation expense (Notes 9 and 10)	**411,653**	255,645
Professional fee	**308,440**	268,354
Taxes and licenses	**296,169**	271,756
Honorarium	**282,000**	144,000
Rent (Note 14)	**217,728**	217,728
Postage, telephone and cables	**183,898**	200,986
Office supplies	**116,035**	126,478
Marketing	**73,246**	143,925
Representation	**39,923**	18,397
Miscellaneous	**261,159**	353,545
	₱7,294,171	₱4,537,437

16. **Income Taxes**

Under Philippine tax laws, the Company is subject to percentage and other taxes (presented as ‘Taxes and licenses’ in the profit or loss) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax.

Income taxes include corporate income tax, as discussed below, and final taxes paid at the rate of 20.00%, which is a final withholding tax on gross interest income from deposit substitutes.

RA No. 9337, *An Act Amending National Internal Revenue Code*, provides that RCIT rate is 30.00%. Interest expense allowed as deductible expense is reduced by 33.00% of interest income subject to final tax.

Current tax regulation also 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, the EAR allowed as a deductible expense for a service company is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. The Company’s EAR expenses included under ‘Representation’ expenses in the profit or loss amounted to ₱0.04 million in 2013 and ₱0.02 million in 2012, respectively (see Note 15).

Provision for income tax consists of:

	2013	2012
Current	**₱68,119**	₱79,132
Deferred	**246,677**	511,467
Final	**18,085**	19,703
	₱332,881	₱610,302

Current income tax refers to MCIT in 2013 and 2012.

The breakdown of the deferred tax assets of the Company is as follows:

	2013	2012
Allowance for credit and impairment losses	**₱622,349**	₱–
MCIT	**223,145**	246,677
Retirement liabilities	**182,109**	164,405
NOLCO	**82,411**	–
	₱1,110,014	₱411,082

In 2013, the Company did not recognize deferred tax assets because it is not probable that future taxable profits will be available against which the deductible temporary difference can be utilized. As such, the MCIT recognized in 2012 was reversed. In 2012, the Company recognized as deferred tax assets its MCIT but not its retirement liabilities.

The details of the unexpired MCIT follow:

Year Incurred	Amount	Expired	Balance	Expiry Year
2013	₱68,119	₱–	₱68,119	2016
2012	79,132	–	79,132	2015
2011	75,894	–	75,894	2014
2010	91,651	91,651	–	2013
	₱314,796	₱91,651	₱223,145	

The NOLCO incurred in 2013 will expire in 2016.

The reconciliation between the statutory income tax and the effective income tax follows:

	2013	2012
Statutory income tax	**₱1,040,588**	₱101,335
Income tax effects of:		
Gain on sale subjected to capital gains taxes	**(1,834,876)**	(183,643)
Change in unrecognized deferred tax asset	**945,609**	102,110
Expired MCIT	**91,651**	121,673
Nondeductible expenses	**90,000**	–
Interest income subject to final tax	**(9,043)**	(9,852)
Nondeductible interest expense	**8,952**	9,753
Expired NOLCO	–	468,926
	₱332,881	₱610,302

17. **Related Party Transactions**

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

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members, and

- other related parties within the CARD MRI Group

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

Remunerations of Directors and Other Key Management Personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The Company considers the members of the board of directors and senior management to constitute key management personnel for purposes of PAS 24. As at December 31, 2013 and 2012, no short-term and post-employment benefits are provided to key management personnel.

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

Honorarium, accounts receivable and accounts payable
Accounts receivable and accounts payable held by the Company and for key management personnel, shareholder and other related parties as at December 31, 2013 and 2012 follow:

	December 31, 2013		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Key Management Personnel			
Honorarium	**₱282,000**	**₱–**	Amounts given to BOD when they attend on special or regular meetings
Other current assets	**50,000**	**50,000**	Advances made to key management personnel and collectible in the next period
Parent Company			
Accounts and other payables	**620**	**620**	Share in communication and postage

	December 31, 2012		
Category		Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Other current assets	₱7,372	₱7,372	Advances made to key management personnel and collectible in the next period

18. Commitments and Contingencies

In the normal course of the Company's operations, there are no outstanding commitments to extend credit, which are not reflected in the accompanying financial statements.

As at December 31, 2013 and 2012, the Company does not have commitments and contingencies that will have material effect on the financial statements.

