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

Financial Statements
December 31, 2014 and 2013

and

Independent Auditors' Report

SGV
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A member firm of Ernst & Young Global Limited

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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Shareholders 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 RISE Financing Company, Inc., which comprise the statements of financial position as at December 31, 2014 and 2013, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of RISE Financing Company, Inc. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 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 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 a whole.

SYCIP GORRES VELAYO & CO.

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PTR No. 4751296, January 5, 2015, Makati City

April 6, 2015

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

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2014	2013
ASSETS		
Current Assets		
Cash (Note 6)	**₱3,041,344**	₱10,600,619
Finance and lease receivables (Note 7)	**24,651,223**	11,630,921
Other current assets (Note 8)	**206,159**	203,203
	27,898,726	22,434,743
Noncurrent Assets		
Finance and lease receivables - net of current portion (Note 7)	**9,935,605**	22,003,571
Property and equipment (Note 9)	**1,903,929**	809,126
Investment properties (Note 10)	**3,609,186**	5,134,992
	15,448,720	27,947,689
	₱43,347,446	₱50,382,432
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other accrued expenses (Note 11)	**₱1,230,233**	₱492,520
Loans payable (Note 12)	**2,500,000**	–
Interest payable (Notes 12 and 14)	**63,333**	250,000
	3,793,566	742,520
Noncurrent Liabilities		
Retirement liabilities (Note 13)	**104,181**	607,029
Loans payable (Note 12)	**2,500,000**	–
Preferred stock classified as liability (Note 14)	**–**	7,500,000
Deferred tax liability (Notes 13 and 17)	**178,316**	–
	2,782,497	8,107,029
	6,576,063	8,849,549
Equity		
Common stock (Note 14)	**42,500,000**	42,500,000
Treasury stock (Note 14)	**(2,901,307)**	(2,901,307)
Retained earnings (deficit)	**(3,243,380)**	1,934,190
Remeasurement gains on retirement liabilities (Note 13)	**416,070**	–
	36,771,383	41,532,883
	₱43,347,446	₱50,382,432

See accompanying Notes to Financial Statements.

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

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2014	2013
REVENUE (Notes 7 and 15)	**₱3,664,706**	₱4,556,117
OPERATING EXPENSES (Note 16)	**9,690,269**	7,294,171
OPERATING LOSS	**(6,025,563)**	(2,738,054)
OTHER INCOME		
Gain on sale of investment properties (Note 10)	**388,039**	6,116,252
Interest income (Note 6)	**10,737**	90,428
Miscellaneous income	**494,309**	–
INCOME (LOSS) BEFORE INCOME TAX	**(5,132,478)**	3,468,626
PROVISION FOR INCOME TAX (Note 17)	**45,092**	332,881
NET INCOME (LOSS) AFTER TAX	**(5,177,570)**	3,135,745
OTHER COMPREHENSIVE INCOME (Note 13)	**416,070**	–
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱4,761,500)**	₱3,135,745

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 14)	**Treasury Stock** (Note 14)	**Retained Earnings (Deficit)**	**Remeasurement Gains on Retirement Liabilities** (Note13)	**Total**
Balances at January 1, 2014	**₱42,500,000**	**(₱2,901,307)**	**₱1,934,190**	**₱–**	**₱41,532,883**
Total comprehensive loss for the year	**–**	**–**	**(5,177,570)**	**416,070**	**(4,761,500)**
Balances at December 31, 2014	**₱42,500,000**	**(₱2,901,307)**	**(₱3,243,380)**	**₱416,070**	**₱36,771,383**
Balances at January 1, 2013	₱42,489,000	₱–	(₱1,201,555)	₱–	₱41,287,445
Collection of subscription receivable (Note 14)	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

