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

Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report

SGV
Building a better working world

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, 2017 and 2016, 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, 2017 and 2016, 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.

Building a better working world

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

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. 08-001998-107-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 6621226, January 9, 2018, Makati City

March 20, 2018

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

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash on hand and in banks (Note 6)	**₱7,546,139**	₱3,806,931
Loans and receivables (Note 7)	**12,217,882**	14,561,352
Other current assets (Note 8)	**136,895**	196,931
	19,900,916	18,565,214
Noncurrent Assets		
Loans and receivables (Note 7)	**1,393,371**	2,990,382
Property and equipment (Note 9)	**972,365**	1,256,915
Investment properties (Note 10)	**12,868,708**	15,954,608
Retirement asset (Note 13)	**33,090**	–
	15,267,534	20,201,905
	₱35,168,450	₱38,767,119
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other accrued expenses (Note 11)	**851,566**	1,834,464
Income tax payable	**23,910**	83,904
	875,476	1,918,368
Noncurrent Liabilities		
Deferred tax liabilities (Note 15)	**413,437**	352,909
Retirement liability (Note 13)	–	341,828
	413,437	694,737
	1,288,913	2,613,105
Equity		
Common stock (Note 12)	**42,500,000**	42,500,000
Treasury stock (Note 12)	**(2,901,307)**	(2,901,307)
Deficit	**(5,932,341)**	(3,516,633)
Remeasurement gains on retirement liability (Note 13)	**213,185**	71,954
	33,879,537	36,154,014
	₱35,168,450	₱38,767,119

See accompanying Notes to Financial Statements.

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

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016
INCOME		
Leasing (Note 7)	**₱2,546,020**	₱2,819,677
Interest from:		
Cash in banks (Note 6)	**12,744**	5,415
Receivables financed (Note 7)	–	255,070
	2,558,764	3,080,162
INTEREST EXPENSE (Note 16)	–	81,078
NET INTEREST AND LEASING INCOME	**2,558,764**	2,999,084
Gain on sale of investment property (Note 10)	–	2,213,353
Others	**736,022**	604,307
TOTAL OPERATING INCOME	**3,294,786**	5,816,744
OPERATING EXPENSES		
Provision for (reversal of) credit and impairment losses (Notes 7 and 10)	**3,100,950**	(485,088)
Compensation and fringe benefits (Notes 13 and 16)	**784,040**	1,099,770
Marketing and program expenses	**354,539**	301,587
Depreciation (Note 9)	**284,550**	327,788
Taxes and licenses	**240,147**	275,174
Honorarium (Note 16)	**200,200**	568,316
Transportation	**177,305**	264,803
Supervision and examination	**174,119**	–
Postage, telephone and cables	**91,951**	94,939
Insurance (Note 16)	**79,256**	91,642
Management and professional fees	**12,000**	266,293
Miscellaneous (Notes 14)	**184,978**	154,001
TOTAL OPERATING EXPENSES	**5,684,035**	2,959,225
INCOME (LOSS) BEFORE INCOME TAX	**(2,389,249)**	2,857,519
PROVISION FOR INCOME TAX (Note 15)	**26,459**	95,314
NET INCOME (LOSS)	**(2,415,708)**	2,762,205
OTHER COMPREHENSIVE INCOME		
Items that do not recycle to profit or loss in subsequent periods:		
Remeasurement gains on retirement liability	**141,231**	455,307
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱2,274,477)**	₱3,217,512

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 Equity
Balance at January 1, 2017	**₱42,500,000**	**(₱2,901,307)**	**(₱3,516,633)**	**₱71,954**	**₱36,154,014**
Total comprehensive income (loss) for the year			**(2,415,708)**	**141,231**	**(2,274,477)**
Balance at December 31, 2017	**₱42,500,000**	**(₱2,901,307)**	**(₱5,932,341)**	**₱213,185**	**₱33,879,537**
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

