

COVER SHEET

I 1 9 9 8 0 0 2 7 7

S.E.C. Registration Number

ARDCI NGO GROUP, INC.
(A Non-stock, Non-profit
Corporation)

(Company's Full Name)

3 / F ARDCI Corporate Building,
San Roque, Virac, Catanduanes

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

Ms. Evelyn Teves
Contact Person

811 - 3288
Company Telephone Number

1 2 3 1
Month Day
Calendar Year

SSCEP

0 4 2 9
Month Day
Annual Meeting

Secondary License Type, If Applicable

M R D
Dept. Requiring this Doc.

Amended Articles Number/Section

N/A
Total No. of Stockholders

Total Amount of Borrowings
Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use blank ink for scanning purposes

ARDCI

NGO GROUP, INC.

(formerly Agricultural and Rural Development for Catanduanes, Inc.)

SEC Registration No. I1998-00277 tel.no.(052)-811-32-88;mobile no.09178073463

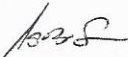
Former Chinese School Bldg., Sta. Elena, Virac, Catanduanes 4800 visit us at www.ardci.com

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS


The management of ARDCI NGO Group, Inc. is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2014 and 2013, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Trustees reviews and approves the financial statements and submits the same to the members.

Alba Romeo & Co., the independent auditors, appointed by the members has examined the financial statements of the Organization in accordance with Philippine Standards on Auditing, and in its reports to the members, has expressed its opinion on the fairness of presentation upon completion of such examination.


ROGELIO S. BITOME
BOT President


VICTOR T. BERNAL
Chief Executive Officer


EVELYN T. TEVES
Head, FASU

Signed this 29th day of April 2015.

INDEPENDENT AUDITORS' REPORT

The Members and the Board of Trustees
ARDCI NGO Group, Inc.
3rd Floor ARDCI Corporate Bldg., San Roque
Virac, Catanduanes

Report on the Financial Statements

We have audited the accompanying financial statements of ARDCI NGO Group Inc, which comprise the statements of financial position as at December 31, 2014 and 2013, and the statements of comprehensive income, changes in fund balance and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ARDCI NGO Group, Inc. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required by the Bureau of Internal Revenue (BIR)

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information as disclosed in Note 26 to the financial statements is presented for purposes of filing with the BIR and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ALBA ROMEO & CO.



Leticia C. Tagle
Partner

CPA Certificate No. 0017358

Tax Identification No. 123-048-280

PTR No. 4770486, issued on January 21, 2015, Makati City

BOA/PRC Accreditation No. 005, issued on November 12, 2012,
effective until December 31, 2015

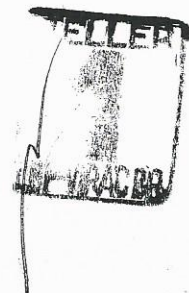
SEC Accreditation No. 0039-AR-3 (Individual), Group B, issued on
September 13, 2012, effective until September 12, 2015

SEC Accreditation No. 0007-FR-3 (Firm), Group A, issued on March 22, 2012,
effective until March 21, 2015, effectivity extended until April 30, 2015

BIR Accreditation No. 08-001682-6-2014, issued on January 5, 2015,
effective until January 4, 2018

April 29, 2015

Makati City, Philippines



ARDCI NGO GROUP, INC.
(A Non-Stock, Non-Profit Organization)
STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2014 and 2013



	Note	2014	2013 (as reclassified)
ASSETS			
Current assets			
Cash on hand and in banks	7	P116,172,763	P53,922,488
Loans and other receivables, net	8	816,179,204	591,110,106
Prepayments and other current assets	9	19,256,287	5,750,396
Total current assets		951,608,254	650,782,990
Noncurrent assets			
Loans and other receivables, net of current portion	8	2,620,137	1,198,924
Investment in subsidiaries	10	25,250,000	30,250,000
Property and equipment, net	11	66,362,208	50,082,797
Investment property, net	12	60,329,135	62,869,309
Intangible assets	13	1,827,500	1,827,500
Retirement benefit asset	19	2,920,945	-
Refundable deposits	14	1,014,565	1,014,565
Total noncurrent assets		160,324,490	147,243,095
TOTAL ASSETS		P1,111,932,744	P798,026,085
LIABILITIES AND MEMBERS' EQUITY			
Liabilities			
Current liabilities			
Members' deposits	15	P271,374,088	P215,114,034
Accounts and other payables	16	28,230,006	21,460,371
Deferred income from government grants	17	387,064	387,064
Loans payable	18	273,515,206	195,997,066
Income tax payable	24	2,337,424	-
Total current liabilities		575,843,788	432,958,535
Noncurrent liabilities			
Members' deposits, net of current portion	15	695,500	397,500
Deferred income from government grants, net of current portion	17	5,031,673	5,418,737
Loans payable, net of current portion	18	123,469,523	66,277,003
Retirement benefit liability	19	-	1,879,176
Total noncurrent liabilities		129,196,696	73,972,416
Total liabilities		705,040,484	506,930,951
Fund balance			
Actuarial loss on retirement liability	19	(12,825,676)	(10,029,027)
Accumulated income			
- Appropriated	5	40,000,000	-
- Unappropriated	5	379,717,936	301,124,161
Total fund balance		406,892,260	291,095,134
TOTAL LIABILITIES AND FUND BALANCE		P1,111,932,744	P798,026,085

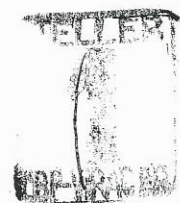
(The notes on pages 5 to 59 are an integral part of these financial statements.)



ARDCI NGO GROUP, INC.
(A Non-Stock, Non-Profit Organization)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Notes	2014	2013
Interest income	8	P359,220,562	P257,627,812
Interest expense	15,18	(34,908,923)	(31,210,599)
Net interest income		324,311,639	226,417,213
Other operating income	20	18,211,481	16,064,464
		342,523,120	242,481,677
General and administrative expenses	21	(213,529,309)	(168,756,445)
Income from operations		128,993,811	73,725,232
Provision for impairment losses	8	(7,420,294)	(5,018,295)
Income before income tax		121,573,517	68,706,937
Provision for income tax	24	(3,519,833)	-
Net income for the year		118,053,684	68,706,937
Other comprehensive loss			
Item that will not be reclassified to profit or loss			
Actuarial loss on retirement liability	19	(2,796,649)	(5,383,752)
Net comprehensive income for the year		<u>P115,257,035</u>	<u>P63,323,185</u>

(The notes on pages 5 to 59 are an integral part of these financial statements.)

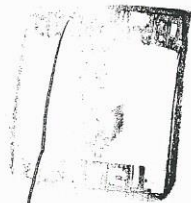


ARDCI NGO GROUP, INC.
(A Non-Stock, Non-Profit Organization)

STATEMENTS OF CHANGES IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Accumulated income		Actuarial loss on retirement liability (Note 19)	Total
	Appropriated (Notes 5 and 11)	Unappropriated (Notes 5 and 11)		
Balance at January 1, 2013	P53,505,396	P178,292,477	(P4,645,275)	P227,152,598
Additional revolving fund	-	619,351	-	619,351
Appropriated funds used	(53,505,396)	53,505,396	-	-
Net income for the year	-	68,706,937	-	68,706,937
Actuarial loss on retirement liability	-	-	(5,383,752)	(5,383,752)
Balance at December 31, 2013	-	301,124,161	(10,029,027)	291,095,134
Additional revolving fund	-	540,091	-	540,091
Appropriation for contingencies	40,000,000	(40,000,000)	-	-
Net income for the year	-	118,053,684	-	118,053,684
Actuarial loss on retirement liability	-	-	(2,796,649)	(2,796,649)
Balance at December 31, 2014	P40,000,000	P379,717,936	(P12,825,676)	P406,892,260

(The notes on pages 5 to 59 are an integral part of these financial statements.)



ARDCI NGO GROUP, INC.
(A Non-Stock, Non-Profit Organization)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Notes	2014	2013 (as reclassified)
Cash flows from operating activities			
Income before income tax		P121,573,517	P68,706,937
Adjustments for:			
Amortization of deferred income from government grants	17,20	(387,064)	(387,064)
Write-off of long-outstanding payable	16,20	-	(5,995,740)
Depreciation	11,12,21	9,955,144	9,196,629
Provision for impairment losses	8	7,420,294	5,018,295
Retirement	19,21	1,799,898	1,540,034
Gain on sale of transportation equipment	11,20	(350,000)	-
Operating income before working capital changes		<u>140,011,789</u>	<u>78,079,091</u>
Changes in working capital:			
Decrease (increase) in:			
Loans and other receivables		(233,299,667)	(98,266,634)
Prepayments and other current assets		(13,554,962)	626,280
Refundable deposits		-	141,400
Increase in:			
Members' deposits		56,558,054	49,498,195
Accounts and other payables		6,769,635	385,063
Cash provided by (used in) operations		<u>(43,515,151)</u>	<u>30,463,395</u>
Income tax paid	24	(1,133,338)	-
Contributions to retirement fund	19	(10,007,606)	(9,695,856)
Net cash provided by (used in) operating activities		<u>(54,656,095)</u>	<u>20,767,539</u>
Cash flows from investing activities			
Additional investment in a subsidiary	10	-	(5,000,000)
Proceeds from sale of investment in a subsidiary	10	5,000,000	-
Acquisition of property and equipment	11	(23,694,381)	(11,019,847)
Proceeds on sale of transportation equipment	11	350,000	-
Acquisition of investment property	12	-	(48,402,095)
Acquisition of intangible assets	13	-	(1,827,500)
Net cash used in investing activities		<u>(18,344,381)</u>	<u>(66,249,442)</u>
Cash flows from financing activities			
Proceeds from loan availments	18	395,797,311	257,633,098
Payment of loans	18	(261,086,651)	(222,878,739)
Increase in additional fund	5	540,091	619,351
Net cash provided by financing activities		<u>135,250,751</u>	<u>35,373,710</u>
Net increase (decrease) in cash on hand and in banks		<u>62,250,275</u>	<u>(10,108,193)</u>
Cash on hand and in banks			
	7		
January 1		53,922,488	64,030,681
December 31		<u>P116,172,763</u>	<u>P53,922,488</u>
Information on significant non-cash transaction:			
Appropriation of funds	5	P40,000,000	P-
Transfer of retirement liability from a subsidiary	19,22	610,938	-
Reclassification from property and equipment	11	-	15,079,056
Operational cash flows from interest			
Interest received		P351,797,421	P265,231,230
Interest paid		22,671,460	20,873,955

(The notes on pages 5 to 59 are an integral part of these financial statements.)



ARDCI NGO GROUP, INC.
(A Non-Stock, Non-Profit Organization)

NOTES TO FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 1 - GENERAL INFORMATION

1.1 Organization's information

ARDCI NGO Group, Inc. (the "Organization" or "ARDCI"), formerly known as Agricultural and Rural Development for Catanduanes, Inc., is a non-stock, not-for-profit organization incorporated under the laws of the Republic of the Philippines. It was registered with the Securities and Exchange Commission (SEC) on September 11, 1998 per SEC Registration No. I1998-00277 with principal office located at Sta. Elena, Virac, Catanduanes. It started its operations on January 1, 2000. Accordingly, the Articles of Incorporation and By-laws were amended on September 17, 2010 in connection with the Organization's change in name.

The Organization was created under the Catanduanes Agricultural Support Programme (CatAg) to implement the microfinance component of the Programme. CatAg terminated its operations in April 2003. The Organization's incorporators and members are farmers and fisherfolks who formed the Organization primarily to develop and strengthen the Savings and Loan System (SLS) at the barangay level, and to uplift the living condition of the members by assisting them in the establishment of livelihood facilities, services and enterprises and encouraging them to save to provide for their providential and/or emergency needs.

The Organization has 47 and 40 branches as at December 31, 2014 and 2013, respectively, in Catanduanes and in the provinces of Albay, Sorsogon, Quezon, Laguna, Camarines Sur, Camarines Norte and Batangas and has a membership of 95,106 and 69,959 in 2014 and 2013, respectively.

The Organization's registered address is located at Sta. Elena, Virac, Catanduanes. On October 8, 2013, the Organization transferred its office to the 3rd Floor of ARDCI Corporate Bldg. located at San Roque, Virac, Catanduanes. As of December 31, 2014, the Organization has yet to amend its Articles of Incorporation for the change in its principal place of business.

The Organization currently holds interest in two subsidiaries as follows:

Subsidiaries	Line of business	Effective percentage of controlling interest	
		2014	2013
Vision Bank, Inc. (VBI)	Rural Bank	79.71%	99.39%
ARDCI Corporate Inn, Inc. (ARDCI Corporate Inn)	Hotels and Motels	99.97%	99.97%

In 2013, the Organization sold its 50,000 common shares in VBI to Social Enterprise Development Partnerships, Inc. (SEDPI) with par value of P100 per share for P5,000,000 resulting in a decrease in its ownership share in VBI by 19.68%. However, as of the date of the approval of the financial statements, the Certificate Authorizing Registration (CAR) for the transfer of stock is still pending but the management has decided to record the sale as the related taxes and other fees have already been settled.

