

BREAKING BARRIERS

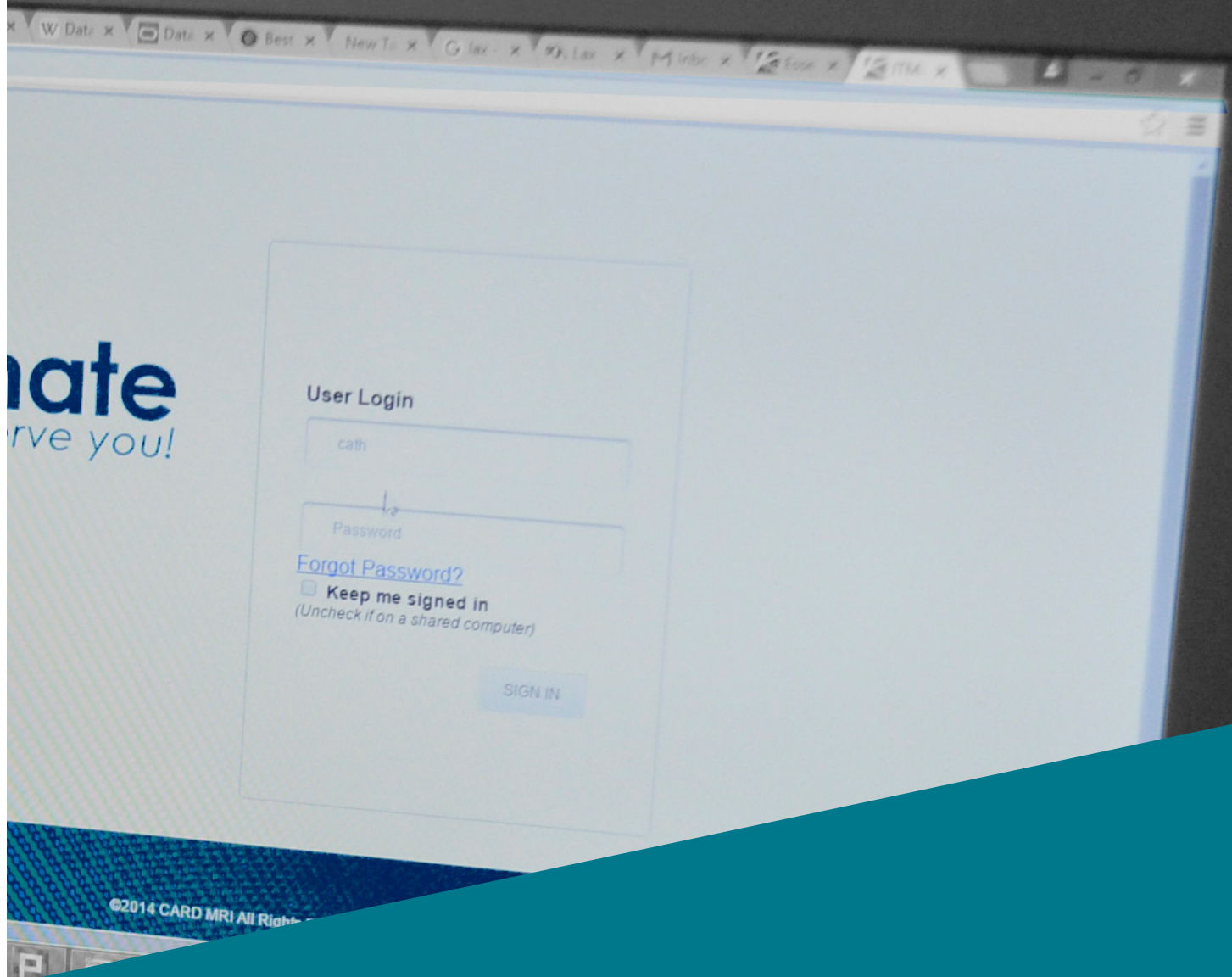
CARD MRI INFORMATION TECHNOLOGY, INC.
ANNUAL REPORT 2014





ABOUT THE COVER

ITmate is an IT service management tool that the CMIT implemented in 2014. Through this tool the, MRIs are able to submit reports about IT-related errors that they encounter during their day to day operations which the CMIT team efficiently manages and provide solutions.



VISION

A world-class IT company empowering CARD Mutually Reinforcing Institutions in improving lives of the socially-and-economically challenged people through technology solutions.

MISSION

To continuously provide proactive technology innovations and services to the growing market demands while upholding CARD MRI core values & principles of competence, family spirit, integrity, simplicity, humility, excellence and stewardship.



EMPOWERING INSTITUTIONS

Catherine Sabado, a project management staff, is among the CMIT staff that spearheaded the institution's IT service management initiatives, one of which is the ITmate.

From the beginning, empowering the MRIs has been the core of what we do. As we reflect on the barriers we broke last year, we at CMIT are grateful to be of service to the MRIs by developing technology solutions that help them break barriers of their own and get them closer to their goals.

Advancing IT service management

In 2014, one of the biggest barriers that emerged was that of managing services errors within the IT infrastructure that hinder the MRIs from providing/ executing smooth business operations. To take forward our IT service management, we improved it by implementing the Information Technology Infrastructure Library (ITIL) processes and automated it through the Kaseya Service Desk and its Web Portal User Interface or ITmate.

ITmate enables CMIT to efficiently manage incidents, service requests, problems and changes within the IT infrastructure. It also has a task monitoring feature and a knowledge base where we post the latest news and advisories.

Through ITmate's web portal, the MRIs can file tickets about an IT incident, problem, changes and service requests they have encountered or would like to be

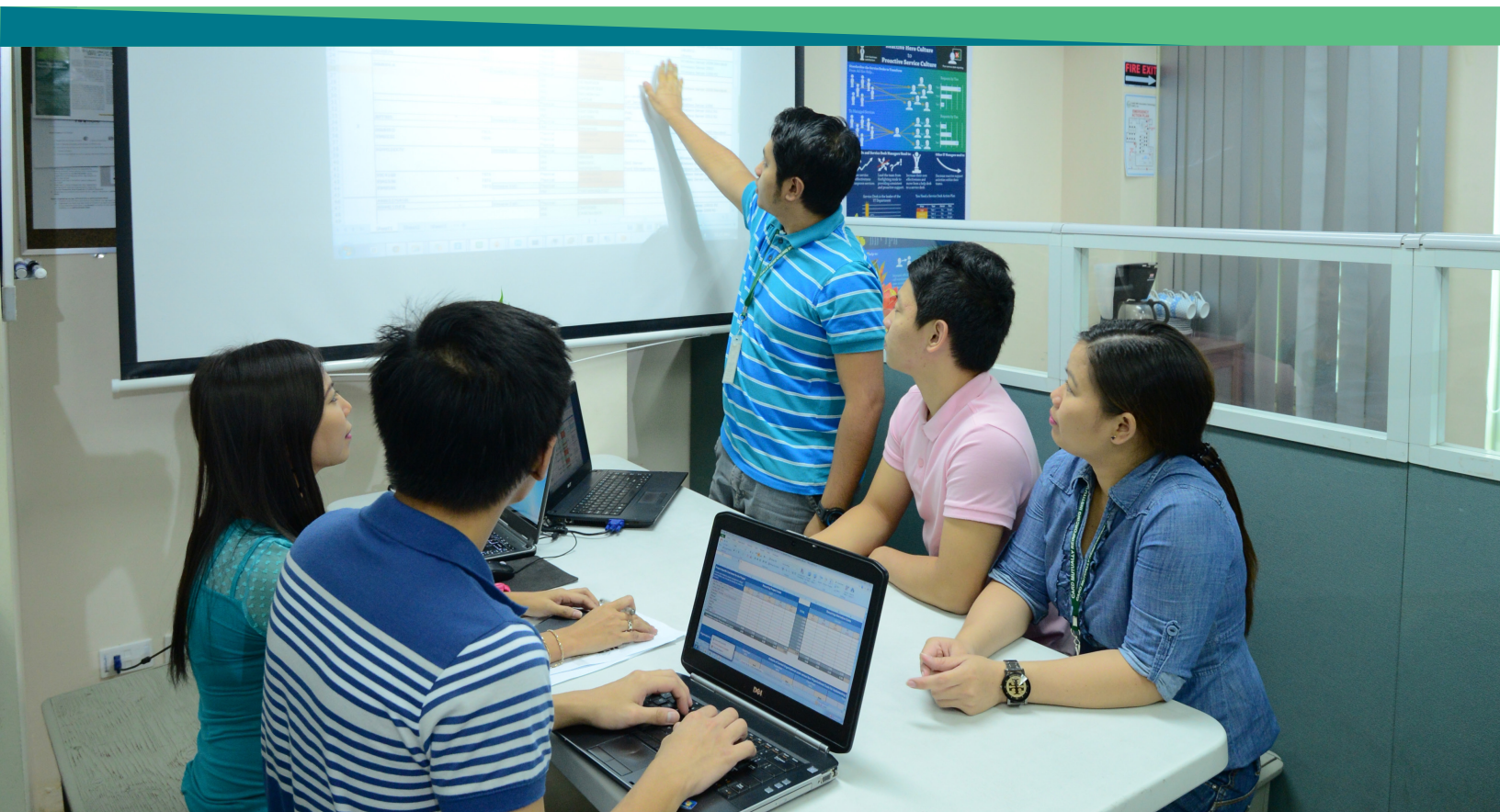
improved. We will review the submitted ticket and implement solutions or process changes to restore normal service operations as quickly as possible and improve processes.

