SEDPI Development Finance, Inc.

Financial Statements
As at and for the years ended December 31, 2017
(With comparative figures as at and for the year ended December 31, 2016)

SEDPI Development Finance, Inc.

Statement of Financial Position
As at December 31, 2017
(With comparative figures as at December 31, 2016)
(All amounts in Philippine Peso)

	Notes	2017	2016
ASSETS			
Current assets			
Cash	2	15,030,975	56,472,297
Loans and receivables, net	3	46,456,234	158,442,053
Financial assets at fair value through profit or loss	4	482,763	494,179
Other current assets	5	3,657,414	252,366
Total current assets		65,627,386	215,660,895
Non-current assets			
Loans and receivables, net	3	77,958,852	77,958,852
Property and equipment, net	6	18,149,743	17,369,189
Investment in an associate	9	16,976,111	15,312,542
Investment properties	7	10,688,000	10,193,000
Deferred tax asset, net	14	1,579,404	2,330,811
Other non-current assets	8	8,972,948	900,000
Total non-current assets		134,325,058	124,064,394
Total assets		199,952,444	339,725,289
LIABILITIES AND EQUITY			
Current liabilities			
Loans payable, current portion	10	99,297,087	183,485,859
Accrued expenses and other liabilities	11	5,141,132	4,950,464
Income tax payable		275,081	245,124
Total current liabilities		104,713,300	188,681,447
Non-current liability			
Loans payable, non-current portion	10	26,755,476	75,525,252
Total liabilities		131,468,776	264,206,699
Equity			
Share capital	12	64,784,589	65,446,389
Share premium		164,434	24,678
Retained earnings	12	3,222,994	9,983,826
Share in remeasurement of retirement benefit obligation of an associate	9	311,651	63,697
Total equity		68,483,668	75,518,590
Total liabilities and equity		199,952,444	339,725,289

(The notes on pages 1 to 30 are integral part of these financial statements)

SEDPI Development Finance, Inc.

Statement of Comprehensive Income
For the year ended December 31, 2017
(With comparative figures for the year ended December 31, 2016)
(All amounts in Philippine Peso)

	Notes	2017	2016
Income			
Interest income	2,3	29,065,542	22,096,684
Interest expense	10	11,523,185	11,926,143
Net interest income		17,542,357	10,170,541
Other income (loss), net			
Fair value gain on investment property	7	495,000	935,394
Recovery of impairment of property and equipment	6	435,000	-
Loss on financial assets at fair value through profit or loss	4	(11,416)	-
Rental income	13	1,096,016	488,826
Miscellaneous		(177,348)	184,167
		1,837,252	1,608,387
Operating income		19,379,609	11,778,928
Operating expenses			
Provision for impairment losses	3,6	5,371,357	6,909,049
Compensation and other benefits		4,589,804	2,293,562
Taxes and licenses		2,313,322	2,364,145
Professional fees		2,151,660	628,640
Depreciation and amortization	6,8	1,110,735	872,121
Rental, light and power	13	689,838	184,233
Marketing and representation		261,229	393,844
Insurance		74,976	-
Entertainment, amusement and recreation		4,802	68,426
Day 1 loss on loans and receivables	3	-	954,003
Miscellaneous		1,841,456	1,191,356
		18,409,179	15,859,379
Income (loss) before share in net income of an associate		970,430	(4,080,451)
Share in net income of an associate	9	1,415,615	2,946,238
Income (loss) before income tax		2,386,045	(1,134,213)
Provision for (benefit from) income tax	14	1,127,136	(1,156,117)
Net income for the year		1,258,909	21,904
Other comprehensive income			
Item that will not be recycled to profit or loss in subsequent periods:			
Share in remeasurement gains of the net defined liability of an associate		247,954	113,437
Total comprehensive income for the year		1,506,863	135,341

(The notes on pages 1 to 30 are integral part of these financial statements)

SEDPI Development Finance, Inc.

Statement of Changes in Equity
For the year ended December 31, 2017
(With comparative figures for the year ended December 31, 2016)
(All amounts in Philippine Peso)

	Common stock (Note 12)	Preferred stock (Note 12)	Total share capital (Note 12)	Additional paid-in capital	Retained earnings (Note 12)	Other comprehensive income (loss) (Note 9)	Total equity
Balances at January 1, 2016	26,255,189	30,768,000	57,023,189	24,659	13,502,149	(49,740)	70,500,257
Comprehensive income							
Net income for the year	-	-	-	-	21,904	-	21,904
Other comprehensive income	-	-	-	-	-	113,437	113,437
Total comprehensive income for the year	-	-	-	-	21,904	113,437	135,341
Transactions with owners							
Issuance of shares	-	10,404,400	10,404,400	39	-	-	10,404,439
Redemption of shares	-	(5,521,400)	(5,521,400)	(47)	-	-	(5,521,447)
Stock dividends declaration	-	3,540,200	3,540,200	27	(3,540,227)	-	-
Total transactions with owners	-	8,423,200	8,423,200	19	(3,540,227)	-	4,882,992
Balances at December 31, 2016	26,255,189	39,191,200	65,446,389	24,678	9,983,826	63,697	75,518,590
Comprehensive income							
Net income for the year	-	-	-	-	1,258,909	-	1,258,909
Other comprehensive income	-	-	-	-	-	247,954	247,954
Total comprehensive income for the year	-	-	-	-	1,258,909	247,954	1,506,863
Transactions with owners							
Issuance of shares	-	6,037,000	6,037,000	169	-	-	6,037,169
Redemption of shares	-	(8,578,800)	(8,578,800)	(154)	-	-	(8,578,954)
Stock dividends declaration	-	1,880,000	1,880,000	139,741	(2,019,741)	-	-
Cash dividends	-	-	-	-	(6,000,000)	-	(6,000,000)
Total transactions with owners	-	(661,800)	(661,800)	139,756	(8,019,741)	-	(8,541,785)
Balances at December 31, 2017	26,255,189	38,529,400	64,784,589	164,434	3,222,994	311,651	68,483,668

