



ARDCI NGO GROUP, INC.

INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES  
Audited Financial Statements (AFS)  
December 31, 2015

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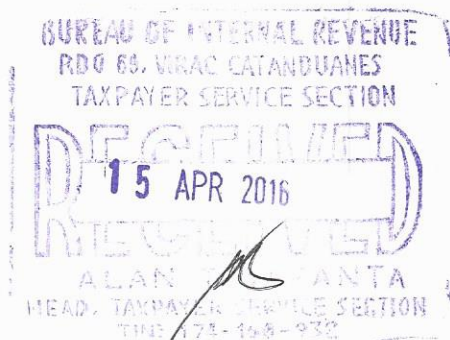
**Financial Statements**

Statement of Management's Responsibility for Financial Statements for the years ended  
December 31, 2015 and 2014  
Independent Auditors' Report dated April 7, 2016  
Statements of Financial Position as at December 31, 2015 and 2014  
Statements of Comprehensive Income for the years ended December 31, 2015 and 2014  
Statements of Changes in Fund Balance for the years ended December 31, 2015 and 2014  
Statements of Cash Flows for the years ended December 31, 2015 and 2014  
Notes to the Financial Statements for the years ended December 31, 2015 and 2014

**Supplementary Schedules**

Independent Auditors' Report on Supplementary Schedules dated April 7, 2016

- |   |            |
|---|------------|
| A. Schedule of receipts and disbursements of non-stock and non-profit organizations | Applicable |
| B. Effective standards and interpretations under PFRS as of year-end                | Applicable |





**(formerly: Agricultural and Rural Development for Catanduanes, Inc.)**  
SEC Registration No. 11998-00277 tel.no.(052)-811-32-88;mobile no.091 78073463  
3/F ARDCI Corporate Bldg. San Roque, Virac, Catanduanes 4800 visit us @ [www.ardci.org.ph](http://www.ardci.org.ph)

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**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, 2015 and 2014, 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  
Chairman, BOT

  
VICTOR T. BERNAL  
Chief Executive Officer

  
CORAZON DL. ATANACIO  
Treasurer

Signed this 7<sup>th</sup> day of April 2016.

## INDEPENDENT AUDITORS' REPORT

The Members and the Board of Trustees  
ARDCI NGO Group, Inc.  
3rd Floor, ARDCI Corporate Building  
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, 2015 and 2014, and the statements of comprehensive income, statements of changes in fund balance and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

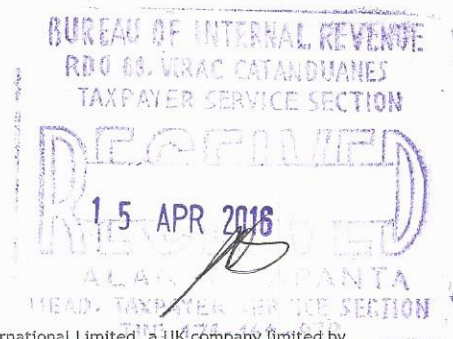
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material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

#### *Auditors' Responsibility*

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

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

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



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BDO is the brand name for the BDO network of public accounting firms and for each of the BDO member firms.  
BOA/PRC Reg. No. 0005 SEC Accreditation No. 0007-FR-3

*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, 2015 and 2014, 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**

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 25 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of 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. 5358086, issued on January 26, 2016, Makati City

BOA/PRC Registration No. 0005, issued on December 1, 2015,  
effective until December 31, 2018

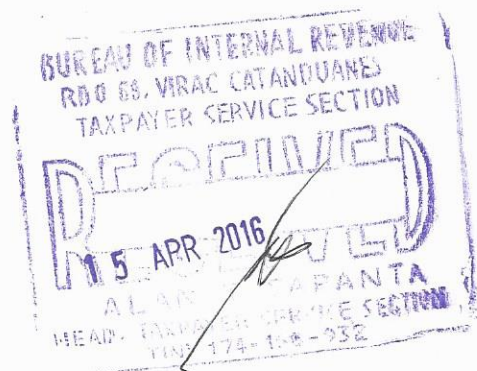
SEC Accreditation PA-A-733-A (Individual), Group A (conditional),  
issued on February 3, 2016, effective until June 3, 2016

SEC Accreditation No. 0007-FR-4 (Firm), Group A, issued on July 16, 2015,  
effective until July 15, 2018

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

April 7, 2016

Makati City

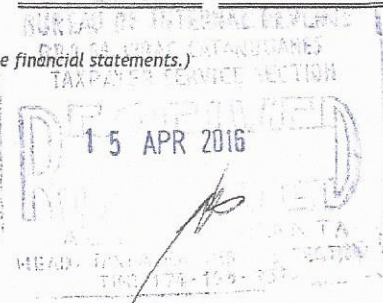


ARDCI NGO GROUP, INC.  
 (A Non-Stock, Non-Profit Organization)  
 STATEMENTS OF FINANCIAL POSITION  
 DECEMBER 31, 2015 AND 2014



