SEDPI Development Finance, Inc.
(*Formerly SEDPI Capital Credit, Inc.)*

Financial Statements
December 31, 2013 and 2012

and

Independent Auditors' Report

COVER SHEET

CS200803725

SEC Registration Number

SEDPI Development Finance, Inc. (formerly SEDPI Capital Credit, Inc.)

(Company's Full Name)

Unit 303 Loyola Heights Condominium, Abad cor. De la Rosa Sts., Loyola Heights, Quezon City

(Business Address: No. Street City/Town/Province)

Mariel Vincent A. Rapisura

(Contact Person)

433 - 8795

(Company Telephone Number)

12	31	AAFS	11	08
Month	*Day*	(Form Type)	*Month*	*Day*
(Fiscal Year)			(Annual Meeting)	

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

6

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

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working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors
SEDPI Development Finance, Inc.
Unit 303 Loyola Heights Condominium
Abad cor. De la Rosa Sts.
Loyola Heights, Quezon City

Report on the Financial Statements

We have audited the accompanying financial statements of SEDPI Development Finance, Inc., formerly SEDPI Capital Credit, Inc., which comprise the statements of financial position as at December 31, 2013 and 2012, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SEDPI Development Finance, Inc., formerly SEDPI Capital Credit, Inc., as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 24 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 SEDPI Development Finance, Inc., formerly SEDPI Capital Credit, 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.

Aris C. Malantic
Partner
CPA Certificate No. 90190
SEC Accreditation No. 0326-AR-2 (Group A),
March 15, 2012, valid until March 14, 2015
Tax Identification No. 152-884-691
BIR Accreditation No. 08-001998-54-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225187, January 2, 2014, Makati City

April 15, 2014

INDEPENDENT AUDITORS' REPORT

The Board of Directors
SEDPI Development Finance, Inc.

Report on the Financial Statements

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INDEPENDENT AUDITORS' REPORT
TO ACCOMPANY INCOME TAX RETURN

The Board of Directors
SEDPI Development Finance, Inc.
Unit 303 Loyola Heights Condominium
Abad cor. De la Rosa Sts.
Loyola Heights, Quezon City

We have audited the financial statements of SEDPI Development Finance, Inc., formerly SEDPI Capital Credit, Inc., (the Company) as at and for the year ended December 31, 2013, on which we have rendered the attached report dated April 15, 2014.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholder of the Company.

SYCIP GORRES VELAYO & CO.

Aris C. Malantic
Partner
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INDEPENDENT AUDITORS' REPORT

The Board of Directors
SEDPI Development Finance, Inc.
Unit 303 Loyola Heights Condominium
Abad cor. De la Rosa Sts.
Loyola Heights, Quezon City

We have audited the financial statements of SEDPI Development Finance, Inc., formerly SEDPI Capital Credit, Inc., (the Company) as at and for the year ended December 31, 2013 on which we have rendered the attached report dated April 15, 2014.

In compliance with Securities Regulation Code Rule 68, we are stating that the Company has six (6) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.

Aris C. Malantic
Partner
CPA Certificate No. 90190
SEC Accreditation No. 0326-AR-2 (Group A),
March 15, 2012, valid until March 14, 2015
Tax Identification No. 152-884-691
BIR Accreditation No. 08-001998-54-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225187, January 2, 2014, Makati City

