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

Financial Statements
December 31, 2015 and 2014

and

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Responsible Investments for Solidarity and Empowerment (RISE) Financing Company, Inc., which comprise the statements of financial position as at December 31, 2015 and 2014, 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.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Responsible Investments for Solidarity and Empowerment (RISE) Financing Company, Inc. as at December 31, 2015 and 2014, 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 Responsible Investments for Solidarity and Empowerment (RISE) Financing Company, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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March 4, 2015, valid until March 3, 2018
PTR No. 5321607, January 4, 2016, Makati City

March 31, 2016

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

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2015	2014
ASSETS		
Current Assets		
Cash on hand and in banks (Note 6)	**₱2,454,278**	₱3,041,344
Loans and receivables (Notes 7 and 18)	**15,043,590**	24,726,458
Other current assets (Notes 8 and 18)	**84,697**	130,924
	17,582,565	27,898,726
Noncurrent Assets		
Loans and receivables (Notes 7 and 18)	**4,873,994**	9,935,605
Property and equipment (Note 9)	**1,586,168**	1,903,929
Investment properties (Note 10)	**16,351,400**	3,609,186
	22,811,562	15,448,720
	₱40,394,127	₱43,347,446
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other accrued expenses (Note 11)	**3,712,806**	₱1,230,233
Loans payable (Notes 12 and 18)	**2,500,000**	2,500,000
Interest payable (Notes 12, 14 and 18)	**26,667**	63,333
	6,239,473	3,793,566
Noncurrent Liabilities		
Retirement liability (Note 14)	**1,060,375**	104,181
Loans payable (Notes 12 and 18)	**–**	2,500,000
Deferred tax liabilities (Note 17)	**157,777**	178,316
	1,218,152	2,782,497
	7,457,625	6,576,063
Equity		
Common stock (Note 13)	**42,500,000**	42,500,000
Treasury stock (Note 13)	**(2,901,307)**	(2,901,307)
Deficit	**(6,278,838)**	(3,243,380)
Remeasurement gains (losses) on retirement liability (Note 14)	**(383,353)**	416,070
	32,936,502	36,771,383
	₱40,394,127	₱43,347,446

See accompanying Notes to Financial Statements.

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

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2015	2014
INCOME		
Leasing (Notes 7 and 18)	**₱3,651,144**	₱2,957,694
Interest		
Receivables financed (Note 7)	**240,369**	707,012
Cash in banks (Note 6)	**6,528**	10,737
	3,898,041	3,675,443
INTEREST EXPENSE (Notes 12, 13 and 18)	**220,417**	550,000
NET INTEREST AND LEASING INCOME	**3,677,624**	3,125,443
Gain on foreclosure of investment properties (Note 10)	**525,924**	–
Gain on sale of investment properties (Note 10)	**–**	388,039
Service charges and fees	**30,000**	52,483
Others (Note 16)	**174,765**	441,826
TOTAL OPERATING INCOME	**4,408,313**	4,007,791
OPERATING EXPENSES		
Provision for credit and impairment losses (Notes 7, 9, 10 and 19)	**2,644,409**	3,559,381
Compensation and fringe benefits (Notes 14 and 18)	**1,272,112**	2,103,385
Asset acquired expenses	**750,295**	959,974
Management and professional fees	**394,804**	254,793
Taxes and licenses	**342,616**	254,560
Marketing and program expenses	**325,915**	224,171
Depreciation expense (Notes 9 and 10)	**317,761**	402,017
Honorarium (Note 18)	**292,500**	370,000
Transportation expense	**262,561**	224,618
Postage, telephone and cables	**128,945**	174,603
Insurance expense (Note 18)	**113,202**	71,227
Stationeries and office supplies	**109,810**	27,138
Others (Notes 15 and 16)	**273,237**	514,402
TOTAL OPERATING EXPENSES	**7,228,167**	9,140,269
LOSS BEFORE INCOME TAX	**(2,819,854)**	(5,132,478)
PROVISION FOR INCOME TAX (Note 17)	**215,604**	45,092
NET LOSS	**(3,035,458)**	(5,177,570)
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that do not recycle to profit or loss in subsequent periods:		
Remeasurement gains (losses) on retirement liability (Note 14)	**(799,423)**	416,070
TOTAL COMPREHENSIVE LOSS	**(₱3,834,881)**	(₱4,761,500)

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 13)	Treasury Stock (Note 13)	Deficit	Remeasurement Gains (Losses) on Retirement Liability (Note 14)	Total Equity
Balance at January 1, 2015	**₱42,500,000**	**(₱2,901,307)**	**(₱3,243,380)**	**₱416,070**	**₱36,771,383**
Total comprehensive loss for the year	–	–	**(3,035,458)**	**(799,423)**	**(3,834,881)**
Balance at December 31, 2015	**₱42,500,000**	**(₱2,901,307)**	**(₱6,278,838)**	**(₱383,353)**	**₱32,936,502**
Balance at January 1, 2014	₱42,500,000	(₱2,901,307)	₱1,934,190	₱–	₱41,532,883
Total comprehensive income (loss) for the year	–	–	(5,177,570)	416,070	(4,761,500)
Balance at December 31, 2014	₱42,500,000	(₱2,901,307)	(₱3,243,380)	₱416,070	₱36,771,383

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	**(₱2,819,854)**	(₱5,132,478)
Adjustments for:		
Provision for credit and impairment losses (Notes 7, 9, 10 and 19)	**2,644,409**	3,559,381
Gain on foreclosure of investment properties (Note 10)	**(525,924)**	
Depreciation expense (Notes 9 and 10)	**317,761**	402,017
Retirement expense (Note 14)	**82,636**	91,538
Gain on sale of investment properties (Note 10)	**–**	(388,039)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Loans and receivables	**493,906**	(4,903,185)
Other current assets	**7,527**	46,071
Increase in accounts payable and other accrued expenses	**1,731,600**	415,123
Net cash generated from (used in) operations	**1,932,061**	(5,909,572)
Income taxes paid (Note 20)	**(19,127)**	(94,119)
Net cash provided by (used in) operating activities	**1,912,934**	(6,003,691)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment (Note 9)	**–**	(122,026)
Proceeds from sale of investment properties (Note 10)	**–**	1,066,442
Net cash provided by investing activities	**–**	944,416
CASH FLOWS FROM FINANCING ACTIVITIES		
Settlement of loans payable (Notes 12 and 18)	**(2,500,000)**	–
Proceeds from loans payable (Notes 12 and 18)	**–**	5,000,000
Redemption of preferred stock (Note 13)	**–**	(7,500,000)
Net cash used in financing activities	**(2,500,000)**	(2,500,000)
NET DECREASE IN CASH ON HAND AND IN BANKS	**(587,066)**	(7,559,275)
CASH ON HAND AND IN BANKS AT BEGINNING OF YEAR	**3,041,344**	10,600,619
CASH ON HAND AND IN BANKS AT END OF YEAR (Note 6)	**₱2,454,278**	₱3,041,344
OTHER OPERATIONAL CASH FLOWS		
Interest received	**₱3,569,600**	₱4,820,374
Interest paid	**257,083**	736,667

See accompanying Notes to Financial Statements.

