

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

Financial Statements
December 31, 2016 and 2015

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Responsible Investments for Solidarity and Empowerment (RISE) Financing Company, Inc. (the Company), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, 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.

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



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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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


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



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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 20 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.



Ray Francis C. Balagtas
Partner

CPA Certificate No. 108795

SEC Accreditation No. 1510-A (Group A),
October 1, 2015, valid until September 30, 2018

Tax Identification No. 216-950-288

BIR Accreditation No. 08-001998-107-2015,
March 4, 2015, valid until March 3, 2018

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

March 24, 2017



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

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash on hand and in banks (Note 6)	₱3,806,931	₱2,454,278
Loans and receivables (Notes 7 and 16)	14,561,352	15,043,590
Other current assets (Notes 8 and 16)	196,931	84,697
	18,565,214	17,582,565
Noncurrent Assets		
Loans and receivables (Notes 7 and 16)	2,990,382	4,873,994
Property and equipment (Note 9)	1,256,915	1,586,168
Investment properties (Note 10)	15,954,608	16,351,400
	20,201,905	22,811,562
	₱38,767,119	₱40,394,127
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other accrued expenses (Note 11)	1,834,464	3,739,473
Income tax payable	83,904	–
Loans payable (Note 16)	–	2,500,000
	1,918,368	6,239,473
Noncurrent Liabilities		
Retirement liability (Note 13)	341,828	1,060,375
Deferred tax liability (Note 15)	352,909	157,777
	694,737	1,218,152
	2,613,105	7,457,625
Equity		
Common stock (Note 12)	42,500,000	42,500,000
Treasury stock (Note 12)	(2,901,307)	(2,901,307)
Deficit	(3,516,633)	(6,278,838)
Remeasurement gains (losses) on retirement liability (Note 13)	71,954	(383,353)
	36,154,014	32,936,502
	₱38,767,119	₱40,394,127

See accompanying Notes to Financial Statements.



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

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2016	2015
INCOME		
Leasing (Notes 7 and 16)	₱2,819,677	₱3,651,144
Interest		
Receivables financed (Note 7)	255,070	240,369
Cash in banks (Note 6)	5,415	6,528
	3,080,162	3,898,041
INTEREST EXPENSE (Note 16)	81,078	220,417
NET INTEREST AND LEASING INCOME	2,999,084	3,677,624
Gain on sale of an investment property (Note 10)	2,213,353	–
Gain on foreclosure of investment properties (Note 10)	–	525,924
Service charges and fees	–	30,000
Others (Note 14)	604,307	174,765
TOTAL OPERATING INCOME	5,816,744	4,408,313
OPERATING EXPENSES		
Compensation and fringe benefits (Notes 13 and 16)	1,099,770	1,272,112
Honorarium (Note 16)	568,316	292,500
Provision for (reversal of) credit and impairment losses (Notes 7 and 17)	(485,088)	2,644,409
Depreciation expense (Note 9)	327,788	317,761
Marketing and program expenses	301,587	325,915
Taxes and licenses (Note 20)	275,174	342,616
Management and professional fees	266,293	394,804
Transportation expense	264,803	262,561
Postage, telephone and cables	94,939	128,945
Insurance expense (Note 16)	91,642	113,202
Asset acquired expenses	–	750,295
Others (Notes 14)	154,001	383,047
TOTAL OPERATING EXPENSES	2,959,225	7,228,167
INCOME (LOSS) BEFORE INCOME TAX	2,857,519	(2,819,854)
PROVISION FOR INCOME TAX (Note 15)	95,314	215,604
NET INCOME (LOSS)	2,762,205	(3,035,458)
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Items that do not recycle to profit or loss in subsequent periods:</i>		
Remeasurement gains (losses) on retirement liability, net (Note 13)	455,307	(799,423)
TOTAL COMPREHENSIVE INCOME (LOSS)	₱3,217,512	(₱3,834,881)

See accompanying Notes to Financial Statements.