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**(₱2,389,249)**	₱2,857,519
Adjustments for:		
Provision (reversal) for credit and impairment losses (Notes 7 and 16)	**3,100,950**	(485,088)
Depreciation (Note 9)	**284,550**	327,788
Retirement expense (Note 13)	**76,841**	196,986
Gain on sale of investment property (Note 10)	–	(2,213,353)
Loss on retirement of property and equipment (Note 14)	–	1,465
Changes in operating assets and liabilities:		
Increase in:		
Loans and receivables	**3,925,430**	4,915,605
Other current assets	**60,036**	19,585
Increase in accounts payable and other accrued expenses	**(982,897)**	(2,244,222)
Net cash generated from operations	**4,075,661**	3,376,285
Contributions to retirement fund	**(250,000)**	(265,094)
Income taxes paid	**(86,453)**	(1,083)
Net cash provided by operating activities	**3,739,208**	3,110,108
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 ACTIVITIES		
Settlement of loans payable (Notes 16)	–	(2,500,000)
NET INCREASE IN CASH ON HAND AND IN BANKS	**3,739,208**	1,352,653
CASH ON HAND AND IN BANKS AT BEGINNING OF YEAR	**3,806,931**	2,454,278
CASH ON HAND AND IN BANKS AT END OF YEAR (Note 6)	**₱7,546,139**	₱3,806,931
OTHER OPERATIONAL CASH FLOWS		
Interest received	**₱2,558,764**	₱3,287,555
Interest paid	–	107,745

See accompanying Notes to Financial Statements.

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

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Responsible Investment for Solidarity and Empowerment (RISE) Financing Company, Inc. (the Company), was registered with the Philippine Securities and Exchange Commission (SEC) on April 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 61.91%, 22.32%, 14.43% and 1.34%, respectively, of its outstanding capital stock.

The Company's registered and principal place of business is at Unit 909 Malate Crown Plaza Condominium, Adriatico St. corner San Andres St., Malate, Manila.

2. Summary of Significant Accounting Policies

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

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

Changes in Accounting Policies and Disclosures
The Company applied the following pronouncements for the first time which are effective for annual periods beginning on or after January 1, 2017:

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

Adoption of these pronouncements did not have a significant impact on the Company's financial position or performance.

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

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

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

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

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 reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at each reporting date.

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 as explained in 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, 2017 and 2016, the Company had 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', and security deposits under 'Other Current Assets'. 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 under 'Accounts Payable and Accrued Other Expenses Payable'.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired; or
- the Company retains the right to receive cash flows from the asset, but has assumed as obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control over the asset.

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

Financial liabilities

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

Offsetting Financial Instruments

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

Impairment of Financial Assets

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

Loans and receivables
For loans and receivables carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that a credit loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

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

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

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

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

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

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

Property and Equipment

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

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

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

Depreciation 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.

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. Other income also includes reversal of provisions which probability became remote.

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

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

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

d. there is a substantial change to the asset.

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

Company as 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

Standards issued but not yet effective up to the date are listed below. The listing consists of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
- Amendments to PAS 28, *Investment in Associate and Joint Venture - Measuring an associate or joint venture at fair value*
- Amendment to PAS 40, *Investment Property*, *Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

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 Company plans to adopt the new standard on the mandatory effective date and will not restate comparative information. The Company is currently assessing the impact of adopting PFRS 9.

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 PFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*

PFRS 16, *Leases*
PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases

(i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Company is currently assessing the impact of adopting PFRS 16.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Company is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

---

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRS requires the management to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosures of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates will be reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

<u>Judgments</u>

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.

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, 2017 and 2016, 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.

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

The unrecognized deferred tax assets on temporary differences of the Company are disclosed in Note 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 14.63% to 21.68% and from 13.77% to 15.63% in 2017 and 2016, respectively.

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

As of December 31, 2017 and 2016, the fair value hierarchy of the Company's assets and liabilities for which fair value is disclosed is presented below:

	2017				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets					
Loans and receivables					
Finance lease receivables	**₱13,611,253**	**₱–**	**₱–**	**₱17,590,683**	**₱17,590,683**
Investment properties	**12,868,708**	**–**	**–**	**20,617,730**	**20,617,730**

	2016				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
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

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 2017 and 2016.