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

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

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

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

The Company is owned by Center for Agriculture and Rural Development, Inc. (CARD Inc.) or 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

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis. The financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. All values are rounded to the nearest peso, except when otherwise indicated.

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

Changes in Accounting Policies and Disclosures

The Company applied for the first time certain amendments, which are effective for annual periods beginning on or after January 1, 2015. The adoption of these amendments did not have any significant impact on the financial statements.

Amendments to Philippine Accounting Standard (PAS) 19, *Defined Benefit Plans: Employee Contributions*

Annual Improvements to PFRSs (2010 – 2012 Cycle)
- PFRS 2, *Share-based Payment – Definition of Vesting Condition*
- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
- PAS 16, *Property, Plant and Equipment*, and PAS 38, Intangible Assets – *Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
- PAS 24, *Related Party Disclosures – Key Management Personnel*

Annual Improvements to PFRSs (2011 – 2013 Cycle)
- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
- PFRS 13, *Fair Value Measurement – Portfolio Exception*
- PAS 40, *Investment Property*

Summary of Significant Accounting Policies

Current versus Non-current Classification
The Company presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

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

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting date; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting date.

The Company classifies all other liabilities as non-current.

Deferred tax liabilities are classified as non-current liabilities.

Cash on Hand and in Banks
Cash on hand and in banks include cash on hand, savings and current deposit accounts which are immediately available for use in current operations. Cash in banks earn interest at prevailing interest rate.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

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

Initial recognition of financial instruments

All financial instruments are initially measured at fair value. Except for financial assets and financial liabilities at fair value through profit or loss (FVPL), initial measurement of financial instruments includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments and loans and receivables while 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 financial instruments are acquired and their characteristics. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As of December 31, 2015 and 2014, the Company had no financial assets and financial liabilities at FVPL, HTM investments and AFS investments.

Determination of fair value

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

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

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

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

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 in Note 4.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instruments or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where nonmarket observable data is used, the difference between the transaction price and model value is only recognized. For each transaction, the Company determines the appropriate method of recognition of the 'Day 1' difference amount.

Loans and receivables
This accounting policy relates to the statement of financial position caption 'Loans and Receivables', 'Cash in Banks', 'Advances', and 'Security Deposits'. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market, other than:

- those that the Company intends to sell immediately or in the near term and those that the Company, upon initial recognition, designates as FVPL;
- those that the Company, upon initial recognition, designates as AFS; and
- those for which the Company may not cover substantially all of its initial investment, other than because of credit deterioration.

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

Loans and receivables also include the aggregate rental on finance lease transactions. Unearned income on finance lease transactions is shown as a deduction from 'Finance lease receivables' under 'Loans and receivables' in the statement of financial position.

Other financial liabilities
These are issued financial instruments or their components which are not designated at FVPL and where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole, the amount separately determined as the fair value of the liability component on the date of issue.

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

This accounting policy relates to the statement of financial position caption 'Loans payable,' 'Interest payable' and financial liabilities presented under 'Accounts payable and accrued other expenses payable'.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired; or
- the Company retains the right to receive cash flows from the asset, but has assumed as 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 risk and rewards of the asset but has transferred the control over the asset.

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

Financial liabilities

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Impairment of Financial Assets

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

Loans and receivables
For loans and receivables carried at amortized cost, 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 a credit loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

If a loan has a variable interest rate, the discount rate for measuring any credit loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in the statement of comprehensive income. Interest income continues to be accrued based on the original EIR of the asset. Loans and receivables, together with the associated allowance account, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

If the Company determines that no objective evidence of impairment exists for an 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 them for impairment. These 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 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 of impairment.

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

If subsequently, the amount of the estimated credit loss decreases because of an event occurring after the impairment was recognized, the previously recognized credit loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Provision for credit and impairment losses' account in the statement of comprehensive income.

Restructured loans
Where possible, the Company seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the

recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for credit and impairment losses' in the statement of comprehensive income.

Property and Equipment

Property and equipment which includes condominium unit, furniture, fixtures and equipment and transportation equipment is stated at cost less accumulated depreciation, and allowance for impairment losses, if any.

The initial cost of property and equipment consists of its purchase price, including import duties and non-refundable purchase taxes after deducting trade discounts and rebates, and any costs that are directly attributable to the location and condition necessary for it to be capable of operating in the manner intended by management.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the period in which the costs are incurred. In situations 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 calculated using the straight-line method over the estimated useful life of the depreciable assets. The estimated useful lives of the depreciable assets are as follows:

	Estimated useful life
Condominium unit	25 years
Furniture, fixtures and equipment	3 to 5 years
Transportation equipment	5 years

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

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

Investment Properties

Investment properties, such as land, 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).

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

Subsequent to initial recognition, investment properties are stated at cost less any impairment in value.

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 statement of comprehensive income under 'Gain on sale of investment properties' in the period of retirement or disposal.

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

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 an indication that its nonfinancial assets (e.g., property and equipment and investment properties) may be impaired. If any such indication exists or when an annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's 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 (or cash generating unit) 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 (or cash generating unit). In determining fair value less costs to sell, an appropriate valuation model is used. An impairment loss is charged against operations in the period in which it arises.

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

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, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before 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.

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.

Gain on foreclosure of investment properties
Gain on foreclosure of properties is recognized upon foreclosure of the properties.

Gain on sale of investment properties
Income from sale of properties is recognized upon completion of the earning process and the collectability of the sales price is reasonably assured.

Service charges and fees
Service charges and fees are recognized when earned or accrued when there is a reasonable degree to its collectability.

Other income
Other income pertains to collection in excess of the processing fees (registration, notarization, transportation, etc.) charged to the borrower.

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.

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

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

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

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

Company as lessor
When assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned lease income. Lease payments are applied against the principal and unearned lease income. The lease payments applied against unearned lease income are included in 'Leasing income' using the effective interest method.

When assets are leased out under an operating lease, the asset is included in the statement of financial position based on the nature of the asset. Lease income on operating lease is recognized over the term of the lease on a straight-line basis. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

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

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

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

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income (OCI) in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Income Taxes
Provision for income taxes for the year comprise current and deferred tax. Income tax is determined in accordance with tax laws and is recognized in the statement of comprehensive income.

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

Deferred taxes
Deferred tax is provided using the statement of financial position liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and any unused tax losses. Deferred income tax, however, is not recognized on temporary differences that arise 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 taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognized directly in equity is also recognized in equity and in the statement of comprehensive income.

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.

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 statement of comprehensive income.

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.

Deficit represents accumulated losses of the Company.

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 statement of comprehensive income on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. These are recorded in 'Provision for credit and impairment losses' in the statement of comprehensive income.

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

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

Future Changes in Accounting Policies

The standards and interpretations that are issued, but not yet effective, up to the reporting date are listed below. The Company will adopt these standards when they become effective. Adoption of these standards and interpretations are not expected to have significant impact on the financial statements of the Company.