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

STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 12)	Treasury Stock (Note 12)	Deficit	Remeasurement Gains (Losses) on Retirement Liability (Note 13)	Total
Balance at January 1, 2016	₱42,500,000	(₱2,901,307)	(₱6,278,838)	(₱383,353)	₱32,936,502
Total comprehensive income for the year	-	-	2,762,205	455,307	3,217,512
Balance at December 31, 2016	₱42,500,000	(₱2,901,307)	(₱3,516,633)	₱71,954	₱36,154,014
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

See accompanying Notes to Financial Statements.



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

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	₱2,857,519	(₱2,819,854)
Adjustments for:		
Gain on sale of an investment property (Note 10)	(2,213,353)	–
Provision for (reversal of) credit and impairment losses (Notes 7 and 17)	(485,088)	2,644,409
Depreciation expense (Note 9)	327,788	317,761
Retirement expense (Note 13)	196,986	82,636
Loss on retirement of property and equipment (Note 14)	1,465	
Gain on foreclosure of investment properties (Note 10)	–	(525,924)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Loans and receivables	4,915,605	493,906
Other current assets	19,585	7,527
Increase (decrease) in accounts payable and other accrued expenses	(2,509,316)	1,731,600
Net cash generated from operations	3,111,191	1,932,061
Income taxes paid	(1,083)	(19,127)
Net cash provided by operating activities	3,110,108	1,912,934
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investment property (Notes 10 and 18)	800,400	–
Acquisition of investment property (Note 10)	(57,855)	–
Net cash provided by investing activities	742,545	–
CASH FLOWS FROM FINANCING ACTIVITY		
Settlement of loans payable (Notes 16)	(2,500,000)	(2,500,000)
NET INCREASE (DECREASE) IN CASH ON HAND AND IN BANKS		
	1,352,653	(587,066)
CASH ON HAND AND IN BANKS AT BEGINNING OF YEAR		
	2,454,278	3,041,344
CASH ON HAND AND IN BANKS AT END OF YEAR (Note 6)		
	₱3,806,931	₱2,454,278
OTHER OPERATIONAL CASH FLOWS		
Interest received	₱3,287,555	₱3,569,600
Interest paid	107,745	257,083

See accompanying Notes to Financial Statements.



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

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Responsible Investments for Solidarity and Empowerment (RISE) Financing Company, Inc. (the Company), was registered with the Philippine Securities and Exchange Commission (SEC) on April 8, 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 accounting policies adopted are consistent with those of the previous year except for the following amendments and improvements to PFRS which are effective beginning on or after January 1, 2016. Except as otherwise indicated, the changes in the accounting policies did not have any significant impact on the financial position or performance of the Company.

- PFRS 10, PFRS 12 and Philippine Accounting Standard (PAS) 28, *Investment Entities: Applying the Consolidation Exception* (Amendments)
- PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
- PFRS 14, *Regulatory Deferral Accounts*
- PAS 1, *Disclosure Initiative* (Amendments)
- PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
- PAS 16 and PAS 41, *Agriculture: Bearer Plants* (Amendments)

Annual Improvements to PFRSs (2012-2014 cycle)

- PFRS 5, *Changes in Methods of Disposal* (Amendments)
- PFRS 7, *Servicing Contracts* (Amendments)
- PFRS 7, *Applicability of the Amendments to PFRS to Condensed Interim Financial Statements* (Amendments)
- PAS 19, *Regional market issue regarding discount rate* (Amendments)
- PAS 34, *Disclosure of information elsewhere in the interim financial report* (Amendments)

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.



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.

Fair Value Measurement

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

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

The principal or the most advantageous market must be accessible to the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy (see Note 4).



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, 2016 and 2015, the Company has no financial assets and financial liabilities at FVPL, HTM investments and AFS investments.

'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 (reversal of) 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' and financial liabilities presented under 'Accounts payable and other accrued other expenses'.