(The notes on pages 1 to 30 are integral part of these financial statements)

SEDPI Development Finance, Inc.

Statement of Cash Flows
For the year ended December 31, 2017
(With comparative figures for the year ended December 31, 2016)
(All amounts in Philippine Peso)

	Notes	2017	2016
Cash flows from operating activities			
Income (loss) before income tax		2,386,045	(1,134,213)
Adjustments for:			
Provision for credit and impairment losses	3,6	5,371,357	6,909,049
Day 1 loss on loans and receivables	3	-	954,003
Loss on financial assets at fair value through profit or loss		11,416	-
Fair value gain on investment property	7	(495,000)	(935,394)
Recovery of impairment of property and equipment		(435,000)	-
Depreciation and amortization	6,8	1,110,735	872,121
Interest income	2,3	(29,065,542)	(22,096,684)
Interest expense	10	11,523,185	11,926,143
Unrealized foreign exchange (gain)		281,081	(7,504)
Share in net income of an associate	9	(1,415,615)	(2,946,238)
Operating loss before working capital changes		(10,727,338)	(6,458,717)
Decrease (increase) in:			
Loans and receivables	3,15,17	106,061,492	(29,280,363)
Other current assets	5	(3,405,048)	(688,368)
Other non-current assets	8	(653,781)	-
Increase (decrease) in accrued expenses and other liabilities	11	244,472	286,452
Net cash from (used in) operations		91,519,797	(36,140,996)
Interest received		29,618,512	21,806,064
Interest paid		(11,576,989)	(11,964,929)
Income taxes paid		(345,772)	(66,227)
Net cash from (used in) operating activities		109,215,548	(26,366,088)
Cash flows from investing activities			
Acquisitions of property and equipment	6	(1,375,456)	(431,405)
Acquisitions of investment property	7	-	(724,596)
Dividends received	9	-	983,451
Acquisitions of available-for-sale financial asset		(7,500,000)	-
Net cash used in investing activities		(8,875,456)	(172,550)
Cash flows from financing activities			
Availment of loans payable		68,598,700	175,768,486
Settlement of loans payable		(201,557,248)	(105,179,193)
Issuance of preferred shares	12,15	6,037,169	10,404,439
Redemption of preferred shares	12	(8,578,954)	(5,521,447)
Cash dividends declared	12	(6,000,000)	-
Net cash (used in) from financing activities		(141,500,333)	75,472,285
Net (decrease) increase in cash		(41,160,241)	48,933,647
Cash at beginning of year		56,472,297	7,531,146
Net effect of foreign exchange differences		(281,081)	7,504
Cash at end of year		15,030,975	56,472,297

(The notes on pages 1 to 30 are integral part of these financial statements)

SEDPI Development Finance, Inc.

Notes to Financial Statements
As at and for the year ended December 31, 2017
(With comparative figures as at and for the year ended December 31, 2016)
(All amounts in Philippine Peso)

Note 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 owned by various Filipino individuals and it 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.

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.

Its registered office address is located at Unit 303, Loyola Heights Condominium, 23 Dela Rosa Street, Loyola Heights, Quezon City.

These financial statements have been approved and authorized for issuance by the Board of Directors on April 30, 2018.

Note 2 - Cash

Details of the account as at December 31 follow:

	2017	2016
Cash on hand	1,034,356	612,309
Cash in banks	13,996,619	55,859,988
	15,030,975	56,472,297

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 2017 and 2016.

One of the Company's savings account with an account balance as at December 31, 2017 of P0.90 million (2016 - P0.90 million) is pledged as security for an external borrowings (Note 10).

Interest income earned from cash in banks in 2017 and 2016 amounted to P0.03 million.

Note 3 - Loans and receivables, net

The account as at December 31 consists of:

	Note	2017	2016
Current			
Receivables from customers			
Corporate		19,715,409	127,108,762
Individual		6,119,693	6,967,215
		25,835,102	134,075,977
Other receivables			
Accrued interest receivable		583,309	1,136,279
Due from related parties	15	20,700,414	26,130,200
Accounts receivable		1,922,201	694,051
		23,205,924	27,960,530
		49,041,026	162,036,507
Unamortized discount		(367,301)	(367,300)
Allowance for credit losses		(2,217,491)	(3,227,154)
		46,456,234	158,442,053

	2017	2016
Non-current		
Receivables from customers		
Corporate	55,453,936	56,212,076
Individual	22,791,428	22,791,428
	78,245,364	79,003,504
Unamortized discount	(286,512)	(286,512)
Allowance for credit losses	-	(758,140)
	77,958,852	77,958,852

The movements in allowance for impairment for the years ended December 31 follow:

December 31, 2017	Corporate	Individual	Total
Beginning	2,305,892	1,679,403	3,985,295
Provision	5,357,357	14,000	5,371,357
Write-offs	(6,470,676)	(668,485)	(7,139,161)
End	1,192,573	1,024,918	2,217,491
Individual impairment	809,280	888,636	1,697,916
Collective impairment	383,293	136,282	519,575
	1,192,573	1,024,918	2,217,491

December 31, 2016	Corporate	Individual	Total
Beginning	3,569,248	2,244,412	5,813,660
Provision	6,454,413	(430,009)	6,024,404
Write-offs	(7,717,770)	(135,000)	(7,852,770)
End	2,305,891	1,679,403	3,985,294
Individual impairment	479,280	1,430,886	1,910,166
Collective impairment	1,826,611	248,517	2,075,128
	2,305,891	1,679,403	3,985,294

Write-off of outstanding receivables as at December 31, 2017 amounting to P7,139,161 (2016 - P7,852,770) pertain to loan receivable which is considered to be unrecoverable.

Receivables from customers as at December 31, 2017 bear annual effective interest rates ranging from 0.00% to 24.00% (2016 - 3.00% to 24.00%).

As at December 31, 2017 and 2016, the Company's receivables from customers were pledged as collaterals for loans with BPI, LBP, DBP and UBP (Note 12).

Interest income from loans and receivables in 2017 amounts to P29.03 million (2016 - P22.07 million).

Note 4 - Financial assets at fair value through profit or loss

The movements in financial assets at fair value through profit or loss follow:

	2017	2016
Beginning of year	494,179	494,179
Fair value adjustment	(11,416)	-
End of year	482,763	494,179

This pertains to the 5,000 (P100 par) SEC-registered unsecured fixed rate peso seven-year retail bonds that are listed in Philippine Dealing and Exchange Corp. (PDEx) which will mature on September 2, 2021.

Note 5 - Other current assets

The account mainly pertains to prepaid rent and prepaid insurance.

Note 6 - Property and equipment, net

The account as at December 31 consists of:

	Transportation Equipment	Construction in-progress	Computer and office equipment	Buildings and land improvements	Land	Total
Cost						
January 1, 2016	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	-	(2,412,500)	-	-	-	(2,412,500)
December 31, 2016	1,200,000	-	963,928	13,331,257	4,944,645	20,439,830
Additions	926,900	-	429,318	19,238	-	1,375,456
December 31, 2017	2,126,900	-	1,393,246	13,350,495	4,944,645	21,815,286
Accumulated depreciation						
January 1, 2016	80,000	-	349,075	950,800	-	1,379,875
Depreciation	240,000	-	249,795	382,326	-	872,121
Retirement	-	-	(66,000)	-	-	(66,000)
December 31, 2016	320,000	-	532,870	1,333,126	-	2,185,996
Depreciation	297,383	-	227,249	505,270	-	1,029,902
December 31, 2017	617,383	-	760,119	1,838,396	-	3,215,898
Accumulated impairment						
January 1, 2016	-	-	-	-	-	-
Impairment loss	-	-	-	-	884,645	884,645
December 31, 2016	-	-	-	-	884,645	884,645
Impairment loss	-	-	-	-	-	-
Reversal of impairment	-	-	-	-	(435,000)	(435,000)
December 31, 2017	-	-	-	-	449,645	449,645
Net book values at						
December 31, 2016	880,000	-	431,058	11,998,131	4,060,000	17,369,189
December 31, 2017	1,509,517	-	633,127	11,512,099	4,495,000	18,149,743

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 P2.41 million was reclassified as investment property. As at December 31, 2016, all available units were under lease to third parties (Notes 7 and 13).

Fully depreciated property and equipment that are still in use by the Company as at December 31, 2017 amounted to P0.07 million (2016 - P0.07 million).

Note 7 - Investment properties

The Company's investment properties located in Maddela, Quirino and Sampaloc, Manila include parcels of land and buildings held for lease to third parties. Movements in this account are as follows:

	Note	Land	Building	Total
At January 1, 2016		4,957,613	1,162,897	6,120,510
Additions		-	724,596	724,596
Fair value gain, net		82,387	853,007	935,394
Reclassification	6	-	2,412,500	2,412,500
At December 31, 2016		5,040,000	5,153,000	10,193,000
Fair value gain, net		540,000	(45,000)	495,000
At December 31, 2017		5,580,000	5,108,000	10,688,000

In 2016, the Company reclassified its completed building in Maddela, Quirino amounting to P2.41 million from construction in-progress under property and equipment to investment property (Note 6).

The fair value of investment properties were determined based on valuations made by an independent external appraiser for the year ended December 31, 2017 and 2016. 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. The fair value measurement has been categorized as Level 3. The current use of these properties is their highest and best use.

The valuation techniques and unobservable key inputs used to value investment properties are:

Account	Valuation technique	Significant unobservable inputs	Range
Investment properties	Market data approach	Price per square meter	₱5,000 to ₱30,000
		Size	60 to 290 square meter
		Time element	Sales from years 2008 to 2016

Rental income on the investment properties in 2017 amounted to P1.10 million (2016 - P0.49 million) (Note 13).

Direct costs incurred on these leases pertain to real property taxes amounting to P0.04 million for the year ended December 31, 2017 and 2016 which are presented under Taxes and licenses in the statement of comprehensive income.

