SEDPI Development Finance, Inc.

Financial Statements
December 31, 2016 and 2015

and

Independent Auditor's Report

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	0	8	0	3	7	2	5

COMPANY NAME

SEDPI DEVELOPMENT FINANCE, INC. (FORMERLY SEDPI CAPITAL CREDIT, INC.)

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

Unit 303 Loyola Heights Condominium, 23 Dela Rosa St., Loyola Heights, Quezon City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	SEC	1075

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
vincent.rapisura@sedpi.com	433-8795	0918-9367003

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
7	November 08	December 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Mariel Vincent A. Rapisura	vincent.rapisura@sedpi.com	433-8795	0918-9367003

CONTACT PERSON's ADDRESS

Unit 303 Loyola Heights Condominium, 23 Dela Rosa St., Loyola Heights, Quezon City

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
SEDPI Development Finance, Inc.
Unit 303, Loyola Heights Condominium
23 Dela Rosa Street, Loyola Heights, Quezon City

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 23 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. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
SEC Accreditation No. 1510-A (Group A),
October 1, 2015, valid until September 30, 2018
Tax Identification No. 216-950-288
BIR Accreditation No. 08-001998-107-2015,
March 4, 2015, valid until March 3, 2018
PTR No. 5908666, January 3, 2017, Makati City

June 5, 2017

SGVFS025329

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
SEDPI Development Finance, Inc.

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 23 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. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
SEC Accreditation No. 1510-A (Group A),
October 1, 2015, valid until September 30, 2018
Tax Identification No. 216-950-288
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June 5, 2017

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

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Fax: (632) 819 0872
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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
SEDPI Development Finance, Inc.
Unit 303, Loyola Heights Condominium
23 Dela Rosa Street, Loyola Heights
Quezon City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of SEDPI Development Finance, Inc. (the Company) as of and for the year ended December 31, 2016 and have issued our report thereon dated June 05, 2017. Our audit were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The List of Philippine Financial Reporting Standards effective as of December 31, 2016 is presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011), and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
SEC Accreditation No. 1510-A (Group A),
October 1, 2015, valid until September 30, 2018
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Building a better working world

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December 14, 2015, valid until December 31, 2018
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INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
SEDPI Development Finance, Inc.
Unit 303, Loyola Heights Condominium
23 Dela Rosa Street, Loyola Heights
Quezon City

We have audited the financial statements of SEDPI Development Finance, Inc. (the Company) as of and for the year ended December 31, 2016, on which we have rendered the attached report dated June 5, 2017.

In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the Company has a total of two (2) stockholders owning more than one hundred (100) shares each.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
SEC Accreditation No. 1510-A (Group A),
October 1, 2015, valid until September 30, 2018
Tax Identification No. 216-950-288
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March 4, 2015, valid until March 3, 2018
PTR No. 5908666, January 3, 2017, Makati City

June 5, 2017

SGVFS025329

SEDPI DEVELOPMENT FINANCE, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash (Note 6)	**₱56,472,297**	₱7,531,146
Loans and receivables - current portion (Note 7)	**158,442,053**	119,577,092
Financial assets at fair value through profit and loss (Note 7)	**494,179**	494,179
Other assets (Note 8)	**1,152,366**	463,998
	216,560,895	128,066,415
Noncurrent Assets		
Loans and receivables - noncurrent portion (Note 7)	**77,958,852**	94,231,237
Property and equipment (Note 9)	**17,369,189**	21,107,050
Investment in an associate (Note 11)	**15,312,542**	13,236,318
Investment properties (Note 10)	**10,193,000**	6,120,510
Deferred tax asset - net (Note 18)	**2,330,811**	923,239
	123,164,394	135,618,354
	₱339,725,289	₱263,684,769
LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable - current portion (Note 12)	**₱183,485,859**	₱142,997,580
Accrued expenses and other liabilities (Note 13)	**4,950,464**	4,702,798
Income tax payable	**245,124**	59,896
	188,681,447	147,760,274
Noncurrent Liability		
Loans payable - noncurrent portion (Note 12)	**75,525,252**	45,424,238
	264,206,699	193,184,512
Equity		
Common stock (Note 14)	**26,255,189**	26,255,189
Preferred stock (Note 14)	**39,191,200**	30,768,000
Additional paid-in capital	**24,678**	24,659
Retained earnings (Note 14)	**9,983,826**	13,502,149
Share in remeasurement gains (losses) on the retirement plan of an associate (Note 11)	**63,697**	(49,740)
	75,518,590	70,500,257
	₱339,725,289	₱263,684,769

See accompanying Notes to Financial Statements.

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SEDPI DEVELOPMENT FINANCE, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2016	2015
INTEREST INCOME (Notes 6 and 7)	**₱22,096,684**	₱18,322,734
INTEREST EXPENSE (Note 12)	**11,926,143**	9,682,757
NET INTEREST INCOME	**10,170,541**	8,639,977
OTHER INCOME		
Gain on change in fair value of investment property (Note 10)	**935,394**	–
Rental income (Note 15)	**488,826**	–
Miscellaneous	**184,167**	145,665
TOTAL OPERATING INCOME	**11,778,928**	8,785,642
EXPENSES		
Provision for credit and impairment losses (Notes 7 and 9)	**6,909,049**	2,519,065
Taxes and licenses	**2,364,145**	1,934,214
Compensation and other benefits (Note 16)	**2,293,562**	640,864
Day 1 loss on loans and receivables (Note 7)	**954,003**	–
Depreciation (Note 9)	**872,121**	745,688
Professional fees	**628,640**	616,921
Marketing and representation	**393,844**	402,402
Rental, light and power (Note 15)	**184,233**	26,000
Entertainment, amusement and recreation	**68,426**	730,142
Miscellaneous (Note 17)	**1,191,356**	229,850
	15,859,379	7,845,146
INCOME (LOSS) BEFORE SHARE IN NET INCOME OF AN ASSOCIATE	**(4,080,451)**	940,496
SHARE IN NET INCOME OF AN ASSOCIATE (Note 11)	**2,946,238**	1,752,140
INCOME (LOSS) BEFORE INCOME TAX	**(1,134,213)**	2,692,636
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 18)		
Current	**245,124**	157,724
Final	**6,331**	4,331
Deferred	**(1,407,572)**	302,184
	(1,156,117)	464,239
NET INCOME	**21,904**	2,228,397
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that will not be recycled to profit or loss in subsequent periods:		
Share in remeasurement gains of the net defined benefit liability of an associate (Note 11)	**113,437**	108,011
TOTAL COMPREHENSIVE INCOME	**₱135,341**	₱2,336,408

See accompanying Notes to Financial Statements.

SEDPI DEVELOPMENT FINANCE, INC.

STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 14)	**Preferred Stock** (Note 14)	**Additional Paid-in Capital**	**Retained Earnings (Deficit)** (Notes 11 and 14)	**Other Comprehensive Income (Loss)** (Note 11)	**Total Equity**
Balance at January 1, 2016	**₱26,255,189**	**₱30,768,000**	**₱24,659**	**₱13,502,149**	**(₱49,740)**	**₱70,500,257**
Issuance of shares	**–**	**10,404,400**	**39**	**–**	**–**	**10,404,439**
Withdrawal of shares	**–**	**(5,521,400)**	**(47)**	**–**	**–**	**(5,521,447)**
Total comprehensive income	**–**	**–**	**–**	**21,904**	**113,437**	**135,341**
Dividends declared (Note 14)	**–**	**3,540,200**	**27**	**(3,540,227)**	**–**	–
Balance at December 31, 2016	**₱26,255,189**	**₱39,191,200**	**₱24,678**	**₱9,983,826**	**₱63,697**	**₱75,518,590**
Balance at January 1, 2015	₱22,598,875	₱27,646,800	₱15,283	₱12,458,374	(₱157,751)	₱62,561,581
Issuance of shares	3,656,314	6,643,200	10,870	–	–	10,310,384
Withdrawal of shares	–	(3,522,000)	(1,494)	–	–	(3,523,494)
Total comprehensive income	–	–	–	2,228,397	108,011	2,336,408
Dividends declared (Note 14)	–	–	–	(1,184,622)	–	(1,184,622)
Balance at December 31, 2015	₱26,255,189	₱30,768,000	₱24,659	₱13,502,149	(₱49,740)	₱70,500,257

See accompanying Notes to Financial Statements.

SEDPI DEVELOPMENT FINANCE, INC.
STATEMENTS OF CASH FLOWS

See accompanying Notes to Financial Statements.