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**(₱5,132,478)**	₱3,468,626
Adjustments for:		
Provision for credit and impairment losses (Notes 7, 9, 10 and 16)	**3,559,381**	2,074,498
Gain on sale of investment properties (Note 10)	**(388,039)**	(6,116,252)
Interest expense (Notes 12, 14 and 16)	**550,000**	1,051,012
Depreciation expense (Notes 9, 10 and 16)	**402,017**	411,653
Interest income (Notes 6 and 7)	**(3,675,443)**	(4,646,545)
Provision for retirement expense (Note 13)	**561,316**	59,012
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Finance and lease receivables	**(5,861,448)**	702,955
Other current assets	**46,071**	(24,561)
Increase in accounts payable and accrued expenses	**415,123**	2,306,273
Net cash used in operations	**(9,523,500)**	(713,329)
Proceeds from interest income	**4,820,374**	3,330,155
Contributions paid (Note 13)	**(469,779)**	–
Income taxes paid	**(94,119)**	(18,085)
Net cash provided by (used in) operating activities	**(5,267,024)**	2,598,741
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from:		
Absolute sale of investment properties (Note 10)	**743,851**	5,412,442
Conditional sale of investment properties (Notes 10 and 11)	**322,591**	229,880
Acquisitions of property and equipment (Note 9)	**(122,026)**	(12,700)
Net cash provided by investing activities	**944,416**	5,629,622
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Renewal of preferred stock (Note 14)	–	7,500,000
Collection of subscriptions receivable (Note 14)	–	11,000
Availment of loan (Note 12)	**5,000,000**	–
Payments of:		
Redemption of preferred stock (Note 14)	**(7,500,000)**	(7,500,000)
Return of deposit for future stock subscription (Note 14)	–	(7,142,250)
Interest payable	**(736,667)**	(1,401,012)
Net cash used in financing activities	**(3,236,667)**	(8,532,262)
NET DECREASE IN CASH	**(7,559,275)**	(303,899)
CASH AT BEGINNING OF YEAR	**10,600,619**	10,904,518
CASH AT END OF YEAR	**₱3,041,344**	₱10,600,619

See accompanying 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 Unit 909 Malate Crown Plaza Condominium, Adriatico St. corner San Andres St., Malate, Manila.

2. Summary of Significant Accounting Policies

<u>Basis of Preparation</u>
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.

<u>Statement of Compliance</u>
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.

<u>Changes in Accounting Policies and Disclosures</u>
The accounting policies adopted are consistent with those of the previous financial year except for the following new amendments and improvements to PFRS adopted as of January 1, 2014, which did not have any impact on the financial position or performance of the Company:

New and Amended Standards and Interpretations

- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interest in Other Entities* and Philippine Accounting Standard (PAS) 27, *Separate Financial Statements*)
- Offsetting Financial Assets and Financial Liabilities - Amendments to PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Liabilities*
- Novation of Derivatives and Continuation of Hedge Accounting - Amendments to PAS 39, *Financial Instruments Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*
- Philippine Interpretation International Financial Reporting Interpretations Committee 21, *Levies*

Annual Improvements 2010-2012 Cycle

- PFRS 13, *Fair Value Measurement*

Annual Improvements 2011-2013 Cycle

- PFRS 1, *First-time Adoption of International Financial Reporting Standards*

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. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Company, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Company.

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 of December 31, 2014 and 2013, the Company has no financial assets and financial liabilities at FVPL, AFS investments and HTM investments. The Company's financial instruments include loans and receivables and other financial liabilities.

'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.

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'.

Receivables are recognized initially at fair value which is normally pertains to the billable amount. After initial measurement, 'Loans and receivables' 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 of such loans and receivables are recognized in 'Provision for credit and impairment losses' under 'operating expenses' in the profit or loss.

Classified under this category are the Company's 'Cash', 'Finance and lease receivables', and 'Other current assets'.

Other financial liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization for any related premium, discount and any directly attributable transaction costs.

This category includes accounts payable, accrued expenses, interest payable and loans payable.

<u>Classification of Financial Instruments between Debt and Equity</u>
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 there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' 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 use of an allowance account and the amount of loss is charged to profit or loss. Interest income continues to be recognized based on the original EIR of the asset.

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 debtors' 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.

Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the 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' account in the statement of comprehensive income.

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.

Offsetting Financial Instruments
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.

Property and Equipment
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
Building	15 to 20 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.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment loss, if any, is charged in the profit or loss.

<u>Investment Properties</u>
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.

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 has assessed that it is actingas principal in all 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 on cash in banks
Interest income 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.

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 net defined benefit liability is the aggregate of the present value of the defined benefit obligation at the end of the statement of financial position date less fair value of plan assets, if any.

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

Defined benefit costs comprise the following:
- Current service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

Remeasurements comprising actuarial gains and losses (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

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' (BOD) 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.

Treasury Shares

Treasury shares are recorded at cost and are presented as a deduction from equity. Any consideration paid or received in connection with treasury shares are recognized directly in equity.