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 (reversal of) 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 (reversal of) 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 commences when the asset is available for its intended use and is computed using the straight-line method over the estimated useful lives of the property, plant and equipment as follows:

	Years
Condominium unit	25
Furniture, fixtures and equipment	3 to 5
Transportation equipment	5

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 an investment property' 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 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.

Interest expense

Interest expense for all interest-bearing financial liabilities are recognized under 'Interest expense' in the statement of comprehensive income using the EIR of the financial liabilities to which they relate.

Leases

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

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

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

Company as 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.

Retirement Benefits

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.

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 date of issuance of the Company's financial statements are listed below. The Company intends to adopt these standards when they become effective. Adoption of these standards and interpretations are not expected to have any significant impact on the financial statements of the Company.

Effective beginning on or after January 1, 2017

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



Effective beginning on or after January 1, 2018

- PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions* (Amendments)
- PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4* (Amendments)
- PFRS 9, *Financial Instruments*
PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the amount of the Company's credit losses. The Company is currently assessing the impact of adopting this standard.

- PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of adopting this standard.

- PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)* (Amendments)
- PAS 40, *Investment Property - Transfers of Investment Property* (Amendments)
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*
Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.



The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

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

The Company is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

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

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) 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. 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 17).

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) 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, 2016 and 2015, the carrying values of property and equipment and investment properties are disclosed in Notes 9 and 10.

(c) Present value of retirement obligation

The cost of defined benefit pension plan 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 13.



(d) *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 15.

4. Fair Value Measurement

The methods and assumptions used by the Company in estimating the fair value of the assets and 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.

Finance lease receivables and receivables financed 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 13.77% to 15.63% and from 12.00% to 13.78% in 2016 and 2015, respectively.

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

Loans payable - As of December 31, 2015, fair values approximate carrying amounts in view of its relatively short-term maturity.

As of December 31, 2016 and 2015, the fair value hierarchy of the Company's assets and liabilities for which fair value is disclosed is presented below:

	2016				Total Fair Value
	Carrying Value	Level 1	Level 2	Level 3	
Assets					
Loans and receivables					
Finance lease receivables	₱15,684,135	₱-	₱-	₱16,447,408	₱16,447,408
Investment properties	15,954,608	-	-	20,936,507	20,936,507
2015					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets					
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



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.

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 2016 and 2015.

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.

Offsetting of financial assets and liabilities

As at December 31, 2016 and 2015, the Company has no financial assets with rights to offset in accordance with Amendments to PAS 32, *Financial Instruments - Offsetting Financial Assets and Financial Liabilities*. There are also no financial instruments that are subject to an enforceable



master netting arrangements or similar agreements which require disclosure in the financial statements in accordance with PFRS.

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.

2016				Financial effect of collateral or credit enhancement
	Maximum credit exposure	Fair value of collateral	Net exposure	
Finance lease receivables	P15,684,135	P18,528,220	P1,592,947	P14,091,188

2015				Financial effect of collateral or credit enhancement
	Maximum credit exposure	Fair value of collateral	Net exposure	
Finance lease receivables	P17,628,808	P20,669,004	P1,034,825	P16,593,983
Receivables financed	2,077,448	-	2,077,448	-
	P19,706,256	P20,669,004	P3,112,273	P16,593,983

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:

2016				
	Cash in Banks	Loans and Receivables	Other Current Assets	Total
Financial institutions	P3,776,931	P824,185	P-	P4,601,116
Education	-	14,853,316	-	14,853,316
Health and social work	-	289,786	-	289,786
Other community, social and personal service activities	-	1,867,600	1,000	1,868,600
	3,776,931	17,834,887	1,000	21,612,818
Less allowance for credit losses	-	283,153	-	283,153
	P3,776,931	P17,551,734	P1,000	P21,329,665

2015				
	Cash in Banks	Loans and Receivables	Other Current Assets	Total
Financial institutions	P2,424,278	P1,300,367	P-	P3,724,645
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
	P2,424,278	P19,917,584	P2,960	P22,344,822



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):