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**(₱1,134,213)**	₱2,692,636
Adjustments for:		
Interest income (Note 7)	**(22,096,684)**	(18,322,734)
Interest expense (Note 12)	**11,926,143**	9,682,757
Provision for credit and impairment losses (Note 7)	**6,909,049**	2,519,065
Share in net income of an associate (Note 11)	**(2,946,238)**	(1,752,140)
Day 1 loss on loans and receivables (Note 7)	**954,003**	–
Gain on change in fair value of investment property	**(935,394)**	–
Depreciation (Note 9)	**872,121**	745,688
Unrealized foreign exchange gains	**(7,504)**	(69,297)
Changes in operating assets and liabilities		
Decrease (increase) in the amounts of:		
Loans and receivables (Notes 7, 19 and 21)	**(27,861,810)**	(19,859,287)
Prepayments (Note 8)	**(688,368)**	266,717
Increase (decrease) in accrued expenses and other liabilities (Note 13)	**286,452**	(916,023)
Net cash used in operations	**(34,722,443)**	(25,012,618)
Interest received	**21,806,064**	19,662,760
Interest paid	**(11,964,929)**	(10,579,233)
Income taxes paid	**(66,227)**	(118,091)
Net cash used in operating activities	**(24,947,535)**	(16,047,182)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment (Note 9)	**(431,405)**	(2,820,841)
Acquisitions of investment property (Note 10)	**(724,596)**	
Dividends received (Note 11)	**983,451**	–
Net cash used in investing activities	**(172,550)**	(2,820,841)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of loans payable	**175,768,486**	234,000,000
Settlement of loans payable	**(105,179,193)**	(220,895,555)
Issuance of common stock (Note 14)	**–**	3,656,314
Issuance of preferred stock (Note 14)	**8,692,696**	3,130,576
Withdrawal of preferred stock (Note 14)	**(5,228,257)**	–
Dividends declared (Note 14)	**–**	(1,184,622)
Net cash provided by financing activities	**74,053,732**	18,706,713
NET EFFECT OF FOREIGN EXCHANGE DIFFERENCES	**7,504**	69,297
NET INCREASE (DECREASE) IN CASH IN BANKS	**48,941,151**	(92,013)
CASH IN BANKS AT BEGINNING OF YEAR	**7,531,146**	7,623,159
CASH IN BANKS AT END OF YEAR (Note 6)	**₱56,472,297**	₱7,531,146

SEDPI DEVELOPMENT FINANCE, INC.
NOTES TO FINANCIAL STATEMENTS

1. General Information

SEDPI Development Finance, Inc. (the Company) 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. On May 21, 2013, the SEC approved the amended articles of incorporation.

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

On May 2016, the Company ventured into microfinance operations, providing financial products and services such as loans, savings, and insurance to low income clients. To date, the Company operates in Bunawan, Agusan del Sur and Bislig City in Surigao del Sur.

The Company's principal place of business is located at Unit 303, Loyola Heights Condominium, 23 Dela Rosa Street, 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).

Presentation of Financial Statements
The Company presents assets and liabilities in the statement of financial position based on current or noncurrent 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 period; or
- Cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Company classifies all other assets 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 period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Offsetting of 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. 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 on bankruptcy of the Company and all of the counterparties.

Income and expense are not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation and as specifically disclosed in the accounting policies of the Company.

As of December 31, 2016 and 2015, the Company does not have financial instruments that can be offset under enforceable master netting agreements or similar agreements.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year. The following new and amended PFRSs and Philippine Accounting Standards (PAS) which were adopted by the Company on January 1, 2016 did not have any significant impact on the financial statements of the Company.

- *New and Amended Standards*
  - Amendments to PFRS 10, PFRS 12, and PAS 28, *Investment in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception*
  - Amendments to PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*
  - Amendments to PAS 1, *Disclosure Initiative*
  - PFRS 14, *Regulatory Deferral Accounts*
  - Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
  - Amendments to PAS 16 and PAS 41, *Agriculture - Bearer Plants*
  - Amendments to PAS 27, *Equity Method in Separate Financial Statements*

- *Annual Improvements to PFRSs* (2012 - 2014 Cycle)
  - Amendments to PFRS 5, *Changes in Methods of Disposal*
  - Amendments to PFRS 7, *Servicing Contracts*
  - Amendments to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendments to PAS 19, *Discount Rate: Regional Market Issue*
  - Amendments to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

Cash
For purposes of reporting cash flows, cash includes ‘Cash in bank’ and ‘Cash on hand’ (see Note 6). Cash in banks are stated at face amount and earns interest at the prevailing bank deposit rate.

Fair Value Measurement
For measurement and disclosure purposes, the Company determines the fair value of an asset or liability at initial measurement 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 (i.e., an exit price). The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

A fair value measurement of a 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 re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External appraisers are involved for valuation of significant nonfinancial assets, such as investment properties.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy (see Note 5).

Foreign Currency Translation and Transactions
Transactions in foreign currencies are initially recorded in the functional currency of the Company based on foreign exchange rates prevailing at the respective dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated using the Philippine Dealing System closing rate prevailing at the statement of financial position date. All differences are recognized under 'Other income' in the statement of comprehensive income in the period in which the differences arise.

Nonmonetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Financial Instruments - Initial Recognition and Subsequent Measurement
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Date of recognition
The Company recognized a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of the assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Settlement date accounting refers to:

- The recognition of an asset on the day that it is received by the Company; and
- The derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Company.

Initial recognition of financial instruments
All financial instruments are initially recognized at fair value. Except for financial assets and liabilities at fair value through profit or loss (FVPL), the initial measurement of financial assets and liabilities 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 into liabilities at FVPL and other liabilities at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every statement of financial position date.

As of December 31, 2016 and 2015, the Company has no AFS investments, HTM investments and financial liabilities at FVPL.

'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.

Financial assets at FVPL
Financial assets at FVPL are carried at fair value, and fair value gains (losses) on these instruments are included under 'Miscellaneous income (expense)' in the statement of comprehensive income. Interest earned on these investments is reported in the statement of comprehensive income under 'Interest income'.

Financial instruments may be designated at FVPL on initial recognition when any of the following criteria is met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis (accounting mismatch); or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Company designated the financial assets at fair value through profit or loss. As of December 31, 2016 and 2015, the Company's financial assets at FVPL amounted to ₱0.49 million.

Loans and receivables
This financial asset category relates to the statement of financial position captions 'Cash in banks' and '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.

After initial measurement, the loans and receivables 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 method. 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 the 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 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 effective interest method.

Derecognition of Financial Assets and 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 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.

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 effective interest rate (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.

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

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

d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives 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 which do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as expense under 'Rental, light and power' in the statement of comprehensive income on a straight-line basis over the lease term. Contingent rental payable are recognized as an expense in the period in which they are incurred.

Company as lessor

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Operating lease income is recognized as 'Rental income' in the statement of comprehensive income on a straight-line basis over the lease term. Contingent rents are recognized as revenue in the period in which they are earned.

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.

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.

Other income

Other income are recognized only upon collection or accrued where there is reasonable degree of certainty as to its collectability.

Expense Recognition

Expenses encompass losses as well as those expenses that arise in the ordinary activities of the Company. Expenses are recognized when incurred and are presented using the nature of expense method.

Property and Equipment
Land is stated at cost less any accumulated impairment in value and depreciable properties including buildings and land improvements, computer, office and transportation equipment are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of property and equipment comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into working condition, such as repairs and maintenance are normally charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

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

The EUL of property and equipment of the Company are as follows:

	EUL
Buildings and land improvements	20 to 30 years
Transportation equipment	5 years
Computer and office equipment	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 the property and equipment.

Construction in progress represents properties under construction and is stated at cost, which includes the construction and other direct costs. Upon completion and when the assets are ready for its intended use, the costs are transferred to the specific category of property and equipment account and depreciated over the assets' EUL.

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 the asset given up.

Subsequent to initial recognition, investment property whose fair value can be measured reliably without undue cost or effort are measured at the fair value at each statement of financial position date with changes in fair value recognized under 'Gain (loss) on change in fair value of investment property' in the statement of comprehensive income.

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.

Investment property is derecognized when it has 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.

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. 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.

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

Property and equipment 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. The excess of carrying amount over the recoverable amount on the Company's property is presented under 'Provision for impairment losses" in the statement of comprehensive income.

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. 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.

Retirement Benefits

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 plan is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined liability or asset
- Remeasurements of net defined 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 the statement of income of the associate. Past service costs are recognized when plan amendment or curtailment occurs.

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 liability or asset. Net interest on the net defined benefit liability or asset is recognized in the statement of income of the associate.

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the associate, nor can they be paid directly to the associate. The 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).