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

	Change in assumption	2017		2016	
		Residential	Commercial	Residential	Commercial
Estimated market value per	+10%	668,800	400,000	619,308	400,000
square meter	-10%	(668,800)	(400,000)	(619,308)	(400,000)

Note 8 - Other non-current assets

Other non-current assets as at December 31 consists of:

	2017	2016
Available-for-sale (AFS) financial assets	7,500,000	-
Restricted cash in bank	900,000	900,000
Others	572,948	-
	8,972,948	900,000

AFS financial assets acquired in 2017 pertains to investments in various cooperative entities held in trust of the Company's major shareholder. The investment is stated at cost as they have no available market references and their fair values cannot be determined using valuation techniques.

Restricted cash in bank is held by the Development Bank of the Philippines as deposit hold-out to secure the Company's loans payable (Note 10).

Others mainly pertain to computer software acquired in 2017. Amortization of software in 2017 amounted to P0.08 million (2016 - nil).

Note 9 - Investment in an associate

The account as at December 31 consists of:

	2017	2016
Acquisition cost	5,865,389	5,865,389
Accumulated equity in net earnings		
At January 1	9,383,456	7,420,669
Share in net income for the year	1,415,615	2,946,238
Dividends received	-	(983,451)
At December 31	10,799,071	9,383,456
Share in other comprehensive loss		
At January 1	63,697	(49,740)
Share in remeasurements of the net defined benefit liability during the year	247,954	113,437
At December 31	311,651	63,697
	16,976,111	15,312,542

Investment in an associate comprises of unquoted shares of ARDCI Bank, Inc. ARDCI Bank, Inc., is a microfinance-oriented rural bank offering financial products and services to poor and low-income households and micro-enterprises. Its principal place of business is at Ground Floor ARDCI Corporate Bldg., San Roque, Virac, Catanduanes.

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 P5.86 million.

The Company accounts for its investment in ARDCI Bank, Inc. as an associate since November 24, 2013. It holds 19.68% of the issued share capital and holds one out of five board seats providing it the ability to exercise significant influence over the investment due to its voting power.

The following table illustrates the summarized financial information of ARDCI Bank, Inc. as at and for the years ended December 31 follow:

	2017	2016
Assets	163,639,464	157,567,827
Liabilities	76,567,983	76,109,057
Revenues	32,925,676	38,526,644
Total comprehensive income	5,612,711	15,547,126

As at reporting dates, there are no indicators of impairment on the Company's investment in ARDCI Bank, Inc.

Note 10 - Loans payable

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

	Interest rate	Terms	Collateral
Bank of the Philippine Islands	6.50%	1 year	2,925,000
Landbank of the Philippines	5.50% to 5.85%	1 month to 5 years	-
Development Bank of the Philippines	5.25%	1 month to 2 years	900,000
Union Bank of the Philippines	7% to 8%	1 year	-

The loans are secured by assigned receivables from customers that are outstanding as at reporting dates (Note 3). Loans payable to BPI is also secured with a negative pledge on the Company's condominium unit as at reporting dates (Note 6). As at December 31, 2017, the loans payable to DBP is secured by savings account amounting to P0.90 million (Note 4). The foregoing restrictions will expire upon maturity of the related loans.

The current and non-current portion of these loans are as follows:

	2017		2016	
	Current	Non-current	Current	Non-current
Bank of the Philippine Islands	15,500,000	-	60,000,000	-
Landbank of the Philippines	65,047,087	21,755,476	78,485,859	60,525,252
Development Bank of the Philippines	18,750,000	5,000,000	15,000,000	15,000,000
Union Bank of the Philippines	-	-	30,000,000	-
	99,297,087	26,755,476	183,485,859	75,525,252

Interest expense on loans payable in 2017 amounted to P11.52 million (2016 - P11.93 million). Details of movements in borrowings are as follows:

	2017	2016
Beginning of year	259,011,111	188,421,818
Proceeds from borrowings	68,598,700	175,768,486
Payments of borrowings	(201,557,248)	(105,179,193)
End of year	126,052,563	259,011,111

Note 11 - Accrued expenses and other liabilities

Accrued expenses and other liabilities as at December 31 consists of:

	2017	2016
Accounts payable	1,470,333	990,474
Accrued expenses	1,586,712	1,804,152
Interest payable	964,083	1,017,887
Dividends payable	478,963	553,579
Other payables	641,041	584,372
	5,141,132	4,950,464

Accounts payable comprise mainly of obligations to third party vendors and are normally settled within the next financial year.

Accrued expenses consist mainly of accruals for professional fees, rent and utilities.

Others mainly pertain to withholding tax payable, liability for advance rent and security deposit.

Note 12 - Equity

Details of the Company's share capital follow:

	2017		2016	
	Number of shares	Amount	Number of shares	Amount
Ordinary shares (515,000 authorized shares at P200 par value)				
Issued and outstanding, beginning	61,332	12,266,314	61,332	12,266,314
Issuances	-	-	-	-
Stock dividends	-	-	-	-
Issued and outstanding, end	61,332	12,266,314	61,332	12,266,314
Subscribed shares	212,500	42,500,000	212,500	42,500,000
Less subscription receivable	-	(28,511,125)	-	(28,511,125)
Subscribed and paid	212,500	13,988,875	212,500	13,988,875
Total	273,832	26,255,189	273,832	26,255,189
Preferred shares (375,000 authorized shares at P200 par value)				
Issued and outstanding, beginning	195,956	39,191,200	153,840	30,768,000
Issuances	30,185	6,037,000	52,022	10,404,400
Redemptions	(42,894)	(8,578,800)	(27,607)	(5,521,400)
Stock dividends	9,400	1,880,000	17,701	3,540,200
Issued and outstanding, end	192,647	38,529,400	195,956	39,191,200

The Company's preferred shares are nonvoting, cumulative, nonconvertible and nonparticipating.