No definite adoption date prescribed by Securities and Exchange Commission (SEC) and Financial Reporting Standards Committee (FRSC)
- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

Effective January 1, 2016
- PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures* – Investment entities: Applying the Consolidation Exception (Amendments)
- PAS 27, *Separate Financial Statement* – Equity Method in Separate Financial Statements (Amendments)
- PFRS 11, *Joint Arrangements* – Accounting for Acquisitions of Interests (Amendments)
- PAS 1, *Presentation of Financial Statements* – Disclosure Initiative (Amendments)
- PAS 14, *Regulatory Deferral Accounts*
- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture* – Bearer Plants
- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets* – Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)
- *Annual Improvements to PFRSs (2012 – 2014 cycle)*
  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* – Changes in Methods of Disposal
  - PFRS 7, *Financial Instruments: Disclosures* – Servicing Contracts
  - PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - PAS 19, *Employee Benefits* – regional market issue regarding discount rate
  - PAS 34, *Interim Financial Reporting* – disclosure of information 'elsewhere in the interim financial report'

Effective January 1, 2018

- PFRS 9, *Financial Instruments*
  In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9, *Financial Instruments*. The new standard (renamed as PFRS 9) reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Early application is permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Company did not early adopt PFRS 9.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The new hedge accounting rules will have no significant impact on the Company. The Company is currently assessing the impact of adopting this standard.

In addition, the IASB has issued the following new standards that have not yet been adopted locally by the SEC and FRSC. The Company is currently assessing the impact of these new standards and plans to adopt them on their required effective dates once adopted locally.

- International Financial Reporting Standard (IFRS) 15*, Revenue from Contracts with Customers* (effective January 1, 2018)
  IFRS 15 was issued in May 2014 by the IASB and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required. Early adoption is permitted.

- IFRS 16*, Leases* (effective January 1, 2019)

  On January 13, 2016, the IASB issued its new standard, IFRS 16, which replaces PAS 17, the current leases standard, and the related Interpretations.

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

  Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

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.

Judgments

(a) *Finance lease commitments*
The Company has determined that all the significant risks and rewards of ownership of the properties which are leased out on finance lease arrangements have been transferred.

(b) *Company as lessee under operating leases*
The Company has entered into property leases as a lessee for its office premises. The Company has determined that the lessor retained all the significant risks and rewards of ownership over this property. In determining whether or not there is indication of operating lease treatment, the Company considers retention of ownership title to the leased property, period of lease contract relative to the estimated useful economic life of the leased property, and bearer of executory costs, among others.

(c) *Provisions*
Provisions are recognized when the Company has a present obligation as a result of a past event and it is probable that an outflow of assets embodying economic benefits will be required to settle an obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Significant management judgment is required to determine the amount of provision that can be recognized, based on the probable timing and level of liabilities that will be incurred (Note 19).

(d) *Going concern*
The Company's management has made an assessment of its ability to continue as going concern. Management has not identified any events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern. Management believes that it has the adequate resources to continue in business for the foreseeable future. Therefore, the financial statements continue to be prepared on a going concern basis.

Estimates

(a) *Credit losses on loans and receivables*
The Company reviews its loans and receivables at least on an annual basis to assess whether an allowance for credit losses should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are

based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the credit quality of the loan or investment since it was granted or acquired. The determination of credit quality takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The carrying amount and related allowance for credit losses on loans and receivables are disclosed in Note 7.

(b) *Estimated useful lives of property and equipment and investment properties*
The Company estimates the useful lives of its condominium unit, furniture, fixtures and equipment, transportation equipment, and investment properties. The useful lives are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from the items of property and equipment and investment property.

A reduction in the estimated useful lives of condominium unit, furniture, fixtures and equipment, transportation equipment, and investment properties would increase the recorded depreciation expense and decrease noncurrent assets. The estimated useful lives of condominium unit, furniture, fixtures and equipment and transportation equipment are disclosed in Note 2.

(c) *Impairment of nonfinancial assets*
The Company assesses impairment on property and equipment and investment properties whenever events or changes in circumstances indicate that the carrying amounts of these assets 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.

An impairment loss is recognized whenever the carrying amount exceeds its recoverable amount. The recoverable amount is computed using either the value in use approach or fair value less costs to sell. Recoverable amounts are estimated for individual assets or if it is not possible, for the cash-generating unit to which the asset belongs.

As of December 31, 2015 and 2014, the carrying values of property and equipment and investment properties are disclosed in Notes 9 and 10.

(d) *Present value of retirement obligation*
When the Company has higher defined benefit liability compared to defined contribution liability, the liability is based on the present value of the excess of the projected defined benefit obligation over the projected defined contribution obligation at the end of the reporting period using the projected unit method.

The cost of defined benefit pension plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on plan assets, future salary increases and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

The expected rate of return on plan assets was based on the market prices prevailing on that date applicable to the period over which obligation is to be settled. The salary projection rate was based on the historical trend of salary increase rate of the Company. The mortality rate was based on 2001 Commissioners Standard Ordinary table. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at the reporting dates.

The present value of the retirement obligation and fair value of plan assets are disclosed in Note 14.

(e) Recognition of deferred income taxes

The Company reviews the carrying amount of deferred tax assets at each reporting date and reduces it to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The unrecognized deferred tax assets on temporary differences of the Company are disclosed in Note 17.

4. Fair Value Measurement

The methods and assumptions used by the Company in estimating the fair value of the financial assets and financial liabilities are:

Cash on hand and in banks, and other receivables under 'Loans and receivables' - Carrying amounts approximate fair values due to the relatively short-term nature.

Receivables financed and finance lease receivables under 'Loans and receivables' - Fair values are estimated using the discounted cash flow methodology, using risk-free rates as of year-end adjusted for the risk of uncollectibility inherent to the Company's borrowers. Discount rates used in determining fair value ranged from 12.00% to 13.78% in 2015 and 2014.

Loans payable - As of December 31, 2015, fair values approximate carrying amounts in view of its relatively short-term maturity. As of December 31, 2014, fair values are estimated by discounting future cash flows using the current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

Accounts payable and other accrued expenses - Carrying amounts approximate fair values given the short-term nature of the liabilities.

Fair Value Hierarchy
The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- 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

As of December 31, 2015 and 2014, the fair value hierarchy of the Company's assets at fair value is presented below:

	2015				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets for which fair values are disclosed					
Loans and receivables					
Receivables financed	**₱2,077,448**	**₱–**	**₱–**	**₱2,844,845**	**₱2,844,845**
Finance lease receivables	**17,628,808**	**–**	**–**	**18,546,543**	**18,546,543**
Investment properties	**16,351,400**	**–**	**–**	**20,936,507**	**20,936,507**
Financial Liabilities					
Loans payable	**2,500,000**	**–**	**–**	**2,464,994**	**2,464,994**

	2014				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets for which fair values are disclosed					
Loans and receivables					
Receivables financed	₱12,223,581	₱–	₱–	₱15,430,544	₱15,430,544
Finance lease receivables	22,363,247	–	–	23,742,103	23,742,103
Investment properties	3,609,186	–	–	6,304,078	6,304,078
Financial Liabilities					
Loans payable	5,000,000	–	–	4,779,275	4,779,275

The table below summarizes the valuation techniques used and the significant unobservable inputs to valuation for each type of investment properties held by the Company:

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

The market data approach is 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.