<u>Provisions and Contingencies</u>
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 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.

<u>Income Taxes</u>
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.

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 'Additional paid-in capital'. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Additional paid-in capital'. If the additional paid-in capital is not sufficient, the excess is charged against 'Retained earnings'. 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.

'Retained earnings' represents accumulated earnings of the Company less dividends declared.

Dividends on preferred and common shares are recognized as a liability and deducted from equity when approved by the BOD of the Company. Dividends for the year that are approved after the statement of financial position date are dealt with after the reporting date.

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.

Standards Issued but not yet Effective
The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt these standards when they become effective. Unless otherwise stated, adoption of these standards and interpretations are not expected to have any significant impact on the financial statements of the Company.

Effective beginning on or after January 1, 2017
- PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements* to PFRSs 2014 - 2016 Cycle) (Amendment)
- PAS 7, *Statement of Cash Flows, Disclosure Initiative* (Amendment)
- PAS 12, *Recognition of Deferred Tax Assets for Unrealized Losses* (Amendment)

Effective beginning on or after January 1, 2018
- PFRS 2, *Classification and Measurement of Share-based Payment Transactions* (Amendment)
- PFRS 4, *Applying PFRS 9, Financial Instruments, with PFRS 4* (Amendment)

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

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of adopting PFRS 15.

- PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements* to PFRSs 2014 - 2016 Cycle) (Amendment)
- PAS 40, *Investment Property - Transfers of Investment Property* (Amendment)
- 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 adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's amount of credit losses.

Effective beginning on or after January 1, 2019

- PFRS 16, Leases
  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Company is currently assessing the impact of adopting PFRS 16.

  Deferred effectivity

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

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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 their related impact and associated risks on the financial statements:

<u>Judgments</u>
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 financial statements.

(a) *Fair value of investment properties*
Fair values of investment properties are determined using valuation methodologies acceptable under PFRS and valuation standards. Management determines the applicable valuation model based on the market value of the asset.

Fair value measurement disclosures on investment properties are in Note 5.

(b) *Change in use of assets*
PAS 40 requires management to use its judgment to determine whether a property qualifies as an investment property. The Company has developed criteria so it can exercise its judgment consistently. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Company is accounted for as investment properties.

On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a stand-alone asset are accounted for as property and equipment. The Company assesses on an annual basis the accounting classification of its properties taking into consideration the current use of such properties.

Reclassifications from property and equipment to investment properties are discussed in Notes 9 and 10.

<u>Estimates</u>
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. Detailed discussion of the Company's impairment assessment is in Note 4. The carrying amounts of the Company's loans and receivables and allowance for credit losses are disclosed in Note 7.

(b) *Impairment of nonfinancial assets*
Property and equipment and investment in associate
The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Among others, the factors that the Company considers important which could trigger an impairment review on its investment in an associate include the following:

- Deteriorating or poor financial condition;
- Recurring net losses; and
- Significant changes (i.e. technological, market, economic, or legal environment in which the associate operates) with an adverse effect on the associate have taken place during the period, or will take place in the near future.

The Company also assesses impairment on its property and equipment and considers the following indicators:

- 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. 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. The Company is required to make estimates and assumptions that can materially affect the carrying amount of the asset being assessed.

The carrying values of the Company's investment in associate and property and equipment are disclosed in Note 11 and 9, respectively.

(c) *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's recognized and unrecognized deferred tax assets are disclosed in Note 18.

4. **Financial Risk Management Objectives and Policies**

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

The Company assessed that is exposure to interest rate and currency risks us minimal. The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

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.

a. Credit risk exposure
The Company's maximum exposure to credit risk on its financial assets is equivalent to the carrying amount of these financial assets as of December 31, 2016 and 2015.

b. Credit risk concentration
Concentrations arise when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

The Company's concentration of credit risk of financial assets as to industry follows (net of unamortized discount):

	2016				
	Loans and receivables	**Financial assets at FVPL**	**Cash in banks**	**Other assets**	**Total**
Financial institutions/intermediaries	**₱166,394,145**	**₱–**	**₱55,859,988**	**₱900,000**	**₱223,154,133**
Agricultural	**866,667**	**–**	**–**	**–**	**866,667**
Community, social and personal activities	**45,164,858**	**–**	**–**	**–**	**45,164,858**
Real estate	**–**	**494,179**	**–**	**–**	**494,179**
Others	**27,960,530**	**–**	**–**	**–**	**27,960,530**
	240,386,200	**494,179**	**55,859,988**	**900,000**	**297,640,367**
Allowance for credit and impairment losses (Note 7)	**(3,985,295)**	**–**	**–**		**(3,985,295)**
	₱236,400,905	**₱494,179**	**₱55,859,988**	**₱900,000**	**₱293,655,072**

	2015			
	Loans and receivables	Financial assets at FVPL	Cash in banks	Total
Financial institutions/intermediaries	₱159,451,522	₱–	₱7,531,146	₱166,982,668
Agricultural	1,221,752	–	–	1,221,752
Community, social and personal activities	33,473,030	–	–	33,473,030
Real estate	–	494,179	–	494,179
Others	25,475,685	–	–	25,475,685
	219,621,989	494,179	7,531,146	227,647,314
Allowance for credit and impairment losses (Note 7)	(5,813,660)	–	–	(5,813,660)
	₱213,808,329	₱494,179	₱7,531,146	₱221,833,654

c. Credit quality per class of financial assets

The Company's bases in grading its financial assets follow:

High grade - pertains to cash deposited in top domestic banks and financial asset with low probability of default. Counterparties are safe and sound and are resistant to external shocks and financial upheavals, and can really adapt to adverse developments in its operating environment.

Standard grade - pertains to financial asset with low to moderate default risk. Counterparty has safe and sound operational policies and procedures and can withstand the ups and downs of the business cycle. There are some operational procedures that need to be fixed, otherwise they could negatively affect the operations.

Restructured grade - pertains to restructured financial asset that requires varying degrees of special attention and default risk is of great concern. While acceptable, counterparties have quite a few operational policies, practices and procedures that need to be strengthened or rectified. These need to be corrected on a priority basis, or there will be further deterioration which could put the counterparty at risk. Management continuously reviews these restructured-grade loans to ensure that all criteria are met and that future payments are likely to occur.

Past due or individually impaired - this pertains to financial asset that defaulted in several payments. Counterparty has serious operational problems that need to be addressed on an urgent basis; otherwise there is a high risk of failure. Counterparty with this score needs close supervision by the lender.

The tables below show the credit quality per class of the Company's financial asset, gross of unamortized discount and allowance for credit losses:

	2016					
	Neither past due nor individually impaired		**Restructured but not individually impaired**	**Past due but not individually impaired**	**Individually impaired**	**Total**
	High grade	**Standard grade**				
Cash in banks	**₱55,859,988**	**₱–**	**₱–**	**₱–**	**₱–**	**₱55,859,988**
Receivables from customers						
Corporate	–	**176,500,304**	**2,990,163**	**3,351,091**	**479,280**	**183,320,838**
Individual	–	**20,879,516**	**3,342,000**	**1,138,432**	**4,398,696**	**29,758,644**
Other receivables						
Due from related parties	–	**26,130,200**	–	–	–	**26,130,200**
Accrued interest receivable	–	**1,136,279**	–	–	–	**1,136,279**
Accounts receivable	–	**694,051**	–	–	–	**694,051**
Other assets	–					
Restricted cash in bank	**900,000**	–	–	–	–	**900,000**
	₱56,759,988	**₱225,340,350**	**₱6,332,163**	**₱4,489,523**	**₱4,877,976**	**₱297,800,000**

	2015					
	Neither past due nor individually impaired		Restructured but not individually impaired	Past due but not individually impaired	Individually impaired	Total
	High grade	Standard grade				
Cash in banks	₱7,531,146	₱–	₱–	₱–	₱–	₱7,531,146
Receivables from customers						
Corporate	–	150,198,345	3,350,163	–	18,470,119	172,018,627
Individual	–	15,376,756	–	–	6,750,921	22,127,677
Other receivables						
Due from related parties	–	24,269,994	–	–	–	24,269,994
Accrued interest receivable	–	845,659	–	–	–	845,659
Accounts receivable	–	360,032	–	–	–	360,032
	₱7,531,146	₱191,050,786	₱3,350,163	₱–	₱25,221,040	₱227,153,135

The aging analysis of past due but not impaired loans receivable is shown below.

	2016	
	Amount	**Percentage**
1 to 29 days	**₱–**	**–**
30 to 59 days	**2,036,998**	**45.37%**
60 to 89 days	**–**	**–**
90 to 119 days	**2,452,525**	**54.63%**
	₱4,489,523	**100.0%**

As of December 31, 2016 and 2015, financial assets at FVPL with carrying value amounting to ₱0.49 million are classified as unrated.