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, 2017 and 2016, 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.

	2017			
	Maximum credit exposure	**Fair value of collateral**	**Net exposure**	**Financial effect of collateral or credit enhancement**
Finance lease receivables	**₱13,611,253**	**₱23,324,748**	**₱479,704**	**₱13,131,549**

	2016			
	Maximum credit exposure	Fair value of collateral	Net exposure	Financial effect of collateral or credit enhancement
Finance lease receivables	₱15,684,134	₱18,528,220	₱1,592,947	₱14,091,187

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:

	2017			
	Cash in Banks	**Loans and Receivables**	**Other Current Assets**	**Total**
Financial institutions	**₱7,516,139**	**₱579,986**	**₱–**	**₱8,096,125**
Education	–	**13,199,138**	–	**13,199,138**
Health and social work	–	**130,333**	–	**130,333**
Other community, social and personal service activities	–	–	**1,000**	**1,000**
	7,516,139	**13,909,457**	**1,000**	**21,426,596**
Less allowance for credit losses	–	**298,204**	–	**298,204**
Total	**₱7,516,139**	**₱13,611,253**	**₱1,000**	**₱21,128,392**

	2016			
	Cash in Banks	Loans and Receivables	Other Current Assets	Total
Financial institutions	₱3,776,931	₱824,185	₱–	₱4,601,116
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
Total	₱3,776,931	₱17,551,734	₱1,000	₱21,329,665

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):

	2017				
	Neither past due nor impaired				
	High Grade	**Standard grade**	**Past due but not impaired**	**Impaired**	**Total**
Cash in banks	**₱7,516,139**	**₱–**	**₱–**	**₱–**	**₱7,516,139**
Loans and receivables					
Finance lease receivables	**8,517,361**	**6,533,105**	**–**	**–**	**15,050,466**
Other current assets					
Security deposits	**1,000**	**–**	**–**	**–**	**1,000**
Net book value	**₱16,034,500**	**₱6,533,105**	**₱–**	**₱–**	**₱22,567,605**

	2016				
	Neither past due nor impaired				
	High Grade	Standard grade	Past due but not impaired	Impaired	Total
Cash in banks	₱3,776,931	₱–	₱–	₱–	₱3,776,931
Loans and receivables					
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

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, 2017 and 2016.

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, 2017 and 2016, 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, 2017 and 2016, 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.

	2017					
	On demand	**Due within 1 month**	**1 to 3 months**	**3 to12 months**	**Beyond 1 year**	**Total**
Financial Assets						
Cash in banks	**₱7,516,139**	**₱–**	**₱–**	**₱–**	**₱–**	**₱7,516,139**
Loans and receivables						
Finance lease receivables	**542,693**	**1,725,220**	**3,479,679**	**7,772,160**	**1,530,713**	**15,050,465**
Total Financial Assets	**₱8,058,832**	**₱1,725,220**	**₱3,479,679**	**₱7,772,160**	**₱1,530,713**	**₱22,566,604**
Financial Liabilities						
Accounts payable and other accrued expenses	**₱57,574**	**₱750,106**	**₱–**	**₱–**	**₱–**	**₱807,680**

	2016					
	On demand	Due within 1 month	1 to 3 months	3 to12 months	Beyond 1 year	Total
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

6. Cash on Hand and in Banks

This account consists of:

	2017	2016
Cash on hand	**₱30,000**	₱30,000
Cash in banks (Note 16)	**7,516,139**	3,776,931
	₱7,546,139	₱3,806,931

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 2017 and 2016. Interest income recognized from cash in banks amounted to ₱12,744 and ₱5,415 in 2017 and 2016.