April 15, 2014

SEDPI DEVELOPMENT FINANCE, INC.
(Formerly SEDPI Capital Credit, Inc.)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2013	2012
ASSETS		
Current Assets		
Cash in banks (Note 6)	**₱6,665,133**	₱7,292,301
Loans and receivables - current portion (Note 7)	**24,627,702**	36,467,600
Prepayments - current portion (Note 8)	**333,810**	477,849
Other current asset (Note 12)	**10,372,143**	–
	41,998,788	44,237,750
Non-current Assets		
Loans and receivables - non-current portion (Note 7)	**125,569,383**	103,667,068
Computer equipment (Note 9)	**271,248**	17,405
Investment property (Note 10)	**21,331,049**	–
Investment in an associate (Note 11)	**5,000,000**	–
Deferred tax asset - net(Note 19)	**1,238,966**	944,828
	153,410,646	104,629,301
	₱195,409,434	₱148,867,051
LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable - current portion (Note 12)	**₱100,804,545**	₱92,250,000
Accrued expenses and other liabilities (Note 13)	**3,957,792**	2,871,398
Other current liability (Note 12)	**10,372,143**	–
	115,134,480	95,121,398
Non-current Liabilities		
Loans payable - non-current portion (Note 12)	**27,539,597**	22,049,846
Deposit for future stock subscription (Note 14)	**–**	6,745,391
	27,539,597	28,795,237
	142,674,077	123,916,635
Equity (Note 15)		
Common stock	**22,598,875**	20,198,875
Preferred stock	**24,137,600**	–
Additional paid-in capital	**684**	–
Retained earnings	**6,061,198**	4,751,541
Treasury shares	**(63,000)**	–
	52,735,357	24,950,416
	₱195,409,434	₱148,867,051

See accompanying Notes to Financial Statements.

SEDPI DEVELOPMENT FINANCE, INC.
(Formerly SEDPI Capital Credit, Inc.)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2013	2012
INTEREST INCOME (Note 7)	**₱14,676,252**	₱14,202,349
INTEREST EXPENSE (Note 12)	**7,826,530**	7,966,216
NET INTEREST INCOME	**6,849,722**	6,236,133
OTHER INCOME	**64,339**	2,183
TOTAL OPERATING INCOME	**6,914,061**	6,238,316
EXPENSES		
Professional fees	**1,663,338**	820,627
Taxes and licenses	**1,055,783**	521,643
Compensation and other benefits (Note 17)	**540,382**	205,029
Provision for credit losses (Note 7)	**681,586**	422,990
Rental, light and power (Note 16)	**225,062**	248,141
Representation and travel	**172,441**	390,468
Depreciation (Note 9)	**50,085**	23,205
Management fees (Note 20)	–	1,636,905
Miscellaneous (Note 18)	**950,937**	1,338,145
	5,339,614	5,607,153
INCOME BEFORE INCOME TAX	**1,574,447**	631,163
BENEFIT FROM INCOME TAX (Note 19)	**(219,486)**	(697,553)
TOTAL COMPREHENSIVE INCOME/NET INCOME*	**₱1,793,933**	₱1,328,716

* There were no other items affecting comprehensive income for the year ended December 31, 2013 and 2012.

See accompanying Notes to Financial Statements.

SEDPI DEVELOPMENT FINANCE, INC.
(Formerly SEDPI Capital Credit, Inc.)

STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 15)	**Preferred Stock** (Note 15)	**Additional Paid-in Capital** (Note 15)	**Retained Earnings** (Note 15)	**Treasury Shares** (Note 15)	**Total Equity**
Balance at January 1, 2013	**₱20,198,875**	**₱–**	**₱–**	**₱4,751,541**	**₱–**	**₱24,950,416**
Acquisition of common shares	**–**	**–**	**–**	**–**	**(63,000)**	**(63,000)**
Conversion of deposit for future stock subscription	**2,400,000**	**–**	**–**	**–**	**–**	**2,400,000**
Issuance of shares	**–**	**24,137,600**	**684**	**–**	**–**	**24,138,284**
Total comprehensive income	**–**	**–**	**–**	**1,793,933**	**–**	**1,793,933**
Dividends declared	**–**	**–**	**–**	**(484,276)**	**–**	**(484,276)**
Balance at December 31, 2013	**₱22,598,875**	**₱24,137,600**	**₱684**	**₱6,061,198**	**(₱63,000)**	**₱52,735,357**
Balance at January 1, 2012	₱14,070,987	₱–	₱–	₱3,422,825	₱–	₱17,493,812
Collection of subscription receivable	6,127,888	–	–	–	–	6,127,888
Total comprehensive income	–	–	–	1,328,716	–	1,328,716
Balance at December 31, 2012	₱20,198,875	₱–	₱–	₱4,751,541	₱–	₱24,950,416

See accompanying Notes to Financial Statements.