VBI was incorporated in the Philippines pursuant to Republic Act (RA) No. 7533 and to Monetary Board Resolution No. 355 dated March 7, 2002. VBI was granted authority on October 3, 2002 to operate as a microfinance-oriented rural organization subject to the rules and regulations of the Bangko Sentral ng Pilipinas (BSP) and other applicable laws.

The registered head office of VBI is located at ARDCI Corporate Building, San Roque, Virac, Catanduanes.

ARDCI Corporate Inn was registered with the SEC on July 26, 2013 per SEC Registration No. CS201330868 with the primary purpose of providing travelers to Virac, Catanduanes with affordable lodging or shelter, food and refreshment, entertainment, fitness and recreation, and similar goods and services, offering, on a reasonable basis, things and amenities that are customarily furnished within households but unavailable to people on travel or journey away from home. It started its operations in October 2013.

The registered address of ARDCI Corporate Inn is located at ARDCI Corporate Building, San Roque, Virac, Catanduanes.

The Organization has another related party which is under common control, ARDCIMBA, Incorporated (ARDCIMBA). ARDCIMBA is a non-stock, non-profit organization incorporated under the laws of the Republic of the Philippines. It was registered with the SEC on September 20, 2011 per SEC Registration No. CN201116580 with principal office located at Sta. Elena, Virac, Catanduanes. ARDCIMBA was created to provide financial assistance to its members and their spouse, children and parents in case of their death, accident and sickness; to provide access and mechanisms for the poor households to cope with uncertainty, risk and opportunity; to empower the poor to build up, manage and own resources they need to secure their future; and to become a sustainable micro-insurance provider for its members.

On September 1, 2014, ARDCIMBA was granted its license to operate for the year 2014-2015 by the IC with License No. 2014-01-0 valid until December 31, 2015. As at December 31, 2014, ARDCIMBA is still at pre-operating stage. After being granted license to operate by the IC on September 2014, ARDCIMBA underwent various trainings in the last quarter of 2014 in preparation for the commencement of its operations on January 28, 2015. In its initial phase of operations, ARDCIMBA will cover the provinces of Catanduanes, Albay, Sorsogon, Bataan, Zambales and Pampanga.

On October 8, 2013, ARDCIMBA transferred its office to the 2nd Floor of ARDCI Corporate Bldg. located at San Roque, Virac, Catanduanes.

1.2 Approval of financial statements

The financial statements were approved and authorized for issue by the Board of Trustees (BOT) on April 21, 2015. The Organization's Chief Executive Officer, Mr. Victor T. Bernal, was authorized by the BOT to sign and cause the issuance of the audited financial statements on its behalf.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

Statement of compliance

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

Presentation of financial statements

The financial statements are presented in accordance with PAS 1, *Presentation of Financial Statements*. The Organization presents all items of income and expenses in a single statement of comprehensive income, with profit or loss and other comprehensive income (OCI) presented in two sections.

These financial statements are presented in Philippine Peso (P), which is also the Organization's functional currency and all values are rounded to the nearest peso.

Basis of measurement

The Organization's financial statements have been prepared on historical cost basis, except as disclosed in the accounting policies.

Use of judgments and estimates

The preparation of financial statements in compliance with PFRS requires the use of certain critical accounting estimates. It also requires the Organization's management to exercise its judgment in applying the Organization's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effects are disclosed in Note 3 to the financial statements.

2.2 Changes in accounting policies and disclosures

The accounting policies applied are consistent with those of the previous year, except for the following new standards, interpretations and amendments which were adopted as of January 1, 2014. Except as otherwise indicated, the adoption of these new standards, interpretations and amendments did not have significant impact on the Organization's financial statements.

- ***Amendments to PFRS 10, Consolidated Financial Statements; PFRS 12, Disclosure of Interests in Other Entities; and PAS 27, Separate Financial Statements: Investment Entities:*** The amended standards shall be applied for annual periods beginning on or after January 1, 2014. Earlier application is permitted. The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss (FVPL) in its consolidated and separate financial statements. It also sets out disclosure requirements for investment entities into PFRS 12 and amends PAS 27.
- ***Amendments to PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities:*** The amended standard shall be applied for annual periods beginning on or after January 1, 2014 and should be applied retrospectively. Earlier application is permitted. This amendment provides additional application guidance for offsetting in accordance with PAS 32. It clarifies the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.
- ***Amendments to PAS 36, Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets:*** The amendment has an effective date of January 1, 2014, with earlier application permitted. It requires the disclosure of the recoverable amount of an asset (or cash-generating unit) during periods in which an impairment has been either recorded or reversed in respect of that asset (or cash-generating unit). The amendment also requires an entity to make disclosures for fair value less costs of disposal that are consistent with those currently required for an asset (or cash-generating unit) where the recoverable amount has been determined on the basis of value in use.

- **Amendments to PAS 39, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting:** The amendment has an effective date of January 1, 2014, with earlier application permitted. If an entity decides to early adopt the interpretation, disclosure of that fact is required. Retrospective application of this amendment is required. This amendment to PAS 39 provides an exception to the requirement to discontinue hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations.
- **Philippine Interpretation IFRIC-21, Levies:** The interpretation is applicable for annual periods beginning on or after January 1, 2014. Earlier application is permitted. If an entity decides to early adopt the interpretation, disclosure of that fact is required. Furthermore, retrospective application of this interpretation is required. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognized before the specified minimum threshold is reached.

Annual Improvements to PFRSs (2010-2012 Cycle)

- **PFRS 13 (Amendment), Fair Value Measurement:** The amendment, through a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial. The amendment to PFRS 13 is effective immediately.

Annual Improvements to PFRSs (2011-2013 Cycle)

- **PFRS 1 (Amendment), First-time Adoption of Philippine Financial Reporting Standards: Meaning of "Effective PFRSs":** The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. The amendment to PFRS 1 is effective immediately.

New standards, interpretations and amendments issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Organization's financial statements are listed below. The Organization intends to adopt the standards that will be applicable to its operations when they become effective.

- **Amendments to PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization:** 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 the 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 guidance on the depreciation amount and depreciation period has been expanded to state that expected future reductions in the selling price of items produced by an item of property, plant and equipment could indicate technical or commercial obsolescence (and therefore a reduction in the economic benefits embodied in the item) rather than a change in the depreciable amount or period of the item.

The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted.

- **Amendments to PAS 16, Property, Plant and Equipment and PAS 41, Agriculture: Bearer Plants:** The amendments extend the scope of PAS 16 to include bearer plants and define a bearer plant as a living plant that is used in the production process of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold (except incident scrap sales). The changes made result in bearer plants being accounted for in accordance with PAS 16 using either the cost or revaluation model. 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 effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.
- **Amendments to PAS 19, Defined Benefit Plans: Employment Contributions:** The amendments apply retrospectively for annual periods beginning on or after July 1, 2014. Earlier application is permitted. The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.
- **Amendments to PAS 27, Separate Financial Statements:** The amendments include the introduction of an option for an entity to account for its investments in subsidiaries, joint venture and associates using the equity method in its separate financial statements. The accounting approach that is selected is required to be applied for each category of investments. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.
- **PFRS 9, Financial Instruments: Recognition and Measurement (2010 version):** PFRS 9 (2010 version) as issued reflects the first phase of the replacement of PAS 39 and applies to the classification and measurement of financial assets and financial liabilities as defined by PAS 39. 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 to 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 FVPL. 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 FVPL. 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 the 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 embedded derivative separation rules and the criteria for using the FVO.

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 PFRSC.

- ***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 financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (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 PFRSC.

- ***PFRS 9, Financial Instruments (2014 or final version)***: In July 2014, the final version of PFRS 9 was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39 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 mandatory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.
- ***Amendments to PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***: These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 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 are effective for annual periods beginning on or after January 1, 2016.
- ***Amendments to PFRS 11, Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations***: 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. These amendments are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.
- ***PFRS 14, Regulatory Deferral Accounts***: This 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 OCI. 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. PFRS 14 is effective for annual periods beginning on or after January 1, 2016.

- **Philippine Interpretation IFRIC-15, Agreements for Construction of Real Estate:** This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and rewards of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

The SEC and the PFRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. The adoption of this interpretation will be accounted for retrospectively.

Annual Improvements to PFRSs (2010-2012 Cycle)

The Annual Improvements to PFRSs (2010-2012 Cycle) contain non-urgent but necessary amendments to the following standards:

- **PFRS 2 (Amendment), Share-based Payment: Definition of Vesting Condition:** The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014.
- **PFRS 3 (Amendment), Business Combinations: Accounting for Contingent Consideration in a Business Combination:** The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at FVPL whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014.
- **PFRS 8 (Amendments), Operating Segments: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets:** The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively.
- **PAS 16 (Amendment), Property, Plant and Equipment and PAS 38 (Amendment), Intangible Assets:** The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset. These amendments are effective for annual periods beginning on or after July 1, 2014 and shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of the amendments and in the immediately preceding annual period.

- **PAS 24 (Amendment), Related Party Disclosures:** The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity should be disclosed in the financial statements and not the amounts of compensation paid or payable by the key management entity to its employees or directors. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied retrospectively.

Annual Improvements to PFRSs (2011-2013 Cycle)

The Annual Improvements to PFRSs (2011-2013 Cycle) contain non-urgent but necessary amendments to the following standards. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied prospectively. Earlier application is permitted.

- **PFRS 3 (Amendment), Business Combinations: Scope Exceptions for Joint Arrangements:** The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- **PFRS 13 (Amendment), Fair Value Measurement: Portfolio Exception:** The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with, PAS 39 or PFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in PAS 32.
- **PAS 40 (Amendment), Investment Property:** The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3.

Annual Improvements to PFRSs (2012-2014 Cycle)

The Annual Improvements to PFRSs (2012-2014 Cycle) contain non-urgent but necessary amendments to the following standards. The amendments are effective for annual periods beginning on or after January 1, 2016.

- **PFRS 5 (Amendment), 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 (Amendment), 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 Report:** 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 (Amendment), 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).

The Organization, however, expects no significant impact from the adoption of the new standards, interpretation and amendments on its financial position or performance.

2.3 Cash

Cash includes cash on hand and in banks which are subject to insignificant risks of changes in value. Cash in banks earns interest at prevailing bank deposit rates.

2.4 Financial instruments

Date of recognition

Financial assets and financial liabilities are recognized in the statement of financial position when the Organization 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 settlement date. Deposits, amounts due to banks and loans are recognized when cash is received by the Organization or advanced to the borrowers.

Initial recognition

Financial instruments are recognized in the statement of financial position when the Organization becomes a party to the contractual provisions of the instrument. In the case of a regular way of purchase or sale of financial assets, recognition is done at trade date, which is the date on which the Organization commits to purchase or sell the asset.

Financial instruments are recognized initially at fair value plus transaction costs except for financial instruments measured at FVPL.

Financial instruments carried at FVPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss.

Classification of financial instruments

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date.

Financial assets

The Organization classifies its financial assets as (a) financial assets at FVPL, (b) held-to-maturity (HTM) investments, (c) loans and receivables, or (d) available-for-sale (AFS) financial assets.

(a) Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Changes in the fair value of such assets are accounted for in profit or loss. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

As at December 31, 2014 and 2013, the Organization does not have financial assets under this category.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortized cost, less impairment in value. Amortization is determined using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through amortization process. Unearned discount is recognized as income over the life of the loan using the effective interest method. Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Organization will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

The Organization's cash on hand and in banks, loans and other receivables, and refundable deposits are included in this category.

(c) HTM investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Organization's management has the positive intention and ability to hold to maturity. After initial measurement, these investments are measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). Gains and losses are derecognized or impaired, as well as through the amortization process.

As at December 31, 2014 and 2013, the Organization does not have financial assets under this category.

(d) AFS investments

AFS investments include equity and debt securities. Equity investments classified as AFS are those, which are neither classified as held for trading nor designated at FVPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response in the market conditions.

After initial measurement, AFS investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income (OCI) in the AFS reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified in profit or loss as finance costs and removed from the AFS reserve.

The Organization evaluates whether the ability and intention to sell its AFS investments in the near term is still appropriate. When the Organization is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Organization may elect to reclassify these assets for the foreseeable future or until maturity. Reclassification to the HTM category is permitted only when the Organization has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified out of the AFS category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the effective interest method.

As at December 31, 2014 and 2013, the Organization does not have financial assets under this category.

Financial liabilities

Financial liabilities are classified as (a) financial liabilities at FVPL (including financial liabilities held for trading and those that are designated at fair value), and (b) other financial liabilities measured at amortized cost.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Gains and losses arising from changes in the fair value of financial liabilities classified as held for trading are included in profit or loss. The Organization has no financial liabilities that are designated at FVPL.

The Organization's financial liabilities measured at amortized cost include members' deposits, loans payable and other financial liabilities under accounts and other payables.

Members' deposits are recognized initially at fair value and subsequently measured at amortized cost less settlement payments.