We conducted trend analysis, targeting support action and information dissemination to the organization to minimize the severity of IT related report and prevent recurrences.

To help us further improve our IT service management, we take into account feedback from ITmate's end users who are the MRIs and its staff. Upon completion of a request, they are encouraged to take a survey to assess the handling of the request.

Working together

We always work closely with the MRIs to devise technology solutions that address their needs and bring their products and services more accessible to clients. One such solution was the pilot integration of konek2CARD, a mobile banking application for CARD Bank. The konek2CARD mobile app allows clients to carry out transactions such as balance inquiry, fund transfers, loan payments, and cash out and cash in features. Clients living far away from CARD Bank offices are able to save time and money because they





no longer need to go to the bank to complete these transactions. In addition, we continuously provide support in the deployment of CARD Bank's ATM across the country.

Other key initiatives we completed for CARD Bank is the development of the Stocks Administration System (with an outsourced IT company), Document Management System and the establishment of a Disaster Recovery Center in Mandaluyong City, which operates 24 hours to oversee system uptime and backups.

For CARD MBA, we developed the General Ledger and Refund Modules to improve their microinsurance software. The CARD MBA is the first institution of CARD MRI to have a centralized online general ledger.

The following projects were also fulfilled to support the CARD MRI community:

- Loan Origination & Monitoring System (CARD SME Bank, Inc.)
- Fund Management System (CARD, Inc.)
- Revamping of Institutional Websites

Redefining the IT Roadmap

Last year also marked the start of CMIT's journey to redefine CARD MRI's information technology roadmap. The first step of the journey was the Enterprise Architecture (EA) Workshop where an EA blueprint was devised to identify technology needs of the institutions that matches with their short-, medium- and long-term strategies.

Another key development last year was the initiation of the Core Banking System (CBS) project that is expected to bring enhanced operational efficiency, faster product development turnaround, better risk management and regulatory compliance, and scalability. The CBS project is estimated to be ready for first deployment in early 2017.

Strengthening Capacities

As part of our commitment to become world-class leaders in the field of IT, our Board of Directors



established IT policies, procedures and standards that were adopted by the MRIs. In preparation for breaking barriers that may arise in the future, the CMIT team attended the following trainings and events to further hone our skills and get updated with the latest trend in the IT industry:

- Mobile Money & Digital Payments Asia (Jakarta)
- Best Practice IT Audit and Assurance / Introduction to COBIT 5
- Enterprise Architecture Workshop
- Kaseya Certified Virtual System Administrator
- Software Testing & Software Quality Management
- Skill Standards for IT Professionals Seminar & Workshop
- IT Security Summit
- Developing Windows Communication Foundation
- 19th Graphic Expo 2014 Seminar
- softech.ph: The Philippine Software Engineering Conference
- Java training for all developers
- ISACA (Business Continuity Management Audit Seminar
- IBM XCITE 2014 (Singapore)
- Certified Business Analysis Professional (CBAP) certification training



Incoming President's Plans for 2015

Next year, we foresee the CMIT to break more barriers as we prepare to continue supporting the growth of CARD MRI. According to CMIT's incoming president, Raul S. Dizon, we are turning our primary focus on supporting their automation and business processing needs to facilitate timely decision making and meet its growing demands.

Among the projects in the pipeline include:

- Core Banking System
- CASA Implementation (CARD SME Bank)
- New E-Learning System (CMDI)
- Human Capital Information System
- Server Virtualization (CMIT)
- Disaster Recovery Center (CARD SME Bank)

The volume of ongoing and incoming projects may overwhelm the CMIT team but we believe we can avoid this barrier by collaborating with the institutions and practicing effective project prioritization. We capitalize on our strength of having young, passionate and talented team members who are eager to give their best to make things happen.

PRESIDENT'S REPORT

"By working closely with the MRIs, the CMIT continues to assess their needs and provide technology solutions to make their products and services more accessible to clients. We are grateful to be of service to them and help them break barriers of their own."

Edgar V. Cauyan
President and CEO
CARD MRI Information Technology



8,283

ITMATE TICKETS RECEIVED



99.6%

SERVICE REQUESTS
CLOSED

99.4%

INCIDENT TICKET
CLOSED

12 PROJECTS DELIVERED

14 TRAININGS

5 EVENTS



While our three offices are located in San Pablo City, Laguna, we support the IT needs of CARD MRI nationwide.

CMIT Head Office
San Pablo, Laguna



Together with these institutions and organizations that share the same mission as ours, we provide our clients with the best quality of service.

AFFILIATIONS

Philippine Software Industry Association

PARTNERS

Info-Tech Research Group (Canada)

Channel Solutions, Inc. (Philippines)

TelUPay (Philippines)

Digital Crew (Ireland)

Network Managers, Inc. (Philippines)

Information Systems Security Association (Oregon)