The level of the fair value hierarchy of assets and liabilities is determined at the beginning of each reporting period.

There were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements in 2015 and 2014.

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 and liquidity risk. Exposures across these risks areas are regularly identified, measured, controlled and monitored and reported to the Board of Directors (BOD). The BOD directs the Company's overall risk management strategy and performs an oversight function on the Company's implementation of its risk policies. Furthermore, the BOD reviews, approves and ensures effective implementation of the risk management framework. It approves risk-related policies, oversees limits to discretionary authority that delegates to management and evaluate the magnitude, distribution and direction of risk in the Company.

Credit Risk

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

Management of credit risk

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

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

Maximum exposure to credit risk after taking into account the collateral and credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown net, after taking into account collateral or credit enhancements.

	2015			
	Maximum credit exposure	**Fair value of collateral**	**Net exposure**	**Financial effect of collateral or credit enhancement**
Finance lease receivables	**₱17,628,808**	**₱20,669,004**	**₱1,034,825**	**₱16,593,983**
Receivables financed	**2,077,448**	**–**	**2,077,448**	**–**
	₱19,706,256	**₱20,669,004**	**₱3,112,273**	**₱16,593,983**

	2014			
	Maximum credit exposure	Fair value of collateral	Net exposure	Financial effect of collateral or credit enhancement
Finance lease receivables	₱22,363,247	₱3,744,168	₱18,818,629	₱3,544,618
Receivables financed	12,223,581	12,027,777	4,593,842	7,629,739
	₱34,586,828	₱15,771,945	₱23,412,471	₱11,174,357

The Company does not hold collateral on its other financial assets. Hence, the carrying values of those financial assets best represent the maximum exposure to credit risk.

Concentration of risks of financial assets with credit risk exposure
An analysis of concentration of credit risk as at reporting date is shown below:

	2015			
	Cash in Banks	**Loans and Receivables**	**Other Current Assets**	**Total**
Financial institutions	**₱2,424,278**	**₱1,300,367**	**₱–**	**₱3,724,645**
Education	–	**16,624,249**	–	**16,624,249**
Health and social work	–	**4,640,216**	–	**4,640,216**
Retail		**2,769,930**	–	**2,769,930**
Other community, social and personal service activities	–	**23,830**	**2,960**	**26,790**
	2,424,278	**25,358,592**	**2,960**	**27,785,830**
Less allowance for credit losses	–	**5,441,008**	–	**5,441,008**
Total	**₱2,424,278**	**₱19,917,584**	**₱2,960**	**₱22,344,822**

	2014			
	Cash in Banks	Loans and Receivables	Other Current Assets	Total
Financial institutions	₱3,026,344	₱12,835,162	₱–	₱15,861,506
Education	–	21,371,240	–	21,371,240
Health and social work	–	4,700,592	–	4,700,592
Other community, social and personal service activities	–	75,235	2,960	78,195
	3,026,344	38,982,229	2,960	42,011,533
Less allowance for credit losses	–	4,320,166	–	4,320,166
Total	₱3,026,344	₱34,662,063	₱2,960	₱37,691,367

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 tables below show the credit quality per class of asset for loan-related assets, gross of allowance for credit losses and unearned income (excluding residual value of leased equipment:

	2015				
	Neither past due nor impaired				
	High Grade	**Standard grade**	**Past due but not impaired**	**Impaired**	**Total**
Loans and receivables					
Cash in banks	**₱2,424,278**	**₱–**	**₱–**	**₱–**	**₱2,424,278**
Receivables financed	**3,025,000**	–		**5,360,940**	**8,385,940**
Finance lease receivables	**8,262,384**	**5,241,569**	**7,029,365**	–	**20,533,318**
Other receivables	**3,935**	**207,393**	–	**19,895**	**231,223**
Other current assets					
Advances	**1,960**	–	–	–	**1,960**
Security deposits	**1,000**	–	–	–	**1,000**
Net book value	**₱13,718,557**	**₱5,448,962**	**₱7,029,365**	**₱5,380,835**	**₱31,577,719**

	2014				
	Neither past due nor impaired				
	High Grade	Standard Grade	Past due but not impaired	Impaired	Total
Loans and receivables					
Cash in banks	₱3,026,344	₱–	₱–	₱–	₱3,026,344
Receivables financed	–	4,640,244	–	10,837,584	15,477,828
Finance lease receivables	10,114,683	1,333,601	14,899,346	994,473	27,342,103
Other receivables	75,235	60,347	–	–	135,582
Other current assets					
Advances	1,960	–	–	–	1,960
Security deposits	1,000	–	–	–	1,000
Net book value	₱13,219,222	₱6,034,192	₱14,899,346	₱11,832,057	₱45,984,817

The table below shows the aging analysis of gross past due but not impaired loans and receivables that the Company held as of December 31, 2015 and 2014. Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due.

	2015				
	Past due but not impaired				
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 90 days**	**Total**
Finance lease receivables	**₱–**	**₱7,029,365**	**₱–**	**₱–**	**₱7,029,365**

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

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 of December 31, 2015 and 2014. Restructured receivables financed have 100% provisioning as of December 31, 2015 and have a carrying amount of ₱12.16 million as of December 31, 2014.

Interest rate risk
The Company follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. The current composition of the Company's assets and liabilities results in significant negative gap positions for repricing periods under one year. Consequently, the Company is vulnerable to increases in market interest rates. However, in consideration of (a) the substantial net interest margins between the Company's marginal funding cost and its interest-earning assets; and favorable lease and financing terms which allow the Company to (b) reprice annually, and (c) reprice at any time in response to extraordinary fluctuations in interest rates, the Company believes that the adverse impact of any interest rate increase would be limited. In addition, during periods of declining interest rates, the existence of a negative gap position favorably impacts the Company.

As of December 31, 2015 and 2014, the Company does not have financial instruments that are subject to interest rate repricing.

Foreign currency risk
Foreign currency exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

As of December 31, 2015 and 2015, the Company is not exposed to foreign currency risk since all its assets and liabilities are peso-denominated.

Market Risk
Market risk is defined as the risk of loss arising from fluctuations in values of financial assets and liabilities (including off-balance sheet items) due to fluctuations in market risk factors (interest rates, foreign exchange rates, prices of securities and others).

As of December 31, 2015 and 2014, the Company does not have financial instruments that are subject to interest rate repricing or whose fair values are dependent on interest rates.

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.

Analysis of financial assets and liabilities by remaining contractual maturities
The tables below summarize the maturity profile of the Company's financial assets and liabilities on contractual undiscounted repayment obligations.