Loans payable are recognized initially at fair value, being their issue proceeds, net of transaction costs incurred. Loans payable are subsequently stated at amortized cost; any difference between the proceeds, net of transaction costs and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Accounts and other payables are recognized in the period in which the related money, goods or services are received or when a legally enforced claim against the Organization is established. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the suppliers, including amounts due to employees. It is necessary to estimate the amount or timing of accruals, however, the uncertainty is generally much less than for provisions.

Classification of financial instruments between debt and equity

Financial instruments are classified as debt or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability is reported as expense or income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Determination of fair value

The fair value of financial instruments traded in active markets is based on their quoted market price or dealer price quotation (bid price for long positions and asked price for short positions). When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

If the financial instruments are not listed in an active market, the fair value is determined using appropriate valuation techniques which include recent arm's length market transactions, net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

Fair value hierarchy

The Organization measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at financial reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 6.

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 Organization.

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

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

- a) Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- b) Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- c) Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Organization determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Organization has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

As at December 31, 2014 and 2013, the Organization does not have financial instruments carried at fair value.

Derecognition of financial instruments

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when: a) the rights to receive cash flows from the asset have expired; b) the Organization 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 c) the Organization has transferred its rights to receive cash flows from the asset and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Organization has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Organization's continuing involvement in the asset.

A financial liability is derecognized when the obligation under the liability is discharged or 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.

Impairment of financial assets

Assessment of impairment

The Organization assesses at each financial reporting date whether a financial asset or group of financial assets is impaired. It assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The determination of impairment losses for financial assets is inherently subjective because it requires material estimates, including the amount and timing of expected recoverable future cash flows. These estimates may change significantly from time to time, depending on available information.

Evidence of impairment

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Organization on terms that it would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Impairment on assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (EIR) (i.e. the EIR computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of loss shall be recognized in profit or loss.

Restructured loans

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

Impairment on assets carried at cost

If there is objective evidence of an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or of a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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 discounted at the current market rate of return for a similar financial asset.

Reversal of impairment loss

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

2.5 Prepayments and other current assets

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as asset and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in the operations or expire with the passage of time.

Prepayments are classified in the statement of financial position as current asset when the cost of the prepayment is expected to be incurred within one year or the Organization's normal operating cycle, whichever is longer. Otherwise, prepayments are classified as non-current.

Other current assets are recognized when the Organization expects to receive future economic benefit from the prepayment and the amount can be measured reliably.

2.6 Investment in subsidiaries

A subsidiary is an entity over which the Organization has the power to govern the financial reporting policies generally accompanying a shareholding of more than one half of the voting rights. The Organization obtains and exercises control through voting rights. The existence and effect of potential voting rights that are currently exercisable and convertible are considered when assessing whether the Organization controls another entity.

The Organization carries its investment at cost less any impairment in value. The carrying value of investment is reviewed for impairment when events or changes in circumstance indicate that the carrying value may not be recoverable. Such impairment loss is measured as the difference between the carrying amount of the investment and the present value of the estimated cash flows discounted at the current market rate of return for similar financial asset. The amount of the impairment loss is recognized in profit or loss. Impairment losses recognized are not reversed.

2.7 Property and equipment

Land is stated at cost less any impairment in value and depreciable properties including building and land improvements, and furniture, fixtures and equipment are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of property and equipment is comprised of the purchase price and costs directly attributable to bringing the asset to its intended use. Subsequent expenditures incurred after the asset has been put into operation are capitalized as additional cost of the asset when the resulting future economic benefit exceeds the originally assessed standard of performance of the asset. All other subsequent expenditures such as repairs and maintenance are recognized in profit or loss in the period the costs are incurred. Renewals and betterments, which improve the originally assessed standard of performance of the property, are capitalized to the appropriate property account.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Building	25 years
Furniture, fixtures and equipment	3 to 5 years
Land improvements	5 years

An asset is depreciated when it is available for use until it is derecognized even if during that period the item is idle. Fully depreciated assets still in use are retained in the financial statements.

The useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment in value are removed from the accounts and any resulting gain or loss arising from the disposal or retirement of an asset, determined as the difference between the sales proceeds and the carrying amount of the asset, is recognized in profit or loss.

2.8 Investment property

Property that is held either to earn rental income or for capital appreciation or for both and that is not significantly occupied by the Organization is classified as investment property.

Investment property, representing building, is initially stated at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and any impairment in value.

The carrying amount of an investment property includes the cost of replacing part of an existing investment property at the time the cost is incurred if the recognition criteria are met, and includes the costs of day-to-day service of an investment property.

Expenditures incurred after the investment property has been put into operations, such as repairs and maintenance costs, are normally charged to profit or loss in the period of incurrence.

Depreciation of depreciable investment property is calculated on a straight-line basis over the estimated useful life of the property of 25 years from the date of acquisition. The accumulated impairment in value is established through impairment loss charged to current operations.

When an investment property is derecognized, is disposed of or is permanently withdrawn from use and no future benefit is expected from the disposal, any resulting gain or loss on the retirement or disposal of investment property, which is determined by comparing the proceeds with the carrying amount, is included in profit or loss.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for the subsequent accounting is the carrying amount at the date of change in use. If owner-occupied property becomes an investment property, the Organization accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

2.9 Construction in-progress

Construction in-progress (CIP) represents capitalized expenses incurred in setting up or constructing new facilities or other assets. Depreciation starts when construction of these assets is completed and the asset is transferred to the respective category of property and equipment i.e., when the asset is put to commercial use.

2.10 Intangible assets

Intangible assets are recognized if the expected future economic benefits are probable, the cost or value of the asset can be measured reliably, and the asset does not result from expenditure incurred internally on an intangible item.

The capitalized costs of intangible assets were incurred to develop the computer software until it can be used to render service to customers. The intangible assets are to be amortized over a period of ten years using the straight-line method starting from the time the asset becomes available for use.

2.11 Impairment of non-financial assets

The carrying amounts of the Organization's non-financial assets are reviewed at each financial reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of impairment loss.

An impairment loss is recognized in profit or loss whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of a non-financial asset is the greater of the asset's fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction. 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. For an asset that does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount and an impairment loss is recognized in profit or loss.

An impairment loss is reversed if there has been a change in estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in profit or loss.

2.12 Deferred income on government grants

Government grants, including non-monetary grants at fair value, are recognized only when there is reasonable assurance that the Organization will comply with any conditions attached to the grant and the grant will be received.

Grants are recognized as income over the period necessary to match them with the related cost, for which they are intended to compensate, on a systematic basis and should not be credited directly to members' equity.

2.13 Provisions and contingencies

Provisions are recognized when: (a) the Organization has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as finance cost. When the Organization expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is charged against profit or loss, net of any reimbursement. Provisions are reviewed at each financial reporting date and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized in the Organization's financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the Organization's financial statements but disclosed in the notes to financial statements when an inflow of economic benefits is probable.

2.14 Fund balance

Fund balance includes one-time-payment non-refundable membership fee, actuarial gains (losses) on retirement liability, and all appropriated and unappropriated current and prior period results.

Appropriated fund balance pertains to funds restricted for a particular purpose such as appropriation for building construction, contingency fund, and social development responsibility.

Unappropriated fund balance includes all current and prior period results as disclosed in the statement of comprehensive income and statement of changes in fund balance, free of any restriction.

2.15 Revenue recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Organization and revenue can be reliably measured.

The additional specific recognition criteria for each type of revenue are as follows:

Interest income on loans and other receivables

Interest income on loans and other receivables is recognized in profit or loss for all financial instruments measured at amortized cost using the effective interest method. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. When calculating the EIR, the Organization estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the EIR, transaction costs, and all other premiums or discounts.

Interest income on deposits and placements

Interest income on deposits and placements is recognized as the interest accrues usually on a time proportion basis taking into account the effective yield on the asset or EIR. Interest income earned from deposits and placements in banks is presented net of applicable tax withheld by banks.

Service charges

Service charges are related to the administration and servicing of loans and are recognized when the service has been provided.

Dividend income

Dividend income from investment is recognized when the shareholder's right to receive payment has been established.

Other income

Other income is recognized when earned.

2.16 Interest expense

Interest expense on members' deposits is recognized in profit or loss when incurred. It is calculated using the effective interest method and is credited to the members' accounts regularly.

Interest incurred on loans payable is recognized in profit or loss when incurred.

2.17 Expense recognition

Expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be reliably measured. Expenses are recognized on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset. General and administrative expenses are costs attributable to the administrative and other business activities of the Organization.

2.18 Income taxes

Income tax expense comprises of current and deferred income tax. Income tax expense is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. If the amount paid for the current and past periods exceeds the amount payable for those periods, the Organization recognizes the excess as a current tax asset. The tax rates and tax laws used to compute the current tax are those that are enacted and substantively enacted as of the financial reporting date.

Deferred tax

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

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

The carrying amount of deferred income tax assets is reviewed at each financial reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the financial reporting date.

2.19 Employee benefits

Short-term benefits

Short-term benefits are recognized as expense in the period when the economic benefits are given. Unpaid benefits at the end of the accounting period are recognized as accrued expense while benefits paid in advance are recognized as prepayment to the extent that it will lead to a reduction in future payments. Short-term benefits given by the Organization to its employees include salaries and wages, short-term compensated absences, bonuses and non-monetary benefits.

Retirement benefits

Post-employment benefit is provided to employees through a defined benefit plan.

Retirement benefit cost is determined using the projected unit credit method. This method reflects the services rendered by the employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. The components of defined benefit cost include service cost, net interest on the net defined benefit liability (asset) in profit or loss, and remeasurements of the net defined benefit liability (asset) in OCI. Remeasurements of the net defined benefit liability (asset) recognized in OCI shall not be reclassified to profit or loss in a subsequent period.

The retirement benefit liability recognized is the present value of the Organization's defined benefit obligation (DBO) as of financial reporting date. An actuary, using the projected unit credit method, calculates the DBO. The present value of the DBO is determined by discounting the estimated future cash outflows using risk-free interest rates of bonds that have terms to maturity approximating the terms of the related retirement obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to OCI.

Past service costs are recognized immediately in profit or loss.

2.20 Leases

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

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

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

Organization as lessee

Finance leases, which transfer to the Organization substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss under Interest expense.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Organization will obtain ownership by the end of the lease term.

Leases which do not transfer to the Organization substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Organization as lessor

Leases wherein the Organization substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Organization's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Organization's net investment outstanding in respect of the finance lease.

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Lease income from operating leases is recognized as income in profit or loss on a straight-line basis over the lease term.

2.21 Related parties

A related party is an entity or person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common or joint control with, the entity in governing the financial and operating policies, or that has an interest in the entity that gives it significant influence over the entity in financial and operating decisions. It also includes members of the key management personnel or close members of the family of any individual referred to herein and others, who have the ability to control, jointly control or significantly influence by or for which significant voting power in such entity resides with, directly or indirectly, any such individual. This includes parents, subsidiaries, fellow subsidiaries, associates, joint ventures and post-employment benefit plans, if any.

2.22 Events after the financial reporting date

Post year-end events up to the date the financial statements are authorized for issue by the BOT that provide additional information about the Organization's position at financial reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

NOTE 3 - SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of the financial statements in accordance with PFRS requires the Organization to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses, and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the judgments and 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 historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

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

(a) Determination of functional currency

Based on the economic substance of the underlying circumstances relevant to the Organization, the functional currency is determined to be the Philippine Peso. The Philippine Peso is the currency of the primary economic environment in which the Organization operates. It is the currency that mainly influences the Organization's revenue and incurrence of various operating expenses.

(b) Classification of financial instruments

The Organization classifies a financial instrument, 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 agreement and the guidelines set by PAS 39 on the definitions of a financial asset, a financial liability or equity. The substance of a financial instrument, rather than its legal form, generally governs its classification in the statement of financial position.

The classification of financial assets and financial liabilities is set out in Note 6 to the financial statements.

(c) Determination of whether an arrangement contains a lease

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in the arrangement.

The Organization has entered into operating lease arrangements both as a lessee and as a lessor. Critical judgment was exercised by management to distinguish the lease agreement as either operating or finance lease by looking at the transfer or retention of significant risks and rewards of ownership of the property covered by the agreement. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

The Organization has determined that all significant risks and rewards of ownership of the property it leases on operating lease are not transferable to the Organization and all significant risks and rewards of ownership of the offices it leases out are retained within the Organization.

Rent expense charged to operations amounted to P7,531,958 and P6,317,447 for the years ended December 31, 2014 and 2013, respectively (see Note 21).

Rent income amounted to P1,449,511 and P150,000 for the years ended December 31, 2014 and 2013, respectively (see Note 20).

Leases accounted for as operating lease are disclosed in Note 23.

(d) 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 estimates may include consideration of liquidity, volatility and correlation.

The Organization classifies financial assets 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 quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

(e) *Contingent liabilities*

Judgment is exercised by management to distinguish between provision and contingencies. The Organization's policy on provisions and contingencies is discussed in Note 2.13. The Organization is a defendant in legal actions arising from normal business activities (see Note 23).

Estimates

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

(a) *Allowance for impairment on loans and other receivables*

The Organization reviews its loans and other receivables at each financial reporting date to assess whether an impairment loss should be recognized in profit or loss. In particular, the management estimates the amount and timing of future cash flows based on a number of factors and calculates the impairment loss. Actual results may differ, at which event the Organization adjusts the impairment loss and ensures that allowance for it remains adequate.