MANAGEMENT COMMITTEE

Edgar V. Cauyan
President and CEO

Roderick G. Mercado
Vice-President

Leyne G. De Galicia
Chief Operating Officer

Celeste B. Arceo
Chief Finance Officer

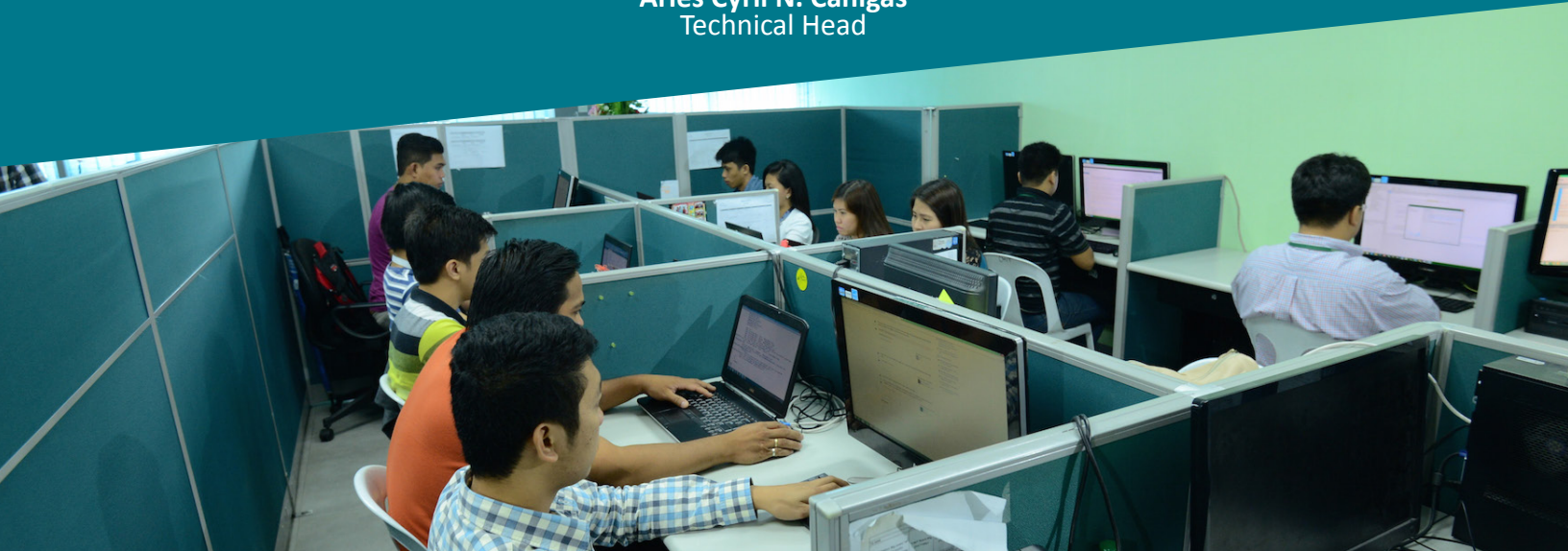
Jigger M. Caneo
Applications Architect

Ferdinand A. Ocsit
Program Manager

Alexzander B. Sanciango
Application Manager

Alden P. Arban
Compliance Officer

Aries Cyril N. Cahigas
Technical Head





Raul S. Dizon
Chairman

Edgar V. Cauyan
Vice Chairman and Director

Jocelyn Dequito
Director

Deverna Briones
Director

Armi Luz
Director

Aristeo Dequito
Director

Dr. Emmanuel Santiago
Independent Member

May Dawat
Director

Roderick Mercado
Corporate Treasurer

BOARD OF DIRECTORS



FINANCIAL STATEMENTS



CARD MRI INFORMATION TECHNOLOGY, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2014	2013
ASSETS		
Current Assets		
Cash (Note 6)	₱68,274,902	₱58,591,133
Accounts receivable (Notes 7 and 18)	589,085	17,286
Other current assets (Note 8)	1,344,588	1,932,110
Total current assets	70,208,575	60,540,529
Noncurrent Assets		
Available-for-sale investments	452,000	370,500
Property and equipment (Note 9)	3,003,933	6,942,395
Software costs (Note 10)	3,090,803	4,202,844
Retirement asset (Note 15)	3,792,934	—
Deferred tax asset (Note 17)	—	1,694,218
Total noncurrent assets	10,339,670	13,209,957
TOTAL ASSETS	₱80,548,245	₱73,750,486
LIABILITIES AND EQUITY		
Liabilities		
Current Liabilities		
Trade and other payables (Note 11)	₱5,504,498	₱13,101,739
Income tax payable	1,675,224	—
Total current liabilities	7,179,722	13,101,739
Noncurrent Liabilities		
Retirement liability (Note 15)	—	3,402,026
Deferred tax liability (Note 17)	529,788	—
Total noncurrent liabilities	529,788	3,402,026
	7,709,510	16,503,765
Equity		
Capital stock (Note 12)	53,763,158	47,898,746
Retained earnings	17,269,117	13,234,746
Remeasurement gain (loss) on retirement Benefits (Note 15)	1,806,460	(3,886,771)
	72,838,735	57,246,721
TOTAL LIABILITIES AND EQUITY	₱80,548,245	₱73,750,486

See accompanying Notes to Financial Statements.

CARD MRI INFORMATION TECHNOLOGY, INC.
STATEMENTS OF INCOME

	Years Ended December 31	
	2014	2013
INCOME		
Service income (Note 18)	₱69,625,587	₱55,941,411
Interest income (Note 6)	1,889,098	1,191,154
Dividend income (Note 18)	84,510	126,894
Miscellaneous income	9,234	43,923
	71,608,429	57,303,382
COST OF INFORMATION TECHNOLOGY SERVICES (Note 13)	22,774,941	30,013,719
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries, wages and other benefits (Notes 15 and 18)	7,210,450	3,818,732
Information technology expense	7,640,618	3,346,550
Staff training and development	2,106,932	2,888,162
Management and other professional fees	2,106,642	—
Honorarium	1,969,225	—
Seminars and meetings	1,144,623	2,356,691
Fuel and lubricants	1,539,762	1,261,792
Depreciation expense (Note 9)	1,098,165	1,222,900
Postage, telephone, cables and telegrams	1,024,429	946,269
Power, light and water	949,404	893,269
Rent expense (Note 16)	807,203	495,086
Security, messengerial and janitorial services	715,088	620,519
Taxes and licenses	600,570	54,067
Stationery and supplies used	560,896	611,682
Insurance expense	559,736	499,791
Service fee expense	326,252	65,615
Donations and charitable contributions	3,000	500
Interest expense	—	98,333
Others	467,845	1,666,346
	30,830,840	20,846,304
	53,605,781	50,860,023
INCOME BEFORE INCOME TAX	18,002,648	6,443,359
PROVISION FOR INCOME TAX (Note 17)	5,186,473	1,378,749
NET INCOME	₱12,816,175	₱5,064,610

See accompanying Notes to Financial Statements.

CARD MRI INFORMATION TECHNOLOGY, INC.**STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31	
	2014	2013
NET INCOME	₱12,816,175	₱5,064,610
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:		
Remeasurement gain (loss) on retirement plan (Note 15)	8,133,187	(1,658,526)
Income tax effect	(2,439,956)	497,558
TOTAL COMPREHENSIVE INCOME	₱18,509,406	₱3,903,642

See accompanying Notes to Financial Statements.

CARD MRI INFORMATION TECHNOLOGY, INC.
STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 12)	Retained Earnings (Note 12)	Remeasurement Gain (Loss) on Retirement Plan (Note 15)	Total
Balances at January 1, 2014	₱47,898,746	₱13,234,746	(₱3,886,771)	₱57,246,721
Issuance of capital stock (Note 12)	5,864,412	–	–	5,864,412
Total comprehensive income for the year	–	12,816,175	5,693,231	18,509,406
Dividend declared during the year (Note 12)	–	(8,781,804)	–	(8,781,804)
Balances at December 31, 2014	₱53,763,158	₱17,269,117	₱1,806,460	₱72,838,735
Balances at January 1, 2013	₱39,439,975	₱20,218,487	(₱2,725,803)	₱56,932,659
Issuance of capital stock (Note 12)	8,458,771	–	–	8,458,771
Total comprehensive income for the year	–	5,064,610	(1,160,968)	3,903,642
Dividend declared during for the year (Note 12)	–	(12,048,351)	–	(12,048,351)
Balances at December 31, 2013	₱47,898,746	₱13,234,746	(₱3,886,771)	₱57,246,721

See accompanying Notes to Financial Statements.

CARD MRI INFORMATION TECHNOLOGY, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income before income tax	₱18,002,648	₱6,443,359
Adjustments for:		
Depreciation and amortization (Notes 9 and 10)	6,984,029	15,077,580
Retirement expense	2,308,825	2,058,994
Interest income (Note 6)	(1,889,098)	(1,191,154)
Interest expense	—	98,333
Loss on asset write-off/disposal	—	1,362
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Accounts receivable (Notes 7 and 18)	(571,799)	712,097
Other current assets	185,806	(756,098)
Increase (decrease) in the amounts of:		
Trade and other payables	(7,608,745)	2,250,641
Net cash generated from operations	17,411,666	24,695,114
Interest received	1,889,098	1,191,154
Contributions to retirement fund	(1,370,598)	(3,037,785)
Income tax paid	(3,325,483)	(1,758,721)
Net cash flows provided by operating activities	14,604,683	21,089,752
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Note 9)	(1,220,897)	(2,308,505)
Software (Note 10)	(712,629)	(2,626,716)
Available-for-sale investments	(81,500)	(263,500)
Cash flows used in investing activities	(2,015,026)	(5,198,721)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of capital stock (Note 12)	5,864,412	8,458,771
Repayment of loans payable	—	(10,000,000)
Interest paid	—	(98,333)
Dividend distribution (Note 12)	(8,770,300)	(12,048,351)
Net cash used in financing activities	(2,905,888)	(13,687,913)
NET INCREASE IN CASH	9,683,769	2,203,128
CASH AT BEGINNING OF YEAR	58,591,133	56,388,005
CASH AT END OF YEAR (Note 6)	₱68,274,902	₱58,591,133

See accompanying Notes to Financial Statements

CARD MRI INFORMATION TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

1. Company Information

CARD MRI Information Technology, Inc. (the Company) is a member of Center for Agriculture and Rural Development - Mutually Reinforcing Institutions (CARD-MRI) and was created primarily to provide CARD-MRI's major information technology services.