7. Loans and Receivables

This account consists of:

	2017	2016
Finance lease receivables	**₱15,050,465**	₱17,819,339
Unearned lease income	**(1,141,008)**	(1,852,052)
	13,909,457	15,967,287
Other receivables		
Sales contract receivables	**–**	1,867,600
	13,909,457	17,834,887
Allowance for credit losses	**(298,204)**	(283,153)
	₱13,611,253	₱17,551,734
Current portion	**₱12,217,882**	₱14,561,352
Non-current portion	**1,393,371**	2,990,382
	₱13,611,253	₱17,551,734

Finance lease receivables bear effective interest rates ranging from 14.63% to 21.68% and 14.63% to 22.98% in 2017 and 2016, respectively.

Finance lease receivables and receivables financed are due in monthly installments with terms ranging from less than one (1) year to five (5) 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 was settled in March 2017.

An analysis of the Company's finance lease receivables as of December 31, 2017 and 2016 is presented as follows:

	2017	2016
Due within one year	**₱13,519,752**	₱14,496,127
Unearned income	**(1,034,193)**	(1,573,209)
	12,485,559	12,922,918
Allowance for credit losses	**(267,677)**	(229,166)
	12,217,882	12,693,752
Due beyond one year but not more than five years	**1,530,713**	3,323,212
Unearned income	**(106,815)**	(278,843)
	1,423,898	3,044,369
Allowance for credit losses	**(30,527)**	(53,987)
	1,393,371	2,990,382
	₱13,611,253	₱15,684,134

An analysis of the minimum lease payments as of December 31, 2017 and 2016 is presented as follows:

	2017		
	Not later than one year	**Later than one year and less than five years**	**Total**
Minimum lease payments	**₱12,948,340**	**₱1,235,078**	**₱14,183,418**
Residual value of leased assets	**571,412**	**295,635**	**867,047**
Gross investment in finance lease receivables	**13,519,752**	**1,530,713**	**15,050,465**
Unearned lease income	**(1,034,193)**	**(106,815)**	**(1,141,008)**
	12,485,559	**1,423,898**	**13,909,457**
Allowance for credit losses	**(267,677)**	**(30,527)**	**(298,204)**
Net investment in finance lease receivables	**₱12,217,882**	**₱1,393,371**	**₱13,611,253**

	2016		
	Not later than one year	Later than one year and less than five years	Total
Minimum lease payments	₱14,097,770	₱2,685,947	16,783,717
Residual value of leased assets	398,357	637,265	1,035,622
Gross investment in finance lease receivables	14,496,127	3,323,212	17,819,339
Unearned lease income	(1,573,209)	(278,843)	(1,852,052)
	12,922,918	3,044,369	15,967,287
Allowance for credit losses	(229,166)	(53,987)	(283,153)
Net investment in finance lease receivables	₱12,693,752	₱2,990,382	₱15,684,134

As of December 31, 2017 and 2016, finance lease receivables include loan transactions with related parties amounting to ₱2.62 million and ₱5.30 million, respectively (see Note 16).

Movements in the allowance for credit losses follow:

	2017
	Finance Lease Receivables
Balance at beginning of year	**₱283,153**
Provisions during the year	**15,051**
Balance at end of year	**₱298,204**
Collective Impairment	**₱298,204**

	2016			
	Finance Lease Receivables	Receivables Financed	Other Receivables	Total
Balance at beginning of year	₱283,153	₱5,137,960	₱19,895	₱5,441,008
Provisions (reversal) 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

As of December 31, 2017 and 2016, the Company has no specifically impaired loans and receivables.

Section 9(f) of RA No. 8556 requires that a 100.00% allowance for credit losses should be set up for the following:

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

As of December 31, 2017 and 2016, the Company's allowance for credit losses for loans and receivables is in compliance with the requirements of RA No. 8556.

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

	2017	2016
Leasing income (Note 16)	**₱2,546,020**	₱2,819,677
Finance income	–	255,070
	₱2,546,020	₱3,074,747

8. **Other Current Assets**

This account consists of:

	2017	2016
Prepaid expenses (Note 16)	**₱135,895**	₱195,931
Security deposits	**1,000**	1,000
	₱136,895	₱196,931

Prepaid expenses consist of unexpired life and property insurance.