The Organization observes the BSP criteria and guidelines in establishing specific allowance for impairment, which is based largely on the age of the loans.

Specific allowance for impairment on microfinance loans shall be set up immediately in accordance with the Portfolio-at-Risk (PAR) number of days of missed payment, as follows:

<u>No. of days missed payment</u>	<u>Required allowance</u>
PAR 1-30	2%
31-60 and/or loans restructured once	20%
61-90	50%
91 or more and/or loans restructured twice	100%

In addition to specific allowance on individually significant loans receivable, the Organization also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan since it was granted. This collective allowance is based on changes in factors that are indicative of incurred losses, such as deterioration in payment status and underlying property prices, among others.

The allowance for impairment is established through provision for impairment losses charged to current operations. Loans are written off against the allowance for impairment when management believes that the collectability of the principal is unlikely.

Recoverability of specific receivables is evaluated based on the best available facts and circumstances, the length of the Organization's relationship with its debtors, the debtors' payment behavior and known market factors. These specific reserves are re-evaluated and adjusted as additional information is received that affects the amount estimated to be uncollectible.

Refer to Note 8 for the carrying amounts of loans and other receivables, and allowance for impairment as at December 31, 2014 and 2013.

(b) Estimation of useful lives of property and equipment, investment property, and intangible assets

The Organization estimates the useful lives of property and equipment, investment property, and intangible assets based on the period over which the assets are expected to be available for use. Their estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence, and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment, investment property, and intangible assets is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the foregoing factors.

The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment, and investment property would increase recorded general and administrative expenses and decrease non-current assets.

The carrying amounts of property and equipment, investment property, and intangible assets as at December 31, 2014 and 2013 are shown in Notes 11, 12 and 13, respectively.

(c) Impairment of non-financial assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. The Organization 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 Organization considers important which could trigger an impairment review include the following: a) significant underperformance relative to expected historical or projected future operating results; b) significant changes in the manner of use of the acquired assets or the strategy for overall business; and c) significant negative industry or economic trends. The Organization's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.11. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations of the Organization.

The carrying values of investment in subsidiaries, property and equipment, investment property, and intangible assets are disclosed in Notes 10, 11, 12 and 13, respectively.

(d) Estimation of liability for retirement benefits

The determination of the Organization's obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in the notes to financial statements and include, among others, discount rates and expected rate of salary increases. The amounts of retirement benefit obligation and expense, and an analysis of the movements in the estimated present value of DBO are presented in Note 19.

NOTE 4 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Organization is exposed to a variety of financial risks arising from its operating, investing and financing activities. The BOT has overall responsibility for the Organization's financial risk management, which includes establishment and approval of risk strategies, policies and limits. The main objective of the financial risk management is to minimize the adverse impact of financial risks on the Organization's financial performance and financial position due to the unpredictability of financial markets.

The Organization's principal financial instruments consist of cash on hand and in banks, loans and other receivables, members' deposits and loans payable. The main purpose of these financial instruments is to generate income and raise finances for the Organization's operations.

The main risks arising from the Organization's use of financial instruments are summarized as follows:

a. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

To mitigate credit risk, the Organization adopted and implemented the poverty assessment tool and the cash flow assessment tool as part of its selection process to measure the capacity of the business to cover the loan payment, the description of the client's business, purpose of loan and the sources of loan payment (primary and secondary). As such, branch and community development officers' (CDOs) performance has been strengthened.

Implementation of loan tracking mechanism to monitor loan status, PAR, portfolio quality, repayment performance and history is made to mitigate risk. Furthermore, strict adherence to credit discipline is observed.

The Organization recognizes the need to mitigate member's risk exposure in the form of introducing insurance as a form of protection against threat or possibility of loss.

The Organization adopts a strong Internal Audit Unit with clear audit plans and procedures to anticipate, detect and correct deviations from the system and ensure proper compliance with approved policies and procedures. Assurance that cash collection and disbursements are in place to minimize transaction costs and eliminate unnecessary costs. Regular spot audit of both branches and SLS is done by the Internal Audit Unit to eliminate irregularities that lead to fraud and losses. The Organization consistently reviews its delinquency management and loan recovery policies to support high repayment rates and operational viability.

The Organization's maximum exposure to credit risk before collateral held or other credit enhancements as at December 31 follows:

	<u>2014</u>	<u>2013</u>
Cash in banks (Note 7)	P116,122,763	P53,872,488
Loans and other receivables, net (Note 8)	818,799,341	592,309,030
Refundable deposits (Note 14)	<u>1,014,565</u>	<u>1,014,565</u>
	<u>P935,936,669</u>	<u>P647,196,083</u>

The aging analyses of financial assets are as follows (gross of allowance for impairment):

		2014				
		Past due but not impaired				
		Neither past due nor impaired	30 days	31-60 days	61-90 days	Impaired
Total			> 90 days			
Cash in banks (Note 7)		P116,122,763	P-	P-	P-	P-
Loans and other receivables (Note 8)		841,181,923	10,441,907	1,736,036	888,712	9,943,914
Refundable deposits (Note 14)		1,014,565	-	-	-	-
		P958,319,251	P10,441,907	P1,736,036	P888,712	P9,943,914
		2013				
		Past due but not impaired				
		Neither past due nor impaired	30 days	31-60 days	61-90 Days	Impaired
Total			> 90 days			
Cash in banks (Note 7)		P53,872,488	P-	P-	P-	P-
Loans and other receivables (Note 8)		607,271,318	4,514,482	2,331,911	2,075,883	6,778,921
Refundable deposits (Note 14)		1,014,565	-	-	-	-
		P662,158,371	P4,514,482	P2,331,911	P2,075,883	P937,178
						P6,778,921

Credit quality per class of financial assets

The credit quality of financial assets is determined based on the Organization's historical experience with the corresponding parties.

Cash in banks - based on the nature of the counterparty and the Organization's internal rating system. The counterparty has the apparent ability to satisfy its obligation, thus, there is a high probability of collection.

Loans and other receivables - high grade pertains to fully secured loans with standard grade consists of fully secured loans with relatively low defaults; and substandard grade pertains to either secured or clean loans with history of default payments.

Refundable deposits - The counterparty has the apparent ability to satisfy its obligation with least likelihood of default.

The tables below show the credit quality by class of financial assets as at December 31:

	2014			
	Neither past due nor impaired			
	High Grade	Standard Grade	Substandard grade	Total
Cash in banks (Note 7)	P116,122,763	P-	P-	P116,122,763
Loans and other receivables (Note 8)	818,171,354	-	-	818,171,354
Refundable deposits (Note 14)	1,014,565	-	-	1,014,565
	<u>P935,308,682</u>	<u>P-</u>	<u>P-</u>	<u>P935,308,682</u>
	2013			
	Neither past due nor impaired			
	High Grade	Standard Grade	Substandard grade	Total
Cash in banks (Note 7)	P53,872,488	P-	P-	P53,872,488
Loans and other receivables (Note 8)	590,632,943	-	-	590,632,943
Refundable deposits (Note 14)	1,014,565	-	-	1,014,565
	<u>P645,519,996</u>	<u>P-</u>	<u>P-</u>	<u>P645,519,996</u>

b. Market risk

Market risk is the risk of loss of future earnings or future cash flows arising from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchanges rates, equity prices and other market changes. The Organization's market risk is manageable within conservative bounds. The Organization has not engaged in trading financial instruments in 2014 and 2013.

Interest rate risk

Interest rate risk is the risk to earnings or capital resulting from adverse movements in interest rates. The economic perspective of interest rate risk focuses on the value of a financial instrument in the current interest rate environment and the sensitivity of that value to changes in interest rates.

To assure a fair margin of profitability, the Organization keeps a reasonable spread between interest rates on loans and members' deposits. Interest rates are reviewed from time to time to anticipate future losses and minimize interest expense on members' deposits.

The following table demonstrates the sensitivity of income before income tax and members' equity for the years ended December 31, 2014 and 2013 to a reasonably possible change in interest rates, with all other variables held constant:

Increase (decrease) in market basis points	2014		2013	
	1%	-1%	1%	-1%
Effect on income before income tax	<u>P1,570,821</u>	<u>(P1,570,821)</u>	<u>P1,041,184</u>	<u>(P1,041,184)</u>
Effect on members' equity	<u>P1,570,821</u>	<u>(P1,570,821)</u>	<u>P1,041,184</u>	<u>(P1,041,184)</u>

The maturity profile of the Organization's interest-bearing financial instruments follows:

	2014		
	Within 1 year	Beyond 1 year	Total
Financial assets			
Cash in banks (Note 7)	P116,122,763	P-	P116,122,763
Loans and other receivables (Note 8)	<u>793,881,901</u>	<u>2,620,137</u>	<u>796,502,038</u>
	<u>P910,004,664</u>	<u>P2,620,137</u>	<u>P912,624,801</u>
Financial liabilities			
Members' deposit (Note 15)	P271,374,088	P695,500	P272,069,588
Loans payable (Note 18)	<u>273,515,206</u>	<u>123,469,523</u>	<u>396,984,729</u>
	<u>P544,889,294</u>	<u>P124,165,023</u>	<u>P669,054,317</u>
	2013		
	Within 1 year	Beyond 1 year	Total
Financial assets			
Cash in banks (Note 7)	P53,872,488	P-	P53,872,488
Loans and other receivables (Note 8)	<u>580,149,623</u>	<u>1,198,924</u>	<u>581,348,547</u>
	<u>P634,022,111</u>	<u>P1,198,924</u>	<u>P635,221,035</u>
Financial liabilities			
Members' deposits (Note 15)	P215,114,034	P397,500	P215,511,534
Loans payable (Note 18)	<u>195,997,066</u>	<u>66,277,003</u>	<u>262,274,069</u>
	<u>P411,111,100</u>	<u>P66,674,503</u>	<u>P477,785,603</u>

The interest rates for the interest-bearing financial instruments are as follows:

	2014		2013	
	Within 1 year	Beyond 1 year	Within 1 year	Beyond 1 year
Financial assets				
Cash in banks	0.13% to 5%	-	0.25% to 5%	-
Loans and other receivables	10% to 34%	10% to 17%	10% to 34%	10% to 17%
Financial liabilities				
Members' deposits	5% to 7%	-	5% to 7%	-
Loans payable	3% to 13%	3% to 13%	3% to 13%	3% to 13%

Foreign exchange risk

The Organization has no significant exposure to foreign currency risks as most transactions are denominated in the Philippine Peso, its functional currency. However, the Organization pays US\$300 to ENCASH for the annual license fee of the ATMs.

c. Liquidity risk

Liquidity risk is the risk from inability to meet obligations when they become due because of the inability to liquidate assets or obtain adequate funding. The Organization ensures that sufficient liquid assets are available to meet short-term funding and regulatory requirements.

The Organization's liquidity and cash positions are monitored on a daily basis. The Organization maintains sufficient liquidity reserves in the form of high-yielding deposits with banks. The Organization has also obtained sufficient liquidity lines from other banks and non-bank lending institutions that can relieve financial pressures in the event of an extraordinary demand for liquidity. Further, the Organization actively rediscounts loans with entities that have given the Organization more than sufficient rediscounting lines.

The following tables summarize the maturity profile of financial instruments based on contractual undiscounted cash flows.

The maturity grouping of financial instruments is based on the remaining period from the end of the financial reporting period to the contractual maturity date. For financial liabilities, when the counterparty has a choice of when the amount is to be paid, the liability is allocated to the earliest period in which the Organization can be required to pay.

	2014				Total
	On demand	Less than 3 months	3 to 12 Months	1 to 5 years	
Financial assets					
Cash on hand and in banks	P116,172,763	P-	P-	P-	P116,172,763
Loans and other receivables	8,739,189	32,673,344	774,766,671	2,620,137	818,799,341
Refundable deposits	-	-	-	1,014,565	1,014,565
	124,911,952	32,673,344	774,766,671	3,634,702	935,986,669
Financial liabilities					
Members' deposit	254,505,774	5,441,392	11,426,922	695,500	272,069,588
Accounts and other payables*	6,198,538	14,450,755	3,293,312	-	23,942,605
Loans payable	-	97,283,968	176,231,238	123,469,523	396,984,729
	260,704,312	117,176,115	190,951,472	124,165,023	692,996,922
Net assets (liabilities)	(P135,792,360)	(P84,502,771)	P583,815,199	(P120,530,321)	P242,989,747

*excluding government liabilities

	2013				Total
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	
Financial assets					
Cash on hand and in banks	P53,922,488	P-	P-	P-	P53,922,488
Loans and other receivables	6,028,439	23,294,046	561,787,621	1,198,924	592,309,030
Refundable deposits	-	-	-	1,014,565	1,014,565
	P59,950,927	P23,294,046	P561,787,621	P2,213,489	P647,246,083
Financial liabilities					
Members' deposits	201,752,319	4,310,231	9,051,484	397,500	215,511,534
Accounts and other payables*	5,543,192	12,061,845	2,748,882	-	20,353,919
Loans payable	-	40,123,781	155,873,285	66,277,003	262,274,069
	207,295,511	56,495,857	167,673,651	66,674,503	498,139,522
Net assets (liabilities)	(P147,344,584)	(P33,201,811)	P394,113,970	(P64,461,014)	P149,106,561

*excluding government liabilities

NOTE 5 - CAPITAL MANAGEMENT

The primary objective of the Organization's capital management is to ensure the ability of the Organization to have sufficient capital to underpin the Organization's risk-taking activities, and continue as a going concern and maintain a strong credit rating.