Supporting twelve institutions with more than 2.30 million clients, the Company is leveraging internally-developed and externally-sourced solutions to create an integrated business environment to enable the continuous growth of CARD MRI's operation. As a major service offered to its sister institutions, software development has become the expertise of the Company.

The Company was registered with the Philippine Securities and Exchange Commission (SEC) on March 12, 2010 and started commercial operations on May 2, 2010.

The Company's principal place of business is at 20 M.L. Quezon Street, City Subdivision, San Pablo City, Laguna.

2. Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis. The financial statements are presented in Philippine Peso (₱), which is the Company's functional currency and all amounts are rounded to the nearest peso unless otherwise indicated.

The financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the earliest comparative period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the financial statements.

Statement of Compliance

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

The Company qualifies as a Small and Medium-Sized Entity (SME) under SRC Rule 68, As Amended (2011). The Company availed of the exemption from adoption of the PFRS for SMEs on the basis that the Company is an associate of other CARD entities reporting under full PFRS.

Presentation of Financial Statements

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation and as specifically disclosed in the accounting policies of the Company. In prior years, the Company presented a single statement of comprehensive income. Starting 2013, the Company decided to separate the single statement into statement of income and statement of comprehensive income to give a clear and more relevant information to the users of the financial statements for the difference of profit or loss and other

comprehensive income. The change in presentation has no impact to the financial position or performance of the Company.

Changes in Accounting Policies and Disclosures

Unless otherwise indicated, these new and revised accounting standards have no impact to the Bank. Except for these standards and amended PFRS which were adopted as at January 1, 2014, the accounting policies adopted are consistent with those of the previous financial year.

- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*)
- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
- Philippine Interpretation International Financial Reporting Interpretation Committee (IFRIC) 21, *Leases*
- PFRS 13, *Fair Value Measurement (Annual Improvements to PFRSs (2010-2012 cycle))*
- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards (Annual Improvements to PFRSs (2011-2013 cycle))*

The aforementioned new and amended standards and interpretation did not have any impact on the financial position or performance of the Company.

Summary of Significant Accounting Policies

Foreign Currency Transaction

For financial reporting purposes, foreign-currency-denominated monetary assets and liabilities are translated into their equivalents in Philippine peso based on the Philippine Dealing System (PDS) closing rate at the end of the year and foreign-currency-denominated income and expenses, at the PDS weighted average rate for the year.

Foreign exchange differentials arising from foreign currency transactions and restatements of foreign-currency-denominated assets and liabilities are credited to or charged against statement of income in the year in which the rates change.

Fair Value Measurement

The Company initially measures its financial and non-financial instruments at fair value. Fair values of financial instruments measured at amortized cost are disclosed in Note 4.

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

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described in Note 4, based on the lowest level input that is significant to the fair value measurement as a whole.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at every reporting date.

Financial Instruments

Date of recognition

The Company recognizes a financial asset or financial liability on 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 assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Initial recognition of financial instruments

All financial instruments, including trading and investment securities and loans and receivables, 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 instruments includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Company classifies its financial liabilities as financial liabilities at FVPL and at amortized cost. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

The Company does not have any financial instruments at FVPL and HTM investments as at December 31, 2014 and 2013.

Determination of fair value

Fair value is the price that would be received to sell an asset or that would be paid to transfer a liability in an orderly transaction between market participants under current market conditions (i.e., an exit price) at the measurement date.

The fair values of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading on the statement of financial position date. Where an instrument measured at fair value has a bid and an ask price, the Company used the price within that range that is most representative of the fair value.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. The valuation techniques used aim to make minimum use of market inputs and rely as little as possible on entity-specific inputs and may include reference to other instruments that are judged to be substantially the same.

Day 1' difference

Where the transaction price in a non-active market is different from the fair value or 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 the statement of income unless it qualifies for recognition as some other type of asset. In cases where data are not observable, the difference between the transaction price and model value is only recognized in the statement of 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.

Cash

Cash includes cash on hand and in banks. Cash in banks represent demand, savings and time deposits in banks that earn interest at the respective bank deposit rates and are subject to insignificant risk of changes in value.

Receivables

Receivables include trade receivables and accruals. They are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale.

Trade receivables, which are based on normal credit terms and do not bear interest, are initially recognized at the transaction price and subsequently measured at amortized cost using the effective interest method.

AFS investments

AFS investments are those which are designated as such or do not qualify to be categorized as financial assets at FVPL, HTM or loans and receivables. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. These include equity and debt investments.

Interest earned on holding AFS debt investments are reported as 'Interest income' using the effective interest method. Dividends earned on holding AFS investments are recognized in the statement of income as 'Dividend income' when the right of payment had been established. The losses arising from impairment of such investments are recognized in statement of income.

The AFS investments of the Company include investments in nonmarketable equity investments that do not have a quoted market price in an active market, and whose fair market value cannot be reliably measured. These investments are carried at cost less impairment.

Financial Liabilities at Amortized Cost

Financial liabilities at amortized cost include accounts payable and loans payable. Liabilities for trade creditors such as accounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods or services received, whether or not billed to the Company. Issued financial instruments or their components, which are not designated at FVPL, are classified as loans payable, 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.

Impairment of Financial Assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific asset may be impaired. If such evidence exists, any loss is recognized in the statement of income.

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's effective interest rate (EIR) (i.e., the EIR computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in the statement of income.

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, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in the statement of income.

In relation to receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the counterparty) that the Company will not be able to collect all of the amounts due. The carrying amount of the receivable is reduced through use of an allowance account. The receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery.

Derecognition of Financial Instruments

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an 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.

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

Financial liabilities

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount 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 intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of property and equipment consists of their purchase price and any directly attributable costs of bringing the property and equipment to their working condition and location for their intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged against operations in the period in which the costs are incurred. In situations when 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 their originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

When property and equipment are retired or otherwise disposed of, the costs and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Depreciation is computed using the straight-line method over the estimated useful lives (EUL) of the property and equipment. Leasehold improvements are amortized over their EUL or related lease terms, whichever is shorter. The following are the EUL of the items of property and equipment:

Furniture, fixtures and equipment	3 to 5 years
Information technology equipment	3 to 5 years
Transportation equipment	3 to 5 years
Leasehold improvements	3 years

The EUL and depreciation and amortization method are reviewed periodically to ensure that they are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the period the asset is derecognized.

Software Cost

Software cost includes cost related to software purchased and used by the Company. Software cost is amortized through charges against income on a straight-line basis over a period of three (3) years.

Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Impairment of Property and Equipment and Software Cost

At each reporting date, the Company assesses whether there is any indication that its property and equipment and software assets may be impaired.

When an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. When 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 against current operations in the period in which it arises.

A previously recognized impairment loss is reversed by a credit to current operations to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation and amortization) had no impairment loss been recognized for the asset in prior periods.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the income can be reliably measured. The Company has assessed that it is acting as a principal in all of its revenue transactions. The following specific recognition criteria must also be met before income is recognized:

Service income

Service income is recognized when services are rendered.

Interest income

Interest income on deposits in banks is recognized as interest accrues, taking into account the effective yield of the asset.

Dividend income

Dividend income is recognized when the right to receive payment is established.

Miscellaneous income

Miscellaneous income is recognized when probable that the economic benefit will flow to the Company and amount can be measured reliably.