There are no cumulative dividends on preferred shares in 2017 and 2016.

Details of dividends declared are as follows:

Type	Date of declaration	Shareholders of record as at	Dividend per share	Total dividends
Stock dividend on preferred shares	April 11, 2016	December 31, 2015	11.25	1,730,000
Stock dividend on preferred shares	December 15, 2016	December 31, 2016	10.15	1,810,200
Stock dividend on preferred shares	December 31, 2017	December 31, 2017	10.26	1,880,000
Cash dividends on common shares	December 31, 2017	December 31, 2017	97.83	6,000,000

Note 13 - Leases

Company as lessor

The Company has various 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 1 to 30 years with an annual escalation rate of 5.0%.

Rental income in 2017 amounted to P1.1 million (2016 - P0.49 million).

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 10 years.

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

Rental expense included in Rental, light and power in 2017 amounts to P0.58 million (2016 - P0.13 million).

Note 14 - Income taxes

Income tax expense for the years ended December 31 consists of:

	2017	2016
Current	375,729	251,455
Deferred	751,407	(1,407,572)
	1,127,136	(1,156,117)

The Company's net deferred tax assets consist of:

	2017	2016
Deferred tax assets		
Allowance for credit and impairment losses	1,195,160	1,283,527
Accrued other expenses	453,265	341,360
Unrealized foreign exchange loss	84,324	-
Minimum corporate income tax (MCIT)	402,848	514,753
Net operating loss carry-over (NOLCO)	-	474,040
	2,135,597	2,613,680
Deferred tax liabilities		
Change in fair value of investment property	425,693	280,618
Gain on reversal of impairment	130,500	-
Unrealized foreign exchange gain	-	2,251
	556,193	282,869
	1,579,404	2,330,811

Details of the Company's NOLCO are as follows:

Year of Incurrence	Year of Expiry	2017	2016
2016	2019	1,580,132	1,580,132
Applied during the year		(1,580,132)	-
		-	1,580,132
Deferred tax asset at 30%		-	474,040

Details of the Company's MCIT are as follows:

Year of Incurrence	Year of Expiry	2017	2016
2016	2019	245,124	245,124
2015	2018	157,724	157,724
2014	2017	-	111,905
Deferred tax asset		402,848	514,753

The reconciliation between the statutory and effective income tax follows:

	2017	2016
Statutory income tax (30%)	715,814	(340,264)
Tax effects of:		
Interest income subjected to final tax	(3,124)	(3,165)
Non-taxable income	(424,685)	(883,871)
Non-deductible expenses	839,131	1,448,587
Others	-	(1,377,404)
Effective income tax	1,127,136	(1,156,117)

Note 15 - Related party transactions

The following significant transactions and balances are carried out with related parties:

Due from related parties	2017		2016		
	Transactions	Outstanding receivable	Transactions	Outstanding receivable	Terms and conditions
Reimbursements					
Shareholders	6,737,301	5,717,685	770,950	12,454,986	All outstanding balances are unguaranteed, unsecured, non-interest bearing and collectible in cash at gross amount upon demand, but not later than 12 months after reporting period.
Entities under common control	1,307,515	14,982,729	1,089,256	13,675,214	
	8,044,816	20,700,414	1,860,206	26,130,200	

The Company has a reimbursement arrangement with entities under common control, whereby the Company advances the payment of certain expenses which are billed at cost to the related party.

Note 16 - Critical accounting estimates, assumptions and judgments

Estimates, assumptions and judgments 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 makes estimates, assumptions and judgments concerning the future. The resulting accounting estimates will, by definition seldom equal the related actual results. The estimates and assumptions applied by the Company and which may cause adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

16.1 Critical accounting estimates and assumptions

(a) Credit losses of loans and receivables

The Company reviews its loan portfolios and receivables at each reporting date to assess whether a provision for credit losses should be recorded in profit or loss. 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 18. The carrying amounts of the Company's loans and receivables and allowance for credit losses are disclosed in Note 3.

(b) 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 7.

16.2 Critical judgments

(a) Impairment of property and equipment

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

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

The Company recognizes an impairment loss whenever the carrying amount of an item of property and equipment 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.

Management believes, based on its judgment and assessment, that there are no impairment indicators or changes in circumstances that would render impairment on the carrying value of its property and equipment.

The carrying values of the Company's property and equipment are disclosed in Note 6.

(b) Impairment of investment in an associate

Investment in an associate is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In assessing whether there is any indication that the Company's investment in an associate is impaired, management considers both external and internal sources of information such as significant changes with adverse effect on the subsidiary that have taken place during the period, or will take place in the near future such as plans to discontinue or restructure the operation of the associate, the carrying amount of the net assets of the associate is more than its market capitalization, or there is continuing operating losses and decline in cash flows from the operating activities of the associate.