Impairment Assessment
Impairment losses are recognized based on the results of specific (individual) and collective assessment of credit exposures. Impairment has taken place when there is a presence of known difficulties in the payments of obligation by counterparties, a significant credit rating downgrade takes place, infringement of the original terms of the contract has happened or when there is inability to pay principal or interest overdue beyond a threshold (e.g. 90 days). These and other factors, either singly or in tandem with other factors, constitute observable events or data that meet the definition of objective evidence of impairment.

Individually assessed allowances
The Company determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining amounts of allowances include an account's age, payment and collection history, timing of expected cash flows and realizable value of collateral.

The Company sets criteria for specific loan impairment testing, which includes restructured loans and loans with history of default but not necessarily past due as of reporting period, and uses the discounted cash flow method to compute for impairment loss. Accounts subjected to specific impairment and are found to be impaired shall be excluded from the collective impairment computation.

As of December 31, 2016 and 2015, the carrying values of individually impaired receivable from customers are disclosed in Note 7.

Collectively assessed allowances
Allowances are assessed collectively for losses on loans and advances that are not significant. Impairment losses are estimated by taking into consideration the historical losses on the portfolio and the expected receipts and recoveries once impaired. The Company is responsible for deciding the length of historical loss period which can extend for as long as five years. The impairment allowance is then reviewed by the Company to ensure alignment with the Company's overall policy.

The Company uses the net flow rate method to determine the credit loss rate of a particular delinquency age bucket based on historical data of flow-through and flow-back of loans across specific delinquency age buckets.

Liquidity Risk
The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's liquidity risk is managed by holding sufficient liquid assets to ensure short-term funding requirements and utilization of credit lines with counterparty banks are met. Deposits with banks are made on a short-term basis with almost all being available on demand or within three months.

Analysis of financial assets and financial liabilities by remaining maturities
The tables below summarize the maturity profile of the Company's financial assets and financial liabilities based on remaining contractual undiscounted cash flows:

	2016				
	On demand	**Up to 3 months**	**3 to 12 months**	**More than 1 year**	**Total**
Financial Assets					
Cash	**₱56,472,297**	**₱–**	**₱–**	**₱–**	**₱56,472,297**
Financial asset at FVPL	**494,179**	**–**	**–**	**–**	**494,179**
Loans and receivables					
Receivables from customers*					
Corporate	**479,280**	**60,846,971**	**94,686,719**	**56,826,004**	**212,838,974**
Individual	**4,398,697**	**2,954,854**	**14,784,412**	**24,502,365**	**46,640,328**
Other receivables					
Due from related parties	**26,130,200**	**–**	**–**	**–**	**26,130,200**
Accrued interest receivable	**–**	**1,136,279**	**–**	**–**	**1,136,279**
Accounts receivable	**694,051**	**–**	**–**	**–**	**694,051**
	88,668,704	**64,938,104**	**109,471,131**	**81,328,369**	**344,406,308**
Financial Liabilities					
Loans payable*	**–**	**29,870,704**	**164,157,645**	**78,771,940**	**272,800,289**
Accrued expenses and other liabilities					
Accrued other expenses	**1,804,152**	**–**	**–**	**–**	**1,804,152**
Accrued interest payable	**–**	**1,017,887**	**–**	**–**	**1,017,887**
Accounts payable	**990,474**	**–**	**–**	**–**	**990,474**
Other payables	**1,029,878**	**–**	**–**	**–**	**1,029,878**
	3,824,504	**30,888,591**	**164,157,645**	**78,771,940**	**277,642,680**
	₱84,844,200	**₱34,049,513**	**(₱54,686,514)**	**₱2,556,429**	**₱66,763,628**

**Includes future interest*

	2015				
	On demand	Up to 3 months	3 to 12 months	More than 1 year	Total
Financial Assets					
Cash	₱7,531,146	₱–	₱–	₱–	₱7,531,146
Financial asset at FVPL	494,179	–	–	–	494,179
Loans and receivables					
Receivables from customers*					
Corporate	591,515	28,766,899	72,538,425	91,142,647	193,039,486
Individual	687,589	2,094,974	2,122,714	25,518,519	30,423,796
Other receivables					
Due from related parties	24,269,994	–	–	–	24,269,994
Accrued interest receivable	–	845,659	–	–	845,659
Accounts receivable*	260,218	31,259	82,866	5,587	379,930
	33,834,641	31,738,791	74,744,005	116,666,753	256,984,190

(Forward)

	2015				
	On demand	Up to 3 months	3 to 12 months	More than 1 year	Total
Financial Liabilities					
Loans payable*	–	43,702,163	100,559,203	52,954,203	197,215,569
Accrued expenses and other liabilities					
Accrued other expenses	2,026,489	–	–	–	2,026,489
Accrued interest payable	–	1,056,673	–	–	1,056,673
Accounts payable	997,646	–	–	–	997,646
Other payables	552,791	–	–	–	552,791
	3,576,926	44,758,836	100,559,203	52,954,203	201,849,168
	₱30,257,715	(₱13,020,045)	(₱25,815,198)	₱63,712,550	₱55,135,022

**Includes future interest*

5. Fair Value Measurement

The methods used by the Company in estimating the fair value of financial instruments and investment properties follow:

Cash in banks, due from related parties, accrued interest receivable, accounts receivables, and financial liabilities presented under 'Accrued expenses and other liabilities'
The carrying amounts of these accounts approximate their fair value due to their short-term nature. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities.

Financial assets at FVPL
Fair values are based on quoted market prices, which are considered as Level 1 input.

Receivable from customers - Fair values of receivables are estimated using the discounted cash flow methodology, using current incremental lending rates for similar types of receivables.

Investment properties
Fair values are based on appraised values determined by professionally qualified and independent appraisers.

Loans payable - Fair values are estimated by discounting the future contractual cash flows at current market interest rate that is available to the Company for similar financial instruments.

The following tables summarize the carrying amount and fair values of the financial and non-financial assets and financial liabilities, whose fair values are required to be disclosed, and analyzed among those whose fair value is based on:

- Quoted market prices in active markets for the identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (derived from prices) (Level 2); and
- Those with inputs for the assets or liability that are not based on observable market date (unobservable inputs) (Level 3).

As of December 31, 2016 and 2015, fair values of financial and nonfinancial instruments are as follow:

	2016			
		Fair Value		
	Carrying Value	**Quoted Prices in active market (Level 1)**	**Significant observable input (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets measured at fair value				
Financial assets				
Financial assets at FVPL				
Quoted debt instrument	**₱494,179**	**₱494,179**	**₱–**	**₱–**
Non-financial assets				
Investment properties	**₱10,193,000**	**₱–**	**₱–**	**₱10,193,000**
Assets for which fair values are disclosed				
Financial assets				
Loans and receivables				
Receivables from customers				
Corporate	**₱181,014,946**	**₱–**	**₱–**	**₱204,648,709**
Individual	**28,079,241**	**–**	**–**	**41,624,754**
	₱209,094,187	**–**	**–**	**₱246,273,463**
Liabilities for which fair values are disclosed				
Financial liabilities				
Loans payable	**₱259,011,111**	**₱–**	**₱–**	**₱269,610,801**

	2015			
		Fair Value		
	Carrying Value	Quoted Prices in active market (Level 1)	Significant observable input (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value				
Financial assets				
Financial assets at FVPL				
Quoted debt instrument	₱494,179	₱494,179	₱–	₱–
Non-financial assets				
Investment properties	₱6,120,510	₱–	₱–	₱6,120,510
Assets for which fair values are disclosed				
Financial assets				
Loans and receivables				
Receivables from customers				
Corporate	₱168,449,379	₱–	₱–	₱176,957,887
Individual	19,883,265	–	–	19,110,561
	₱188,332,644	₱–	₱–	₱196,068,448
Liabilities for which fair values are disclosed				
Financial liabilities				
Loans payable	₱188,421,818	₱–	₱–	₱207,580,713

In 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfer into and out of Level 3 fair value measurement.