Cost and Expense Recognition

Cost and expenses are recognized when incurred.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as expense in the period in which these are incurred.

Retirement Benefits

The Company operates a defined benefit retirement plan which requires contributions to be made to a separately administered fund.

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 retirement plan is determined using the projected unit credit method.

Retirement costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statement of income. Past service costs are recognized when the plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to remeasurement of retirement liability under other comprehensive income in the period in which they occur. Re-measurements are not reclassified to the statement of income 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 Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the

present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Leases

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

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

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

Operating lease

Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Income Taxes

Current tax

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 enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is provided, using the statement of financial position liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which deductible temporary differences and carryforward of unused excess of MCIT over RCIT and NOLCO can be utilized.

Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

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

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

Equity

Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value. Consideration received in excess of par value is recognized as additional paid-in capital, net of incremental costs that are directly attributable to the issuance of new shares. Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Deposit for Future Stock Subscription

Deposit for future stock subscription represents payments made on subscription of shares which cannot be directly credited to 'Preferred stock' or 'Common stock' pending registration with the SEC (the Commission) of the amendment to the Articles of Incorporation increasing capital stock. The paid-up subscription can be classified under equity if the nature of the transaction gives rise to a contractual obligation of the Company to deliver its own shares to the subscriber in exchange of the subscription amount. In addition, deposit for future stock subscription shall be classified under equity if all of the following elements are present as at statement of financial position date:

- a. The unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;
- b. There is Board of Directors' approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);
- c. There is stockholders' approval of said proposed increase; and
- d. The application for the approval of the proposed increase has been filed with the Commission.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingencies

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

Related Party Relationships and Transactions

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 relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance or the relationship, and not merely the legal form.

Events After the Reporting Date

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

Future Changes in Accounting Policies

Standards issued but not yet effective as of December 31, 2014 are listed below. The listing of standards and interpretations issued are those that the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards and interpretations when they become effective.

PFRS 9, Financial Instrument -Classification and Measurement (2010 version)

PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standard Board (IASB) and an evaluation of the requirements of

the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Company.

The following new standards and amendments issued by IASB were already adopted by FSRC but are still for approval by BOA:

Effective January 1, 2015

PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)

PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. It is not expected that this amendment would be relevant to the Company since the Company has no defined benefit plans with contributions from employees or third parties.

Annual Improvements to PFRSs (2010-2012 cycle)

The Annual Improvements to PFRS (2010-2012 cycle) contain non-urgent but not necessary amendments to the following standards:

PFRS 2, Share-based Payment - Definition of Vesting Condition

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- a performance condition must contain a service condition
- a performance target must be met while the counterparty is rendering service
- a performance target may relate to the operations or activities of an entity, or to those of another entity in the same company
- a performance condition may be a market or non-market condition
- if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination

The amendment is applied prospectively for business combinations for which the acquisition date is on or after the adoption date. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Company shall consider this amendment for future business combinations.

PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets

The amendments are applied retrospectively and clarify that:

- an entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been

aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.

- the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization

The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

PAS 24, Related Party Disclosures - Key Management Personnel

The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRSs (2011-2013 cycle)

The actual improvements are not expected to have a material impact on the Company and they include:

PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements

The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

- joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
- this scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

PFRS 13, Fair Value Measurement - Portfolio Exception

The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.

PAS 40, Investment Property

The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is a purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Effective January 1, 2016

PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)

The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively with early adoption permitted. These amendments are not expected to have any

impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments) The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively with early adoption permitted. These amendments are not expected to have any impact to the Company as the Company does not have any bearer plants.

PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. Early adoption if the amendments is permitted. These amendments will not have any impact on the Company's financial statements.

PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments will have no impact on the Company.

PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)

The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective with early adoption permitted. These amendments are not expected to have any impact to the Company.

PFRS 14, Regulatory Deferral Accounts

PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Company is an existing PFRS preparer, this standard would not apply.

Annual Improvements to PFRSs (2012-2014 cycle)

The Annual Improvements to PFRSs (2012-2014 cycle) are not expected to have a material impact on the Company. They include:

PFRS 5, Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal

The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

PFRS 7, Financial Instruments: Disclosures - Servicing Contracts

PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

PFRS 7 - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements

This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

PAS 19, Employee Benefits - regional market issue regarding discount rate

This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

PAS 34, Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report'

The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

PFRS 9, *Financial Instruments* - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)

PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

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.

PFRS 9, *Financial Instruments* (2014 or final version)

In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. 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 comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before January 1, 2015.

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.

The following new standard issued by the IASB has not yet been adopted by the FRSC

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 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 IFRS 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 IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Fund is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

3. Significant Accounting Judgments and Estimates

The preparation of 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 disclosures relating to contingent assets and contingent liabilities. Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on expectations of future events that are believed to be reasonable under the circumstances.

Critical judgments and estimates that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

Judgments

a. Going concern

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

b. Classification of financial instruments

The Company classifies financial instruments, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of the instruments. The substance of a financial instrument, rather than its legal form, governs its classification in the Company's statement of financial position. The Company determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

c. Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These judgments may include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

d. Operating leases - Company as a lessee

The Company has entered into a lease agreement on the premises it occupies. The Company has determined that the lessor retains all the significant risks and rewards of ownership of the premises it leases.

e. Classification of quoted or unquoted financial assets

The Company classifies by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is not quoted in an active market is the determination on whether quoted prices are readily and regularly

available, and whether those prices represent actual and regularly occurring market transactions on an arm's length transactions.

f. *Assessment of functional currency*

PAS 21 requires management to determine its functional currency such that it must faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Company. In making this judgment, the Company considers the following:

- the currency that mainly influences sales prices for financial instruments and services;
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

g. *Contingencies*

The amount of probable costs for the resolution of possible claims has been developed in consultation with outside legal counsel handling the Company's defense and is based upon the analysis of potential results.

Estimates

a. *Impairment of trade receivables*

The Company assesses its receivables for impairment at each reporting date. In determining whether a credit loss should be recorded in the statement of income, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from its receivable. This evidence may include observable data indicating that there has been an adverse change in the payment status of its debtors.

As at December 31, 2014 and 2013, the carrying amounts of trade receivables are disclosed in Note 7.

b. *Impairment of property and equipment and software cost*

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

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

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Recoverable amounts are estimated for individual assets, or if it is not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that can materially affect the financial statements. No impairment loss was recognized in

2014 and 2013. As at December 31, 2014 and 2013, the carrying values of property and equipment and software cost are disclosed in Notes 9 and 10, respectively.

c. Estimated useful lives of property and equipment and software cost

The Company determines the EUL of its property and equipment and software cost based on the period over which the assets are expected to be available for use. The Company reviews annually the EUL based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets. A reduction in the EUL of property and equipment and software cost would increase the recorded depreciation and amortization and decrease the assets. The EUL of property and equipment and software cost are disclosed in Note 2.

d. Recognition of deferred tax asset and liability

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that 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 income together with future tax planning strategies.

The Company reviews the carrying amount of deferred tax asset at each reporting date and reduces this to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Recognized deferred tax asset is disclosed in Note 17.

e. Present value of retirement obligation

The cost of defined retirement pension plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and the long-term nature of these plans, such estimates are subject to significant uncertainty. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at reporting date. The present values of the retirement liability of the Company are disclosed in Note 15.

4. Fair Value Measurement

The Company uses a hierarchy for determining and disclosing the fair value of its assets and liabilities as follow:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities in the absence of a principal market, in the most advantageous market for the asset or liability
- 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

As at December 31, 2014 and 2013, the Company has no financial instruments carried at fair value. The Company's unquoted AFS investments are carried at cost less any impairment because the fair value could not be reliably determined.

The Company assessed that the fair values of its financial assets and liabilities approximate their carrying amounts due to the short-term maturities of these instruments.