	2016				
	Neither past due nor impaired		Past due but not impaired	Impaired	Total
	High Grade	Standard grade			
Loans and receivables					
Cash in banks	₱3,776,931	₱-	₱-	₱-	₱3,776,931
Finance lease receivables	4,218,744	13,600,595	-	-	17,819,339
Other receivables	1,867,600	-	-	-	1,867,600
Other current assets					
Security deposits	1,000	-	-	-	1,000
Net book value	₱9,864,275	₱13,600,595	₱-	₱-	₱23,464,870

	2015				
	Neither past due nor impaired		Past due but not impaired	Impaired	Total
	High Grade	Standard Grade			
Loans and receivables					
Cash in banks	₱2,424,278	₱-	₱-	₱-	₱2,424,278
Finance lease receivables	8,262,384	5,241,569	7,029,365	-	20,533,318
Receivables financed	3,025,000	-	-	5,360,940	8,385,940
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

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. Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due.

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

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, 2016 and 2015.



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).

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. 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.

As of December 31, 2016 and 2015, the Company's interest-bearing financial assets and liabilities have fixed interest rates. As such, the Company's exposure to interest rate risk is minimal.

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, 2016 and 2015, the Company is not exposed to foreign currency risk since all its assets and liabilities are peso-denominated.

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

	2016					Total
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	
Financial Assets						
Cash in banks	₱3,806,931	₱-	₱-	₱-	₱-	₱3,806,931
Loans and receivables						
Finance lease receivables	-	1,619,549	3,313,806	10,723,244	4,284,303	19,940,902
Other receivables	-	-	1,867,600	-	-	1,867,600
Total Financial Assets	₱3,806,931	₱1,619,549	₱5,181,406	₱10,723,244	₱4,284,303	₱25,615,433
Financial Liabilities						
Accounts payable and other accrued expenses	₱437,760	₱602,266	₱-	₱-	₱-	₱1,040,026



	2015					Total
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	
Financial Assets						
Cash in banks	₱2,454,278	₱-	₱-	₱-	₱-	₱2,454,278
Loans and receivables						
Finance lease receivables	568,051	1,661,900	3,402,569	10,864,097	6,540,512	23,037,129
Receivables financed	-	278,208	569,250	2,508,000	-	3,355,458
Other receivables	-	211,328	-	-	-	211,328
Total Financial Assets	₱3,022,329	₱2,151,437	₱3,971,819	₱13,372,097	₱6,540,512	₱29,058,193
Financial Liabilities						
Accounts payable and other accrued expenses	₱2,434,916	₱487,070	₱-	₱-	₱-	₱2,921,986
Loans payable	-	-	649,323	1,931,755	-	2,581,078
Total Financial Liabilities	₱2,434,916	₱487,070	₱649,323	₱1,931,755	₱-	₱5,503,064

6. Cash on Hand and in Banks

This account consists of:

	2016	2015
Cash on hand	₱30,000	₱30,000
Cash in banks	3,776,931	2,424,278
	₱3,806,931	₱2,454,278

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 2016 and 2015. Interest income recognized from cash in banks amounted to ₱0.01 million in 2016 and 2015.

7. Loans and Receivables

This account consists of:

	2016	2015
Finance lease receivables	₱17,819,339	₱20,533,318
Unearned lease income	(1,852,052)	(2,621,357)
	15,967,287	17,911,961
Receivables financed	-	8,385,940
Unearned finance income	-	(1,170,532)
	-	7,215,408
Other receivables		
Sales contract receivables	1,867,600	-
Accrued interest receivable	-	207,393
Accounts receivable (Note 16)	-	23,830
	1,867,600	231,223
	17,834,887	25,358,592
Allowance for credit losses	(283,153)	(5,441,008)
	₱17,551,734	₱19,917,584
Current portion	₱14,561,352	₱15,043,590
Non-current portion	2,990,382	4,873,994
	₱17,551,734	₱19,917,584



Finance lease receivables bear effective interest rates ranging from 14.63% to 22.98% in 2016 and 2015 while receivables financed have effective interest rates ranging from 11.65% to 17.97% in 2016 and 2015.