	2015					
	On demand	**Due within 1 month**	**1 to 3 months**	**3 to12 months**	**Beyond 1 year**	**Total**
Financial Assets						
Cash in banks	**₱2,454,278**	**₱–**	**₱–**	**₱–**	**₱–**	**₱2,454,278**
Loans and receivables						
Receivables financed	**–**	**275,000**	**550,000**	**2,200,000**	**–**	**3,025,000**
Finance lease receivables	**561,500**	**1,642,735**	**3,287,506**	**9,529,910**	**5,511,667**	**20,533,318**
Other receivables	**–**	**211,328**	**–**	**–**	**–**	**211,328**
Total Financial Assets	**₱3,015,778**	**₱2,129,063**	**₱3,837,506**	**₱11,729,910**	**₱5,511,667**	**₱26,223,924**
Financial Liabilities						
Accounts payable and other accrued expenses	**₱2,408,249**	**₱487,070**	**₱–**	**₱–**	**₱–**	**₱2,895,319**
Loans payable	**–**	**–**	**625,000**	**1,875,000**	**–**	**2,500,000**
Interest payable	**26,667**	**–**	**–**	**–**	**–**	**26,667**
Total Financial Liabilities	**₱2,434,916**	**₱487,070**	**₱625,000**	**₱1,875,000**	**₱–**	**₱5,421,986**
Net	**₱580,862**	**₱1,641,993**	**₱3,212,506**	**₱9,854,910**	**₱5,511,667**	**₱20,801,938**

	2014					
	On demand	Due within 1 month	1 to 3 months	3 to12 months	Beyond 1 year	Total
Financial Assets						
Cash in banks	₱3,026,344	₱–	₱–	₱–	₱–	₱3,026,344
Loans and receivables						
Receivables financed	–	155,263	307,245	9,686,839	4,328,481	14,477,828
Finance lease receivables	–	4,405,757	3,820,394	10,655,701	7,465,778	26,347,630
Other receivables	–	135,582	–	–	–	135,582
Total Financial Assets	₱3,026,344	₱4,696,602	₱4,127,639	₱20,342,540	₱11,794,259	₱43,987,384
Financial Liabilities						
Accounts payable and other accrued expenses	₱715,956	₱440,754	₱–	₱–	₱–	₱1,156,710
Loans payable	–	–	625,000	1,875,000	2,500,000	5,000,000
Interest payable	63,333	–	–	–	–	63,333
Total Financial Liabilities	₱779,289	₱440,754	₱625,000	₱1,875,000	₱2,500,000	₱6,220,043
Net	₱2,247,055	₱4,255,848	₱3,502,639	₱18,467,540	₱9,294,259	₱37,767,341

6. Cash on Hand and in Banks

This account consists of:

	2015	2014
Cash on hand	**₱30,000**	₱15,000
Cash in banks	**2,424,278**	3,026,344
	₱2,454,278	₱3,041,344

Cash on hand pertains to the fund maintained on an imprest system to defray minimal disbursements.

Cash in banks earned annual interest rates ranging from 0.25% to 0.50% in 2015 and 2014. Interest income recognized from cash in banks amounted to ₱0.01 million in 2015 and 2014.

7. Loans and Receivables

This account consists of:

	2015	2014
Receivables financed	**₱8,385,940**	₱15,477,828
Unearned finance income	**(1,170,532)**	(107,631)
	7,215,408	15,370,197
Finance lease receivables	**20,533,318**	27,342,103
Unearned lease income	**(2,621,357)**	(3,865,653)
	17,911,961	23,476,450
Other receivables		
Accrued interest receivable	**207,393**	60,347
Accounts receivable (Note 18)	**23,830**	75,235
	231,223	135,582
	25,358,592	38,982,229
Allowance for credit losses	**(5,441,008)**	(4,320,166)
	₱19,917,584	₱34,662,063
Current portion	**₱15,043,590**	₱24,726,458
Non-current portion	**4,873,994**	9,935,605
	₱19,917,584	₱34,662,063

Receivables financed have effective interest rates ranging from 11.65% to 17.97% in 2015 and from 12.03% to 12.19% in 2014 while finance lease receivables bear effective interest rates ranging from 14.63% to 22.98% in 2015 and from 13.60% to 18.59% in 2014.

Receivables financed and finance lease receivables are due in monthly installments with terms ranging from less than one year to five years.

An analysis of the Company's receivables financed and finance lease receivables as of December 31, 2015 and 2014 is presented as follows:

	Receivables Financed		Finance Lease Receivables	
	2015	2014	**2015**	2014
Due within one year	**₱4,566,695**	₱12,139,653	**₱14,805,997**	₱19,704,927
Unearned income	**(726,823)**	(107,631)	**(1,794,579)**	(3,098,204)
	3,839,872	12,032,022	**13,011,418**	16,606,723
Allowance for credit losses	**(1,762,424)**	(3,160,561)	**(256,604)**	(887,308)
	2,077,448	8,871,461	**12,754,814**	15,719,415
Due beyond one year but not more than five years	**3,819,246**	3,338,175	**5,727,321**	7,637,176
Unearned income	**(443,710)**	–	**(826,778)**	(767,449)
	3,375,536	3,338,175	**4,900,543**	6,869,727
Allowance for credit losses	**(3,375,536)**	(46,402)	**(26,549)**	(225,895)
	–	3,291,773	**4,873,994**	6,643,832
	₱2,077,448	₱12,163,234	**₱17,628,808**	₱22,363,247

An analysis of the minimum lease payments as of December 31, 2015 and 2014 is presented as follows:

		2015	
	Not later than one year	**Later than one year and less than five years**	**Total**
Minimum lease payments	**₱12,253,182**	**₱5,155,910**	**₱17,409,092**
Residual value of leased assets	**2,552,815**	**571,411**	**3,124,226**
Gross investment in finance lease receivables	**14,805,997**	**5,727,321**	**20,533,318**
Unearned lease income	**(1,794,579)**	**(826,778)**	**(2,621,357)**
	13,011,418	**4,900,543**	**17,911,961**
Allowance for credit losses	**(256,604)**	**(26,549)**	**(283,153)**
Net investment in finance lease receivables	**₱12,754,814**	**4,873,994**	**₱17,628,808**

		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 finance lease receivables	19,704,927	7,637,176	27,342,103
Unearned lease income	(3,098,204)	(767,449)	(3,865,653)
	16,606,723	6,869,727	23,476,450
Allowance for credit losses	(887,308)	(225,895)	(1,113,203)
Net investment in finance lease receivables	₱15,719,415	₱6,643,832	₱22,363,247

As of December 31, 2015, finance lease receivables include loan transactions with related parties amounting to ₱5.24 million (Note 18).