The BOT has the overall responsibility for monitoring the Organization's capital structure and making the necessary adjustments to address the risks and adapt to changes in economic conditions and regulatory requirements.

The Organization regards the following items as the fund it manages as at December 31:

	<u>2014</u>	<u>2013</u>
Fund balance		
Appropriated	P40,000,000	P-
Unappropriated	<u>379,717,936</u>	<u>301,124,161</u>
	<u>P419,717,936</u>	<u>P301,124,161</u>

In its meeting held on December 18, 2014, the management, with the approval of the BOT, appropriated P40,000,000 of the fund as special reserve for any probable contingency.

In its meeting held on March 4, 2013, the BOT approved the allotment of additional funds for the building under construction amounting to P10,500,000. All the allotments for building construction were subsequently used resulting to a nil balance of appropriated funds as at December 31, 2013.

In its meeting held on April 17, 2012, the BOT approved the allotment of funds for building construction and social development responsibility amounting to P50,000,000 and P20,000,000, respectively, and the need for an official act of appropriation to authorize any release of funds relative to the said activities.

The movements in the unappropriated portion of members' equity are as follows:

	<u>2014</u>	<u>2013</u>
Balance at January 1	P301,124,161	P178,292,477
Additional revolving fund	540,091	619,351
Profit for the year	118,053,684	68,706,937
Appropriations during the year	(40,000,000)	-
Appropriated funds used	<u>-</u>	<u>53,505,396</u>
Balance at December 31	<u>P379,717,936</u>	<u>P301,124,161</u>

Revolving fund pertains to non-refundable membership fees collected from the new members.

NOTE 6 - FINANCIAL INSTRUMENTS

The following table summarizes the carrying values and fair values of the Organization's financial assets and financial liabilities as at December 31:

	2014		2013	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash on hand and in banks	P116,172,763	P116,172,763	P53,922,488	P53,922,488
Loans and other receivables, net	818,799,341	818,799,341	592,309,030	592,309,030
Refundable deposits	1,014,565	1,014,565	1,014,565	1,014,565
	<u>P935,986,669</u>	<u>P935,986,669</u>	<u>P647,246,083</u>	<u>P647,246,083</u>
Financial liabilities				
Members' deposit	P272,069,588	P272,069,588	P215,511,534	P215,511,534
Accounts and other payables*	23,942,605	23,942,605	20,353,919	20,353,919
Loans payable	396,984,729	396,984,729	262,274,069	262,274,069
	<u>P692,996,922</u>	<u>P692,996,922</u>	<u>P498,139,522</u>	<u>P498,139,522</u>

*excluding government liabilities

Fair value of financial instruments

The following methods and assumptions are used by the Organization in estimating the fair value of financial assets and financial liabilities:

The carrying values of cash on hand and in banks, loans and other receivables, accounts and other payables, and members' deposits approximate their fair values due to their relatively short-term maturities.

Loans payable and refundable deposits - fair value approximates the carrying value because the impact of discounting cash flows applying current incremental borrowing rates for similar types of borrowings is not significant.

The income/gains earned and expenses/losses incurred by the Organization from its financial instruments are as follows:

	2014	2013
Interest income on bank deposits (Note 7)	P502,500	P374,883
Interest income on loans and other receivables (Note 8)	359,220,562	257,627,812
Interest income on finance lease receivable (Note 20)	44,953	54,159
Interest expense on members' deposits (Note 15)	(11,883,351)	(9,223,305)
Interest expense on loans payable (Note 18)	(23,025,572)	(21,987,294)
	<u>P324,859,092</u>	<u>P226,846,255</u>

NOTE 7 - CASH ON HAND AND IN BANKS

The details of the account at December 31 are as follow:

	<u>2014</u>	<u>2013</u>
Cash in banks	P116,122,763	P53,872,488
Cash on hand	<u>50,000</u>	<u>50,000</u>
	<u><u>P116,172,763</u></u>	<u><u>P53,922,488</u></u>

Cash in banks generally earns interest at the daily bank deposit rates ranging from 0.13% to 5% and 0.25% to 5% per annum in 2014 and 2013, respectively. Interest earned for the years ended December 31, 2014 and 2013 amounted to P502,500 and P374,883, respectively (see Note 20).

NOTE 8 - LOANS AND OTHER RECEIVABLES, NET

The details of the account at December 31 are as follow:

	<u>2014</u>	<u>2013</u>
Loans		
Micro-business loans (MBLs)	P599,019,847	P407,789,048
Multi-purpose loans (MPLs)	161,254,254	137,714,426
Staff loans	19,331,185	14,571,438
Individual loans	12,065,524	15,830,128
Employee loans	<u>4,317,437</u>	<u>5,041,361</u>
	P795,988,247	P580,946,401
Accounts receivable	15,270,551	10,078,575
Interest receivable	14,455,294	7,032,153
Due from related parties (Note 22)	14,954,040	8,812,043
Finance lease receivable	<u>513,791</u>	<u>402,146</u>
	P841,181,923	P607,271,318
Allowance for credit losses	<u>(22,382,582)</u>	<u>(14,962,288)</u>
	<u><u>P818,799,341</u></u>	<u><u>P592,309,030</u></u>

Loans and other receivables are classified as follows:

	<u>2014</u>	<u>2013</u>
Current	P816,179,204	P591,110,106
Non-current	<u>2,620,137</u>	<u>1,198,924</u>
	<u><u>P818,799,341</u></u>	<u><u>P592,309,030</u></u>

Loans receivable represents loans to members who are administered through the SLS that have been established through each of the 47 and 40 branches in 2014 and 2013, respectively. Each branch has 40 to 50 SLS under its supervision and each SLS may consist of a minimum of three (3) Guarantee Groups (GG) for new SLS, and six (6) GGs for old SLS with five members each.

Through ARDCI's technical and financial assistance, the SLS groups identify, determine and implement financially viable micro-business to enable the farmers and fisherfolks to save and manage their own resources efficiently, thus, growing into self-sustaining agro-entrepreneurs in Catanduanes.

MBLs are intended to increase the income-generating projects of the members. They are payable in 12, 24, 37 or 50 equal weekly premiums with interest at 24% and 34% per annum on the principal amount in Catanduanes and branches operating outside the province, respectively.

MPLs are intended for any emergency needs, house acquisition and/or improvements, acquisition of assets, hospitalization, etc. of SLS members, payable in 12, 24, 37 and 50 equal weekly premiums with interest at 24% and 34% per annum on the principal amount in Catanduanes and branches operating outside the province, respectively.

The maximum loanable amount for MBLs and MPLs is P200,000, provided that the member reaches three-year membership with consistent quality membership status taking into consideration the household cash flow of each member, stability and responsibility, entrepreneurship, repayment behavior and reputation in the community.

Staff loans are intended for the regular employees of the Organization, with a maximum repayment term of 60 months and a maximum loanable amount of P500,000 or resignation benefit whichever is higher, with interest rate of 10% per annum.

Individual loans are intended to make affordable credit facility to help micro entrepreneurs develop and expand their businesses and self-employment opportunities.

Employee loans are intended to make viable credit to employees designed to help reduce employee stress caused by financial obligations, to improve an employee's financial fitness through access to short term and affordable loans and to help those employees fill up the gap in their needs for additional capital to finance for existing business enterprise.

Loans receivable amounting to P459,615,560 and P249,204,984 as at December 31, 2014 and 2013, respectively, has been pledged as collateral for loans from financial institutions (see Note 18).

Accounts receivable includes unliquidated cash advances, receivable from insurance unit, receivable from Social Security System (SSS) for the advance maternity benefit and receivable from Country Bankers Life Insurance Corporation (CBLIC).

Finance lease receivable represents motorcycle and laptop plans/loans granted to the Organization's employees particularly to CDOs. This loan is executed under a loan agreement with ARDCI employees. The motorcycles are initially registered under the Organization's name and upon full payment of the loan, the Certificate of Registration is transferred to the employees. The maximum term of the loan is three (3) years with interest rate of 13% in 2014 and 2013. Interest earned for the years ended December 31, 2014 and 2013 amounted to P44,953 and P54,159, respectively (see Note 20).

In 2014, the Organization collected accounts previously written-off from its members amounting to P1,006,593 (see Note 20).

Interest earned from loans and other receivables for the years ended December 31, 2014 and 2013 amounted to P359,220,562 and P257,627,812 respectively.

The movements in allowance for impairment are as follows:

	<u>2014</u>	<u>2013</u>
At January 1	P14,962,288	P23,156,422
Provision for credit losses	7,420,294	5,018,295
Write-off	-	(13,212,429)
	<u>P22,382,582</u>	<u>P14,962,288</u>

NOTE 9 - PREPAYMENTS AND OTHER CURRENT ASSETS

The details of the account at December 31 are as follows:

	<u>2014</u>	<u>2013</u>
Stationery and supplies on hand	P14,918,616	P1,930,221
Prepayments	3,978,121	3,219,875
Miscellaneous asset	359,550	600,300
	<u>P19,256,287</u>	<u>P5,750,396</u>

Stationery and supplies on hand include promotional T-shirts and calendars to be given to members on SLS meetings amounting to P9,675,246 as at December 31, 2014. Prepayments pertain to the unexpired portion of the Organization's fidelity and health insurance for the staff.

Creditable withholding tax pertains to income taxes withheld by the lessees from the Organization's rental income.

NOTE 10 - INVESTMENT IN SUBSIDIARIES

The account represents the Organization's investments in the shares of stock of VBI and ARDCI Corporate Inn. Details of the investments are as follows:

	<u>2014</u>	<u>2013</u>
Investment in:		
VBI	P20,250,000	P25,250,000
ARDCI Corporate Inn	5,000,000	5,000,000
	<u>P25,250,000</u>	<u>P30,250,000</u>

As discussed in Note 1, the investment in VBI represents the Organization's 79.71% and 99.39% ownership in the issued and outstanding shares of stock of VBI as at December 31, 2014 and 2013, respectively, which is accounted for using the cost method. In 2013, the Organization sold its investment in 50,000 common shares of VBI to SEDPI with a par value of P100 per share for P5,000,000 resulting in a decrease in its ownership share in VBI by 19.68%. In 2014, the management recorded the transaction pending the approval of the CAR for the transfer of the stock as the related taxes and processing fees have already been settled by the Organization and SEDPI.

Further, in 2013, the Organization subscribed to 50,000 common shares of the 200,000 authorized common shares of ARDCI Corporate Inn with a par value of P100 per share for P5,000,000. Said subscription represents the Organization's 99.97% ownership in the issued and outstanding shares of stock of ARDCI Corporate Inn as at December 31, 2014 and 2013.

In 2014, the Organization received dividend income from VBI amounting to P4,969,612 (Note 20).

NOTE 11 - PROPERTY AND EQUIPMENT, NET

The details and movements of the Organization's property and equipment are as follow:

	2014					
	Building	Land	Land improvements	Furniture, fixtures and equipment	Construction in progress	Total
Cost						
At January 1, 2014	P24,719,622	P14,558,270	P326,879	P41,325,322	P-	P80,930,093
Additions	7,101,145	2,395,039	1,072,783	12,764,968	360,446	23,694,381
Disposals	-	-	-	(10,327,588)	-	(10,327,588)
At December 31, 2014	31,820,767	16,953,309	1,399,662	43,762,702	360,446	94,296,886
Accumulated depreciation						
At January 1, 2014	5,519,349	-	84,444	25,243,503	-	30,847,296
Depreciation (Note 21)	1,225,489	-	65,376	6,124,105	-	7,414,970
Disposals	-	-	-	(10,327,588)	-	(10,327,588)
At December 31, 2014	6,744,838	-	149,820	21,040,020	-	27,934,678
Net book value						
At December 31, 2014	P25,075,929	P16,953,309	P1,249,842	P22,722,682	P360,446	P66,362,208

2013

	Building	Land	Land improvements	Furniture, fixtures and equipment (as reclassified)	Construction in progress	Total
Cost						
At January 1, 2013	P39,821,880	P14,558,270	P326,879	P30,282,273	P-	P84,989,302
Additions	-	-	-	11,019,847	-	11,019,847
Reclassification (Note 12)	(15,102,258)	-	-	23,202	-	(15,079,056)
At December 31, 2013	24,719,622	14,558,270	326,879	41,325,322	-	80,930,093
Accumulated depreciation						
At January 1, 2013	4,887,335	-	51,756	17,346,620	-	22,285,711
Depreciation and (Note 21)	632,014	-	32,688	7,896,883	-	8,561,585
Reclassification	-	-	-	-	-	-
At December 31, 2013	5,519,349	-	84,444	25,243,503	-	30,847,296
Net book value						
At December 31, 2013	P19,200,273	P14,558,270	P242,435	P16,081,819	P-	P50,082,797

In 2014, the Organization disposed fully depreciated assets amounting to P10,327,588 and realized a gain of P350,000 (see Note 20).