No impairment loss was recognized in 2017 and 2016 for its investment in associate.

The Company's investment in an associate is disclosed in Note 9.

(c) Determination of current income taxes

Significant judgment is required in determining the recorded income tax expense in the statement of comprehensive income. There are many transactions and calculations for which the ultimate tax determination is uncertain in the ordinary course of business. The Company recognizes liabilities for anticipated tax assessment issues when it is probable. The liabilities are based on judgment of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the Company's income tax and deferred income tax provisions in the period in which such determination is made.

(d) Recognition of deferred tax asset

Deferred tax asset is recognized for all unused tax losses to the extent that it is probable that future taxable income will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The Company's deferred tax assets are disclosed in Note 14.

Note 17 - Financial risk and capital management

The main risks arising from the Company's financial instruments are credit risk and liquidity risk. The Company assessed that its exposure to equity price risk, currency risk and interest rate risk is minimal. Its equity instruments have no available market price references and are stated at cost, while its foreign-currency denominated assets and debt securities are insignificant.

17.1 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.

The details of the Company's financial assets subject to credit risk as at December 31 are as follows:

	Notes	2017	2016
Cash in bank	2	13,996,619	55,859,988
Loans and receivables, net		127,286,390	241,040,011
Financial assets at fair value through profit or loss		482,763	494,179
Other assets		10,000	10,000
		141,775,772	297,404,178

The Company does not hold any collateral as a security for these financial assets.

The maximum exposure to credit risk at reporting date approximates the carrying value of financial assets as shown in the statement of financial position.

(a) Cash in bank

As credit risk mitigation step, the Company maintains banking relationships only with a reputable bank which is duly approved by the Company's BOD and, by policy, limits the amount of credit exposure to such financial institution.

Cash in bank is classified as neither past due nor impaired and considered to be fully performing.

(b) Loans and receivables

The credit quality of loans and receivables is assessed by reference to historical or current collection performance of each individual account.

The details of the Company's loans and receivables subject to credit risk as at December 31 are as follows:

	2017	2016
Neither past due nor impaired	120,762,548	231,672,512
30 to 59 days past due but not impaired	3,379,619	2,036,998
60 to 89 days past due but not impaired	392,786	-
90 to 119 days past due but not impaired	140,667	2,452,525
Individually and collectively impaired	2,610,770	4,877,976
	127,286,390	241,040,011

Loans and receivables categorized as neither past due nor impaired pertain to accounts with good track record of collection. The amount is considered to be fully performing with no history or recent default or write-off. Management does not foresee significant credit risk on the outstanding balance.

Loans and receivables classified as past due but not impaired as at reporting dates consist of a number of clients with minimal history of default and did not experience any financial difficulties in the past and in the current year. These balances are determined to be fully collectible.

The individually impaired receivables mainly relate to customers which are in unexpectedly difficult economic situations and therefore has been fully provided with an allowance.

(c) Financial assets at fair value through profit or loss

As at reporting dates, financial assets at fair value through profit or loss are classified as unrated. Fair value through profit or loss investment is classified as neither past due nor impaired and considered fully performing.

(d) Other assets

Other assets as at reporting dates consist primarily of security deposits which is considered to be fully collectible at end of lease term. Other assets are classified as neither past due nor impaired and considered fully performing.

17.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due. The Company manages its liquidity by close monitoring of cash flows to ensure that optimum level of liquidity is maintained at all times sufficient to meet contractual obligations as and when they fall due. Due to the dynamic nature of the underlying business, the Company also aims to maintain flexibility by keeping committed credit lines available.

The Company monitors rolling forecasts of the Company's liquidity reserve on the basis of projected cash flows, and seeks to collect amount due from customers on a timely basis to ensure availability of funds.

The amounts disclosed in the table below are the expected undiscounted cash flows of financial liabilities, including future interest, which the Company uses to manage the inherent liquidity risk.

	2017			2016		
	Up to 1 year	1-3 years	Total	Up to 1 year	1-3 years	Total
Loans payable	103,641,867	27,599,693	131,241,560	194,028,349	78,771,940	272,800,289
Accrued expenses and other liabilities						
Accrued other expenses	1,586,712	-	1,586,712	1,804,152	-	1,804,152
Accrued interest payable	964,083	-	964,083	1,017,887	-	1,017,887
Accounts payable	1,470,333	-	1,470,333	990,474	-	990,474
Other payables	893,812	-	893,812	1,029,878	-	1,029,878
	108,556,807	27,599,693	136,156,500	198,870,740	78,771,940	277,642,680

Other payables excludes customer deposits and payable to government agencies amounting to P226,192 (2016 - P108,073).

Loans payable include scheduled interest payments of P5,188,997 (2016 - P13,789,178) until the maturity dates.

17.3 Fair value of financial instruments

Note 18 provides for a description of the accounting policies for each category of financial instrument and a description of the Company's risk management objectives and policies for financial instruments.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value.

Financial assets at fair value through profit or loss. These are carried at fair value based on prevailing market rates (Note 4) which are considered as level 1 input.