Movements in the allowance for credit losses are as follows:

	2015			
	Receivables Financed	**Finance Lease Receivables**	**Accounts Receivable**	**Total**
Balance at beginning of year	**₱3,206,963**	**₱1,113,203**	**₱–**	**₱4,320,166**
Provisions (reversal) during the year (Note 16)	**1,930,997**	**(57,457)**	**19,895**	**1,893,435**
Accounts charged off and others	**–**	**(772,593)**	**–**	**(772,593)**
Balance at end of year	**₱5,137,960**	**₱283,153**	**₱19,895**	**₱5,441,008**
Collective impairment	**₱692,482**	**₱283,153**	**₱–**	**₱975,635**
Individual impairment	**4,445,478**	**–**	**19,895**	**4,465,373**
	₱5,137,960	**₱283,153**	**₱19,895**	**₱5,441,008**
Gross amounts of receivables individually determined to be impaired, before deducting any individually assessed impairment allowance	**₱5,360,940**	**₱–**	**₱19,895**	**₱5,380,835**

	2014			
	Receivables Financed	Finance Lease Receivables	Accounts Receivable	Total
Balance at 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	₱10,837,584	₱994,473	₱–	₱11,832,057

Section 9(f) of RA No. 8556 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.

As of December 31, 2015 and 2014, the Company's allowance for credit losses for loans and receivables is in compliance with the requirements of RA No. 8556.

Income from loans and receivables in the statements of comprehensive income consist of:

	2015	2014
Leasing income (Note 18)	**₱3,651,144**	₱2,957,694
Finance income	**240,369**	707,012
	₱3,891,513	₱3,664,706

8. Other Current Assets

This account consists of:

	2015	2014
Financial assets		
Advances	**₱1,960**	₱1,960
Security deposits	**1,000**	1,000
	2,960	2,960
Nonfinancial assets		
Prepaid expenses (Note 18)	**71,410**	78,937
Prepaid tax expenses	**10,327**	49,027
	81,737	127,964
	₱84,697	₱130,924

Prepaid expenses consist of unexpired life and property insurance.

Prepaid tax expenses pertain to creditable withholding taxes and excess of income tax payments made over the Company's income tax liability.

9. Property and Equipment

The composition of and movements in this account are as follows:

	2015			
	Condominium Unit	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Total**
Cost	**₱2,788,500**	**₱827,818**	**₱899,020**	**₱4,515,338**
Accumulated Depreciation				
Balance at beginning of year	**676,502**	**703,348**	**382,815**	**1,762,665**
Depreciation	**68,813**	**75,939**	**173,009**	**317,761**
Balance at end of year	**745,315**	**779,287**	**555,824**	**2,080,426**
Allowance for Impairment Losses	**848,744**	**–**	**–**	**848,744**
Net Book Value at End of Year	**₱1,194,441**	**₱48,531**	**₱343,196**	**₱1,586,168**

	2014			
	Condominium Unit	Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost				
Balance at beginning of year	₱–	₱721,392	₱883,420	₱1,604,812
Additions	–	106,426	15,600	122,026
Reclassification (Note 10)	2,788,500	–	–	2,788,500
Balance at end of year	2,788,500	827,818	899,020	4,515,338
Accumulated Depreciation				
Balance at beginning of year	–	589,554	206,132	795,686
Depreciation	65,065	113,794	176,683	355,542
Reclassification (Note 10)	611,437	–	–	611,437
Balance at end of year	676,502	703,348	382,815	1,762,665
Allowance for Impairment Losses				
Balance at beginning of year	–	–	–	–
Reclassification (Note 10)	1,009,712	–	–	1,009,712
Reversals during the year	(160,968)	–	–	(160,968)
Balance at end of year	848,744	–	–	848,744
Net Book Value at End of Year	₱1,263,254	₱124,470	₱516,205	₱1,903,929

As of December 31, 2015 and 2014, the cost of fully depreciated property and equipment still in use by the Company amounted to ₱0.69 million and ₱0.47 million, respectively.

10. **Investment Properties**

The composition of and movements in this account follow:

	2015	2014		
	Land	Land	Condominium Unit	Total
Cost				
Balance at beginning of year	**₱4,074,155**	₱4,429,966	₱2,788,500	₱7,218,466
Additions	**12,742,214**	–	–	–
Disposals	**–**	(355,811)	–	(355,811)
Reclassification (Note 9)	**–**	–	(2,788,500)	(2,788,500)
Balance at end of year	**16,816,369**	4,074,155	–	4,074,155
Accumulated Depreciation				
Balance at beginning of year	**–**	–	564,962	564,962
Depreciation	**–**	–	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	**464,969**	508,800	1,009,712	1,518,512
Reversals during the year	**–**	(43,831)	–	(43,831)
Reclassification (Note 9)	**–**	–	(1,009,712)	(1,009,712)
Balance at end of year	**464,969**	464,969	–	464,969
Net Book Value at End of Year	**₱16,351,400**	₱3,609,186	₱–	₱3,609,186

The Company annually reviews the recoverable amount of investment properties. Several factors such as real estate prices and physical condition of the properties are considered in determining recoverable amount. The aggregate market value of the investment properties as of

December 31, 2015 and 2014 amounted to ₱20.94 million and ₱6.30 million, respectively, as determined by independent and the Company's in-house appraisers.

Gain on foreclosure of investment properties amounted to ₱0.53 million in 2015.

Sale of investment properties resulted to a gain of ₱0.39 million in 2014.

11. Accounts Payable and Other Accrued Expenses

This account consists of:

	2015	2014
Financial liabilities		
Accounts payable	**₱2,408,249**	₱715,956
Accrued other expenses payable	**487,070**	440,754
	2,895,319	1,156,710
Nonfinancial liabilities		
Accrued taxes	**58,048**	73,523
Other liabilities (Note 19)	**759,439**	–
	817,487	73,523
	₱3,712,806	₱1,230,233

Accrued other expenses payable pertain to accruals for various operating expenses such as management and professional fees, transportation, postage, telephone and cables, stationeries and office supplies.

Accrued taxes consist of withholding tax and percentage tax payable.

12. Loans Payable

On October 15, 2014, the Company entered into a loan agreement with CARD MBA, an affiliate, amounting to ₱5.00 million which bears an annual fixed interest rate of 6.00%. The loan is due in quarterly installments with maturity of two years (Note 18).

Interest expense amounted to ₱0.22 million and ₱0.06 million in 2015 and 2014, respectively.

13. Equity

Common and Treasury Stocks

Details of the Company's capital stock as of December 31, 2015 and 2014 are as follows:

	Shares	Amount
Common stock - ₱1,000.00 par value		
Authorized and issued	42,500	₱42,500,000
Held in treasury	(2,778)	(2,901,307)
Outstanding	39,722	39,598,693

In 2013, 2,778 shares were received by the Company as settlement of an outstanding loan due from 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 ₱1,000.00 to CARD MBA subject to the following conditions:

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

In May 2013, the Company redeemed the shares which were subsequently renewed by CARD MBA in August 2013, subject to the same terms and conditions.

The above conditions satisfy the criteria of a financial liability per PAS 39 Authoritative Guidance and thus, require the presentation of preferred shares under noncurrent liability and the related guaranteed dividend as interest expense. Interest expense incurred amounted to ₱0.49 million in 2014.

On October 14, 2014, the Company paid the preferred stocks amounting to ₱7.50 million.