The Organization appropriated P10,500,000 and P50,000,000 out of the accumulated income for the construction of a 7-storey building in 2012 and 2011, respectively. The construction of the new building started in 2012 and was completed in October 2013. Total cost of the 7-storey building including the view deck amounted to P75,396,698. The estimated cost per floor is identified based on the engineer's report of the building's total cost, and it includes actual cost of materials and cost of earthworks, labor cost and others which are divided equally among the different floors. However, six floors of the building are being leased out to its subsidiaries under operating lease agreements and the remaining floor is being occupied by the Organization (see Note 22). Thus, in 2013, six floors were classified under investment property amounting to P63,504,353 (see Note 12).

In 2013, ARDCIMBA transferred back certain furniture, fixtures and equipment with a carrying amount of P23,202 to the Organization, the cost of which was previously charged against the advances to a related party account of the Organization.

The cost of fully depreciated assets of the Organization still in use amounted to P5,604,547 and P4,528,878 as at December 31, 2014 and 2013, respectively.

Management believes that there is no indication of impairment on the Organization's property and equipment as the net carrying amount is higher than its recoverable amount.

NOTE 12 - INVESTMENT PROPERTY, NET

The details of and movements in the Organization's investment property, representing building, is as follows:

	<u>2014</u>	<u>2013</u>
Cost		
At January 1	P63,504,353	P-
Additions	-	48,402,095
Reclassification (Note 11)	-	15,102,258
At December 31	<u>63,504,353</u>	<u>63,504,353</u>
Accumulated depreciation		
At January 1	635,044	-
Depreciation (Note 21)	2,540,174	635,044
At December 31	<u>3,175,218</u>	<u>635,044</u>
Net book value at December 31	<u>P60,329,135</u>	<u>P62,869,309</u>

The foregoing net book value of the building approximates its fair value as at December 31, 2014 and 2013 as determined by the Organization's engineers, and is within Level 2 of the fair value hierarchy.

The rental income from investment property amounted to P1,449,511 and P150,000 for the year ended December 31, 2014 and 2013, respectively (Note 20).

The details of the operating expense arising from the investment property are as follows:

	<u>2014</u>	<u>2013</u>
<i>Expenses that generated rental income during the period</i>		
Depreciation (Note 21)	P2,540,174	P635,044
Repairs and maintenance	583,137	174,508
Security and janitorial services	503,225	574,909
Building insurance	366,441	540,429
Power, light and water	143,991	590,604
	<u>4,136,968</u>	<u>2,515,494</u>
<i>Expenses that did not generate rental income during the period</i>		
Insurance	109,932	54,043
Repairs and maintenance	97,190	34,902
Security and janitorial services	50,323	57,491
Power, light and water	47,997	59,060
	<u>305,442</u>	<u>205,496</u>
	<u>P4,442,410</u>	<u>P2,720,990</u>

NOTE 13 - INTANGIBLE ASSETS

Intangible assets consist of costs incurred to develop a software to be used for the Organization's operations. The carrying amount of the intangible assets amounted to P1,827,500 as at December 31, 2014 and 2013, respectively.

No amortization was recognized for the years ended December 31, 2014 and 2013 as the Organization is yet to fully implement the use of the software as at December 31, 2014.

There are no intangible assets pledged as security for the Organization's liabilities.

Management sees no conditions of impairment in the Organization's intangible asset and has not recognized any impairment in value.

NOTE 14 - REFUNDABLE DEPOSITS

Refundable deposits pertain to deposits made with Electronic Network Cash Tellers, Inc. (ENCASH) for the Automated Teller Machine installed in branches in Viga, Caramoran, San Andres, Irosin, Caramoan, Baras and Tagkawayan. The contract is for five (5) years starting from 2010, and shall be renewed for another five (5) years. The contract requires the Organization to pay a one-time license fee for each ATM amounting to US\$1,500, together with the corresponding US\$ annual license fees, and a refundable deposit amounting to P1,014,565 as at December 31, 2014 and 2013. These deposits will be refunded upon contract termination.

As at December 31, 2014, there is a high probability that the Organization will renew its contract with ENCASH having the same set of terms. Thus, the refundable deposits remain as noncurrent asset.

NOTE 15 - MEMBERS' DEPOSITS

This account pertains to members' contributions in the form of compulsory and voluntary savings, each earning annual interest of 5% and 5% to 7%, respectively, computed based on the average daily balance. Compulsory savings are withdrawable upon termination of membership from the Organization and can be used to offset up to 90% of the members' outstanding loan balance. Voluntary deposits pertain to optional savings account of the members and are withdrawable anytime.

The details of this account are as follows:

	<u>2014</u>	<u>2013</u>
Compulsory	P225,941,261	P179,638,999
Voluntary	<u>46,128,327</u>	<u>35,872,535</u>
	<u>P272,069,588</u>	<u>P215,511,534</u>
		2013
	<u>2014</u>	(as reclassified)
Current (Note 25)	P271,374,088	P215,114,034
Noncurrent (Note 25)	<u>695,500</u>	<u>397,500</u>
	<u>P272,069,588</u>	<u>P215,511,534</u>

The noncurrent portion of the members' deposit pertains to the compulsory savings of the members who have loans with maturities beyond one (1) year.

Interest expense for the years ended December 31, 2014 and 2013 amounted to P11,883,351 and P9,223,305, respectively.

NOTE 16 - ACCOUNTS AND OTHER PAYABLES

The details of this account are as follow:

	<u>2014</u>	<u>2013</u>
Accounts payable	P18,433,976	P15,408,880
Government liabilities	4,287,401	1,106,452
Accrued interest payable	4,046,975	3,692,863
Accrued expenses	1,162,583	1,110,613
Due to related parties (Note 22)	<u>299,071</u>	<u>141,563</u>
	<u>P28,230,006</u>	<u>P21,460,371</u>

Accounts payable includes the following: (a) liabilities to contractors, (b) liabilities to suppliers, (c) claims, (d) premiums and membership fees collected by the Organization from members, net of claims, administrative expenses and refund supposed to be given to members on behalf of ARDCI MBA, Inc., and (e) proceeds from the sale of the Organization's investment in shares of stock of VBI to SEDPI pending the issuance of CAR (see Notes 1 and 10).

Due to related parties include the outstanding loan balances of deceased VBI members and former VBI employees already collected by the Organization but not yet remitted to VBI, and the unpaid hotel services of ARDCI Corporate Inn provided to the Organization (see Note 22).

On March 12, 2007, the Insurance Commission (IC) conducted a pre-licensing on-site evaluation of ARDCI Mutual Benefit Association, Inc. (ARDCI MBA, Inc.) and found out that the association had been doing business as a mutual benefit association even without license from the IC. ARDCI MBA, Inc. was registered with the SEC on June 16, 2006 per SEC Registration No. CN200609357. The IC ordered the discontinuance of ARDCI MBA, Inc. and the Organization had been ordered by the IC to take custody and management of its assets. In order to continue the micro-insurance program of the Organization, it entered into a contract with Country Bankers Life Insurance Corporation (CBLIC) on March 26, 2007 as its insurer to replace ARDCI MBA, Inc.

The long-outstanding payable to ARDCI MBA, Inc. amounting to P5,995,740 was written off by the Organization in 2013 as a result of IC's discontinuance order (see Note 20). Said write-off was approved by the BOT in its meeting held on March 20, 2014 per Board Resolution No. 47-2014.

NOTE 17 - DEFERRED INCOME FROM GOVERNMENT GRANTS

In 2003, CatAg transferred its assets to the Organization through a deed of donation for the purpose of continuing the banking needs of CatAg's target group in Catanduanes. The transfer was credited as deferred income from government grants and is to be amortized as income for a period of 25 years.

The details of and movements in this account are as follow:

	<u>2014</u>	<u>2013</u>
Cost	P9,676,639	P9,676,639
Accumulated depreciation		
At January 1	3,870,838	3,483,774
Amortization (Note 20)	387,064	387,064
At December 31	<u>4,257,902</u>	<u>3,870,838</u>
Net book value	5,418,737	5,805,801
Current portion	<u>387,064</u>	<u>387,064</u>
Non-current portion	<u>P5,031,673</u>	<u>P5,418,737</u>

NOTE 18 - LOANS PAYABLE

The details of this account are as follow:

	<u>2014</u>	<u>2013</u>
Banking institutions	P57,885,526	P45,728,271
Other financial institutions	<u>339,099,203</u>	<u>216,545,798</u>
	<u>P396,984,729</u>	<u>P262,274,069</u>

The movements in the account are as follows:

	<u>2014</u>	<u>2013</u>
Balance at January 1	P262,274,069	P227,519,710
Proceeds	395,797,311	257,633,098
Payments	<u>(261,086,651)</u>	<u>(222,878,739)</u>
Balance at December 31	<u>P396,984,729</u>	<u>P262,274,069</u>

Loans payable represents loan rediscounting facility availed from financial institutions with annual interest rates of 3% to 13% in 2014 and 2013.

The following table shows the breakdown of loans payable by contractual maturity dates:

	<u>2014</u>	<u>2013</u>
Due within one year	P273,515,206	P195,997,066
Due beyond 1 year but not more than 5 years	<u>123,469,523</u>	<u>66,277,003</u>
	<u>P396,984,729</u>	<u>P262,274,069</u>

Loans receivable amounting to P459,615,560 and P249,204,984 as at December 31, 2014 and 2013, respectively, has been pledged as collateral for said obligations (see Note 8).

Interest expense on loans payable for the years ended December 31, 2014 and 2013 amounted to P23,025,572 and P21,987,294, respectively.

NOTE 19 - RETIREMENT BENEFITS

The Organization has a partially funded, non-contributory defined benefit plan covering all of its regular officers and employees. The plan provides for optional and normal retirement benefits, and death and disability benefits to its members. The normal retirement benefit is equivalent to 125% of plan salary for every year of credited service.

Actuarial Advisers, Inc., a SEC-registered firm of independent certified professional actuaries, made the latest actuarial valuation report as of December 31, 2013. Based on the report, it is assumed that the Organization initially applied the Amended PAS 19(R) on January 1, 2011. The Amended PAS 19(R) simplifies the reporting of the defined benefit cost by introducing the net interest approach, which disaggregates the defined benefit cost into the following components: service cost, net interest and remeasurements. The Organization obtains actuarial valuation report every two years except if any material transactions and other material changes in circumstances occur. The latest actuarial valuation date is December 31, 2013.

Since the Organization is dealing with long-term obligations and uncertainties, assumptions are necessary for estimating both the accumulated benefits and the amount the Organization needs to invest to provide those benefits. These assumptions can be made in good faith, or they can be used to minimize any adverse impact on corporate earnings. The Organization needs to review the assumptions, in relation to current economic trends and expectations, in order to evaluate the reasonableness of these assumptions.

The retirement benefit liability recognized in the statements of financial position as at December 31 follows:

	<u>2014</u>	<u>2013</u>
Present value of DBO at December 31	P11,875,311	P9,090,907
Fair value of plan asset at December 31	<u>14,796,256</u>	<u>7,211,731</u>
Retirement benefit (asset) liability at December 31	<u>(P2,920,945)</u>	<u>P1,879,176</u>

The movements in the net defined liability recognized in the statements of financial position are as follows:

	<u>2014</u>	<u>2013</u>
Retirement benefit liability at January 1	P1,879,176	P4,651,246
Transfer from a subsidiary (Note 22)	610,938	-
Amount recognized in profit or loss (Note 21)	1,799,898	1,540,034
Amount recognized in OCI	2,796,649	5,383,752
Contributions	(10,007,606)	(9,695,856)
Benefits paid directly by the Organization	-	-
Retirement benefit (asset) liability at December 31	<u>(P2,920,945)</u>	<u>P1,879,176</u>

Changes in the present value of the DBO are as follows:

	<u>2014</u>	<u>2013</u>
Present value of DBO at January 1	P9,090,907	P6,112,024
Interest cost	470,909	344,107
Current service cost	1,702,557	1,278,169
Defined benefit cost recognized in profit or loss	<u>2,173,466</u>	<u>1,622,276</u>
Actuarial (gain) loss from:		
Changes in financial assumptions	-	869,296
Experience	-	987,311
Defined benefit cost recognized in OCI	-	1,856,607
Benefits paid	-	(500,000)
Transfer from a subsidiary (Note 22)	610,938	-
Present value of DBO at December 31	<u>P11,875,311</u>	<u>P9,090,907</u>

Changes in the fair value of plan assets are as follows:

	<u>2014</u>	<u>2013</u>
Fair value of plan assets at January 1	P7,211,731	P1,460,778
Asset return in net interest cost recognized in profit or loss	373,568	82,242
Contributions	10,007,606	9,695,856
Benefits paid	-	(500,000)
Remeasurement - plan assets recognized in OCI	<u>(2,796,649)</u>	<u>(3,527,145)</u>
Fair value of plan assets at December 31	<u>P14,796,256</u>	<u>P7,211,731</u>

There was no plan amendment, curtailment or settlement recognized in 2014 and 2013.