When the shares are retired, the capital stock account is reduced by its par value. The excess of cost over par value upon retirement is debited to the following accounts in the order given: (a) additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued, and (b) retained earnings. When shares are sold, the treasury share account is credited and reduced by the weighted average cost of the shares sold. The excess of any consideration over the cost is credited to additional paid-in capital.

Transaction costs incurred such as registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties (net of any related income tax benefit) in relation to issuing or acquiring the treasury shares are accounted for as reduction from equity, which is disclosed separately.

No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement.

In the statement of comprehensive income, If the effect of the of the time value of money is material, provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 'Interest expense'.

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

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.

Standards Issued but not yet Effective
The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

PFRS 9, *Financial Instruments - Classification and Measurement* (2010 version)
PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

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 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.

Effective January 1 2015

Amendments to PAS 19, *Defined Benefit Plans: Employee Contributions*
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Company, since the Company has no defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle
These improvements are effective from January 1, 2015 and are not expected to have a material impact on the Company. They include:

PFRS 2, *Share-based Payment*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or a non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

PFRS 3, *Business Combinations*
The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of PFRS 9 (or PAS 39, as applicable).

PFRS 8, *Operating Segments*
The amendments are applied retrospectively and clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of PFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'. The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

PAS 24, *Related Party Disclosures*
The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle
These improvements are effective from January 1, 2015 and are not expected to have a material impact on the Company. They include:

PFRS 3, *Business Combinations*
The amendment is applied prospectively and clarifies for the scope exceptions within PFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of PFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

PFRS 13, *Fair Value Measurement*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.

PAS 40, *Investment Property*
The description of ancillary services in PAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is a purchase of an asset or a business combination.

Effective 1 January 2016

PFRS 10, *Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016.

Amendments to PFRS 11, *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations*
The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company.

PFRS 14, *Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Company is an existing PFRS preparer, this standard would not apply.

Amendments to PAS 16 and PAS 38: *Clarification of Acceptable Methods of Depreciation and Amortization*
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41, instead PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company as the Company does not have any bearer plants.

Amendments to PAS 27: *Equity Method in Separate Financial Statements*
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will have no impact on the Company's financial statements.

Annual Improvements to PFRSs (2012-2014 cycle)
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Company. They include:

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

PAS 19, *Employee Benefits - regional market issue regarding discount rate*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

PAS 34, *Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report'*
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

PFRS 9, *Financial Instruments - Hedge Accounting* and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)
PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of 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 derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by Board of Accountancy (BOA).

The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have no effect on the Company's application of hedge accounting.

PFRS 9, *Financial Instruments*
In July 2014, the IASB issued the final version of PFRS 9, *Financial Instruments* which reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities.

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) 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.

(b) 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.

(c) 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.

The fair value of the Company's financial assets is disclosed in Note 4.

(d) *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 .

(e) *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, 2014 and 2013, 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 recognized deferred tax assets as at December 31, 2014 and 2013.

(c) *Present value of retirement obligation*
In 2013, 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.

In 2014, the cost of defined benefit pension plans as well as other present value of the defined benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each statement of financial position date.

The retirement liability amounted to ₱0.10 million and ₱0.61 million as at December 31, 2014 and 2013, respectively (Note 13).

(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, 2014 and 2013, 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 (Note 2).

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:

	2014	
	Carrying Value	**Fair value measurement using significant unobservable inputs (Level 3)**
Assets for which fair values are disclosed:		
Finance and lease receivables		
Lease receivables	**₱22,363,247**	**₱23,742,103**
Finance receivables	**12,223,581**	**15,430544**
Investment properties	**3,609,186**	**6,304,078**
	₱38,196,014	**₱45,476,725**

	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

The fair values of finance and lease receivables are computed by discounting the expected cash flows using the Company's average lending rates as at December 31, 2014 and 2013. Fair value of the investment properties are based on appraisal made by an independent appraisers as at December 31, 2014 and 2013 (Note 10).

The Company does not have financial instruments carried at fair value as at December 31, 2014 and 2013.

There have been no changes in determining the fair value of financial instruments in 2014 and 2013. There were no transfers of financial instruments between Levels 1, 2 and 3 in 2014 and 2013.