The estimated fair value of receivables from customers and loans payable represents the discounted amount of estimated future cash flows expected to be received or settled. Expected cash flows are discounted at current market rates to determine fair value, which are considered as level 3 input. Fair value estimates and the corresponding interest rate range on fair value estimation are as follows:

	Interest rate range	2017 Carrying value	2017 Fair value	2016 Carrying value	2016 Fair value
Receivables from customers	0.00 - 24.00%				
Corporate		73,976,772	73,976,772	181,814,946	204,648,709
Individual		27,886,203	27,886,203	28,079,241	33,890,999
		101,862,975	101,862,975	209,894,187	238,539,708
Loans payable	5.25% - 6.50%	126,052,563	126,052,563	259,011,111	269,610,801

All other financial instruments of the Company approximates its carrying value as at reporting dates:

- Cash. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.
- AFS financial assets. These investments are stated at cost since they have no available market price references and their fair values cannot be determined using cost.
- The carrying amounts of other financial instruments which have no definite repayment dates are assumed to be their fair values.

In 2017 and 2016, 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.

17.4 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.

The SEC requires at least 40% of the voting stock of secondary licensees operating as financing companies to be owned by the citizens of the Philippines and a minimum paid-up capital of P10 million. Additional capital is required for each branch of P1.00 million for branches established in Metro Manila, P0.50 million for branches in other classes of cities and P0.25 million for branches established in municipalities. As at December 31, 2017 and 2016, the Company was in compliance with the above mentioned regulations.

Note 18 - Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

18.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

These financial statements have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and investment properties which are carried at fair value.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the financial statements therefore fairly present the financial position and results of the Company. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 16.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Company

The following amendments have been adopted by the Company effective January 1, 2017:

- Amendments to PAS 12, Recognition of deferred tax assets for unrealized losses
- Amendments to PAS 7, Disclosure initiative
- Amendment to PFRS 12, Clarification on the scope of the standard

The adoption of the above amendments did not have a material impact on the financial statements of the Company.

(b) New standards, amendments and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective January 1, 2018, and have not been applied in preparing these financial statements. The relevant standards affecting the Company's financial statements are set out below:

- PFRS 9, *Financial Instruments* (effective January 1, 2018). 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 and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. Assessment of the more detailed impact on classification, measurement and ECL provisioning is currently underway.

- PFRS 15, *Revenue from Contracts with Customers* (effective January 1, 2018). 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, 2020. Based on the initial assessment of management, the standard is not expected to have a significant impact on the Company's financial statements.

- PFRS 16, *Leases* (effective January 1, 2019). 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. Based on the initial assessment of management, the standard will result in the recognition of right of use asset and present value of its lease obligation on leases in the statement of financial position. A more detailed impact assessment, is likewise underway.

There are no other standards, amendments or interpretations that are effective beginning January 1, 2018 that are expected to have a material impact on the Company's financial statements.

18.2 Cash

Cash includes cash in banks and cash on hand. Cash in banks are stated at face amount and earns interest at the prevailing bank deposit rate.

18.3 Financial assets

18.3.1 Classification

The Company classifies its financial assets in the following categories: (i) loans and receivables; (ii) AFS securities; (iii) held-to-maturity securities; and (iv) at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Company does not hold any financial assets under category (iii) as at each reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments: (i) that are not quoted in an active market, (ii) with no intention of being traded, and (iii) that are not designated as AFS. They are included in current assets, except for those with maturities greater than 12 months after the reporting period, which are then classified as non-current assets.

The Company's loans and receivables consist of cash in banks (Note 2), loans and receivables (Note 3) and restricted cash in bank which are included within other non-assets (Note 8).

AFS financial assets

AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. AFS financial assets pertain to the Company's investments in various cooperative entities held in trust by its major shareholder (Note 8).

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. The Company's financial assets at fair value through profit or loss are designated as such at inception.

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial assets held for trading (other than derivatives) are shown as financial assets at fair value through profit or loss in the statement of financial position.

18.3.2 Recognition and measurement

Loans and receivables

Loans and receivables are recognized when the Company becomes a party to the contractual provisions of the instrument. Loans and receivables are initially measured at fair value plus transaction costs and subsequently measured at amortized cost using the effective interest method, less any provision for impairment.

AFS financial assets

Regular-way purchases and sales of AFS financial assets are recognized on trade date, the date on which the Company commits to purchase or sell the asset. AFS financial assets are initially recognized at fair value plus transaction costs. AFS financial assets are subsequently carried at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in profit or loss. If the fair value cannot be measured reliably, these are carried at cost, net of impairment losses if any.

Financial assets at fair value through profit or loss

Regular-way purchases and sales of financial assets at fair value through profit or loss are recognized on trade date, the date on which the Company commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognized at fair value; and transaction costs are recognized in profit or loss. Financial assets at fair value through profit or loss are subsequently carried at fair value.

18.3.3 Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Company tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

18.3.4 Impairment

The Company first assesses whether there is an objective evidence of impairment that exists individually for receivables which are individually significant, and collectively for receivables which are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed receivable, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The criteria that the Company uses to determine if there is an objective evidence of impairment loss include:

- Significant financial difficulty of the debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Company, for economic or legal reasons relating to the debtor's financial difficulty, grants to the debtor a concession that the Company would not otherwise consider;
- It becomes probable that the debtor will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate of receivables. The calculation of recoverable amount of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable. The carrying amount of receivables is reduced through the use of an allowance account and the amount of loss is charged to profit or loss.