19. **Correction of Prior Period Errors**

In 2013, the Company restated its 2012 financial statements to effect the correction of errors pertaining to 2012 noted during 2013.

The tables below show the reconciliation of previously reported and restated balances of financial statement accounts affected by the restatements as discussed above:

2012	As previously reported		Prior period adjustments	As restated
Statement of financial position				
Property and equipment	₱1,104,522	a	(₱15,245)	₱1,089,277
Loans receivables	22,960,965	b	(387,804)	22,573,161
Lease receivables	13,246,821	c	349,747	13,596,568
Accrued interest receivable	–	d	308,621	308,621
Accounts and other payables	1,845,882	e	16,592	1,862,474
Retained earnings (deficit)	(1,440,281)	a & d	238,726	(1,201,555)
Statement of comprehensive income				
Finance and lease income	3,716,208	d	448,352	4,164,560
Interest income	78,813	f	19,703	98,516
Other income- service charge	240,373	b	(240,373)	–
Operating expenses	2,734,672	g	628,773	3,363,445
Provision for income tax	590,599	f	19,703	610,302

2011	As previously reported		Prior period adjustments	As restated
Statement of financial position				
Property and equipment	₱2,122,788	a	(₱3,065)	₱2,119,723
Lease receivables	2,997,040	c	62,585	3,059,625
Retained earnings (deficit)	(988,554)	a & c	59,519	(929,035)

The nature of the restatement amounts as shown in the table above is as follows:

a Correction of the depreciation recognized in 2012 amounting to ₱965 upward adjustments to office equipment, ₱14,723 and ₱1,487 downward adjustments to Office vehicle and furniture and fixtures, respectively. In 2011, depreciation has ₱1,578 and ₱1,487 downward adjustments to office equipment and furniture and fixtures, respectively.

b Loans receivables had downward adjustments of ₱2.57 million from gross loans receivables and ₱2.18 million upward adjustments from unearned interest income to reflect its carrying value using EIR. Service charge of ₱0.24 million were closed to unearned interest income to be considered in computation of EIR.

c. Residual value of ₱2.68 million and ₱0.70 million were reclassified to lease receivables account in 2012 and 2011, respectively. Upward adjustments of ₱0.35 million and ₱0.63 million from unearned lease income were made to reflect its carrying value in compliance with PAS 17, *Leases*.

d. Recognition of accrued interest from loans receivable amounting to ₱0.31 million.

e. Recognition of accrued expense payables for the unrecorded liabilities as at December 31, 2012 amounting to ₱0.02 million.

f. Adjustment to gross up interest income from cash in banks to reflect the final tax paid amounting to ₱0.02 million.
g. Reclassification of dividends paid from preferred stocks to interest expense amounting to ₱0.60 million.

20. Notes to Statement of Cash Flows

The following is the summary of noncash activities in 2013 and 2012:

	2013	2012
Noncash operating activities:		
Application of prepaid income tax to current tax	**₱68,119**	₱79,132
Noncash investing activities:		
Application of accumulated installment payments on conditional sales of investment properties	**3,906,108**	–
Noncash financing activities:		
Treasury shares held in payment of finance receivables	**(2,901,307)**	6,875,000

21. Approval for the Release of the Financial Statements

The accompanying financial statements of the Company were authorized for issue by the Company's BOD on March 31, 2014.

22. Supplementary Information Required Under RR 15-2010

On November 25, 2010, the BIR issued RR 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying the tax returns. It includes provisions for additional disclosure requirements in the notes to the financial statements, particularly on taxes and licenses paid or accrued during the year. The components of 'Taxes and licenses' recognized in the profit or loss for the year ended December 31, 2013, follow:

Percentage taxes	₱224,115
Permits and licenses	39,774
Real property taxes	17,655
Registration fees	12,625
Others	2,000
	₱296,169

Percentage taxes in 2013 consist of taxes on interest income on loans and finance lease amounting to ₱4.56 million.

Withholding and unpaid taxes in 2013 are categorized into:

Paid:	
Expanded withholding tax	₱169,205
Withholding taxes on compensation and benefits	168,369
	337,574

Accrued:	
Percentage tax payable	₱9,709
Expanded withholding tax	2,380
	₱12,089

Tax Contingencies

In 2013, the Company has no deficiency tax assessment, whether protested or not, nor tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies within and outside the Bureau of Internal Revenue.