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 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 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, 2014 and 2013:

	2014			
	Maximum credit exposure	**Fair value of collateral**	**Net exposure**	**Financial effect of collateral or credit enhancement**
Lease receivables	**₱22,363,247**	**₱3,744,168**	**₱18,818,629**	**₱3,544,618**
Finance receivables	**12,223,581**	**12,027,777**	**4,593,842**	**7,569,301**
	₱34,586,828	**₱15,771,945**	**₱23,412,471**	**₱11,113,919**

	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

As of December 31, 2014 and 2013, the collaterals held by the Company for lease receivables pertain to postdated checks provided by the client. As of December 31, 2013, 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, 2014 and 2013. 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.

The maximum exposure to credit risks for the other financial assets is limited to the carrying value as of December 31, 2014 and 2013.

Additionally, the tables below show the distribution of maximum credit exposure by industry sector of the Company as at December 31, 2014 and 2013:

	2014			
	Cash in Banks	**Finance and Lease Receivables**	**Other Financial Current Assets**	**Total**
Financial institutions	**₱3,026,344**	**₱12,835,162**	**₱77,195**	**₱15,938,701**
Education	–	**21,371,240**	–	**21,371,240**
Health and social work	–	**4,700,592**	–	**4,700,592**
Other community, social and personal service activities	–	–	**1,000**	**1,000**
	3,026,344	**38,906,994**	**78,195**	**42,011,533**
Less allowance for credit losses	–	**4,320,166**	–	**4,320,166**
Total	**₱3,026,344**	**₱34,586,828**	**₱78,195**	**₱37,691,367**

	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

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, 2014 and 2013:

	2014				
	Neither past due nor impaired				
	High Grade	**Standard grade**	**Past due but not impaired**	**Impaired**	**Total**
Cash in banks	**₱3,026,344**	**₱–**	**₱–**	**₱–**	**₱3,026,344**
Receivable from customers:					
Lease receivables	**10,114,683**	**1,333,601**	**14,899,346**	**994,473**	**27,342,103**
Finance receivables	**–**	**4,640,244**	**–**	**10,837,584**	**15,477,828**
Other receivables:					
Interest receivable	**–**	**60,347**	**–**	**–**	**60,347**
Other current assets:					
Advances	**77,195**	**–**	**–**	**–**	**77,195**
Security deposits	**1,000**	**–**	**–**	**–**	**1,000**
Net book value	**₱13,219,222**	**₱6,034,192**	**₱14,899,346**	**₱11,832,057**	**₱45,984,817**

	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
Net book value	₱10,157,871	₱18,718,473	₱823,445	₱17,986,363	₱47,686,152

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

	2014				
	Past due but not impaired				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Lease receivables	₱–	₱–	₱14,899,346	₱–	14,899,346

	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

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, 2014 and 2013. Restructured finance receivables have carrying amount of ₱12.16 million and ₱16.46 million in 2014 and 2013, 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:

	2014					
	On demand	Due within 1 month	1 to 3 months	3 to12 months	Beyond 1 year	Total
Financial Assets						
Cash in banks	**₱3,041,344**	**₱–**	**₱–**	**₱–**	**₱–**	**₱3,041,344**
Finance and lease receivables – gross						
Finance receivables						
Principal	–	**109,340**	**218,680**	**984,060**	**14,227,124**	**15,539,204**
Interest	–	**45,923**	**88,565**	**344,421**	**677,438**	**1,156,347**

(Forward)

	2014					
	On demand	**Due within 1 month**	**1 to 3 months**	**3 to12 months**	**Beyond 1 year**	**Total**
Lease receivables						
Principal	**₱994,473**	**₱3,493,461**	**₱3,248,147**	**₱9,087,624**	**₱6,725,982**	**₱23,549,687**
Interest	**–**	**912,296**	**572,247**	**1,568,077**	**742,159**	**3,794,779**
Interest receivables	**–**	**60,347**	**–**	**–**	**–**	**60,347**
Advances	**–**	**77,195**	**–**	**–**	**–**	**77,195**
Security deposits	**–**	**1,000**	**–**	**–**	**–**	**1,000**
Total Financial Assets	**4,035,817**	**4,699,562**	**4,127,639**	**11,984,182**	**22,372,703**	**47,219,903**
Financial Liabilities						
Other payables	**715,956**	**–**	**–**	**–**	**–**	**715,956**
Interest payable	**–**	**63,333**	**–**	**–**	**–**	**63,333**
Accrued expenses	**–**	**1,000,354**	**–**	**–**	**–**	**1,000,354**
Loans payable	**–**	**711,667**	**–**	**2,045,413**	**2,595,208**	**5,352,288**
Total Financial Liabilities	**715,956**	**1,775,354**	**–**	**2,045,413**	**2,595,208**	**7,131,931**
Net	**₱3,319,861**	**₱2,924,208**	**₱4,127,639**	**₱9,938,769**	**₱19,777,495**	**₱40,087,972**