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

Sales contract receivables arise from the 2016 sale of the Company's investment property on installment, fully secured by a third-party bank and is expected to be settled in March 2017.

An analysis of the Company's receivables financed and finance lease receivables as of December 31, 2016 and 2015 is presented as follows:

	Finance Lease Receivables		Receivables Financed
	2016	2015	2015
Due within one year	₱14,496,127	₱14,805,997	₱4,566,695
Unearned income	(1,573,209)	(1,794,579)	(726,823)
	12,922,918	13,011,418	3,839,872
Allowance for credit losses	(229,166)	(256,604)	(1,762,424)
	12,693,752	12,754,814	2,077,448
Due beyond one year but not more than five years	3,323,212	5,727,321	3,819,245
Unearned income	(278,843)	(826,778)	(443,709)
	3,044,370	4,900,543	3,375,536
Allowance for credit losses	(53,987)	(26,549)	(3,375,536)
	2,990,383	4,873,994	–
	₱15,684,135	₱17,628,808	₱2,077,448

An analysis of the minimum lease payments as of December 31, 2016 and 2015 is presented as follows:

	2016		Total
	Not later than one year	Later than one year and less than five years	
Minimum lease payments	₱14,097,769	₱2,685,949	₱16,783,718
Residual value of leased assets	398,357	637,265	1,035,622
Gross investment in finance lease receivables	14,496,126	3,323,214	17,819,340
Unearned lease income	(1,573,209)	(278,843)	(1,852,052)
	12,922,917	3,044,371	15,967,288
Allowance for credit losses	(229,165)	(53,988)	(283,153)
Net investment in finance lease receivables	₱12,693,752	₱2,990,383	₱15,684,135



	2015		Total
	Not later than one year	Later than one year and less than five years	
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

As of December 31, 2016 and 2015, finance lease receivables include loan transactions with related parties amounting to ₱5.30 million and ₱5.24 million, respectively (Note 16).

Movements in the allowance for credit losses are as follows:

	2016			Total
	Finance Lease Receivables	Receivables Financed	Other Receivables	
Balance at beginning of year	₱283,153	₱5,137,960	₱19,895	₱5,441,008
Provisions (reversals) during the year	–	(692,482)	207,394	(485,088)
Accounts charged off and others	–	(4,445,478)	(227,289)	(4,672,767)
Balance at end of year	₱283,153	₱–	₱–	₱283,153
Collective impairment	₱283,153	₱–	₱–	₱283,153

	2015			Total
	Finance Lease Receivables	Receivables Financed	Other Receivables	
Balance at beginning of year	₱1,113,203	₱3,206,963	₱–	₱4,320,166
Provisions (reversals) during the year	(57,457)	1,930,997	19,895	1,893,435
Accounts charged off and others	(772,593)	–	–	(772,593)
Balance at end of year	₱283,153	₱5,137,960	₱19,895	₱5,441,008
Individual impairment	₱–	₱4,445,478	₱–	₱4,465,373
Collective impairment	283,153	692,482	19,895	975,635
	₱283,153	₱5,137,960	₱19,895	₱5,380,835

Gross amounts of receivables individually determined to be impaired, before deducting any individually assessed impairment losses	₱–	₱5,360,940	₱19,895	₱5,380,835
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Section 9(f) of RA No. 8556 requires that a 100.00% allowance for credit losses should be set up for the following:

- Clean loans and advances past due for a period of more than six (6) months;
- 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;
- Past due loans secured by real estate mortgage title to which is subject to an adverse claim rendering settlement through foreclosure doubtful;
- 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, 2016 and 2015, the Company's allowance for credit losses on 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:

	2016	2015
Leasing income (Note 16)	₱2,819,677	₱3,651,144
Finance income	255,070	240,369
	₱3,074,747	₱3,891,513