Description of significant unobservable inputs to valuation:

Account	**Valuation Technique**	**Significant Unobservable Inputs**	**Range**
Investment properties	Market data approach	Price per square meter *(Residential and Commercial)*	₱28,000 and ₱16,393
		Discount rate	10%
		Size	90 and 244 square meter
Loans and receivables	Discounted cash flow (DCF) method	Discount rate	4.56% - 28.88%
Loans payable	DCF method	Discount rate	1.42% - 4.03%

The following table demonstrates the sensitivity to a reasonably possible change in estimated market value and discount rate used in the valuation of investment properties, with all other variables held constant:

Significant unobservable input		**2016**
Estimated market value per square meter		
Residential	**10.00%**	**2,772,000**
	-10.00%	**2,268,000**
Commercial	**10.00%**	**4,400,000**
	-10.00%	**3,600,000**
Discount rate		
Residential	**10.00%**	**2,545,455**
	-10.00%	**2,495,050**
Commercial	**10.00%**	**4,040,404**
	-10.00%	**3,960,396**

6. Cash

This account consists of:

	2016	2015
Cash on hand	**₱612,309**	₱–
Cash in banks	**55,859,988**	7,531,146
	₱56,472,297	₱7,531,146

Cash in banks pertain to peso-denominated savings deposit and foreign-currency denominated deposits that bear annual interest rates ranging from 0.25% to 0.50% in 2016 and 2015. Interest income on cash in banks amounted to ₱0.03 million and ₱0.02 million in 2016 and 2015, respectively.

7. Loans and Receivables

This account consists of:

	2016	2015
Current portion		
Receivables from customers		
Corporate	**₱127,108,762**	₱94,251,960
Individual	**6,967,215**	2,904,164
	134,075,977	97,156,124

(Forward)

	2016	2015
Other receivables		
Accrued interest receivable	**1,136,279**	845,659
Due from related parties (Note 19)	**26,130,200**	24,269,994
Accounts receivable	**694,051**	360,032
	27,960,530	25,475,685
	162,036,507	122,631,809
Unamortized discount	**(367,300)**	–
Allowance for credit losses	**(3,227,154)**	(3,054,717)
	158,442,053	119,577,092
Noncurrent portion		
Receivables from customers		
Corporate	**56,212,076**	77,766,667
Individual	**22,791,429**	19,223,513
	79,003,505	96,990,180
Unamortized discount	**(286,512)**	–
Allowance for credit losses	**(758,141)**	(2,758,943)
	77,958,852	94,231,237
	₱236,400,905	₱213,808,329

Receivable from customers
As of December 31, 2016 and 2015, receivables from customers bear annual effective interest rates ranging from 3.00% to 24.00% and 3.00% to 31.46%, respectively with loan term ranging from 1 to 6 years for 2016 and 2015.

Interest income earned from receivables from customers amounted to ₱22.07 million and ₱18.30 million in 2016 and 2015, respectively.

As of December 31, 2016, included under receivable from customers are restructured non-interest bearing loan accounts. The Company recognized the difference of the carrying value of loan on restructuring date and the fair value of the loan as as a day 1 loss presented as unamortized discount under ‘Loans and receivables’. The fair value of the loan is determined by discounting future cash flow using the Company’s lending rate of 8.00%.

As of December 31, 2016 and 2015, the Company’s receivables from customers were pledged as collaterals for loans payable to Bank of the Philippine Islands (BPI), Land Bank of the Philippines (LBP), Union Bank of the Philippines (UBP) and Development Bank of the Philippines (see Note 12).

On August 31, 2015, the Company received additional settlement of shareholder receivable through transfer of ownership of three vehicles valued by external appraisers at ₱1.20 million and is measured subsequently using the cost model under Property and equipment (see Note 9).

Reconciliation of the allowance for credit losses on receivables from customers by class follows:

	2016			2015		
	Corporate	**Individual**	**Total**	**Corporate**	**Individual**	**Total**
Balance at beginning of year	**₱3,569,248**	**₱2,244,412**	**₱5,813,660**	₱2,508,125	₱786,470	₱3,294,595
Provision for credit losses	**6,454,413**	**(430,009)**	**6,024,404**	1,061,123	1,457,942	2,519,065
Write-offs	**(7,717,769)**	**(135,000)**	**(7,852,769)**	–	–	–
Balance at end of year	**₱2,305,892**	**₱1,679,403**	**₱3,985,295**	₱3,569,248	₱2,244,412	₱5,813,660
Individual impairment	**₱479,280**	**₱1,430,886**	**₱1,910,166**	₱3,353,424	₱2,216,654	₱5,570,078
Collective impairment	**1,826,612**	**248,517**	**2,075,129**	215,824	27,758	243,582
	₱2,305,892	**₱1,679,403**	**₱3,985,295**	₱3,569,248	₱2,244,412	₱5,813,660
Gross amount of receivables from customers individually impaired	**₱479,280**	**₱4,398,696**	**₱4,877,976**	₱18,470,119	₱6,750,921	₱25,221,040

Section 9(f) of Republic Act (RA) 8556, also known as *The Financing Company Act* of 1998 requires that a 100% 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.

8. Other assets

As of December 31, 2016, these pertain mainly to restricted cash in bank amounting to ₱0.90 million held by DBP as deposit hold-out to secure the loans payable to the latter.

This account also includes prepaid travel expenses amounting to ₱0.25 million and ₱0.46 million as of December 31, 2016 and 2015, respectively.

9. Property and Equipment

The composition and movements in this account follow:

	2016					
	Transportation Equipment	**Construction in progress**	**Computer and office equipment**	**Buildings and land improvements**	**Land**	**Total**
Cost						
Balance at January 1	**₱1,200,000**	**₱2,404,000**	**₱641,086**	**₱13,297,194**	**₱4,944,645**	**₱22,486,925**
Additions	**–**	**8,500**	**388,842**	**34,063**	**–**	**431,405**
Retirement	**–**	**–**	**(66,000)**	**–**	**–**	**(66,000)**
Reclassification (Note 10)	**–**	**(2,412,500)**	**–**	**–**	**–**	**(2,412,500)**
Balances at December 31	**1,200,000**	**–**	**963,928**	**13,331,257**	**4,944,645**	**20,439,830**

(Forward)

	2016					
	Transportation Equipment	**Construction in progress**	**Computer and office equipment**	**Buildings and land improvements**	**Land**	**Total**
Accumulated depreciation						
Balance at January 1	**80,000**	**–**	**349,075**	**950,800**	**–**	**1,379,875**
Depreciation	**240,000**	**–**	**249,795**	**382,326**	**–**	**872,121**
Retirement	**–**	**–**	**(66,000)**	**–**	**–**	**(66,000)**
Balances at December 31	**320,000**	**–**	**532,870**	**1,333,126**	**–**	**2,185,996**
Accumulated impairment						
Balance at January 1	**–**	**–**	**–**	**–**	**–**	**–**
Impairment loss	**–**	**–**	**–**	**–**	**884,645**	**884,645**
Balances at December 31	**–**	**–**	**–**	**–**	**884,645**	**884,645**
Net Book Value at December 31	**₱880,000**	**₱–**	**₱431,058**	**₱11,998,131**	**₱4,060,000**	**₱17,369,189**

	2015					
	Transportation Equipment	Construction in progress	Computer equipment	Buildings and land improvements	Land	Total
Cost						
Balance at January 1	₱–	₱–	₱455,545	₱13,065,894	₱4,944,645	₱18,466,084
Additions (Note 19)	1,200,000	2,404,000	185,541	231,300	–	4,020,841
Balances at December 31	1,200,000	2,404,000	641,086	13,297,194	4,944,645	22,486,925
Accumulated depreciation						
Balance at January 1	–	–	229,941	404,246	–	634,187
Depreciation	80,000	–	119,134	546,554	–	745,688
Balances at December 31	80,000	–	349,075	950,800	–	1,379,875
Net Book Value at December 31	₱1,120,000	₱2,404,000	₱292,011	₱12,346,394	₱4,944,645	₱21,107,050

As of December 31, 2016 and 2015, the Company has an outstanding negative pledge on its condominium unit (presented under ‘Buildings and land improvements’) with carrying amount of ₱2.76 million and ₱2.80 million, respectively, to secure loans payable to BPI (see Note 12).

On June 6, 2016, the Company completed construction of a building which was started in 2015. The building was constructed on the property leased from a stockholder located in Maddela, Quirino. The building was intended for leasing to third parties. Accordingly, during 2016, the capitalized cost of the building initially recognized under Construction in Progress amounting to ₱2.41 million was reclassified as investment property. As of December 31, 2016, all available units were under lease to third parties (Notes 10 and 15).

As of December 31, 2016 and 2015, fully depreciated property and equipment that are still in use by the Company amounted to ₱0.25 million and ₱0.07 million, respectively.