5. Financial Risk Management Objectives and Policies

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Foreign currency risk

In line with the CARD MRI's mission of "*providing continued access to integrated microfinance and social development services to an expanding membership base by organizing and empowering women and their families*", risk management framework of the Company involves identifying and assessing risks, designing strategies and implementing policies to mitigate risks, and conducting evaluation for adjustments needed to minimize risks.

The Board of Directors (BOD) is responsible for monitoring the Company's implementation of risk management policies and procedures and for reviewing the adequacy of risk management framework in relation to the risks faced by the Company. Risk Management of the Company is strengthened in conjunction with the Internal Audit (IA) functions of CARD MRI Group. IA undertakes both regular audit examination and ad hoc reviews of risk management controls and procedures, the results of which are reported to the BOD.

Credit Risk

The Company manages its credit risk by constantly monitoring its credit exposure to counterparties.

Maximum exposure to credit risk

The maximum exposure of the Company's financial instruments is equivalent to the carrying values as reflected in the statement of financial position and related notes. The Company holds no collateral and other credit enhancements against its credit risk exposure as at December 31, 2014 and 2013.

The Company assessed that it has no credit risk exposures relating to off-balance sheet items.

The Company has no financial instruments with right to offset in accordance with PAS 32 *Financial Instruments: Presentation* as at December 31, 2014 and 2013. There are also no financial instruments that are subject to an enforceable master netting arrangements of similar agreements which require disclosure in the financial statements in accordance with amendments of PFRS 7.

Concentration of credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, 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. The Company's financial instruments are concentrated to financial intermediaries.

Credit quality per class of financial assets

The Company's financial instruments are with reputable financial institutions and related parties and are deemed to be standard grade. Standard grade is rated on entities that meet performance expectation, unlikely to be affected by external factors and have competent management that uses current business models.

As at December 31, 2014 and 2013, the Company has no past due and impaired receivables.

Liquidity Risk

Liquidity risk is the risk arising from potential inability to meet obligations when they become due at a reasonable cost and timely manner. The Company manages liquidity risk by assessing the gap for additional funding and determining the best source and cost of funds on a monthly basis. To ensure sufficient liquidity, the Company sets aside funds to pay currently maturing obligations. These funds are placed in credible banks. Monitoring of daily cash position is being done to guide the management in making sure that sufficient liquidity is maintained. The Treasury Committee of CARD MRI Group reviews monthly the liquidity position of the Company.

The tables below summarize the maturity profile of the financial instruments of the Company based on contractual undiscounted cash flow as at December 31:

	2014					Total
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	
Financial Assets						
Cash	₱5,347,750	₱—	₱63,477,765	₱—	₱—	₱68,825,515
AFS financial asset	—	—	—	—	452,000	452,000
Accounts receivable	—	366,827	—	222,258	—	589,085
Other current assets:						
Refundable deposits	—	—	—	—	165,214	165,214
Total financial assets	5,347,750	366,827	63,477,765	222,258	617,214	70,031,814
Financial Liabilities						
Trade and other payables	—	4,320,449	—	—	—	4,320,449
Net undiscounted cash flows	₱5,347,750	(₱3,953,622)	₱63,477,765	₱222,258	₱617,214	₱65,711,365

	2013					Total
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	
Financial Assets						
Cash	₱9,144,477	₱—	₱49,446,656	₱—	₱—	₱58,591,133
AFS financial asset	—	—	—	—	370,500	370,500
Accounts receivable	—	17,286	—	—	—	17,286
Other current assets:						
Refundable deposits	—	—	—	—	51,400	51,400
Total financial assets	9,144,477	17,286	49,446,656	—	421,900	59,030,319
Financial Liabilities						
Trade and other payables	—	—	10,846,315	—	—	10,846,315
Net undiscounted cash flows	₱9,144,477	₱17,286	₱38,600,341	₱—	₱421,900	₱48,184,004

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's principal transactions are carried out in Philippine peso and its exposure to foreign currency risk arises primarily with respect to the Company's cash in bank amounting to ₱0.17 million (US\$3.79 thousand) and ₱0.46 million (US\$10.25 thousand) as at December 31, 2014 and December 31, 2013, respectively. In translating the foreign currency into Philippine peso amount, the exchange rates used was ₱44.72 and ₱44.40 to US\$1.00 as at December 31, 2014 and 2013, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the US\$ exchange rate, with all other variables held constant, of the Company's income before income tax as at December 31, 2014 and 2013.

Year	US\$ appreciates (depreciates) by	Effect on income before income tax
2014	+5%	(₱8,481)
	-5%	8,481
2013	+5%	(₱22,756)
	-5%	22,756

There is no other impact on the Company's equity other than those already affecting the statement of income.

6. Cash

This account consists of:

	2014	2013
Cash in banks - peso	₱68,090,179	₱58,120,964
Cash in banks - dollar	169,723	455,169
Cash on hand	15,000	15,000
	₱68,274,902	₱58,591,133

Cash in banks consist of demand deposits, time deposits and a dollar account. The Company's demand deposits are used in its day-to-day operations. Time deposits with affiliate banks earn interest rates ranging from 2.50% to 4.25% and from 3.50% to 4.50% in 2014 and 2013, respectively. The Company's dollar account earns interest at the rate of 0.25% in 2014 and 2013.

Interest income earned from cash in banks amounted to ₱1.89 million and ₱1.19 million in 2014 and 2013, respectively.

7. Accounts Receivable

This account includes maintenance fees, outsourcing fees, set-up fees, project management and development fees and other service income earned by the Company from related parties.

Outstanding accounts receivable amounted to ₱0.59 million and ₱0.02 million as at December 31, 2014 and 2013, respectively.

8. Other Current Assets

This account consists of:

	2014	2013
Prepaid expenses	₱1,110,268	₱868,598
Refundable deposits	165,214	51,400
Stationery and supplies	37,121	75,465
Creditable taxes	31,985	689,583
Advances to employees	–	247,064
	₱1,344,588	₱1,932,110

Prepaid expenses pertain to unexpired software licenses and servers' cost that are usable for one year.

9. Property and Equipment

This account consists of:

	2014				
	Information Technology Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱26,214,707	₱2,320,708	₱1,728,034	₱293,720	₱30,557,169
Additions	1,065,587	56,074	–	99,236	1,220,897
Balances at end of year	27,280,294	2,376,782	1,728,034	392,956	31,778,066
Accumulated Depreciation					
Balance at beginning of year	21,109,995	1,061,500	1,263,767	179,512	23,614,774
Depreciation	4,061,194	685,250	327,718	85,197	5,159,359
Balance at end of year	25,171,189	1,746,750	1,591,485	264,709	28,774,133
Net book value at end of year	₱2,109,105	₱630,032	₱136,549	₱128,247	₱3,003,933

	2013				
	Information Technology Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱24,073,552	₱2,335,163	₱1,728,034	₱293,720	₱28,430,469
Additions	2,285,237	23,268	–	–	2,308,505
Disposals	(144,082)	(37,723)	–	–	(181,805)
Balance at end of year	26,214,707	2,320,708	1,728,034	293,720	30,557,169
Accumulated Depreciation					
Balance at beginning of year	13,206,803	355,715	872,202	91,683	14,526,403
Depreciation	8,047,270	743,506	391,565	87,829	9,270,170
Disposals	(144,078)	(37,721)	–	–	(181,799)
Balance at end of year	21,109,995	1,061,500	1,263,767	179,512	23,614,774
Net book value at end of year	₱5,104,712	₱1,259,208	₱464,267	₱114,208	₱6,942,395

Depreciation charged to the statements of income is presented under:

	2014	2013
Cost of information technology services (Note 13)	₱4,061,194	₱8,047,270
General and administrative expenses	1,098,165	1,222,900
	₱5,159,359	₱9,270,170

Cost of fully depreciated assets still in use as at December 31, 2014 and 2013 amounted to ₱24.7 million and ₱2.6 million, respectively.