SEDPI DEVELOPMENT FINANCE, INC.
(Formerly SEDPI Capital Credit, Inc.)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱1,574,447**	₱631,163
Adjustments for:		
Interest income (Note 7)	**(14,676,252)**	(14,202,349)
Interest expense (Note 10)	**7,826,530**	7,966,216
Provision for credit losses (Note 7)	**681,586**	422,990
Unrealized foreign exchange losses (gains) (Note 6)	**(27,300)**	26,099
Depreciation (Note 9)	**50,085**	23,205
Changes in operating assets and liabilities		
Decrease (increase) in the amounts of:		
Loans and receivables	**(33,235,038)**	(37,970,374)
Prepayments	**73,973**	5,628,190
Increase in accrued expenses and other liabilities	**531,241**	335,310
Net cash used in operations	**(37,200,728)**	(37,139,550)
Interest received	**15,836,239**	12,485,536
Interest paid	**(7,271,377)**	(8,022,877)
Income taxes paid	**(4,585)**	(27,471)
Net cash used in operating activities	**(28,640,451)**	(32,704,362)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of computer equipment (Note 9)	**(303,930)**	–
Acquisition of investments (Note 11)	**(5,000,000)**	–
Net cash used in investing activities	**(5,303,930)**	–
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of loans payable (Note 12)	**76,200,001**	39,666,668
Settlement of loans payable (Note 12)	**(62,155,705)**	(19,960,308)
Deposit for future stock subscription	–	6,745,391
Collection of subscription receivable (Note 15)	–	6,127,888
Issuance of preferred stock (Note 15)	**19,792,893**	–
Acquisition of common shares (Note15)	**(63,000)**	–
Dividends declared (Note 15)	**(484,276)**	–
Net cash provided by financing activities	**33,289,913**	32,579,639
NET EFFECT OF FOREIGN EXCHANGE DIFFERENCES	**27,300**	(26,099)
NET DECREASE IN CASH IN BANKS	**(627,168)**	(150,822)
CASH IN BANKS AT BEGINNING OF YEAR	**7,292,301**	7,443,123
CASH IN BANKS AT END OF YEAR (Note 6)	**₱6,665,133**	₱7,292,301

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. General Information

SEDPI Development Finance, Inc. (the Company), formerly SEDPI Capital Credit, Inc., is a domestic corporation incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on March 10, 2008. The Company is engaged in general financing business of extending credit facilities to consumers and to industrial commercial or agricultural enterprises, either by direct lending or by discounting, re-discounting or factoring commercial papers or accounts receivable or by buying and selling contracts, leases, chattel mortgages, or evidences of indebtedness, or by financial leasing of movable as well as immovable property.

The amendment in the Company's article of incorporation to change the name of the Company from SEDPI Capital Credit, Inc. to SEDPI Development Finance, Inc. was approved on November 7, 2012 by the Company's board of directors (BOD) and stockholders. The amended articles of incorporation was approved by the SEC on May 21, 2013.

On January 20, 2014, SEC approved the Company's application to operate as a financing company.

The Company's principal place of business is located at Unit 303 Loyola Heights Condominium, Abad cor. De la Rosa Sts., Loyola Heights, Quezon City.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis and are presented in Philippine Peso, the Company's functional currency. All amounts are rounded to the nearest Peso unless otherwise indicated.

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

The Company avails of the exemption from the mandatory adoption of the PFRS for Small and Medium-sized Entities (PFRS for SMEs) as it applied for a secondary license with the SEC and was approved on January 20, 2014.

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

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

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

  The amendment has no impact on the Company's financial position or performance.

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
  As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, *Disclosure of Interests with Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

- PFRS 12*, Disclosure of Interests with Other Entities*
  PFRS 12 includes all of the disclosures that were previously in PAS 27, *Separate Financial Statements*, related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31, and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The required disclosures are presented in Note 11.

- PFRS 13*, Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The amendment affects disclosures and has no impact on the Company's financial position or performance. The required disclosures are presented in Note 5.

- PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
  The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the

Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

Annual Improvements to PFRS (2009-2011 cycle)

- PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*
  These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required.

Significant Accounting Policies

Fair Value Measurement

For measurement and disclosure purposes, the Company determines the fair value of an asset or a liability at initial measurement date or at each statement of financial position date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

A fair value measurement of a 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.

Foreign Currency Translation

Transaction and balances

For financial reporting purposes, the foreign currency-denominated monetary assets and liabilities are translated in Philippine Peso based on the Philippine Dealing System (PDS) closing rate prevailing at the statement of financial position date and foreign currency-denominated income and expenses at the prevailing exchange rates as at the date of transaction. Foreign exchange differences arising from revaluation and translation of foreign-currency denominated assets and liabilities are credited to or charged against operations in the year which the rates change.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of initial transactions.

Cash in Banks
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the dates of placements and that are subject to an insignificant risk of changes in value.

Financial Instruments - Initial Recognition and Subsequent Measurement
Date of recognition
Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Financial instruments are recognized in the statement of financial position when cash is received by the Company or advanced to the borrowers.

Initial recognition of financial instruments
All financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, available-for-sale (AFS) investments, held-to-maturity (HTM) investments, and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities carried at cost or amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every statement of financial position date.

As of December 31, 2013 and 2012, the Company has no financial assets and financial liabilities at FVPL, AFS investments and HTM investments. The Company's financial instruments include loans and receivables and other financial liabilities.

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

Loans and receivables
These are non-derivative financial assets with fixed or determinable payments that are not quoted in active market and for which the Company has no intention of trading. This accounting policy relates to statement of financial position captions, 'Cash in banks' and 'Loans and receivables'.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) 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 EIR. The amortization is included in 'Interest income' in the statement of comprehensive income. The losses arising from impairment of such receivables are recognized as 'Provision for credit losses' in statement of comprehensive income.

Other financial liabilities
Issued financial instruments or their components, which are not designated as financial liabilities at FVPL, are classified as 'Loans payable' or other appropriate financial liability accounts, 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, loans payable and similar financial liabilities not qualified as and not designated as financial liabilities at FVPL, are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- 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 risks and rewards of the asset but has transferred control over the asset.

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

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in 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, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

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

Loans and receivables
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. For individually assessed financial assets, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred).

The 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 impairment 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. Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to profit or loss. Interest income continues to be recognized based on the original EIR of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

If subsequently, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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 under 'Provision for credit losses' in the statement of comprehensive income.

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements except for certain transactions.

The following specific recognition criteria must also be met before revenue is recognized:

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income' in the statement of comprehensive income. Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Property and Equipment
Property and equipment is stated at cost less accumulated depreciation and any impairment in value. The initial cost comprises its construction cost and any directly attributable costs of bringing the asset to its working condition and location for its intended use, including borrowing costs.

Depreciation is calculated on the straight-line method over the estimated useful lives of the depreciable assets.

The estimated useful life of computer equipment is 3 years.

The useful life and the depreciation 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 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 included in profit or loss in the year the asset is derecognized.

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

Subsequent to initial recognition, investment property whose fair value can be measured reliably without undue cost or effort were measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

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 profit or loss in the year of retirement or disposal.

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

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

Investment in an Associate
An associate is an entity in which the Company has significant influence but not control, generally accompanying a shareholding of between 20.00% and 50.00% of the voting rights and which is neither a subsidiary nor a joint venture.

The existence of significant influence by an entity is usually evidenced in one or more of the following ways:

a) representation on the board of directors or equivalent governing body of the investee;
b) participation in policy-making processes, including participation in decisions about dividends or other distributions;
c) material transactions between the entity and its investee;
d) interchange of managerial personnel; or
e) provision of essential technical information

The Company's investment in its associate is accounted for using the equity method of accounting. Under the equity method, the investment in associate is carried in the statement of financial position at cost plus post-acquisition changes in the Company's share in the net assets of the associates and joint ventures. The statement of comprehensive income reflects the share of the results of operations of the associate. Where there has been a change recognized in the investees' other comprehensive income, the Company recognizes its share of any changes and discloses this, when applicable, in the other comprehensive income in the statement of comprehensive income.