The defined benefit cost recognized in profit or loss is shown under general and administrative expenses (see Note 21).

Amount recognized in profit or loss follows:

	<u>2014</u>	<u>2013</u>
Current service cost	P1,702,557	P1,278,169
Net interest cost	97,341	261,865
	<u>P1,799,898</u>	<u>P1,540,034</u>

Amount recognized in OCI follows:

	<u>2014</u>	<u>2013</u>
Actuarial gains (losses)	P-	(P1,856,607)
Remeasurement - plan assets	<u>(2,796,649)</u>	<u>(3,527,145)</u>
	<u>(P2,796,649)</u>	<u>(P5,383,752)</u>

The cumulative actuarial losses in OCI amounted to P12,825,676 and P10,029,027 in 2014 and 2013, respectively.

The weighted average duration of the DBO is 24 years.

The principal actuarial assumptions used to determine the present value of the DBO of the Organization as at December 31 are as follows:

	<u>2014</u>	<u>2013</u>
Discount rate	5.18%	5.18%
Salary increase rate	5.00%	5.00%

The sensitivity of the DBO to changes in the principal actuarial assumptions as at December 31, 2013 and 2014 follows:

Principal assumptions	Increase (Decrease) in assumption	Effect on retirement liability	
		<u>2014</u>	<u>2013</u>
Discount rate	0.50%	(P1,189,096)	(P959,659)
	-0.50%	1,358,900	1,096,700
Salary increase rate	1%	2,823,309	2,278,550
	-1%	(2,211,464)	(1,784,761)

NOTE 20 - OTHER OPERATING INCOME

The details of the account are as follow:

	<u>2014</u>	<u>2013</u>
Share in Credit Group Life Insurance (CGLI)	P8,181,756	P8,044,413
Dividend income (Note 10)	4,969,612	-
Rental income (Note 12 and 23)	1,449,511	150,000
Recovery of previously written-off accounts (Note 8)	1,006,593	-
Interest from deposits in banks (Note 7)	502,500	374,883
Amortization of deferred income from government grants (Note 17)	387,064	387,064
Gain on sale of asset (Note 11)	350,000	-
Convenience charge	297,978	432,898
Service charges	78,946	112,980
Interest on finance lease receivable (Note 8)	44,953	54,159
Write-off of long outstanding payable (Note 16)	-	5,995,740
Miscellaneous income	942,568	512,327
	<u>P18,211,481</u>	<u>P16,064,464</u>

The share in CGLI pertains to the Organization's 30% share in the CGLI premiums on loan releases and experience refund received from CBLIC.

Miscellaneous income includes passbook fee, ID fee, printing fee and overages.

NOTE 21 - GENERAL AND ADMINISTRATIVE EXPENSES

The details of the account follow:

	<u>2014</u>	<u>2013</u>
Salaries, wages and employee benefits	P119,556,576	P97,158,776
Microfinance-related expenses	14,871,092	4,325,616
Transportation, fuel and oil	11,943,817	9,498,273
Depreciation (Notes 11 and 12)	9,955,144	9,196,629
Security and janitorial services	7,584,891	6,526,926
Rental (Note 23)	7,531,958	6,317,447
Supplies	6,653,630	5,836,521
Communication, light and water	5,940,897	4,594,730
Trainings and seminars	4,372,104	4,934,600
Representation	2,899,297	1,769,027
Finance charges	2,861,417	1,718,403
Professional fee	2,479,958	2,491,112
Repairs and maintenance	2,307,992	414,411
Taxes and licenses	2,295,613	1,433,088
Insurance	2,160,599	2,192,904
Documentary stamp tax (DST)	2,007,478	1,157,083
Retirement (Note 19)	1,799,898	1,540,034
Advertising	1,383,729	1,109,554
Fines, Penalties and dues	1,090,733	694,223
Organization charges	528,292	281,365
Charitable contributions	511,955	604,390
Research and development costs	100,459	136,363
Litigation (Note 23)	-	2,198,563
Miscellaneous	2,691,780	2,626,407
	<u>P213,529,309</u>	<u>P168,756,445</u>

Miscellaneous expenses include various expenses incurred by the Organization's head office and other branches, and write-off of unidentified receivables.

NOTE 22 - RELATED PARTY TRANSACTIONS

Transactions with related parties consist mainly of non-interest bearing cash advances to affiliates.

Due from ARDCIMBA arises from the Organization's payment of all expenses attributed to the licensing of ARDCIMBA, acquisition of property, purchase of supplies, regular/special meetings of the BOTs of ARDCIMBA, and others (see Note 8).

Due from VBI represents the receivable arising from expenses paid by the Organization on behalf of VBI (see Note 8).

Due from ARDCI Corporate Inn represents the receivable arising from expenses paid by the Organization on behalf of ARDCI Corporate Inn (see Note 8).

Due to VBI represents the outstanding loan balances of deceased VBI members and former VBI employees already paid and received by the Organization but not yet remitted to VBI (see Note 16).

Due to ARDCI Corporate Inn represents the unpaid hotel services provided to the Organization (see Note 16).

Key management is defined as those with position of area manager and above who are involved in the decision-making process of the Organization.

The amount of outstanding balances and the details of due to/from related parties, including their terms and conditions, security, nature of the consideration to be provided in settlement, and details of any guarantees given or received are as follow:

2014

Related Party	Relationship/ category	Due from related parties (Note 8)	Due to related parties (Note 16)	Allowance for impairment	Terms and conditions	Security	Nature of the consideration to be provided in settlement	Guarantees given or received
ARDCIMBA	Related party under common control							
	Balance at January 1, 2014	P6,030,508	P-	P-	Non-interest bearing, unsecured, on demand	N/A	Cash	N/A
	Cash transferred to ARDCIMBA	750,645	-	-				
	Assets transferred to ARDCIMBA	74,445	-	-				
	Pre-operating expenses paid in cash	3,518,760	-	-				
Provision for impairment losses	-	N/A	-					
	Balance at December 31, 2014	<u>P10,374,358</u>	<u>P-</u>	<u>P-</u>				
VBI	Subsidiary							
	Balance at January 1, 2014	P2,565,291	P6,250	P-	Non-interest bearing, unsecured, on demand	N/A	Cash	N/A
	General and administrative expenses	316,681	-	-				
	Reclassification	363,280	-	-				
	Transfer of retirement Liability (Note 19)	610,938	-	-				
Provision for impairment losses	-	-	-					
	Balance at December 31, 2014	<u>P3,856,190</u>	<u>P6,250</u>	<u>P-</u>				

2014

Related party	Relationship/ category	Due from related parties (Note 8)	Due to related parties (Note 16)	Allowance for impairment	Terms and conditions	Security	Nature of the consideration to be provided in settlement	Guarantees given or received
ARDCI	Subsidiary	P216,244	P135,313	P-	Non-interest bearing, unsecured, on demand	N/A	Cash	N/A
Corporate Inn		4,498,528	-	-				
		720,000	-	-				
		(4,711,280)	-	-				
		-	1,619,492	-				
		-	(1,461,984)	-				
		-	N/A	-				
		P723,492	P292,821	P-				
		P14,954,040	P299,071	P-				

2013

Related party	Relationship/ category	Due from related parties (Note 8)	Due to related parties (Note 16)	Allowance for impairment	Terms and conditions	Security	Nature of the consideration to be provided in settlement	Guarantees given or received
ARDCIMBA	Related party under common control							
	Balance at January 1, 2013	P2,880,290	P-	P-	Non-interest bearing, unsecured, negotiable	N/A	Cash	N/A
	Assets transferred to ARDCIMBA	66,983	-	-				
	Assets transferred from ARDCIMBA	(23,202)	-	-				
	Pre-operating expenses paid in cash	3,106,437	-	-				
	Provision for impairment losses	-	N/A	-				
	Balance at December 31, 2013	P6,030,508	P-	P-				
VBI	Subsidiary							
	Balance at January 1, 2013	P2,322,381	P35,897	P-	Non-interest bearing, unsecured, negotiable	N/A	Cash	N/A
	General and administrative expenses	242,910	-	-				
	Collection of loans remitted to VBI	-	(29,647)	-				
	Provision for impairment losses	-	N/A	-				
	Balance at December 31, 2013	P2,565,291	P6,250	P-				
ARDCI Corporate Inn	Subsidiary							
	Balance at January 1, 2013	P-	P-	P-	Non-interest bearing, unsecured, on demand	N/A	Cash	N/A
	Rent expense	120,000	-	-				
	Expenses paid in cash	96,244	-	-				
	Services rendered	-	135,313	-				
	Provision for impairment losses	-	N/A	-				
	Balance at December 31, 2013	P216,244	P135,313	P-				
	Total	P8,812,043	P141,563	P-				

The advances to related parties are payable on demand. However, the Organization has no intention to collect yet from its related parties as of December 31, 2014 and 2013, respectively.

Compensation of key management personnel for the years ended December 31, 2014 and 2013 amounted to P3,924,657 and P3,391,360, respectively. The total staff loans receivable from key management amounted to P7,680,319 and P5,933,885 as at December 31, 2014 and 2013, respectively.

No provision for doubtful accounts is necessary since the Organization deems the amounts to be fully collectible.

NOTE 23 - CONTINGENCIES AND COMMITMENTS

Legal cases

The Organization is involved in cases that arise in the normal course of business. The Organization filed a Petition for Review on Certiorari with the Supreme Court on January 11, 2012 as regards the case, "ARDCI vs. Senen Razal, et al." (G.R. No. 199419). In 2013, the case was settled and the Organization paid P2,198,563 (see Note 21).

Leases

As a lessee

The Organization leases most of its program and field offices for a period of one year, renewable upon mutual agreement of the parties.

The future minimum lease payments as at December 31 are as follows:

Period	Amount	
	2014	2013
Not later than one year	P3,540,349	P2,046,000
Later than one year but not later than five years	716,390	635,000

Total rent expense recognized in profit or loss for the years ended December 31, 2014 and 2013 amounted to P7,531,958 and P6,317,447, respectively (see Note 21).

As a lessor

Certain floors of the Organization's new corporate building are being leased out to its subsidiaries under operating lease. Details are as follows:

In 2013, VBI transferred its office from Bato, Catanduanes to Virac, Catanduanes. Its new office is located at the ground floor of the Organization's new corporate building. VBI leases its new office from the Organization at a rate of P30,000 per month for a period of ten (10) years which commenced in December 2013 and will end in November 2023.

ARDCI Corporate Inn started its operations in October 2013 and its registered office and business of operations is located at the Organization's new corporate building. ARDCI Corporate Inn occupies the ARDCI Corporate Building's fourth (4th) floor to seventh (7th) floor which include the view deck and are being leased from the Organization at a total rate of P60,000 per month for a period of ten (10) years which commenced in November 2013 and will end in October 2023.

ARDCIMBA transferred its office to the second (2nd) floor of the Organization's new corporate building. ARDCIMBA's new office is being leased from the Organization at a rate of P30,000 per month for a period of ten (10) years which commenced in January 2014 and will end in December 2023.

The future minimum lease payments receivable as at December 31 are as follows:

Period	Amount	
	2014	2013
Not later than one year	P1,440,000	P1,440,000
Later than one year but not later than five years	6,450,000	7,200,000
Later than five years	3,060,000	5,760,000

Rent income recognized for the years ended December 31, 2014 and 2013 amounted to P1,449,511 and P150,000, respectively (see Note 20).

NOTE 24 - INCOME TAXES

The Organization, being a non-stock, not-for-profit organization operating for social welfare purposes, is exempt from income tax pursuant to Section 30 (e) of the National Internal Revenue Code of 1997. However, income derived from whatever kind and character from any of their properties, real or personal, or from any of their activities conducted for profit, is subject to the regular income tax.

The Organization was granted a Certificate of Tax Exemption on July 24, 2002 pursuant to RA No. 8425, otherwise known as the *Social Reform and Poverty Alleviation Act*. On September 17, 2010, the Organization made amendments to its Articles of Incorporation including the change in corporate name. As a result, the Organization was required by the Bureau of Internal Revenue (BIR) to secure another Certificate of Tax Exemption. The Organization has been in compliance with the submission of requirements to secure the Certificate of Tax Exemption. The request for the new certificate, however, is still pending as of the date of the approval of the financial statements.

During the year, the Organization became liable for taxes arising from its income and gains on transactions outside the allowed activities of an entity registered under the Social Reform and Poverty Alleviation Act.

- Provision for income tax consists of current tax expense amounting to P3,519,833 for the year ended December 31, 2014.
- A numerical reconciliation between the tax expense computed at the statutory income tax rate and the actual expense follows:

	2014	2013
Provision for income tax computed at 30%	P5,463,444	P-
Less adjustments for:		
Tax-exempt income	1,490,883	-
Nontaxable income	301,978	-
Income subject to final tax	150,750	-
	<u>P3,519,833</u>	<u>P-</u>

c. Movements in income tax payable follow:

	2014	2013 (as restated)
At January 1	P-	P-
Charged to profit or loss	3,519,833	-
Income tax paid	(1,133,338)	-
Prepaid tax - creditable	(49,071)	-
At December 31	<u>P2,337,424</u>	<u>P-</u>

The Organization has not recognized deferred tax asset from its actuarial loss on retirement liability amounting to P838,995 as at December 31, 2014. The management believes that the Organization will have no benefit in the future periods from the said actuarial loss since it will never be reclassified to profit or loss.