10. Software Costs

This account consists of:

	2014	2013
Cost		
Balance at beginning of year	₱19,808,180	₱17,185,532
Additions	712,629	2,626,716
Write-off	–	(4,068)
Balance at end of year	20,520,809	19,808,180
Accumulated amortization		
Balance at beginning of year	15,605,336	9,800,638
Amortization (Note 13)	1,824,670	5,807,410
Write-off	–	(2,712)
Balance at end of year	17,430,006	15,605,336
Net book value at end of year	₱3,090,803	₱4,202,844

Additions in 2014 and 2013 pertain to software licenses purchased by the Company used for operations.

11. Trade and Other Payables

This account consists of:

	2014	2013
Financial liabilities		
Accrued expenses	₱1,447,973	₱5,797,143
Accounts payable	2,872,476	5,049,172
	4,320,449	10,846,315
Nonfinancial liabilities		
Value-added tax (VAT) payable	739,287	419,226
Withholding taxes payable	444,762	65,688
Deposit for future stock subscription (Note 12)	–	1,770,510
	1,184,049	2,255,424
	₱5,504,498	₱13,101,739

Accrued expenses include unpaid operating expenses and accrual of expenses such as travelling expenses, management and professional fee, monetized vacation leave, 13th month pay and other benefits. Accounts payable consists of billings received from CARD Inc., CARD Bank, Inc., and other CARD MRI institutions for services received or goods bought and share in expenses.

12. Equity

Capital Stock

As at December 31, 2014 and 2013, the Company's capital stock consists of:

	2014		2013	
	Shares	Amount	Shares	Amount
Common stock - ₱100 par value, 1,000,000 authorized shares				
Issued and outstanding	537,632	₱53,763,158	478,987	₱47,898,746
Subscribed	462,368	46,236,842	521,013	52,101,254
Subscription receivable	–	(46,236,842)	–	(52,101,254)
	1,000,000	₱53,763,158	1,000,000	₱47,898,746

In 2014, the Company has issued 58,644 shares for the ₱5.86 million from various stockholders.

The BOD approved declaration of cash dividend amounting to ₱8.78 million and ₱12.0 million in 2014 and 2013, respectively. Cash dividends paid in 2014 and 2013 were ₱8.77 million and ₱12.0 million, respectively.

Capital Management

The Company's capital management aims to ensure that it maintains strong credit ratings and healthy capital ratios in order to support and sustain its business growth towards maximizing the shareholders' value.

The Company considers its equity as its capital and is not subject to any externally imposed regulatory capital requirements.

13. Cost of Information Technology Services

This account consists of direct costs attributable to rendering IT services as follow:

	2014	2013
Salaries, wages and other benefits (Notes 14 and 18)	₱12,940,784	₱11,456,196
Depreciation of information technology equipment and amortization of software cost (Notes 9 and 10)	5,885,864	13,854,680
Program monitoring and evaluation	1,715,552	1,354,798
System maintenance - Core Banking System	1,034,817	–
Travelling expense	838,761	1,051,867
Management and other professional fees	–	1,970,026
Others	359,163	326,152
	₱22,774,941	₱30,013,719

14. Salaries, Wages and Other Benefits

This account consists of:

	2014	2013
Salaries, wages and other benefits	₱9,940,399	₱7,258,479
Short-term employee benefits	7,902,010	5,957,455
Retirement benefits (Note 15)	2,308,825	2,058,994
	₱20,151,234	₱15,274,928

The allocation of this account is:

	2014	2013
Cost of information technology (Note 13)	₱12,940,784	₱11,456,196
General and administrative expense	7,210,450	3,818,732
	₱20,151,234	₱15,274,928

As at December 31, 2013, the total salaries, wages and other benefits is allocated into two, 75% is charged to Cost of information technology services, and 25% is charged to General and administrative expenses. During 2014, the Company started using specific identification to allocate salaries, wages and other benefits into Cost of information technology services and General and administrative expenses.

15. Retirement Benefits

The Company, CARD Bank, Inc., CARD MRI Development Institute, Inc. (CMDI), CARD MBA, Inc., CARD SME Bank, Inc. (formerly Rural Bank of Sto. Tomas, Inc.), CARD MRI Insurance Agency (CAMIA), Inc., CARD Business Development Service Foundation (BDSF), Inc., BotiCARD, Inc., CARD Leasing and Finance Co. (CLFC), RRBI, Mga Likha ni Inay and CARD, Inc. maintain a funded and formal noncontributory defined benefit retirement plan - the CARD MRI Multi-Employer Retirement Plan (the Plan) - covering all of their regular employees. The Plan has a projected unit cost format and is financed solely by the Company and its related parties. The Plan complies with the requirement of Republic Act No. 7641 (The Philippine Retirement Law). The Plan provides lump sum benefits equivalent to at least 120% of latest month salary for every year of service, a fraction of at least six (6) months being considered as one whole year upon retirement, death, total and permanent disability, involuntary separation (except cause) or voluntary separation after completion of at least one year of service with the participating companies.

Changes in net defined benefit liability of funded funds in 2014 are as follow:

Net benefit cost in statement of income*				Remeasurements in other comprehensive income								
January 1, 2014	Current service cost	Net interest	Subtotal	Transfer to the Plan	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in the effect of asset ceiling	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2014

Changes in net defined benefit liability of funded funds in 2013 are as follow:

Net benefit cost in statements of income*				Remeasurements in other comprehensive income					Contribution by employer	
January 1, 2013	Current service cost	Net interest	Subtotal	Transfer to the Plan	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in the effect of asset ceiling	Actuarial changes arising from demographic assumptions	Actuarial changes arising from changes in financial assumptions	December 31, 2013
Present value of defined benefit obligation	¥10,959,800	¥2,005,735	¥679,508	¥2,685,243	¥785,026	¥1,397,999	—	¥—	¥1,521,735	¥—
Fair value of plan assets	(8,237,509)	—	(629,249)	(626,249)	(785,026)	921,817	—	—	136,791	(3,037,785)
Net defined benefit liability (asset)	¥2,722,291	¥2,005,735	¥53,259	¥2,058,994	¥—	¥—	—	¥—	¥1,658,526	¥3,402,026

The net benefit cost is recorded under "Salaries, wages and other benefits" in the statement of income.

* The net benefit cost is recorded under 'Salaries, wages and other benefits' in the statement of income.

The maximum economic benefit available is a combination of expected refunds from the plan and reduction in future contributions. The fair value of plan assets by each class as at the end of the reporting period are as follow:

	December 31	
	2014	2013
Investments:		
Debt securities - government securities	₦6,181,414	₦4,251,997
Equity securities	–	73,512
Cash and cash equivalents	5,298,740	6,325,488
Loans	1,493,134	721,113
Mutual funds	126,674	161,025
Other assets	375,979	135,354
Fair value of plan assets	₦13,475,941	₦11,668,489

All plan assets do not have quoted prices in active market except government bonds. Cash and cash equivalents are with reputable financial institutions and related parties and are deemed to be standard grade. Mutual fund, loans and other assets are unrated.

The plan assets have diverse investments and do not have any concentration risk.

The management performed an Asset-Liability Matching Study annually. The overall investment policy and strategy of the Company's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans.

The Company's current strategic investment strategy consists of 46% government securities, 39% of time deposit, 1% of mutual fund and 11% commercial paper.

The cost of defined retirement plan as well as the present value of the defined benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension for the defined benefit plans are shown below:

	2014	2013
Discount rates	4.46%	6.38%
Future salary increases	7.00%	12.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation (DBO) as of the end of the reporting period, assuming if all other assumptions were held constant:

	2014		2013	
	Increase of 1.0%	Decrease of 1.0%	Increase of 2.5%	Decrease of 2.0%
Discount rate	(₦1,821,146)	₦2,339,413	(₦6,597,690)	₦4,109,739
Salary rate	2,152,137	(1,731,629)	8,289,314	(2,937,234)

The Company plans to contribute ₦1.4 million to the Plan in 2015.

16. Leases

The Company leases its office premises for a period from one year to five years renewable upon mutual agreement between the Company and lessors. Rental expense in 2014 and 2013 amounting to ₱0.81 million and ₱0.50 million, respectively, are included under 'Other expenses' in the statement of income.

Security deposits amounting to ₱0.17 million and ₱0.05 million as at December 31, 2014 and 2013, respectively, are included in 'Other current assets' in Note 8.