Profits and losses arising from transactions between the Company and the associate are eliminated to the extent of the interest in the associates and joint ventures.

The Company's investments in certain associates and joint ventures include goodwill on acquisition, less any impairment in value. Goodwill relating to an associate or joint venture is included in the carrying amount of the investment and is not amortized.

Where necessary, adjustments are made to the financial statements of associates to bring the accounting policies used in line with those used by the Company.

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized either in profit or loss or other comprehensive income in the statement of comprehensive income.

Impairment of Nonfinancial Assets

Computer equipment, investment properties and investment in an associate

At each statement of financial position date, the Company assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of the asset's recoverable amount. Recoverable amount is the higher of an asset's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

An assessment is made at each statement of financial position date as to whether there is an 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 and amortization, had no impairment loss been recognized for the asset in prior years.

Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

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.

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 assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an 'Interest expense' in the statement of comprehensive income.

In cases where disclosure of some or all of the information relating to provisions, contingent assets and contingent liabilities can be expected to prejudice seriously the position of the Company, the Company discloses only general information regarding the nature of the provision, contingent asset or contingent liabilities, in the statement of comprehensive income.

Contingent Liabilities and Contingent Assets

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

Income Taxes

Current taxes

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

Deferred taxes
Deferred tax is provided or recognized in full using the balance sheet method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liability is recognized for all taxable temporary differences, and deferred tax asset is recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), if any, to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences, and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized.

The carrying amount of deferred tax asset is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax asset is reassessed at each statement of financial position date and is recognized to the extent that it has become probable that sufficient future taxable income will allow the deferred income tax asset to be recovered.

Deferred tax asset and liability are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax asset and liability 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 statement of financial position date.

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

Value-added tax (VAT)
Revenues, expenses and assets are recognized net of the amount of VAT except:
- where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the input tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

Equity
Share capital is measured at par value for all shares issued and outstanding. When the shares are issued at a premium, the difference between the proceeds and the par value is credited to a paid-in premium account.

Treasury shares are recorded at cost and are presented as a deduction from 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. No gain or loss is recognized in the statement of comprehensive income on the purchase, sale, issue or cancellation of the Company's equity instruments.

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

Future Changes in Accounting Policies
Standards and interpretations issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt these standards when they become effective. Except as otherwise indicated, the Company does not expect the adoption of these standards to have significant impact on the Company's financial statements.

Effective in 2014

- Investment Entities *(Amendments to PFRS 10, PFRS 12 and PAS 27)*
  These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to since the Company would not qualify to be an investment entity under PFRS 10.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The amendments are not relevant to the Company.

- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)
  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The amendments have no impact on the Company's financial position or performance.

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

Effective 2015

- PFRS 9, *Financial Instruments*
  PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to

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

PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and rewards of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. This is not relevant to the Company.

Annual Improvements to PFRS (2010-2012 cycle)
The annual improvements to the following PFRS 2010 - 2012 contain non-urgent but necessary amendments to the following standards. These standards will become effective for annual periods beginning on or after January 1, 2014, with earlier application permitted:

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

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments are not applicable to the Company.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The amendments have no impact on the Company's financial position or performance.

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

- PAS 16*, Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. This is not relevant to the Company.

- PAS 24, *Related Party Disclosures - Key Management Personnel*
  The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or

directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

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

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

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

  The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments are not relevant to the Company.

<u>Annual Improvements to PFRS (2011-2013 cycle)</u>
The Annual Improvements to PFRS (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

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

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

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

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

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

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

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3. **Significant Accounting Judgments and Estimates**

The preparation of the financial statements in accordance with PFRS requires the Company to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure 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 are reflected in the financial statement 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.