8. Other Current Assets

This account consists of:

	2016	2015
Financial assets		
Security deposits	₱1,000	₱1,000
Advances	–	1,960
	1,000	2,960
Nonfinancial assets		
Prepaid expenses (Note 16)	195,931	71,410
Prepaid tax expenses	–	10,327
	195,931	81,737
	₱196,931	₱84,697

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:

	2016			Total
	Condominium Unit	Furniture, Fixtures and Equipment	Transportation Equipment	
Cost				
Balance at beginning of year	₱2,788,500	₱827,818	₱899,020	₱4,515,338
Disposals	–	(558,773)	–	(558,773)
Balance at end of year	2,788,500	269,045	899,020	3,956,565
Accumulated Depreciation				
Balance at beginning of year	745,315	779,287	555,824	2,080,426
Depreciation	111,540	34,364	181,884	327,788
Disposal	–	(557,308)	–	(557,308)
Balance at end of year	856,855	256,343	737,708	1,850,906
Allowance for Impairment Losses	848,744	–	–	848,744
Net Book Value at End of Year	₱1,082,901	₱12,702	₱161,312	₱1,256,915

	2015			Total
	Condominium Unit	Furniture, Fixtures and Equipment	Transportation Equipment	
Cost				
Balance at beginning of year	₱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

As of December 31, 2016 and 2015, the cost of fully depreciated property and equipment still in use by the Company amounted to ₱0.90 million and ₱0.69 million, respectively.

10. Investment Properties

The composition of and movements in this account follow:

	2016	2015
Cost		
Balance at beginning of year	₱16,816,369	₱4,074,155
Additions	57,855	12,742,214
Disposals	(454,647)	–
Balance at end of year	16,419,577	16,816,369
Allowance for Impairment Losses	464,969	464,969
Net Book Value at End of Year	₱15,954,608	₱16,351,400



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, 2016 and 2015 amounted to ₱20.94 million, as determined by independent and the Company's in-house appraisers.

Gain on sale of an investment property amounted to ₱2.21 million in 2016.

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

11. Accounts Payable and Other Accrued Expenses

This account consists of:

	2016	2015
Financial liabilities		
Accrued other expenses payable	₱602,266	₱487,070
Accounts payable (Note 14)	437,760	2,408,249
Accrued interest (Note 16)	–	26,667
	1,040,026	2,921,986
Nonfinancial liabilities		
Accrued taxes	43,464	58,048
Other liabilities (Note 18)	750,974	759,439
	794,438	817,487
	₱1,834,464	₱3,739,473

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. Equity

Common and Treasury Stocks

Details of the Company's capital stock as of December 31, 2016 and 2015 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.



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.

13. 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, 2016.

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, 2016 and 2015 are shown below:

	2016	2015
Discount rate	4.90%	5.48%
Salary increase rate	7.00%	10.00%

The average duration of the defined benefit obligation at the end of 2016 is 7.8 years.

The amounts of retirement liability recognized in the statement of financial position follow:

	2016	2015
Present value of retirement obligation	₱783,775	₱1,386,253
Fair value of plan assets	(441,947)	(325,878)
Net retirement liability	₱341,828	₱1,060,375



The movements in the net retirement obligation follow:

	2016	2015
Balance at beginning of year	₱1,060,375	₱104,181
Retirement expense	196,986	82,636
Return on plan asset	13,877	16,814
Contribution	(265,094)	(104,181)
Actuarial losses (gains) from:		
Changes in financial assumptions	(131,191)	476,871
Experience adjustments	(533,125)	484,054
Balance at end of year	₱341,828	₱1,060,375

The movements in the present value of obligation (PVO) follow:

	2016	2015
Balance at beginning of year	₱1,386,253	₱378,809
PVO transfer	(155,995)	(52,931)
Current service cost	141,866	78,236
Interest cost	75,967	21,214
Actuarial losses (gains)	(664,316)	960,925
Balance at end of year	₱783,775	₱1,386,253