10. Investment Properties

The composition and movements in this account follow:

	Land	**Building**	**Total**
Balance at January 1, 2016	**₱4,957,613**	**₱1,162,897**	**₱6,120,510**
Additions	**–**	**724,596**	**724,596**
Gain on change in fair value	**82,387**	**853,007**	**935,394**
Reclassification (Note 9)	**–**	**2,412,500**	**2,412,500**
Balances at December 31, 2016	**₱5,040,000**	**₱5,153,000**	**₱10,193,000**
Balances at January 1 and December 31, 2015	₱4,957,613	₱1,162,897	₱6,120,510

On November 4, 2013, Social Enterprise Development Partnerships Inc. (SEDPI), an affiliate, settled its obligation amounting to ₱23.39 million with the Company by transferring land and the improvements thereon with fair value of ₱21.33 million. Both parties agreed to settle the receivable of the Company from SEDPI only up to the fair values of the properties received.

As of December 31, 2016 and 2015, the Company is in the process of transferring the titles of land and improvements under its name.

As disclosed in Note 9, the Company reclassified its completed building in Maddela, Quirino amounting to ₱2.41 million from construction in progress under ‘Property and equipment’ to ‘Investment property’.

Rental income on the investment properties amounted to ₱0.49 million and nil was earned in 2016 and 2015, respectively (Note 15). There are no direct operating costs incurred in relation the investment property.

The fair value of investment properties were determined based on valuations made by an independent external appraiser. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

11. Investment in an Associate

This account consists of:

	2016	2015
Acquisition cost	**₱5,865,389**	₱5,865,389
Accumulated equity in net earnings		
Balance at beginning of year	**7,420,669**	5,668,529
Share in net income for the year	**2,946,238**	1,752,140
Dividends received	**(983,451)**	–
Balance at end of year	**9,383,456**	7,420,669
Share in other comprehensive loss		
Balance at beginning of year	**(49,740)**	(157,751)
Share in remeasurements of the net defined benefit liability during the year	**113,437**	108,011
Balance at end of year	**63,697**	(49,740)
	₱15,312,542	₱13,236,318

Investment in an associate comprises of unquoted shares of a rural bank. On November 24, 2013, the Company acquired 50,000 shares, representing 19.68% of the voting stocks of ARDCI Bank, Inc. for a total consideration of ₱5.86 million.

The principal place of business of ARDCI Bank, Inc. is located at GF ARDCI Corporate Bldg., San Roque, Virac, Catanduanes.

The Company accounts for its investment in ARDCI Bank, Inc. as an associate since November 24, 2013. It holds close to 20.00% of the issued share capital and holds one out of five board seats (20.00%) providing it the ability to exercise significant influence over the investment due to its voting power (both through its equity holding and its representation in key decision-making committees). There have been no changes in the corporate structure or board seats and number of representatives in the board in 2016 and 2015.

The following table illustrates the summarized financial information of ARDCI Bank, Inc. in 2016 and 2015:

	2016	2015
Total assets	**₱158,016,838**	₱139,889,353
Total liabilities	**76,558,068**	68,977,709
Revenue	**43,483,898**	32,794,400
Cost and expenses	**28,513,177**	19,403,158
Net income	**14,970,721**	8,903,150
Other comprehensive income	**576,405**	548,838

As of December 31, 2016 and 2015, there are no indicators of impairment on the Company's investment in ARDCI Bank, Inc.

12. **Loans Payable**

This account represents the Company's total borrowings from the following:

	2016	2015
Current portion:		
BPI	**₱60,000,000**	₱74,990,000
LBP	**78,485,859**	68,007,580
DBP	**15,000,000**	–
UBP	**30,000,000**	–
	183,485,859	142,997,580
Noncurrent portion:		
LBP	**60,525,252**	45,424,238
DBP	**15,000,000**	–
	75,525,252	45,424,238
	₱259,011,111	₱188,421,818

The loans payable are subject to annual interest rates ranging from 5.25% to 6.50% and 6.00% to 8.00% in 2016 and 2015, respectively. Interest expense incurred on loans payable amounted to ₱11.93 million and ₱9.68 million in 2016 and 2015, respectively. Loans payable have terms ranging from 6 months to 3 years in 2016 and 2015.

As of December 31, 2016 and 2015, loans payable are secured by assigned receivables from customers that are outstanding as of December 31, 2016 and 2015 (see Note 7). Loans payable to BPI is also secured with a negative pledge on the Company's condominium unit as of December 31, 2016 and 2015 (see Note 9). As of December 31, 2016, the loans payable to DBP is secured by savings account amounting to ₱0.90 million (Note 8). This restriction will expire upon maturity of the related loan.

13. Accrued Expenses and Other Liabilities

This account consists of:

	2016	2015
Financial liabilities		
Accrued other expenses	**₱1,804,152**	₱2,026,489
Accrued interest payable	**1,017,887**	1,056,673
Accounts payable	**990,474**	997,646
Other payables	**1,029,878**	552,791
	4,842,391	4,633,599
Nonfinancial liabilities		
Accounts payable	**12,879**	22,777
Other payables	**95,194**	46,422
	108,073	69,199
	₱4,950,464	₱4,702,798

Others include dividend payable, withholding tax payable, liability for advance rent, security deposit and other current liabilities.

14. Equity

Common Stock

Details of the Company's common stock follow:

	2016		2015	
	Number of Shares	**Amount**	Number of Shares	Amount
Common Stock				
Authorized - ₱200 par; 515,000 shares				
Issued and outstanding				
Balance at beginning of year	**61,332**	**₱12,266,314**	43,050	₱8,610,000
Issuances	–	–	18,282	3,656,314
Stock dividends	–	–	–	–
Balance at end of year	**61,332**	**₱12,266,314**	61,332	12,266,314
Subscribed:				
Balance at beginning and end of year	**212,500**	**42,500,000**	212,500	42,500,000
Subscription receivable:				
Balance at beginning and end of year		**(28,511,125)**		(28,511,125)
Subscribed common stock		**13,988,875**		13,988,875
Total	**273,832**	**₱26,255,189**	273,832	₱26,255,189

Preferred Stock
Details of the Company's preferred stock as of December 31, 2016 and 2015 follow:

	2016		2015	
	Number of Shares	**Amount**	Number of Shares	Amount
Preferred Stock				
Authorized - ₱200 par; 375,000 shares				
Issued and outstanding:				
Balance at beginning of year	**153,840**	**₱30,768,000**	138,234	₱27,646,800
Issuances	**52,022**	**10,404,400**	33,216	6,643,200
Withdrawals	**(27,607)**	**(5,521,400)**	(17,610)	(3,522,000)
Stock dividends	**17,701**	**3,540,200**	–	–
	195,956	**₱39,191,200**	153,840	₱30,768,000

The Company's preferred stock has the following features:
a) nonvoting, cumulative, nonconvertible and nonparticipating
b) may be issued in Philippine peso provided that no share will be issued below par value;

As of December 31, 2016 and 2015, cumulative dividends on the preferred shares amounted to nil and ₱1.73 million, respectively.

Retained Earnings
On April 11, 2016, the BOD declared and distributed stock dividends on its preferred stocks amounting to ₱1.73 million for the preferred stockholders of record as of December 31, 2015. On December 31, 2016, the Company declared and distributed stock dividends on its outstanding preferred stocks as of December 31, 2016 amounting to ₱1.81 million.

Capital Management
The primary objectives of the Company for capital management are to ensure its ability to continue as a going concern, to maintain quality ratios especially liquidity, and to ensure compliance with SEC regulations.

The BOD is responsible for managing the Company's capital structure and making the necessary adjustments to address the risks and adapt to changes in economic conditions and regulatory requirements.

The Company's objective when managing capital (which consists of total equity as shown in the statement of financial position) is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt consists of total liabilities as shown in the statement of financial position less cash.

Regulatory Capital
On January 20, 2014, the Company has acquired a secondary license to operate as a financing company.

Under RA No. 8556, *Financing Company Act*, the Company is required to maintain the following capital requirements:

(a) Minimum paid-up capital of ₱10.00 million; and
(b) Additional capital requirements for each branch of ₱1.00 million for branches established in Metro Manila, ₱0.50 million for branches in other classes of cities and ₱0.25 million for branches established in municipalities.

As of December 31, 2016 and 2015, the Company was in compliance with the above mentioned regulations.

15. Leases

Company as lessor

In 2016, the Company entered into cancelable lease agreements for its investment properties in Maddela, Quirino and Sampaloc, Manila for residential and commercial purposes. The lease term on the properties ranges from one (1) to 30 years with an annual escalation rate of 5.0%.

Rental income amounted to ₱0.49 million and nil in 2016 and 2015, respectively. Direct costs incurred on these leases pertain to real property taxes amounting to ₱__ million and ₱__ million presented under Taxes and licences.