Capital Management
The primary objectives of the Company's capital management are to ensure that it complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and maximize stockholders' value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payments to stockholders, return capital structure, or issue capital shares.

No changes were made in the objectives, policies and processes from the previous year.

Under RA No. 8556, the Company has complied with the minimum paid-up capital of ₱10.00 million. The Company has no branches that require additional capital.

14. Retirement Plan

The Company is a participant to a multiemployer non-contributory funded defined benefit retirement plan, the CARD MRI Multi-Employer Retirement Plan, covering all its regular employees. The plan, which complies with the requirements of *Retirement Law*, RA No. 7641, has a projected unit cost format and is financed solely by the CARD Group and its related parties.

The retirement plan is administered by the CARD MRI's Retirement Trust Fund, which acts as the trustee of the plan. Under this retirement plan, all covered employees are entitled to cash benefits after satisfying certain age and service requirements. The latest actuarial valuation report of the retirement plan, performed by an independent third party, was made on December 31, 2015.

The Company's annual contribution to the retirement plan consists of a payment covering the current service cost, unfunded actuarial accrued liability and interest on such funded actuarial liability.

The principal actuarial assumptions used in determining the retirement liability as of December 31, 2015 and 2014 are shown below:

	2015	2014
Discount rate	**5.48%**	5.60%
Salary increase rate	**10.00%**	7.00%

The average duration of the defined benefit obligation at the end of 2015 is 19.7 years.

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, 2015	
	Possible fluctuations	Increase (decrease)
Discount rate		
	+1%	(₱198,416)
	-1%	247,439
Salary increase rate		
	+1%	219,838
	-1%	(₱182,239)

In 2015 and 2014, there are no transactions between the Company and the retirement plan.

As of December 31, 2015, the expected benefit payments for more than 5 to 10 years as determined by the Company's actuary amounted to ₱2.80 million. The Company expects to contribute ₱0.06 million to the defined benefit retirement plan in 2016.

Changes in retirement liability are as follows:

	2015											
			Net benefit cost				Remeasurements in other comprehensive income					
	January 1, 2015	PVO transfer	Current service cost	Net interest	Retirement expense*	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Changes in remeasurement gains (losses)	Contribution by employer	December 31, 2015
Present value of defined benefit obligation	₱378,809	(₱52,931)	₱78,236	₱21,214	₱99,450	₱–	₱–	₱484,054	₱476,871	₱960,925	₱–	₱1,386,253
Fair value of plan assets	274,628	(52,931)	–	16,814	16,814	–	(16,814)	–	–	(16,814)	104,181	325,878
Retirement liability	₱104,181	₱–	₱78,236	₱4,400	₱82,636	₱–	₱16,814	₱484,054	₱476,871	₱977,739	(₱104,181)	₱1,060,375

**Presented under Compensation and fringe benefits in the statements of comprehensive income.*

	2014											
			Net benefit cost				Remeasurements in other comprehensive income					
	January 1, 2014	PVO transfer	Current service cost	Net interest	Retirement expense*	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Changes in remeasurement gains (losses)	Contribution by employer	December 31, 2014
Present value of defined benefit obligation	₱607,029	₱274,628	₱72,937	₱24,038	₱96,975	₱–	₱–	(₱725,583)	₱125,760	(₱599,823)	₱–	₱378,809
Fair value of plan assets	–	274,628	–	5,437	5,437	–	(5,437)	–	–	(5,437)	–	274,628
Retirement liability	₱607,029	₱–	₱72,937	₱18,601	₱91,538	₱–	₱5,437	(₱725,583)	₱125,760	(₱594,386)	₱–	₱104,181

**Presented under Compensation and fringe benefits in the statements of comprehensive income.*

As of December 31, 2015 and 2014, the major categories of plan assets at their carrying and fair values follow:

	2015		2014	
	Amount	**%**	Amount	%
Cash and cash equivalents	**₱132,665**	**40.71**	₱107,894	39.29
Debt instruments - government bonds	**148,959**	**45.71**	125,972	45.87
Loans and receivables	**34,413**	**10.56**	30,429	11.08
Investment in mutual funds	**2,542**	**0.78**	2,582	0.94
Other assets	**7,300**	**2.24**	7,751	2.82
Fair value of plan assets	**₱325,879**	**100.00**	₱274,628	100.00

15. Leases

In 2014, the Company leased its office premises for a cancelable term of one year which was renewable every year. The lease contract was terminated by the Company in May 2014. Lease rental amounting to ₱0.09 million in 2014 was included under 'Other expenses' in the statements of comprehensive income (Note 16).

16. Other Operating Income and Other Operating Expenses

Other income mainly consists of rental income amounting to ₱0.17 million and ₱0.30 million in 2015 and 2014, respectively.

Other expenses of the Company comprise of:

	2015	2014
Utilities	**₱84,982**	₱71,417
Representation (Note 17)	**40,423**	86,887
Repairs and maintenance	**39,315**	52,207
Donations and contributions	**20,000**	41,221
Bank charges	**4,510**	4,590
Supervision and examination fees	**3,028**	–
Rent (Note 15)	**–**	90,720
Miscellaneous	**80,979**	167,360
	₱273,237	₱514,402

Miscellaneous expenses pertain to expenses that are not identifiable to the specific expense account like notarization of documents and petty cash expenses.

17. **Income and Other Taxes**

Provision for income tax consists of:

	2015	2014
Current		
MCIT	**₱56,521**	₱42,943
Final	**1,306**	2,149
	57,827	45,092
Deferred	**157,777**	–
	₱215,604	₱45,092

Current tax regulation provides that the RCIT rate shall be 30.00%. In addition, the allowable interest expense shall be reduced by 33.00% of interest income subject to final tax.

Final tax represents 20.00% final withholding tax on gross interest income earned from demand savings account, short-term placements and other deposit substitutes. An MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the date of inception.

Under Philippine tax laws, the Company is subject to percentage and other taxes (presented as 'Taxes and licenses' in the statements of comprehensive income). Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes. GRT rate is from 0.00% to 5.00%.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and representation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Company is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. EAR expenses (included under 'Others' in the statements of comprehensive income) amounted to ₱0.04 million and ₱0.09 million in 2015 and 2014, respectively.

As of December 31, 2015, the Company recognized deferred tax liabilities amounting to ₱0.16 million on its gain on foreclosure of investment properties of ₱0.53 million in 2015 (Note 10). As of December 31, 2014, deferred tax liabilities amounting to ₱0.18 million pertains to the Company's remeasurement gain on retirement liability of ₱0.59 million in 2014 (Note 14) that are charged directly to OCI. In 2015, deferred income tax charged directly to OCI amounted to a benefit of ₱0.18 million.