	2013					
	On demand	Due within 1 month	1 to 3 months	3 to12 months	Beyond 1 year	Total
Financial Assets						
Cash in banks	₱10,600,619	₱–	₱–	₱–	₱–	₱10,600,619
Finance and lease						
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	12,430,907	1,238,355	2,570,944	10,908,470	27,589,077	54,737,753
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	₱12,013,919	₱1,238,355	₱2,570,944	₱10,908,470	₱27,589,077	₱54,320,765

6. Cash

This account consists of:

	2014	2013
Cash on hand	**₱15,000**	₱15,000
Cash in banks	**3,026,344**	10,585,619
	₱3,041,344	₱10,600,619

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 0.50% and 0.25% to 6.00% in 2014 and 2013, respectively. Interest income earned amounted to ₱0.01 million and ₱0.09 million in 2014 and 2013, respectively.

7. Finance and Lease Receivables

This account consists of:

	2014	2013
Receivables from customers:		
Loans receivable:		
Finance receivable	**₱15,477,828**	₱16,903,488
Less unearned interest income	**107,631**	107,632
	15,370,197	16,795,856
Lease contracts receivable:		
Lease receivable	**27,342,103**	20,115,343
Less unearned lease income	**3,865,653**	2,729,721
	23,476,450	17,385,622
Accrued interest receivables	**60,347**	9,000
	38,906,994	34,190,478
Less allowance for credit losses	**4,320,166**	555,986
	34,586,828	33,634,492
Less: noncurrent portion	**9,935,605**	22,003,571
Current portion	**₱24,651,223**	₱11,630,921

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 (Note 15).

An analysis of the finance and lease receivables (excluding accrued interest) as at December 31, 2014 and 2013 is presented as follows:

	Finance Receivables		Lease Receivables	
	2014	2013	2014	2013
Due within 1 year	**₱12,139,653**	₱1,514,315	**₱19,704,927**	₱12,398,439
Less unearned interest income	**(107,631)**	(5,883)	**(3,098,204)**	(2,112,841)
	12,032,022	1,508,432	**16,606,723**	10,285,598
Less allowance for credit losses	**(3,160,561)**	(29,890)	**(887,308)**	(142,219)
	8,871,461	1,478,542	**15,719,415**	10,143,379
Due beyond 1 year but not more than 5 years	**3,338,175**	15,389,173	**7,637,176**	7,716,904
Less unearned interest income	**–**	(101,749)	**(767,449)**	(616,880)
	3,338,175	15,287,424	**6,869,727**	7,100,024
Less allowance for credit losses	**(46,402)**	(304,506)	**(225,895)**	(79,371)
	3,291,773	14,982,918	**6,643,832**	7,020,653
	₱12,163,234	₱16,461,460	**₱22,363,247**	₱17,164,032

An analysis of the minimum lease payments as at December 31, 2014 and 2013 is presented as follows:

	2014		
	Not later than one year	**Later than one year and less than five years**	**Total**
Minimum lease payments	**₱17,586,447**	**₱6,048,810**	**₱23,635,257**
Residual value of leased assets	**2,118,480**	**1,588,366**	**3,706,846**
Gross investment in leases	**19,704,927**	**7,637,176**	**27,342,103**
Less unearned lease income	**(3,098,204)**	**(767,449)**	**(3,865,653)**
	16,606,723	**6,869,727**	**23,476,450**
Less allowance for credit losses	**(887,308)**	**(225,895)**	**(1,113,203)**
Net investment in finance lease	**₱15,719,415**	**₱6,643,832**	**₱22,363,247**

	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

As at December 31, 2014 and 2013, the movement of the allowance for credit losses for finance and lease receivables is as follows:

	2014		
	Finance Receivables	**Lease Receivables**	**Total**
Balance at the beginning of year	**₱334,396**	**₱221,590**	**₱555,986**
Provisions during the year (Note 16)	**2,872,567**	**891,613**	**3,764,180**
Balance at end of year	**₱3,206,963**	**₱1,113,203**	**₱4,320,166**
Collective impairment	**₱46,402**	**₱225,895**	**₱272,297**
Individual impairment	**3,160,561**	**887,308**	**4,047,869**
	₱3,206,963	**₱1,113,203**	**₱4,320,166**
Gross amounts of receivables individually determined to be impaired, before deducting any individually assessed impairment losses	**₱10,729,952**	**₱887,308**	**₱11,617,260**

	Finance Receivables	Lease Receivables	Total
Balance at the beginning of year	₱–	₱–	₱–
Provisions during the year (Note 16)	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

Section 9(f) of Republic Act 8556, also known as The Financing Company Act of 1998 requires that a 100.00% allowance for credit losses should be set up for the following:

a. Clean loans and advances past due for a period of more than six (6) months;
b. Past due loans secured by collateral such as inventories, receivables, equipment and other chattels that have declined in value by more than 50.00%, without the borrower offering additional collateral for the loans;
c. Past due loans secured by real estate mortgage title to which is subject to an adverse claim rendering settlement through foreclosure doubtful;
d. When borrower and his co-maker or guarantor, are insolvent or where their whereabouts are unknown, or their earnings power is permanently impaired;
e. Accrued interest receivable that remain uncollected after six months from the maturity date of such loans to which it accrues; and
f. Accounts receivable past due for 361 days or more.

The Company is in compliance with the provisioning requirements of RA 8556.

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

	2014	2013
Finance income	**₱707,012**	₱2,190,134
Leasing income	**2,957,694**	2,365,983
	₱3,664,706	₱4,556,117

8. **Other Current Assets**

This account consists of:

	2014	2013
Financial assets		
Security deposits	**₱1,000**	₱49,600
Advances	**77,195**	23,102
Nonfinancial assets		
Prepaid expenses	**127,964**	80,501
Advances	**–**	50,000
	₱206,159	₱203,203

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, 2014 and 2013.

9. Property and Equipment

The composition of and movements in this account follow:

	2014				
	Office Vehicle	**Office Equipment**	**Furniture and Fixtures**	**Building**	**Total**
Cost					
Balance at beginning of year	**₱883,419**	**₱626,354**	**₱75,490**	**₱–**	**₱1,585,263**
Reclassification (Note 10)	**–**	**–**	**–**	**2,788,500**	**2,788,500**
Additions	**15,600**	**98,057**	**8,369**	**–**	**122,026**
Balance at end of year	**899,019**	**724,411**	**83,859**	**2,788,500**	**4,495,789**
Accumulated Depreciation					
Balance at beginning of year	**206,131**	**506,668**	**63,338**	**–**	**776,137**
Depreciation (Note 16)	**176,683**	**102,525**	**11,269**	**65,065**	**355,542**
Reclassification (Note 10)	**–**	**–**	**–**	**611,437**	**611,437**
Balance at end of year	**382,814**	**609,193**	**74,607**	**676,502**	**1,743,116**
Allowance for Impairment Losses					
Reclassification (Note 10)	**–**	**–**	**–**	**1,009,712**	**1,009,712**
Reversal (Note 16)	**–**	**–**	**–**	**(160,968)**	**(160,968)**
Balance at end of year	**–**	**–**	**–**	**848,744**	**848,744**
Net Book Value at End of Year	**₱516,205**	**₱115,218**	**₱9,252**	**₱1,263,254**	**₱1,903,929**

	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 (Note 16)	176,684	107,046	9,121	292,851
Balance at end of year	206,131	506,668	63,338	776,137
Net Book Value at End of Year	₱677,288	₱119,686	₱12,152	₱809,126

As at December 31, 2014 and 2013, the cost of fully depreciated property and equipment of the Company amounted to ₱0.47 million and ₱0.45 million, respectively.