Company as lessee

In 2016, the Company entered into a cancelable lease agreement to lease the land from a stockholder located in Maddela, Quirino for 50 years. A building classified as 'Investment property' was constructed on the leased land which is now leased out for residential and commercial purposes.

The Company also entered into two cancelable one-year lease agreements with third parties for the office spaces of its branch operations in Bislig, Surigao de Sur and Bunawan, Agusan del Sur, respectively.

Rental expense included in 'Rent, light and power' amounted to ₱0.13 million and nil in 2016 and 2015, respectively. There were no direct costs incurred in relation to these leases.

16. Compensation and Other Benefits

This account consists of:

	2016	2015
Salaries	**₱996,178**	₱297,019
De minimis	**227,058**	72,479
Statutory contributions	**167,173**	44,970
Other benefits	**903,153**	226,396
	₱2,293,562	₱640,864

Other benefits include 13th month pay expenses, honorarium, medical expenses and other staff benefits.

The Company has no retirement plan. Republic Act (RA) No. 7641, *Retirement Pay Law* requires a provision for retirement to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. As of December 31, 2016 and 2015, the Company only has nine and four employees, respectively, thus the requirement under RA No. 7641 was not satisfied by the Company to accrue retirement liability.

17. Miscellaneous Expenses

This account consists of:

	2016	2015
Transportation	**₱624,289**	₱6,345
Supplies and photocopy	**147,086**	34,976
Insurance	**70,577**	46,602
Repairs and maintenance	**27,465**	–
Bank service charges	**2,952**	50,853
Others	**318,987**	91,074
	₱1,191,356	₱229,850

Others include penalties, annual fees, and notary public expenses.

18. Income Taxes

Current tax regulations provide that effective January 1, 2009, the RCIT rate shall be 30.00%. A final income tax at the rate of 20.00% is imposed on gross interest income on deposit. Interest expense allowed as a deductible expense is reduced by an amount equivalent to 33.00% of interest income subject to final tax.

The optional standard deduction (OSD) under RA No. 9504 may be elected as an alternative deduction in computing for the RCIT. For 2016 and 2015 RCIT computation, the Company elected to claim itemized deductions instead of the OSD equivalent to 40.00% of gross income.

Current tax regulations limit the amount of entertainment, amusement and recreation (EAR) expenses that can be claimed as deductions for income tax purposes to 1.00% of net revenue (gross revenue less discounts, if any) for sellers of services. In 2016 and 2015, EAR expenses amounted to nil and ₱0.73 million, respectively. EAR expenses amounting to nil and ₱0.19 million were claimed as deduction for tax purposes in 2016 and 2015, respectively.

The regulations also provide for MCIT of 2.00% on modified gross income which is paid if higher than the RCIT for the year. Any excess of MCIT over the RCIT is deferred and can be used as tax credit against any RCIT liability for the next three years. In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the year of inception.

The provision for (benefit from) income tax follows:

	2016	2015
Current:		
MCIT	**₱245,124**	₱157,724
Final	**6,331**	4,331
	251,455	162,055
Deferred	**(1,407,572)**	302,184
	(₱1,156,117)	₱464,239

As of December 31, 2016 and 2015, the Company's net deferred tax asset consists of:

	2016	2015
Deferred tax assets on:		
Allowance for credit and impairment losses	**₱1,283,527**	₱530,646
Accrued other expenses	**341,360**	341,360
MCIT	**514,753**	72,022
NOLCO	**474,040**	–
	2,613,680	944,028
Deferred tax liability on:		
Change in fair value of investment property	**(280,618)**	–
Unrealized foreign exchange gain	**(2,251)**	(20,789)
	(282,869)	(20,789)
	₱2,330,811	₱923,239

As of December 31, 2016 and 2015, the Company did not recognize deferred tax asset on the following:

	2016	2015
Allowance for credit losses	**₱591,515**	₱4,044,840
MCIT	**–**	269,629
NOLCO	**–**	239,257
	₱591,515	₱4,553,726

Details of the Company's NOLCO are as follows:

Inception Year	Amount	Applied	Expired	Balance	Expiry Year
2016	₱1,580,132	₱–	₱–	₱1,580,132	2019
2013	239,257	–	239,257	–	2016
	₱1,819,389	₱–	₱239,257	₱1,580,132	

Details of the Company's MCIT are as follows:

Inception Year	Amount	Applied	Expired	Balance	Expiry Year
2016	₱245,124	₱–	₱–	₱245,124	2019
2015	157,724	–	–	157,724	2018
2014	111,905	–	–	111,905	2017
2013	72,022	–	72,022	–	2016
	₱586,775	₱–	₱72,022	₱514,753	

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

	2016	2015
Statutory income tax	**(₱340,264)**	₱807,791
Tax effect of:		
Non-taxable income	**(883,871)**	(525,642)
Non-deductible expenses	**1,251,490**	196,299
Changes in unrecognized deferred tax asset	**(1,188,663)**	(13,838)
Interest income subjected to final tax	**(3,165)**	(2,687)
Non-deductible interest expense	**8,356**	2,316
Effective income tax	**(₱1,156,117)**	₱464,239

19. **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. Parties are also considered to be related if they are subjected to common control or common significant influence, such as affiliates. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

A summary of the significant transactions and outstanding balances of the Company with related parties follow:

	2016		
Category	**Amount/ Volume**	**Outstanding Balance**	**Terms and Conditions/Nature**
Stockholders			
Due from related parties	**₱–**	**₱12,454,986**	Non-interest bearing advances; due and demandable; unsecured with no impairment
Advances	**4,009,781**		
Collections	**3,238,831**		
Other related parties			
Loans and receivables		**7,500,000**	Interest bearing loans with 13% interest per annum; 1 to 2 years remaining terms; unsecured and impaired
Collections	**12,500,000**		

(Forward)

Due from related parties		**13,675,214**	Expenses paid/advanced by the Company on behalf of affiliates; non-interest bearing; due and demandable
Advances	**13,509,884**		
Collections	**12,420,628**		
Accrued interest receivable/ interest income	**944,456**	**40,685**	Accrual of interest income on loans with 13.00% interest per annum
Rent expense	**35,000**		

	2015		
Category	Amount/ Volume	Outstanding Balance	Terms and Conditions/Nature
Stockholders			
Due from related parties		₱11,684,036	Non-interest bearing advances; due and demandable; unsecured with no impairment
Advances	₱7,382,055		
Collections	2,582,365		

Category	2015 Amount/ Volume	Outstanding Balance	Terms and Conditions/Nature
(Forward)			
Other related parties			
Loans and receivables		20,000,000	Interest bearing loans with 13% interest per annum; 1 to 2 years remaining terms; unsecured and impaired
Collections	6,387,363		
Due from related parties		12,585,958	Expenses paid/advanced by the Company on behalf of affiliates; non-interest bearing; due and demandable
Advances	10,187,421		
Collections	13,087,488		
Accrued interest receivable/ interest income	391,695	66,964	Accrual of interest income on loans with 13.00% interest per annum

On April 8, 2015, a stockholder settled his obligation with the Company by assigning 5,000 (₱100 par) SEC-registered unsecured fixed rate peso seven-year retail bonds with carrying value amounting to ₱0.49 million to the Company. These bonds are listed in Philippine Dealing and Exchange Corp. (PDEx), earn 6.98% interest per annum and will mature on September 2, 2021. As of December 31, 2016 and 2015, the fair value of these bonds amounted to ₱0.49 million and is reported as 'Financial asset at FVPL' in the statements of financial position.

20. Commitment and Contingencies

In the ordinary course of business, the Company may incur contingent liabilities arising from normal litigations 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.

As of December 31, 2016 and 2015, the Company is neither involved in any litigations nor a contingent liability arising from such.

21. Non-cash Activities

The following is the summary of certain non-cash activities that relate to the analysis of the statements of cash flows in 2016 and 2015:

	2016	2015
Operating activities		
Settlement of receivable through transfer of transportation equipment	**₱–**	₱1,200,000
Settlement of receivable through assignment of financial asset at FVPL	–	494,179
Investing activities		
Reclassification of property and equipment to investment property	**₱2,412,500**	₱–
Issuance of shares for non-cash consideration	**1,711,743**	–
Settlement of loan thru withdrawal of common shares	**293,190**	–
Financing activities		–
Issuance of common and preferred stock dividends	**₱3,540,227**	₱–

22. Approval of the Release of the Financial Statements

The accompanying financial statements were authorized for issue by the President of the Company based on the authority given by the BOD on June 5, 2017.