As of December 31, 2015 and 2014, the Company did not set up deferred tax asset on the following temporary differences as it believes that it is not likely that these temporary differences will be realized in the future:

	2015	2014
Deferred tax asset on:		
Allowance for credit and impairment losses	**₱2,026,417**	₱1,690,164
NOLCO	**732,832**	600,449
Retirement liability	**318,113**	31,254
MCIT	**167,583**	190,194
	₱3,244,945	₱2,512,061

Details of NOLCO for the Company are as follows:

Inception Year	Amount	Applied	Expired	Balance	Expiry Year
2015	₱132,383	₱–	₱–	₱132,383	2018
2014	518,038	–	–	518,038	2017
2013	82,411	–	–	82,411	2016
	₱732,832	₱–	₱–	₱732,832	

Details of the unexpired MCIT follow:

Year Incurred	Amount	Expired	Balance	Expiry Year
2015	₱56,521	₱–	₱56,521	2018
2014	42,943	–	42,943	2017
2013	68,119	–	68,119	2016
2012	79,132	79,132	–	2015
	₱246,715	₱79,132	₱167,583	

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

	2015	2014
Statutory income tax	**(₱845,956)**	(₱1,539,743)
Income tax effects of:		
Gain on sale subjected to capital gains tax	**–**	(116,412)
Change in unrecognized deferred tax asset	**982,226**	1,628,798
Nondeductible expenses	**79,987**	73,523
Interest income subject to final tax	**(653)**	(1,074)
	₱215,604	45,092

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;
- CARD Inc. (the Parent Company);
- Affiliates or other related parties, which are associated companies, subsidiaries, ventures, including subsidiaries of associates and joint ventures of the venturers.

The Company has several business relationships with related parties.

The following table presents the balances of transactions with related parties as of and for the years ended December 31, 2015 and 2014:

	December 31, 2015		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Key Management Personnel			
Accounts receivable (included under 'Loans and receivables')	**₱–**	**₱5,895**	These pertain to advances made to key management personnel and collectible in the next period.
Honorarium	**292,500**	–	These pertain to amounts given to the BOD when they attend on special or regular meetings.
CARD MBA (Affiliate)			
Loans payable	–	**2,500,000**	This pertains to loan that bear annual interest rate of 6.00% and maturity of two years.
Interest payable	–	**26,667**	This pertains to the unpaid but accrued portion of the interest related to loans payable.
Interest expense	**220,417**	–	These pertain to the interest expense from loans payable.
CMDI (Affiliate)			
Finance lease receivable (included under 'Loans and receivables')	–	**4,784,205**	These pertain to unsecured lease contracts covering various equipment with annual average effective interest rate of 16.19% and maturities of four years that are subjected to collective impairment.
Leasing income	**237,687**	–	These pertain to the leasing income from finance lease receivable.
BotiCARD (Affiliate)			
Finance lease receivable (included under 'Loans and receivables')	–	**194,738**	This pertains to unsecured lease contract covering various equipment with annual average effective interest rate of 15.52% and maturity of four years that is subjected to collective impairment.
Leasing income	**19,348**	–	These pertain to the leasing income from finance lease receivable.
CAMIA (Affiliate)			
Finance lease receivable (included under 'Loans and receivables')	–	**265,035**	These pertain to unsecured lease contracts covering various equipment with annual average effective interest rate of 15.86% and maturities of four years that are subjected to collective impairment.
Leasing income	**18,222**	–	These pertain to the leasing income from finance lease receivable.
Prepaid expenses (included under 'Other current assets')	–	**39,077**	This pertains to payments made for insurance covering key management personnel.
Insurance expense	**11,752**	–	These pertain to the insurance incurred covering key management personnel during the year.

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2015		
CPMI (Affiliate)			
Prepaid expenses (included under 'Other current assets')	**₱–**	**₱19,260**	This pertains to payments made related to a motor car comprehensive insurance.
Insurance expense	**14,201**	–	These pertain to the motor car comprehensive insurance incurred during the year.
EMPC (Affiliate)			
Compensation and fringe benefits	**23,132**	–	These pertain to payments made for the health premium coverage of its employees for the year.

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2014		
Key Management Personnel			
Accounts receivable (included under 'Loans and receivables')	₱–	₱3,855	These pertain to advances made to key management personnel and collectible in the next period.
Honorarium	370,000	–	These pertain to amounts given to the BOD when they attend on special or regular meetings.
CARD MBA (Affiliate)			
Loans payable	–	5,000,000	This pertains to loan that bear annual interest rate of 6.00% and maturity of two years.
Interest payable	–	63,333	This pertains to the unpaid but accrued portion of the interest related to loans payable.
Interest expense	550,000	–	These pertain to the interest expense from loans payable and non-discretionary dividends related to preferred stocks amounting to ₱0.06 million and ₱0.49 million, respectively..
CAMIA (Affiliate)			
Prepaid expenses (included under 'Other current assets')	–	65,367	This pertains to payments made for insurance covering key management personnel.
Insurance expense	13,073	–	These pertain to the insurance incurred covering key management personnel during the year.
EMPC (Affiliate)			
Compensation and fringe benefits	20,790	–	These pertain to payments made for the health premium coverage of its employees for the year.

Terms and conditions of transactions with related parties
In the ordinary course of the business, the Company enters into service agreements and other transactions with its affiliates. The agreements and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. 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.

Compensation of 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 BOD and senior management to constitute key management personnel for purposes of PAS 24.

Compensation of key management personnel (covering officer positions starting from Operations Officer and up) included under 'Compensation and fringe benefits' in the statements of income follows:

	2015	2014
Short-term employee benefits	**₱561,207**	₱915,220
Post-employment benefits	**82,636**	91,538
	₱643,843	₱1,006,758

19. Commitments and Contingencies

In the normal course of the Company's operations, there are contingencies which are not reflected in the accompanying financial statements. The Company does not anticipate material unreserved losses as a result of these transactions.

In 2015, the Company recognized provisions for probable losses amounting to ₱0.75 million (presented under 'Provision for credit and impairment losses' in the statements of comprehensive income). No specific disclosures on such provisions are made because any such specific disclosures would prejudice the Company's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 27, *Provisions, Contingent Liabilities and Contingent Assets.*

20. Notes to Statement of Cash Flows

The following is the summary of noncash activities in 2015 and 2014:

	2015	2014
Noncash operating activities		
Application of prepaid income tax to current tax	**₱35,424**	₱39,633
Noncash investing activities		
Additions to investment properties in settlement of loans	**12,742,214**	–
Reclassification of investment property to property and equipment	–	1,102,286

21. Approval for the Release of the Financial Statements

The accompanying financial statements of the Company were authorized and approved for issue by the BOD on March 31, 2016.

22. Supplementary Information Required Under Revenue Regulations (RR) 15-2010

On November 25, 2010, the Bureau of Internal Revenue issued RR 15-2010 to amend certain provisions of RR 21-2002. The Regulations provide that starting 2010, the notes to financial statements shall include information on taxes and licenses paid or accrued during the taxable year.

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

<u>Taxes and licenses</u>
This includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the 'Taxes and licenses' account in the Company's statement of comprehensive income.

Details consist of the following:

Percentage taxes	₱210,564
Permits and licenses	41,729
Real property taxes	7,566
Others	82,757
Total	₱342,616

Withholding taxes
Total remittances and payables of withholding taxes for the year are as follows:

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