When receivables are determined to be uncollectible, it is written off against the related provision for impairment. Such receivables are written off after all the necessary procedures have been completed and the amount of loss has been determined.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of previously recognized impairment loss is recognized in profit or loss. Reversals of previously recorded impairment provision are based on the result of management's update assessment, considering the available facts and changes in circumstances, including but not limited to results of recent discussions and arrangements entered into with a client or other third party as to the recoverability of receivables at the end of the reporting period. Subsequent recoveries of amounts previously written-off are credited in profit or loss.

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 effective interest rate. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized under Provision for credit losses in the statement of comprehensive income.

18.4 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

The Company has financial assets at fair value through profit or loss which are carried at fair value as at December 31, 2017 and 2016. The fair value of financial assets at fair value through profit or loss fall under Level 1 of the fair value hierarchy.

The Company holds no other financial instruments that are carried or subsequently measured at fair value in 2017 and 2016.

Non-financial assets or liabilities

The Company uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- *Market approach* - A valuation technique that uses observable inputs, such as prices, broker quotes and other relevant information generated by market transactions involving identical or comparable assets or group of assets.

- *Income approach* - A valuation technique that converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

- *Cost approach* - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The fair values are determined in reference to observable market inputs reflecting orderly transactions, i.e., market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions.

External appraisers are involved for valuation of significant non-financial assets, such as investment properties.

The fair value disclosure of the Company’s investment properties fall under Level 3 of the fair value hierarchy. The Company has no non-financial assets or liabilities classified under Level 2 as at December 31, 2017 and 2016.

18.5 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

The Company does not have financial assets and liabilities that are covered by enforceable master netting agreements and other similar agreements at December 31, 2017 and 2016.

18.6 Property and equipment

Land is stated at cost less any accumulated impairment in value. 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 lives of the depreciable assets.

The estimated useful lives of property and equipment of the Company are as follows:

Buildings and land improvements	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' estimated useful lives.

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.

18.7 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. 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 associate.

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.

18.8 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 reporting 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.

18.9 Prepayments and other non-financial assets

Prepayments are recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. Prepayments are initially measured at nominal amounts, which are equal to the amount of cash paid. These are derecognized upon delivery of goods or when services have been rendered, through amortization over a certain period of time, and use or consumption.

Prepayments and other non-financial assets are included in current assets, except when the related benefits are expected to be received more than 12 months after the reporting period, which are then classified as non-current assets.

18.10 Impairment of non-financial assets

Assets that have definite useful life, particularly property and equipment, investment properties and intangible assets are subject to depreciation and amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. At each reporting date, the Company assesses whether there is any indication that its non-financial 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 reporting 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.

18.11 Borrowings and borrowing costs

The Company's borrowings consist mainly of loans payable. Borrowings are recognized initially at fair value, being their issue proceeds, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between proceeds (net of transaction costs) and the redemption value is recognized as interest and borrowing charges in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred. The Company has no qualifying assets as at December 31, 2017 and 2016.

18.12 Other liabilities

Other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Company is established.

18.13 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in provision due to the passage of time is recognized as interest expense in profit or loss.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed and derecognized in the statement of financial position.

18.14 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 'Share premium'. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Share premium'. If the share premium 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 Board of Directors of the Company. Dividends for the year that are approved after the reporting date are dealt with after the reporting date.

18.15 Income and expense 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 effective interest rate, 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 effective interest rate, but not future credit losses. The adjusted carrying amount is calculated based on the original effective interest rate. 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 effective interest rate 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.

18.16 Lease

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 rent is 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.

18.17 Employee benefits

Short-term benefits

Wages, salaries, compensated absences, bonuses, and other non-monetary benefits are recognized in the period the related services are rendered by the employees of the Company. Short-term employee benefits obligations are measured on an undiscounted basis. The Company recognizes a liability and an expense when the related service is provided.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

18.18 Income taxes

Current taxes

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are substantively enacted at the reporting 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 MCIT over the regular corporate income tax (RCIT) and unused 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 reporting 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 reporting 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 reporting 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 profit or loss.

18.19 Foreign currency transactions and translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in Philippine Peso, which is the Company's functional currency.

Transactions and balances

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

18.20 Related party transactions and relationships

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party, or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholder. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

18.21 Contingencies

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

18.22 Subsequent events (or events after the reporting date)

Post period-end events that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Post period-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Note 19 - Supplementary information required by the Bureau of Internal Revenue (BIR)

The following supplementary information, as required by Revenue Regulations No. 15-2010, is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

(i) Local and national taxes

Local and national taxes paid for the year ended December 31, 2017 consist of:

	Amount
Gross receipts tax	1,477,292
Documentary stamp taxes	440,073
License and permits fees	351,899
Real property taxes	44,058
	2,313,322

The above payments are presented in taxes and licenses under operating expenses in the statement of comprehensive income.

(ii) Withholding taxes

Expanded withholding tax paid and accrued for the year ended and as at December 31, 2017 amounts to P74,075.

Accrued withholding taxes is included within accrued expenses and other liabilities in the statement of financial position.

(iii) Tax assessments and cases

As at December 31, 2017, taxable years 2014, 2015 and 2016 remain open. As at December 31, 2017, there are no outstanding assessments and tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR.

(iv) Other information

The Company did not have transactions that are subject to value-added taxes, custom duties, tariff fees and excise taxes for the year ended December 31, 2017.

All other information required to be disclosed by the BIR has been included in this note.