9. Property and Equipment

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

	2017			
	Condominium Unit	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Total**
Cost				
Balance at beginning of year	**₱2,788,500**	**₱269,045**	**₱899,020**	**₱3,956,565**
Disposal	**–**	**(18,795)**	**–**	**(18,795)**
Balance at end of year	**2,788,500**	**250,250**	**899,020**	**3,937,770**
Accumulated Depreciation				
Balance at beginning of year	**856,855**	**256,343**	**737,708**	**1,850,906**
Depreciation	**111,540**	**12,278**	**160,732**	**284,550**
Disposal	**–**	**(18,795)**	**–**	**(18,795)**
Balance at end of year	**968,395**	**249,826**	**898,440**	**2,116,661**
Allowance for Impairment Losses	**848,744**	**–**	**–**	**848,744**
Net Book Value	**₱971,361**	**₱424**	**₱580**	**₱972,365**

	2016			
	Condominium Unit	Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost				
Balance at beginning of year	₱2,788,500	₱827,818	₱899,020	₱4,515,338
Disposal	–	(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	₱1,082,901	₱12,702	₱161,312	₱1,256,915

As of December 31, 2017 and 2016, the cost of fully depreciated property and equipment still in use by the Company amounted to ₱0.97 million and ₱0.90 million, respectively.

10. Investment Properties

Investment properties include land that the Company acquired via foreclosure from finance lease receivables.

The movements in this account follow:

	2017	2016
Cost		
Balance at beginning of year	**₱16,419,577**	₱16,816,369
Additions	**–**	57,855
Disposals	**–**	(454,647)
Balance at end of year	**16,419,577**	16,419,577
Allowance for Impairment Losses		
Balance at beginning of year	**464,970**	464,970
Provision	**3,085,899**	–
Balance at end of year	**3,550,869**	464,970
Net Book Value at End of Year	**₱12,868,708**	₱15,954,607

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 amounted to ₱20.62 million and ₱20.94 million as of December 31, 2017 and 2016, respectively.

Gain on sale of an investment property amounted to nil and ₱2.21 million in 2017 and 2016, respectively.

11. Accounts Payable and Other Accrued Expenses

This account consists of:

	2017	2016
Accrued other expenses payable	**₱750,106**	₱602,266
Accounts payable	**57,574**	437,760
Accrued taxes	**28,934**	43,464
Other liabilities (Note 18)	**14,952**	750,974
	₱851,566	₱1,834,464

Accrued other expenses payable pertain to accruals for various operating expenses such as management and professional fees, honorarium, and other various expenses.

Accrued taxes consist of withholding tax payable and percentage tax payable.

12. Equity

Common and Treasury Stocks

Details of the Company's capital stock as of December 31, 2017 and 2016 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 ₱10.0 million. The Company has no branches that require additional capital.

13. **Retirement Plan**

The Company, CARD MRI Development Institute, Inc. (CMDI), CARD Mutual Benefit Association (MBA), Inc., CARD SME Bank, Inc., CARD MRI Insurance Agency (CAMIA), Inc., CARD Business Development Service Foundation, Inc. (BDSFI), Inc., CARD MRI Information Technology, Inc. (CMIT), CARD Rural Bank, Inc. (CBI), BotiCARD Inc., CARD Leasing and Finance Corporation (CLFC), Rizal Bank, Inc. (RBI), CARD, Inc. and Mga Likha ni Inay Inc. (MLNI), maintain a funded and formal noncontributory defined benefit retirement plan - the CARD MRI Multi-Employer Retirement Plan (MERP) - covering all of their regular employees and CARD Group Employees' Retirement Plan (Hybrid Plan) applicable to employees hired on or after July 1, 2016. MERP is valued using the projected unit cost method and is financed solely by the Cooperative and its related parties.

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

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

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, 2017.