The movements in the fair value of plan assets follow:

	2016	2015
Balance at beginning of year	₱325,878	₱274,628
PVO transfer	(155,995)	(52,931)
Contributions paid by employer	265,094	104,181
Return on plan assets	20,847	16,814
Actuarial losses	(13,877)	(16,814)
Balance at end of year	₱441,947	₱325,878

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, 2016	
	Possible fluctuations	Increase (decrease)
Discount rate	+1%	(₱58,561)
	-1%	64,196
Salary increase rate	+1%	54,436
	-1%	(51,133)

In 2016 and 2015, there are no transactions between the Company and the retirement plan.

As of December 31, 2016, the expected benefit payments for more than 5 to 10 years as determined by the Company's actuary amounted to ₱1.81 million. The Company expects to contribute nil amount to the defined benefit retirement plan in 2017.



As of December 31, 2016 and 2015, the major categories of plan assets at their carrying and fair values follow:

	2016		2015	
	Amount	%	Amount	%
Cash and cash equivalents	₱183,585	41.54	₱132,665	40.71
Debt instruments - government bonds	207,538	46.96	148,959	45.71
Loans and receivables	42,559	9.63	34,413	10.56
Investment in mutual funds	2,298	0.52	2,542	0.78
Other assets	5,966	1.35	7,300	2.24
Fair value of plan assets	₱441,946	100.00	₱325,879	100.00

14. Other Operating Income and Other Operating Expenses

In 2016, the Company received a favorable court decision on a case filed against a certain counterparty upon the latter's failure to fulfill its obligation under the compromise agreement. Total installment payments received from the counterparty amounting to ₱0.60 million previously lodged under 'Accounts payable and other accrued expenses' was forfeited in favor of the Company and recognized as 'Other income' in 2016.

In 2015, other income pertains to rental income amounting to ₱0.17 million.

Other expenses of the Company comprise of:

	2016	2015
Repairs and maintenance	₱32,271	₱39,315
Utilities	32,097	84,982
Stationeries and office supplies	32,055	109,810
Donations and contributions	–	20,000
Representation (Note 15)	–	40,423
Miscellaneous	57,577	88,517
	₱154,000	₱383,047

Miscellaneous expenses include loss on retirement of property and equipment and other expenses that are not identifiable to the specific expense account like bank charges, notarization of documents and petty cash expenses.

15. Income and Other Taxes

Provision for income tax consists of:

	2016	2015
Current		
MCIT	₱94,231	₱56,521
Final	1,083	1,306
	95,314	57,827
Deferred	–	157,777
	₱95,314	₱215,604



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 nil and ₱0.04 million in 2016 and 2015, respectively.

As of December 31, 2016, the Company's deferred tax liabilities consist of ₱0.19 million arising from remeasurement gains on retirement liability of ₱0.65 million and ₱0.16 million pertaining to gain on foreclosure of investment properties in 2015. The deferred tax liability on remeasurement gains is charged directly to OCI.

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, 2016 and 2015, 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:

	2016	2015
NOLCO	₱2,757,153	₱732,832
Allowance for credit and impairment losses	1,596,867	5,441,007
Excess MCIT over RCIT	193,695	167,583
Retirement liability	341,826	1,060,377
	₱4,889,541	₱7,401,799

Details of NOLCO for the Company are as follows:

Inception Year	Amount	Applied	Expired	Balance	Expiry Year
2016	₱2,106,732	₱-	₱-	₱2,106,732	2019
2015	132,383	-	-	132,383	2018
2014	518,038	-	-	518,038	2017
2013	82,411	-	82,411	-	2016
	₱2,839,564	₱-	₱82,411	₱2,757,153	



Details of the unexpired MCIT follow:

Year Incurred	Amount	Expired	Balance	Expiry Year
2016	₱94,231	₱–	₱94,231	2019
2015	56,521	–	56,521	2018
2014	42,943	–	42,943	2017
2013	68,119	68,119	–	2016
	₱261,814	₱68,119	₱193,695	

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

	2016	2015
Statutory income tax	₱857,256	(₱845,956)
Income tax effects of:		
Change in unrecognized deferred tax asset	(823,927)	982,226
Nondeductible expenses	62,527	79,987
Income subject to final tax	(541)	(653)
	₱95,314	₱215,604

16. 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.