Future minimum rental payments under operating leases follow:

	2014	2013
Within one year	₱703,279	₱454,800
After one year but not more than five years	972,000	1,428,264
More than five years	—	—
	₱1,675,279	₱1,883,064

17. Income Taxes

The provision for income tax consists of:

	2014	2013
Current:		
Regular	₱5,024,663	₱1,520,617
Final	377,760	238,104
	5,402,423	1,758,721
Deferred	(215,950)	(379,972)
	₱5,186,473	₱1,378,749

Republic Act 9337, *An Act Amending National Internal Revenue Code*, provides that RCIT rate shall be 30.0%. Interest expense allowed as a deductible expense is reduced by 33.0% of interest income subjected to final tax.

In addition, effective September 1, 2002, Revenue Regulation No. 10-2002 provides for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR allowed as a deductible expense is limited to the actual EAR paid or incurred (booked under 'Others' in the statements of income) but not to exceed 1.00% of net revenue for companies engaged in the sale of services.

An MCIT of 2.00% on modified gross income is computed and compared with RCIT. Any excess of MCIT over RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. Imposition of MCIT will commence on the Company's fourth taxable year immediately following the year in which the Company commenced its business operations.

In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the period of incurrence.

Under Philippine tax laws, the Company is subject to VAT and other taxes (presented under ‘Taxes and licenses’ in the statements of income) as well as income taxes.

Components of the net deferred tax assets (liabilities) shown in the statements of financial position follow:

	2014	2013
Deferred tax assets (liabilities) on:		
Net retirement liability (asset)	(P1,137,880)	P1,020,609
Unamortized past service cost	608,092	673,609
	(P529,788)	P1,694,218

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

	2014	2013
Statutory income tax rate	30.00%	30.00%
Tax effects of:		
Interest income subject to final tax	(1.05%)	(1.85%)
Non-taxable income	(0.14%)	(0.59%)
Deductible temporary difference	—	(4.80%)
Nondeductible expense	—	4.53%
Others	—	(5.90%)
Effective income tax rate	28.81%	21.40%

18. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Company’s related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
- post-employment benefit plans for the benefit of the Company’s employees; and
- affiliates within the CARD MRI Group.

The Company has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

Transactions with retirement plans

Under PFRS, certain post-employment benefit plans are considered as related parties. CARD MRI’s Multi-Employer Retirement Plan (MERP) is managed by the CARD Employee Multipurpose Cooperative (EMPC). Part of the plan assets are invested in time deposits and special savings accounts with the affiliated banks (Note 15).

Remunerations of Trustees and other Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The Company considers the members of the board of trustees and senior management to constitute key management personnel for purposes of PAS 24.

The compensation of key management personnel included under 'Cost of Information Technology Services' and 'General and Administrative Expenses' in the statements of income are as follows:

	2014	2013
Short-term employee benefits	₱2,180,717	₱2,906,517
Post-employment benefits	1,739,500	1,642,046
	₱3,920,217	₱4,548,563

Other related party transactions

Transactions between the Company and its key management personnel meet the definition of related party transactions. Transactions between the Company and its affiliates within the CARD MRI also qualify as related party transactions.

Cash and cash equivalents, accounts payable and accounts receivable

Cash and cash equivalents, accounts payable and accounts receivable held by the Company for key management personnel and affiliates as at December 31, 2014 and 2013 follow:

Category	Amount/Volume	2014	Nature, Terms and Conditions
		Outstanding Balance	
Key Management Personnel			
Accounts receivables		₱92,148	The amount represents receivable from officers payable to the Company which will be paid 2015.
Shareholder			
Accounts receivables		43,748	Billings of service fee and other charges by the Company to other CARD MRI entities
Charges to shareholders	35,615,763		
Collections	(35,572,015)		
Accounts payable		1,810	Rentals for lease of office premises, seminar and training fees and share of various expenses
Charges from shareholders	2,187,590		
Payments	(2,238,324)		
Service income	31,284,093		Income earned from IT services provided by the Company to other CARD MRI entities
Seminars and training expenses	598,424		Expenses incurred for staff development programs
Rent expense	454,800		Rentals for lease of office premises
Other related party			
Cash in bank		62,927,153	These are time deposit accounts with annual interest rate ranging from 2.5% to 4.25%
Deposits	15,694,097		
Withdrawals	(2,198,600)		
Accounts receivables		9,573	Billings of service fee and other charges by the Company to other CARD MRI entities
Charges to affiliates	35,532,169		
Collections	(35,539,882)		
Accounts payable		—	
Charges from affiliates	44,145		Rentals for lease of office premises, seminar and training fees and share of various expenses
Payments	(215,483)		
Service income	38,238,595		Income earned from IT services provided by the company to other CARD MRI entities
Dividend income	84,510		Dividends received from equity investments held at cost

	2013		
Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Accounts receivables		₱92,148	The amount represents receivable from officers payable to the Company which will be paid in 2015
Charges to officers	₱92,148		
Shareholder			
Accounts receivables		—	Billings of service fee and other charges by the Company to other CARD MRI entities
Charges to shareholders	30,468,437		
Collections	(30,468,516)		
Accounts payable		52,544	Rentals for lease of office premises, seminar and training fees and share of various expenses
Charges from shareholders	2,324,094		
Payments	(2,271,550)		
Service income	27,169,576		Income earned from IT services provided by the company to other CARD MRI entities
Rent expense	338,700		Rentals for lease of office premises
Interest expense	98,333		Interest on long-term notes payable
Other related party			
Cash in bank		49,431,656	These are time deposit accounts with annual interest rate ranging from 2.5% to 4.25%
Deposits	15,987,590		
Withdrawals	(10,000,000)		
Accounts receivables		17,286	Billings of service fee and other charges by the Company to other CARD MRI entities
Charges to affiliates	33,574,282		
Collections	(34,282,357)		
Accounts payable		171,338	Rentals for lease of office premises, seminar and training fees and share of various expenses
Charges from affiliates	299,376		
Payments	(128,038)		
Service income	28,769,434		Income earned from IT services provided by the company to other CARD MRI entities
Dividend income	126,894		Dividends received from equity investments held at cost

19. Supplemental Disclosure of Non-cash Activities

The following are the activities of the Company that affect recognized assets and liabilities but do not result in cash receipts or cash payments during the year 2014 and 2013.

	2014	2013
Operating activities		
Income taxes paid through creditable withholding taxes	₱1,370,074	₱1,520,617
Provision for liabilities	1,675,224	875,076
Transfer of assets to another individuals or institutions	–	1,362
	₱3,045,298	₱2,397,055

20. Approval of the Release of the Financial Statements

The accompanying comparative financial statements of the Company were reviewed and approved for release by the Company's BOD on March 13, 2015.

21. Supplementary Information under Revenue Regulations (RR) No. 15-2010

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

The components of 'Taxes and licenses' recognized in 2014 statement of income follow:

Business permits and licenses	₱45,069
Community tax certificate	2,783
Annual registration	4,657
Inspection fees	5,138
Other taxes	542,923
	₱600,570

The following withholding taxes are categorized into:

	Total Remittances	Balance as at December 31, 2014
Expanded withholding taxes	₱726,776	₱124,665
Withholding tax on compensation and benefits	918,832	221,545
Final withholding taxes	125,340	98,552
	₱1,770,948	₱444,762

Value-added tax (VAT)

The NIRC of 1997 also provides for the imposition of VAT on sales of goods and services. Accordingly, the Company's sales are subject to output VAT while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT. VAT rate is 12.00% effective February 1, 2006.

Details of the Company's net sales/receipts output VAT and input VAT accounts in 2014 are as follow:

- a. Net sales/receipts and output VAT declared in the Company's VAT returns filed in 2014:

	Net Sales/Receipts	Output VAT
Taxable Sales:		
Service income	₱69,345,687	₱8,321,482

- b. Input VAT

Balance at beginning of period	₱307,338
Current year's domestic purchases/payments	1,770,230
Input tax used	(1,653,080)
Balance at end of period	₱424,488



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