23. Supplementary Tax Information under Revenue Regulations (RR) 15-2010

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

The Company reported and/or paid the following types of taxes in 2016:

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 of the Company's statement of comprehensive income. Details in 2016 consist of the following:

Gross receipt tax	₱849,193
Documentary stamp taxes	1,154,853
License and permits fees	360,099
	₱2,364,145

Withholding Taxes
Remittances in 2016 amounted to ₱9,769 while withholding taxes payable as of December 31, 2016 amounted to ₱1,701.

Tax Assessments and Cases
The Company has no tax cases, litigation and/or prosecution in court or bodies outside the BIR.

SEDPI DEVELOPMENT FINANCE, INC.
FINANCIAL SOUNDNESS INDICATORS

	2016	2015
Current ratio		
Total current assets	**₱216,560,895**	₱128,066,415
Total current liabilities	**188,681,447**	147,760,274
	1.15	0.87
Debt-to-equity ratio		
Total liabilities	**₱264,206,699**	₱193,184,512
Total equity	**75,518,590**	70,500,257
	3.50	2.74
Asset-to-equity ratio		
Total assets	**₱339,725,289**	₱263,684,769
Total equity	**75,518,590**	70,500,257
	4.50	3.74
Return on equity		
Operating income	**₱11,778,928**	₱8,785,642
Average equity	**73,009,424**	66,530,919
	0.16	0.13
Return on assets		
Operating income	**₱11,778,928**	₱8,785,642
Average assets	**301,705,029**	254,047,476
	0.04	0.03
Total real estate investment to total assets		
Total real estate	**₱10,193,000**	₱6,120,510
Total assets	**339,725,289**	263,684,769
	0.03	0.02
Total receivables to total assets		
Total receivable	**₱241,040,012**	₱219,621,989
Total assets	**339,725,289**	263,684,769
	0.71	0.83
Total DOSRI (Directors, Officers, Shareholders and Related Interests) to net worth		
Total DOSRI	**₱33,630,200**	₱24,269,994
Total net worth	**75,518,590**	70,500,257
	0.45	0.34

SEDPI DEVELOPMENT FINANCE, INC.

LIST OF PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS)
AS AT DECEMBER 31, 2016

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable	Not Early Adopted
Framework for the Preparation and Presentation of Financial Statements		✓			
Conceptual Framework Phase A: Objectives and qualitative Characteristics		✓			
PFRSs Practice Statement Management Commentary		✓			
Philippine Financial Reporting Standards					
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓			
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓	
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓	
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓	
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓	
	Amendments to PFRS 1: Government Loans			✓	
	Amendment to PFRS 1: Meaning of Effective PFRSs	✓			
PFRS 2	Share Based Payment			✓	
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓	
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓	
	Amendment to PFRS 2: Definition of Vesting Condition			✓	
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions				✓
PFRS 3 (Revised)	Business Combinations			✓	
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓	
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PFRS 4	Insurance Contracts			✓	
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓	
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4			✓	
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓	
	Amendment to PFRS 5: Changes in methods of disposal			✓	
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓	
PFRS 7	Financial Instruments: Disclosures	✓			
	Amendments to PFRS 7: Transition	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓	
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓	
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓			
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓	
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities			✓	
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures				✓
	Amendments to PFRS 7: Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in PFRS 9				✓
	Amendments to PFRS 7: Servicing Contracts and Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓	
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓	
PFRS 8	Operating Segments			✓	
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PFRS 9	Financial Instruments				✓
	Financial Instruments: Classification and Measurement of Financial Liabilities				✓
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures				✓
	Reissue to incorporate a hedge accounting chapter and permit early application of the requirements for presenting in other comprehensive income the "own credit" gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of PFRS 9				✓
	Financial Instruments (final version), incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition				✓
PFRS 10	Consolidated Financial Statements			✓	
	Amendments to PFRS 10: Transition Guidance			✓	
	Amendments to PFRS 10: Investment Entities			✓	
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture			✓	
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception			✓	
PFRS 11	Joint Arrangements			✓	
	Amendments to PFRS 11: Transition Guidance			✓	
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓	
PFRS 12	Disclosure of Interest in Other Entities			✓	
	Amendments to PFRS 12: Transition Guidance			✓	
	Amendments to PFRS 12: Investment Entities			✓	
	Amendments to PFRS 12: Clarification of the Scope of the Standard			✓	
PFRS 13	Fair Value Measurements	✓			
	Amendment to PFRS 13: Short-term Receivables and Payables			✓	
	Amendment to PFRS 13: Portfolio Exception			✓	
PFRS 14	Regulatory Deferral Accounts			✓	
PFRS 15	Revenue from contracts with customers				✓
PFRS 16	Leases				✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable	Not Early Adopted
	Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓			
	Amendment to PAS 1: Capital Disclosure	✓			
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓	
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income			✓	
	Amendments to PAS 1: Disclosure Initiative	✓			
PAS 2	Inventories			✓	
PAS 7	Statement of Cash Flows	✓			
	Amendments to PAS 7: Disclosure Initiative				✓
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓			
PAS 10	Events after the Reporting Period	✓			
PAS 11	Construction Contracts			✓	
PAS 12	Income Taxes	✓			
	Amendment to PAS 12 – Deferred Tax: Recovery of Underlying Assets	✓			
	Amendments to PAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses				✓
PAS 16	Property, Plant and Equipment	✓			
	Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation on Revaluation			✓	
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓	
	Amendments to PAS 16 and PAS 41, Agriculture: Bearer Plants			✓	
PAS 17	Leases	✓			
PAS 18	Revenue	✓			
PAS 19	Employee Benefits			✓	
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓	
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution			✓	
	Amendments to PAS 19: Discount Rate: Regional Market Issue	✓			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓	
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓			
	Amendment: Net Investment in a Foreign Operation			✓	
PAS 23 (Revised)	Borrowing Costs			✓	
PAS 24 (Revised)	Related Party Disclosure	✓			
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓	
PAS 27	Consolidated and Separate Financial Statements			✓	
PAS 27 (Amended)	Separate Financial Statements			✓	
	Amendments for investment entities			✓	
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓			
PAS 28	Investments in Associates and Joint Ventures			✓	
PAS 28 (Amended)	Amendments to PAS 28: Investment Entities – Applying the Consolidation Exception			✓	
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value			✓	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓	
PAS 31	Interests in Joint Ventures			✓	
PAS 32	Financial Instruments: Disclosure and Presentation	✓			
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓	
	Amendment to PAS 32: Classification of Rights Issues			✓	
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓			
PAS 33	Earnings per Share			✓	
PAS 34	Interim Financial Reporting			✓	
	Amendment to PAS 34: Disclosure of information 'Elsewhere in the Interim financial report'			✓	
PAS 36	Impairment of Assets	✓			
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓			
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PAS 38	Intangible Assets	✓			
	Amendments to PAS 38 : Proportionate Restatement of Accumulated Depreciation on Revaluation			✓	
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓	
PAS 39	Financial Instruments: Recognition and Measurement	✓			
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓			
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transaction			✓	
	Amendments to PAS 39: The Fair Value Option			✓	
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓	
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓	
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓	
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓	
	Amendment to PAS 39: Eligible Hedged Items			✓	
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓	
PAS 40	Investment Property	✓			
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property			✓	
	Amendments to PAS 40: Transfers of Investment Property				✓
PAS 41	Agriculture			✓	
	Amendments to PAS 16 and PAS 41, Agriculture: Bearer Plants			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable	Not Early Adopted
Philippine Interpretations					
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓	
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓	
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓			
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓	
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓	
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓	
IFRIC 9	Reassessment of Embedded Derivatives			✓	
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓	
IFRIC 10	Interim Financial Reporting and Impairment			✓	
IFRIC 12	Service Concession Arrangements			✓	
IFRIC 13	Customer Loyalty Programmes			✓	
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓	
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement			✓	
IFRIC 15	Agreements for the Construction of Real Estate			✓	
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓	
IFRIC 17	Distributions of Non-cash Assets to Owners			✓	
IFRIC 18	Transfers of Assets from Customers			✓	
IFRIC 19	Extinguishing Financial Liabilities with Equity Investment			✓	
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓	
IFRIC 21	Levies			✓	
IFRIC 22	Foreign Currency Transactions and Advance Consideration				✓
SIC - 7	Introduction of the Euro			✓	
SIC - 10	Government Assistance - No Specific Relation to Operating Activities			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable	Not Early Adopted
SIC - 15	Operating Leases - Incentives			✓	
SIC - 25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓	
SIC - 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓			
SIC - 29	Service Concession Arrangements: Disclosures			✓	
SIC - 31	Revenue - Barter Transactions Involving Advertising Services			✓	
SIC - 32	Intangible Assets - Web Site Costs			✓	