The Company believes the following represent a summary of these significant judgments and estimates and related impact and associated risks in its financial statements:

Judgments
In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the parent company financial statements:

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

(b) *Operating leases*
The Company has entered into a contract of lease for the office space it occupies. The Company has determined, based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower that the fair value at the date the option is exercisable, and the lease term is not for the major part of the asset's economic life), that the lessor retains all significant risks and rewards of ownership of the properties which are leased out on operating lease (see Note 16).

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

Fair value of the Company's financial assets and liabilities are set out in Note 5.

(d) *Determination of functional currency*
PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the Company's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Company. In making this judgment, the Company considers the following:
a) the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
b) the currency in which funds from financing activities are generated; and
c) the currency in which receipts from operating activities are usually retained.

The Company has determined that its functional currency is the Philippine Peso (see Note 2).

(e) *Determination of significant influence over an associate with less than 20.00% ownership*
In determining whether the Company has significant influence over an investee requires significant judgment. Generally a shareholding of 20.00% to 50.00% of the voting rights of an investee is presumed to give the Company a significant influence.

The Company assessed that it has significant influence on VisionBank on the basis of its ownership of close to 20.00% and its representation in its BOD (see Note 11).

There are instances than an investor exercises significant influence even if its ownership is less than 20.00%. The Company applies significant judgment in assessing whether it holds significant influence over an investee and considers the following: (a) representation on the BOD or equivalent governing body of the investee; (b) participation in the policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions between the investor and the investee; (d) interchange of managerial personnel; or provision of essential technical information.

Estimates

The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) *Credit losses of loans and receivables*

The Company reviews its loan portfolios and receivables at each statement of financial position date to assess whether a provision 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 internal rating of the loan or investment since it was granted or acquired. This collective allowance is based on changes in factors that are indicative of incurred losses, such as deterioration in payment status and underlying property prices, among others.

As of December 31, 2013 and 2012, the carrying value of loans and receivables amounted to ₱150.20 million and ₱140.13 million, respectively, net of allowance for credit losses both amounting to ₱1.77 million and ₱1.09 million as of December 31, 2013 and 2012 (see Note 7).

(b) *Determination of fair value of investment property*

The fair value of the investment property is derived from the current market prices of comparable real estate. The fair value is based on a valuation of an independent appraiser that has recent experience in valuing investment property in the same location as the Company's investment property. The fair value of investment property as of December 31, 2013 amounted to ₱21.33 million (see Note 10).

(c) *Impairment of nonfinancial assets*

The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

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

- significant negative industry or economic trends.

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset pertains to the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell of an asset pertains to its current selling price, less direct costs of disposal. The value in use of an asset is determined by using a discounted cash flow model. It does not include significant future investments that will enhance the asset base of the cash-generating unit being tested. The value in use is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows, and the growth rate used for extrapolation purposes.

The Company did not recognize impairment losses on its computer equipment, investment property and investment in an associate in 2013 and 2012.

(d) *Recognition of deferred tax asset*
Deferred tax asset is recognized for all unused tax losses to the extent that it is probable that future taxable income will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The Company recognized deferred tax asset on its temporary differences amounting to ₱1.86 million and ₱0.94 million as of December 31, 2013 and 2012. As of December 31, 2013 and 2012, the Company did not recognize deferred tax asset on NOLCO amounting to ₱1.24 million and ₱0.48 million, respectively, since management believes that there is no sufficient future taxable income against which this deferred tax asset can be utilized (see Note 19).

(e) *Financial assets not quoted in an active market*
Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

(f) *Provisions and contingencies*
The Company may incur contingent liabilities arising from normal litigations for and against customers which are not reflected in the accompanying financial statements. The Company has assessed that the impact of any contingent liability will not be material to the financial statements (see Note 21).

4. Financial Risk Management Objectives and Policies

The main risks arising from the Company's financial instruments are credit risk, liquidity risk and market risk.

Credit Risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages credit risk by assessing the creditworthiness of its counterparties. The Company continuously monitors the financial health and status of its counterparties to ascertain that receivables from these counterparties will be substantially collected on due date. Credit applications go through a process of screening using the Company's credit standards to minimize risk.