NOTE 25 - RECLASSIFICATION OF PRIOR YEAR BALANCES

The following reconciliations show the effect of the reclassification of account balances for the year ended December 31, 2013 in conformity with the presentation of balances for the year ended December 31, 2014.

The following accounts were affected by the reclassification:

Financial statement item	As previously reported	Effect of reclassification	As reclassified
Members' deposits	P215,511,534	(P397,500)	P215,114,034
Prepayments and other current assets			
Refundable deposits	1,014,565	(1,014,565)	-
Property and equipment, net			
Furniture, fixtures and equipment	43,152,822	(1,827,500)	41,325,322
Intangible assets	-	1,827,500	1,827,500
Members' deposits, net of current portion	-	397,500	397,500
Other noncurrent assets			
Refundable deposits	-	1,014,565	1,014,565

The reclassification of the accounts above did not have an effect in the profit or loss of the Organization in 2013.

NOTE 26 - SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below is the supplementary information which is required by the BIR under its existing Revenue Regulations (RR) to be disclosed as part of the notes to financial statements in addition to the disclosures mandated under PFRS.

A. REVENUE REGULATIONS (RR) NO. 15-2010

In compliance with the requirements of RR No. 15-2010 issued on November 25, 2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year ended December 31, 2014:

1. Documentary stamp tax (DST)

The DST paid/accrued amounted to:

Transaction	Amount	DST thereon
Loan instruments	P381,924,092	P1,897,762
Advances to related parties	15,192,568	75,963
Insurance	81,000,000	31,883
Mortgage	250,000	1,870
	<u>P478,366,660</u>	<u>P2,007,478</u>

2. Taxes and licenses

Permits and licenses P 2,295,613

3. Withholding taxes

The amount of withholding taxes paid/accrued for the year follows:

a. Taxes on compensation and benefits	P4,409,176
b. Expanded withholding taxes	370,505
c. Final withholding taxes	52,478
	<u>P4,832,159</u>

4. Tax cases/assessments

On May 8, 2013, the Organization received a Notice of Informal Conference from the BIR RDO No. 69 Virac, Catanduanes in connection with taxes still due and collectible pursuant to Letter of Authority dated February 25, 2013. In the said notice, the total amount of taxes still due was P39,599,718 which included 2010 internal revenue liabilities on income tax, value-added tax, withholding tax and penalties.

On July 24, 2014, the Organization received a Preliminary Assessment Notice from the BIR Revenue Region No. 10 Legazpi City, Albay ascertaining that the Organization is still liable for the total amount P40,663,852, inclusive of legal increments. On September 17, 2014, the Organization received a Formal Letter of Demand from the BIR Revenue Region No. 10 Legazpi City, Albay ascertaining that the total tax still due amounts to P41,460,662, inclusive of legal increments.

On October 24, 2014, the Organization sent a Request for Reconsideration and Reinvestigation to BIR's Formal Letter of Demand and received by the BIR Revenue Region No. 10 Legazpi City, Albay on October 29, 2014. As of the audit report date, the decision for the Organization's Request for Reconsideration and Reinvestigation is still pending with the BIR. The Organization will have 30 days to file a Petition for Review with the Court of Tax Appeals upon receipt of the BIR's decision.

B. REVENUE REGULATIONS NO. 19-2011

RR No. 19-2011 issued on December 9, 2011 requires the disclosure of the schedules of taxable revenues, cost of sales/services, non-operating and taxable other income, itemized deductions, taxes and licenses and other significant tax information in the notes to financial statements. The Organization's transactions are a mix of exempt and subject to regular tax rate. It does not have transactions subject to special rate.

Following are the required schedules in compliance with the aforesaid revenue issuances:

1. Revenue

	Exempt	Special rate	Regular rate
Interest income on loans and receivables	P359,220,562	P-	P-

2. Cost of services

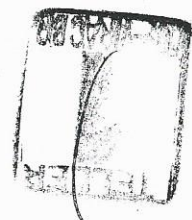
	Exempt	Special rate	Regular rate
Salaries, wages and benefits	P91,735,283	P-	P-
SSS, GSIS, Philhealth, HDMF, and other contributions	4,334,236	-	-
Interest expense	34,908,923	-	-
	P130,978,442	P-	P-

3. Other operating income

	Exempt	Special rate	Regular rate
Share in Credit Group Life Insurance	P-	P-	P8,181,756
Rental income	-	-	1,449,511
Amortization of deferred income from government grants	-	-	387,064
Gain on sale of assets	-	-	350,000
Convenience charge	-	-	297,978
Service charges	-	-	78,946
Interest on finance lease receivable	-	-	44,953
Miscellaneous income	-	-	942,568
	P-	P-	P11,732,776

4. Itemized deductions

	Exempt	Special rate	Taxable
Salaries and allowances	22,509,004	-	-
Depreciation	9,955,144	-	-
Security services	7,584,891	-	-
Rental	7,531,958	-	-
Fuel and Oil	7,092,769	-	-
Office supplies	6,653,630	-	-
Communication, light and water	5,940,897	-	-
Transportation and Travel	4,851,048	-	-
Representation and entertainment	2,899,297	-	-
Interest	2,861,417	-	-
Miscellaneous	2,691,780	-	-
Director's fees	2,492,308	-	-
Repairs and maintenance (labor or labor and materials)	2,307,992	-	-
Taxes and licenses	2,295,613	-	-
Insurance	2,160,599	-	-
Trainings and seminars	1,879,796	-	-
Management and consultancy fee	1,499,727	-	-
Advertising and promotions	1,383,729	-	-
Professional fees	980,231	-	-
SSS, GSIS, Philhealth, HDMF, and other contributions	978,053	-	-
Charitable contributions	511,955	-	-
Research and development	100,459	-	-
Others:			
Microfinance-related expenses	14,871,092	-	-
Retirement contribution	10,007,606	-	-
DST	2,007,478	-	-
Fines and penalties	1,090,733	-	-
Organization charges	528,292	-	-
		-	-
	P125,667,498	P-	P-



We, ROGELIO S. BITOME, President of ARDCI NGO Group, Incorporated, Filipino, of legal age, married and presently holding office at ARDCI Corporate Bldg., San Roque, Virac, Catanduanes;

AND

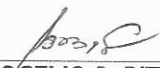
CORAZON dL. ATANACIO, Treasurer of ARDCI NGO Group, Incorporated, Filipino, of legal age, married and presently holding office at ARDCI Corporate Bldg., San Roque, Virac, Catanduanes.

after having been duly sworn to in accordance with law, do hereby certify that the following are true and correct:

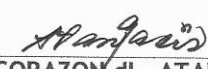
- 1) SCHEDULE OF RECEIPTS OR INCOME OTHER THAN CONTRIBUTIONS AND DONATIONS
- Appendix A
- 2) SCHEDULE OF CONTRIBUTIONS AND DONATIONS - *not applicable*
- 3) SCHEDULE OF DISBURSEMENTS - Appendix B
- 4) SCHEDULE OF APPLICATION OF FUNDS - *not applicable*

This affidavit is executed in compliance with the requirements of the Securities Regulation Code (SRC) Rule 68, As Amended, Part I, par. 4(B).

IN WITNESS WHEREOF, we have hereunto set our hands this 29th day of April 2015 in Virac, Catanduanes, Philippines.



ROGELIO S. BITOME
President
Affiant




CORAZON dL. ATANACIO
Treasurer
Affiant

SUBSCRIBED AND SWORN to before me this 29th day of April 2015 for and in Virac, Catanduanes, affiants exhibiting to me his/her Community Tax Certificate (CTC) as follows:

Name	CTC Number	Date of Issue	Place of Issue
ROGELIO S. BITOME	30102738	Jan. 5, 2015	San Andres, Catanduanes
CORAZON dL. ATANACIO	04045918	Feb. 12, 2015	Caramoran, Catanduanes

BOOK NO 40
PAGE NO 9
BOOK NO 746
SERIES OF 2015


ALFRED M. AQUINO
NOTARY PUBLIC
COMMISSION EXPIRES DEC. 31, 2015
SAN JOSE ST., VIRAC, CATANDUANES
PTR No. 9-052389-1/JAN 5, 2015/VIRAC, CAT.
IBP O.R. No. 84176/Dec. 10/14 FOR 2014/VIRAC, CAT.
MCLE COMPLIANCE NO. IV-0020070/MAY 16, 2013
ROLL No. 32981

ARDCI NGO GROUP, INC.

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AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2014

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Statements of Comprehensive Income for the years ended December 31, 2014 and 2013
Statements of Changes in Fund Balance for the years ended December 31, 2014 and 2013
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Supplementary Schedules

Independent Auditors' Report on Supplementary Schedules dated April 29, 2014

A. Sworn statement of the Organization's President and Treasurer	Applicable
B. Schedule of receipts and disbursements of non-stock, non-profit organizations	Applicable
C. Effective standards and interpretations under PFRS as of year-end	Applicable

INDEPENDENT AUDITORS' SUPPLEMENTAL WRITTEN STATEMENT

The Members and the Board of Trustees
ARDCI NGO Group, Inc.
3rd Floor ARDCI Corporate Bldg., San Roque
Virac, Catanduanes

We have examined the financial statements of ARDCI NGO Group, Inc. for the year ended December 31, 2014, on which we have rendered the attached report, dated April 29, 2015.

In compliance with SRC Rule 68, we are stating that the said company has no stockholder owning one hundred (100) or more shares each.

ALBA ROMEO & CO.



Leticia C. Tagle
Partner

CPA Certificate No. 0017358

Tax Identification No. 123-048-280

PTR No. 4770486, issued on January 21, 2015, Makati City

BOA/PRC Accreditation No. 005, issued on November 12, 2012,
effective until December 31, 2015

SEC Accreditation No. 0039-AR-3 (Individual), Group B, issued on
September 13, 2012, effective until September 12, 2015

SEC Accreditation No. 0007-FR-3 (Firm), Group A, issued on March 22, 2012,
effective until March 21, 2015, effectivity extended until April 30, 2015

BIR Accreditation No. 08-001682-6-2014, issued on January 5, 2015,
effective until January 4, 2018

April 29, 2015
Makati City, Philippines



ALBA ROMEO & CO., CPAS
Audit | Tax | Consulting

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Members and the Board of Trustees
ARDCI NGO Group, Inc.
3rd Floor ARDCI Corporate Bldg., San Roque
Virac, Catanduanes

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of ARDCI NGO Group, Inc. as at December 31, 2014 and 2013 included in these Audited Financial Statements (AFS) and have issued our report thereon dated April 29, 2014. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules in this AFS are presented for purposes of complying with the Securities Regulation Code (SRC) Rule 68, As Amended, and the Securities and Exchange Commission (SEC) Memorandum Circular No. 4, Series of 2013 and are not part of the basic financial statements. Such schedules are the responsibility of management. The schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ALBA ROMEO & CO.

Leticia C. Tagle

Partner

CPA Certificate No. 0017358

Tax Identification No. 123-048-280

PTR No. 4770486, issued on January 21, 2015, Makati City

BOA/PRC Accreditation No. 005, issued on November 12, 2012,
effective until December 31, 2015

SEC Accreditation No. 0039-AR-3 (Individual), Group B, issued on
September 13, 2012, effective until September 12, 2015

SEC Accreditation No. 0007-FR-3 (Firm), Group A, issued on March 22, 2012,
effective until March 21, 2015, effectivity extended until April 30, 2015

BIR Accreditation No. 08-001682-6-2014, issued on January 5, 2015,
effective until January 4, 2018

April 29, 2014
Makati City

ARDCI NGO GROUP, INC.
SCHEDULE OF STANDARDS AND INTERPRETATIONS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable
	and Financial Liabilities			
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures *		✓	
PFRS 8	Operating Segments			✓
PFRS 9	Financial Instruments		✓	
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture *			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations *			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts *			✓
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization *			✓
	Amendments to PAS 16: Bearer Plants *			✓
PAS 17	Leases	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	✓		
PAS 21	The Effects of Changes in Foreign Exchange Rates			✓
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PAS 27 *			✓
PAS 28	Investments in Associates			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 32: Classification of Rights Issues			✓
PAS 33	Earnings per Share			✓
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization *			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendments to PAS 39: Eligible Hedged Items			✓
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants *			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 11	PFRS 2 - Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for Construction of Real Estate *			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓
	Annual Improvements to PFRSs (2009-2011 Cycle)			
	- PFRS 1, First-time Adoption of Philippine Financial Reporting Standards			✓
	- PAS 1, Presentation of Financial Statements - Clarification of the Requirements for Comparative Information	✓		
	- PAS 16, Property, Plant and Equipment - Classification of Servicing Equipment			✓
	- PAS 32, Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments			✓
	- PAS 34, Interim Financial Reporting - Interim Financial Reporting			✓