10. Investment Properties

The composition of and movement in this account follow:

	2014		
	Land	**Condominium**	**Total**
Cost			
Balance at beginning of year	**₱4,429,966**	**₱2,788,500**	**₱7,218,466**
Reclassification (Note 9)	**–**	**(2,788,500)**	**(2,788,500)**
Disposals	**(355,811)**	**–**	**(355,811)**
Balance at end of year	**4,074,155**	**–**	**4,074,155**
Accumulated Depreciation			
Balance at beginning of year	**–**	**564,962**	**564,962**
Depreciation (Note 16)	**–**	**46,475**	**46,475**
Reclassification (Note 9)	**–**	**(611,437)**	**(611,437)**
Balance at end of year	**–**	**–**	**–**
Allowance for Impairment Losses			
Balance at beginning of year	**508,800**	**1,009,712**	**1,518,512**
Reversal (Note 16)	**(43,831)**	**–**	**(43,831)**
Reclassification (Note 9)	**–**	**(1,009,712)**	**(1,009,712)**
Balance at end of year	**464,969**	**–**	**464,969**
Net Book Value at End of Year	**₱3,609,186**	**₱–**	**₱3,609,186**

	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 (Note 16)	–	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 (Note 16)	508,800	1,009,712	1,518,512
Balance at end of year	508,800	1,009,712	1,518,512
Net Book Value ate End of Year	₱3,921,166	₱1,213,826	₱5,134,992

The Company recognized gain on sale of land net of related commission amounting to ₱0.39 million and ₱6.12 million in 2014 and 2013, 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 Payable and Other Accrued Expenses**

This account consists of:

	2014	2013
Financial liabilities		
Accrued expenses	**₱1,000,354**	₱157,159
Other payables	–	9,829
	1,000,354	166,988
Nonfinancial Liabilities		
Installment payment on land	–	229,880
Advances from customer	**156,356**	83,563
Percentage and withholding tax payable	**73,523**	12,089
	229,879	325,532
	₱1,230,233	₱492,520

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. **Loan Payable**

On October 15, 2014, the Company entered into a loan agreement amounting to ₱5.00 million with an eight quarterly payments starting from January 28, 2015 until October 28, 2016 and an interest rate of 6.00%.

In 2014, interest expense charged to profit or loss amounted to ₱0.06 million.

13. **Retirement Benefits**

The Company accrues retirement benefits in accordance with Republic Act (RA) 7641, *Retirement Pay Law*. RA 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The movements in the measurements of the retirement liability recognized in the Company's statements of financial position follow:

	December 31	
	2014	2013
Balance at beginning of year	**₱607,029**	₱548,017
Retirement benefit expense (Note 16)	**561,316**	59,012
Contributions paid	**(469,779)**	–
Remeasurement gains on retirement liability	**(594,385)**	–
Balance at end of year	**₱104,181**	₱607,029

The present value of the defined benefit obligation is determined using actuarial valuations. The latest actuarial valuation report of the retirement plan was made on December 31, 2014. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension for the defined benefit plan is shown below:

	2014
Discount rate	**5.60%**
Future salary increases	**7.00%**

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

	December 31, 2014
Discount rates	
+100 basis point (bps)	**(₱75,348)**
-100 bps	**96,813**
Future salary increases	
+100 bps	**90,263**
-100 bps	**(72,423)**

The Company does not expect to contribute to the defined benefit retirement plan in 2015.

As at December 31, 2014 the average duration of the defined benefit obligation is 26.3 years.

14. 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, 2014 and 2013, the Company's common stock consists of:

	2014		2013	
	Shares	**Amount**	Shares	Amount
Issued and outstanding	**42,500**	**₱42,500,000**	42,500	₱42,500,000
Held in treasury	**(2,778)**	**(2,901,307)**	(2,778)	(2,901,307)
	39,722	**39,598,693**	39,722	₱39,598,693

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.

Preferred Stock
In 2008, the Company issued its preferred stocks amounting to ₱7.50 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 ₱0.49 million and ₱0.57 million in December 31, 2014 and 2013, respectively. However, nil and ₱0.25 million remain unpaid as at December 31, 2014 and 2013, respectively.

On October 14, 2014, the Company paid the preferred stocks amounting to ₱7.5 million.

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, 2014 and 2013.

15. **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 ₱2.96 million and ₱2.37 million in 2014 and 2013, respectively (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. However, it was ended by the Company on May 2014.

The Company incurred rent expense of ₱0.09 million and ₱0.22 million in 2014 and 2013, respectively (Note 16).