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, 2017 and 2016 are shown below:

	2017	2016
Discount rate		
January 1	**4.90%**	5.48%
December 31	**5.81%**	4.90%
Salary increase rate	**5.00%**	7.00%

The average duration of the defined benefit obligation at the end of 2017 is 6.7 years.

Retirement expense recorded under 'Compensation and fringe benefits' in the statements of comprehensive income follows:

	2017	2016
Current service cost	**₱66,216**	₱141,866
Interest cost	**38,405**	75,967
Balance at end of year	**₱104,621**	₱217,833

The retirement liability (asset) recognized in the statements of financial position follow:

	2017	2016
Present value of retirement obligation	**₱684,072**	₱783,775
Fair value of plan assets	**(719,084)**	(441,947)
Net retirement liability (asset)	**(35,012)**	341,828
Effect of asset ceiling	**1,922**	–
Net retirement liability (asset)	**(₱33,090)**	₱341,828

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

	2017	2016
Balance at beginning of year	**₱783,775**	₱1,386,253
PVO transfer	–	(155,995)
Current service cost	**66,216**	141,866
Interest cost	**38,405**	75,967
Actuarial gains	**(204,324)**	(664,316)
Balance at end of year	**₱684,072**	₱783,775

The movements in the fair value of plan assets follow:

	2017	2016
Balance at beginning of year	**₱441,947**	₱325,878
PVO transfer	–	(155,995)
Contributions paid by employer	**250,000**	265,094
Interest income	**27,780**	20,847
Return on plan assets	**(643)**	(13,877)
Balance at end of year	**₱719,084**	₱441,947

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, 2017	
	Possible fluctuations	Increase (decrease)
Discount rate		
	+1%	(₱43,971)
	-1%	47,728
Salary increase rate		
	+1%	40,878
	-1%	(38,703)

As of December 31, 2017, the expected benefit payments for more than 5 to 10 years as determined by the Company's actuary amounted to ₱1.42 million.

The Company expects to contribute nil to the defined benefit retirement plan in 2018.

As of December 31, 2017 and 2016, the major categories of plan assets at their carrying and fair values follow:

	2017		2016	
	Amount	**%**	Amount	%
Cash and cash equivalents	**₱296,334**	**41.21**	₱183,585	41.54
Debt instruments- government bonds	**365,079**	**50.77**	207,538	46.96
Loans and receivables	**45,015**	**6.26**	42,560	9.63
Investment in mutual funds	**3,380**	**0.47**	2,298	0.52
Other assets	**9,276**	**1.29**	5,966	1.35
Fair value of plan assets	**₱719,084**	**100.00**	₱441,947	100.00

14. Miscellaneous

This account consists of:

	2017	2016
Repairs and maintenance	**₱40,300**	₱32,271
Entertainment and representation	**39,150**	–
Utilities	**29,722**	32,097
Stationeries and office supplies	**26,930**	32,056
Association dues	**24,111**	–
Service fees	**8,442**	–
Others	**16,323**	57,577
	₱184,978	₱154,001

Others include notary fees, bank charges, rent on security deposit and reimbursements.

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.

15. Income and Other Taxes

Provision for income tax consists of:

	2017	2016
Current		
MCIT	**₱23,910**	₱94,231
Final	**2,549**	1,083
	₱26,459	₱95,314

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.

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 in 2017 and 2016.

As of December 31, 2017 and 2016, the Company's deferred tax liabilities consist of ₱0.06 million arising from remeasurement gains on retirement liability of ₱0.20 million and ₱0.19 million arising from remeasurement gains on retirement liability of ₱0.65 million, respectively. The deferred tax liability on remeasurement gains is charged directly to OCI.