Transactions with the Retirement Plan

Under PFRS, certain post-employment benefit plans are considered as related parties. The retirement plan of the employees of the Company is being managed and maintained by the CARD MRI's Retirement Trust Fund. The details of the assets of the fund as of December 31, 2016 and 2015 are disclosed in Note 13.

As of December 31, 2016 and 2015, the Company has no transactions with CARD MRI's Retirement Trust Fund.



Transactions with the Key Management Personal and other related parties

The following table presents the balances of transactions with related parties as of and for the years ended December 31, 2016 and 2015:

Category	December 31, 2016		
	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Honorarium	₱568,316	₱-	These pertain to amounts given to the BOD when they attend on special or regular meetings.
CARD MBA (Affiliate)			
Interest expense	81,078	-	These pertain to the interest expense from loans payable that was fully paid during the year.
CMDI (Affiliate)			
Finance lease receivable (included under 'Loans and receivables')	-	4,969,778	These pertain to unsecured lease contracts covering various equipment with annual average effective interest rate of 16.19% and maturity of four years that are subjected to collective impairment.
Leasing income	813,043	-	These pertain to the leasing income from finance lease receivable.
BotiCARD (Affiliate)			
Finance lease receivable (included under 'Loans and receivables')	-	141,859	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	27,531	-	These pertain to the leasing income from finance lease receivable.
CAMIA (Affiliate)			
Finance lease receivable (included under 'Loans and receivables')	-	189,520	These pertain to unsecured lease contracts covering various equipment with annual average effective interest rate of 15.86% and maturity of four years that are subjected to collective impairment.
Leasing income	32,234	-	These pertain to the leasing income from finance lease receivable.
Prepaid expenses (included under 'Other current assets')	-	53,785	This pertains to payments made for insurance covering key management personnel.
Insurance expense	62,907	-	These pertain to the insurance incurred covering key management personnel during the year.
CPMI (Affiliate)			
Insurance expense	19,260	-	These pertain to the motor car comprehensive insurance incurred during the year.
EMPC (Affiliate)			
Compensation and fringe benefits	4,260	-	These pertain to payments made for the health premium coverage of its employees for the year.

December 31, 2015

Category	December 31, 2015		
	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 an 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 maturity of four years that are subjected to collective impairment.
Leasing income	237,687	-	These pertain to the leasing income from finance lease receivable.

(Forward)



December 31, 2015

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
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 maturity 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.
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.

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 included under 'Compensation and fringe benefits' in the statements of comprehensive income follows:

	2016	2015
Short-term employee benefits	₱341,301	₱561,207
Post-employment benefits	196,986	82,636
	₱538,287	₱643,843

17. 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 (reversal of) 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*.

18. Notes to Statement of Cash Flows

The following is the summary of noncash activities in 2016 and 2015:

	2016	2015
Noncash operating activities		
Reclassification of other receivables to other assets	₱142,146	₱-
Application of prepaid income tax to current tax	10,327	35,424
Noncash investing activities		
Recognition of sales contract receivables arising from sale of an investment property	1,867,600	-
Additions to investment properties in settlement of loans	-	12,742,214

19. 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 24, 2017.

20. 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:

Taxes and licenses

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	₱141,706
Permits and licenses	56,881
Real property taxes	30,366
Others	46,221
Total	₱275,174



Withholding taxes

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

	Total remittances	Payables
Withholding taxes on compensation and benefits	₱94,730	₱6,480
Expanded withholding taxes	52,694	–
	₱147,424	₱6,480

Tax Cases and Assessments

The Company has no final tax assessments and pending tax cases as of December 31, 2016.