16. Operating Expenses

This account consists of:

	2014	2013
Provision for credit and impairment losses (Notes 7, 9 and 10)	**₱3,559,381**	₱2,074,498
Compensation and fringe benefits (Notes 13 and 18)	**2,103,385**	1,209,151
Asset acquired expense	**959,974**	–
Interest (Notes 12 and 14)	**550,000**	1,051,012
Travelling and transportation	**420,773**	769,259
Depreciation expense (Notes 9 and 10)	**402,017**	411,653
Honorarium (Note 18)	**370,000**	282,000
Professional fee	**254,793**	308,440
Taxes and licenses	**254,560**	296,169
Postage, telephone and cables	**174,603**	183,898
Rent (Note 15)	**90,720**	217,728
Representation	**86,887**	39,923
Office supplies	**27,138**	116,035
Marketing	**7,746**	73,246
Miscellaneous	**428,292**	261,159
	₱9,690,269	₱7,294,171

17. 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 ₱0.08 million in 2014 and ₱0.04 million in 2013, respectively (Note 16).

Provision for income tax consists of:

	2014	2013
Current	**₱42,943**	₱68,119
Final	**2,149**	18,085
Deferred	**–**	246,677
	₱45,092	₱332,881

Current income tax refers to MCIT in 2014 and 2013.

As of December 31, 2014, deferred tax liability of the Company pertains to the tax effects of remeasurement gains on retirement liabilities.

The Company did not recognize deferred tax assets on the following temporary differences:

	2014	2013
Deferred tax asset on:		
Allowance for credit and impairment losses	**₱1,690,164**	₱622,349
NOLCO	**600,449**	82,411
MCIT	**190,194**	223,145
Retirement liabilities	**31,254**	182,109

In 2014 and 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.

The details of the unexpired MCIT follow:

Year Incurred	Amount	Expired	Balance	Expiry Year
2014	₱42,943	₱–	₱42,943	2017
2013	68,119	–	68,119	2016
2012	79,132	–	79,132	2015
2011	75,894	75,894	–	2014
	₱266,088	₱75,894	₱190,194	

The Company's NOLCO is broken down as follows:

Inception Year	Amount	Applied	Expired	Balance	Expiry Year
2014	₱518,038	₱–	₱–	₱518,038	2017
2013	82,411	–	–	82,411	2016
	₱600,449	₱–	₱–	₱600,449	

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

	2014	2013
Statutory income tax	**(₱1,539,743)**	₱1,040,588
Income tax effects of:		
Gain on sale subjected to capital gains taxes	**(116,412)**	(1,834,876)
Change in unrecognized deferred tax asset	**1,552,904**	945,609
Expired MCIT	**75,894**	91,651
Nondeductible expenses	**72,460**	90,000
Interest income subject to final tax	**(1,074)**	(9,043)
Nondeductible interest expense	**1,063**	8,952
	45,092	₱332,881

18. 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, andother 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. Generally, related party transactions are settled in cash.

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, 2014 and 2013, 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, 2014 and 2013 follow:

	December 31, 2014		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Key Management Personnel			
Honorarium	**₱370,000**	**₱–**	Amounts given to BOD when they attend on special or regular meetings
Other current assets		**3,855**	Advances made to key management personnel and collectible in the next period

	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	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

19. **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, 2014 and 2013, the Company does not have commitments and contingencies that will have material effect on the financial statements.

20. **Notes to Statement of Cash Flows**

The following is the summary of noncash activities in 2014 and 2013:

	2014	2013
Noncash operating activities:		
Application of prepaid income tax to current tax	**₱39,633**	₱68,119
Noncash investing activities:		
Application of accumulated installment payments on conditional sales of investment properties	–	3,906,108
Reclassification of investment property to property and equipment	**1,102,286**	
Noncash financing activities:		
Treasury shares held in payment of finance receivables	–	(2,901,307)

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 April 6, 2015.

22. Supplementary Information Required Under RR 15-2010

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

The Company reported and/or paid the following types of taxes for the year:

Taxes and licenses
As of December 31, 2014, taxes and licenses of the Company consist of:

Percentage taxes	₱186,892
Permits and icenses	42,967
Registration fees	12,625
Real property taxes	6,742
Others	5,334
	₱254,560

Withholding taxes
Details of total remittances and balance of withholding taxes as of December 31, 2014 are as follows:

	Total remittances	Balance
Withholding taxes on compensation and benefits	₱67,693	₱32,030
Expanded withholding taxes	68,460	22,580
	₱136,153	₱54,610