As of December 31, 2017 and 2016, the Company did not set up deferred tax assets on the following temporary differences as it believes that it is not likely that these temporary differences will be realized in the future:

	2017	2016
NOLCO	**₱1,932,633**	₱2,757,153
Allowance for credit and impairment losses	**3,849,073**	1,596,867
Excess MCIT over RCIT	**174,662**	193,695
Retirement liability	**82,148**	341,826

Details of NOLCO for the Company are as follows:

Inception Year	Amount	Applied	Expired	Balance	Expiry Year
2016	₱2,106,732	₱174,099	₱–	₱1,932,633	2019
2015	132,383	132,383	–	–	2018
2014	518,038	518,038	–	–	2017
	₱2,757,153	₱824,520	₱–	₱1,932,633	

Details of the unexpired MCIT follow:

Year Incurred	Amount	Expired	Balance	Expiry Year
2017	₱23,910	₱–	₱23,910	2020
2016	94,231	–	94,231	2019
2015	56,521	–	56,521	2018
2014	42,943	42,943	–	2017
	₱217,605	₱42,943	₱174,662	

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

	2017	2016
Statutory income tax	**(₱716,775)**	₱857,256
Income tax effects of:		
Change in unrecognized deferred tax assets	**706,839**	(823,927)
Nondeductible expenses	**45,553**	62,527
Deductible expenses	**(7,884)**	–
Income subject to final tax	**(1,274)**	(541)
	₱26,459	₱95,315

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, 2017 and 2016 are disclosed in Note 13.

As of December 31, 2017 and 2016, 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, 2017 and 2016:

	December 31, 2017		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Key Management Personnel			
Honorarium	**₱200,200**		These pertain to amounts given to the BOD when they attend on special or regular meetings.
Finance lease receivables (included under 'Loans and receivables')	**–**	**₱2,620,464**	These pertain to unsecured lease contracts of CMDI, BotiCARD and CAMIA covering various equipment with annual average effective interest rate ranging from 15.52 % to 16.19% and maturities of four years that are subjected to collective impairment.
Leasing income	**554,187**		These pertain to the leasing income from finance lease receivable.
Prepaid expenses (included under 'Other current assets')	**–**	**2,989**	This pertains to payments made to CAMIA for insurance covering key management personnel.
Insurance expense	**71,617**		These pertain to the insurance incurred covering key management personnel and motor car comprehensive insurance during the year.
Compensation and fringe benefits	**4,260**		These pertain to payments made to EMPC for the health premium coverage of its employees for the year.

	December 31, 2016		
Category	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.
Affiliates			
Interest expense	81,078		These pertain to the interest expense from loans payable that was fully paid during the year.
Finance lease receivables (included under 'Loans and receivables')	–	₱5,301,157	These pertain to unsecured lease contracts of CMDI, BotiCARD and CAMIA covering various equipment with annual average effective interest rate ranging from 15.52% to 16.19% and maturities of four years that are subjected to collective impairment.
Leasing income	872,808		These pertain to the leasing income from finance lease receivable.
Prepaid expenses (included under 'Other current assets')	–	53,785	This pertains to payments made to CAMIA for insurance covering key management personnel.
Insurance expense	82,167		These pertain to the insurance incurred covering key management personnel and motor car comprehensive insurance during the year.
Compensation and fringe benefits	4,260		These pertain to payments made to EMPC 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, *Related Party Disclosures*.

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

	2017	2016
Short-term employee benefits	**₱518,037**	₱341,301
Post-employment benefits	**76,841**	196,986
	₱594,878	₱538,287

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.

18. Notes to Statement of Cash Flows

In 2016, the Company has the following noncash activities:

	2016
Noncash operating activities	
Reclassification of other receivables to other assets	₱142,146
Application of prepaid income tax to current tax	10,327
Noncash investing activity	
Recognition of sales contract receivables arising from sale of an investment property	1,867,600

19. Approval of the Release of the Financial Statements

The accompanying financial statements of the Company were authorized and approved for issue by the BOD on March 20, 2018.

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	₱127,301
Permits and licenses	64,442
Real property taxes	31,466
Others	16,938
Total	₱240,147

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

	Total remittances	Payables
Withholding taxes on compensation and benefits	₱ 88,246	₱12,960
Expanded withholding taxes	17,992	5,260
	₱106,238	₱18,220

Tax Cases and Assessments
The Company has no final tax assessments and pending tax cases as of December 31, 2017.