	Note	2015	2014
<b>ASSETS</b>			
<b>Current assets</b>			
Cash on hand and in banks	7	P124,508,581	P116,172,763
Loans and other receivables, net	8	1,233,530,693	816,179,204
Prepayments and other current assets	9	16,198,775	19,256,287
<b>Total current assets</b>		<b>1,374,238,049</b>	<b>951,608,254</b>
<b>Noncurrent assets</b>			
Loans and other receivables, net of current portion	8	22,031,136	2,620,137
Investment in subsidiaries	10	25,250,000	25,250,000
Property and equipment, net	11	84,272,746	66,362,208
Investment property, net	12	57,788,961	60,329,135
Intangible assets	13	3,271,635	1,827,500
Retirement benefit asset, net	19	9,014,339	2,920,945
Refundable deposits	14	874,975	1,014,565
<b>Total noncurrent assets</b>		<b>202,503,792</b>	<b>160,324,490</b>
<b>TOTAL ASSETS</b>		<b>P1,576,741,841</b>	<b>P1,111,932,744</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Members' deposits	15	P372,910,876	P271,374,088
Accounts and other payables	16	45,312,324	28,230,006
Deferred income from government grants	17	387,064	387,064
Loans payable	18	487,290,225	273,515,206
Income tax payable	24	1,153,793	2,337,424
<b>Total current liabilities</b>		<b>907,054,282</b>	<b>575,843,788</b>
<b>Noncurrent liabilities</b>			
Members' deposits, net of current portion	15	610,390	695,500
Deferred income from government grants, net of current portion	17	4,644,609	5,031,673
Loans payable, net of current portion	18	82,677,796	123,469,523
<b>Total noncurrent liabilities</b>		<b>87,932,795</b>	<b>129,196,696</b>
<b>Total liabilities</b>		<b>994,987,077</b>	<b>705,040,484</b>
<b>Fund balance</b>			
Actuarial loss on retirement liability	19	(17,939,324)	(12,825,676)
Accumulated income			
- Appropriated	5	40,000,000	40,000,000
- Unappropriated		559,694,088	379,717,936
<b>Total fund balance</b>		<b>581,754,764</b>	<b>406,892,260</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>		<b>P1,576,741,841</b>	<b>P1,111,932,744</b>

(The notes on pages 5 to 64 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, 2015 AND 2014

	Notes	2015	2014
Interest income	8	P490,247,421	P359,220,562
Interest expense	15, 18	(46,991,604)	(34,908,923)
Net interest income		443,255,817	324,311,639
Other operating income	20	10,408,672	18,211,481
General and administrative expenses	21	453,664,489 (258,661,197)	342,523,120 (213,529,309)
Income from operations		195,003,292	128,993,811
Provision for impairment losses	8	(12,682,841)	(7,420,294)
Income before income tax		182,320,451	121,573,517
Provision for income tax	24	(2,721,887)	(3,519,833)
Net income for the year		179,598,564	118,053,684
Other comprehensive loss			
Item that will not be reclassified to profit or loss			
Actuarial loss on retirement liability	19	(5,113,648)	(2,796,649)
Net comprehensive income for the year		<u>P174,484,916</u>	<u>P115,257,035</u>

*(The notes on pages 5 to 64 are an integral part of these financial statements.)*

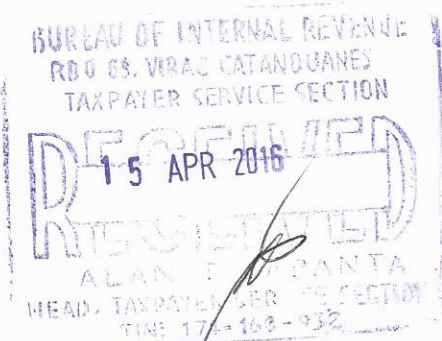


**ARDCI NGO GROUP, INC.**  
(A Non-Stock, Non-Profit Organization)

**STATEMENTS OF CHANGES IN FUND BALANCE**  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Accumulated income		Actuarial loss on retirement liability (Note 19)	Total
	Appropriated (Note 5)	Unappropriated (Note 5)		
Balance at January 1, 2014	P-	P301,124,161	(P10,029,027)	P291,095,134
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	40,000,000	379,717,936	(12,825,676)	406,892,260
Additional revolving fund	-	377,588	-	377,588
Appropriation for contingencies	-	-	-	-
Net income for the year	-	179,598,564	-	179,598,564
Actuarial loss on retirement liability	-	-	(5,113,648)	(5,113,648)
Balance at December 31, 2015	P40,000,000	P559,694,088	(P17,939,324)	P581,754,764

(The notes on pages 5 to 64 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, 2015 AND 2014

	Notes	2015	2014
<b>Cash flows from operating activities</b>			
Income before income tax		P182,320,451	P121,573,517
Adjustments for:			
Amortization of deferred income from government grants	17, 20	(387,064)	(387,064)
Amortization of intangible asset	13, 21	363,515	-
Depreciation	11, 12, 21	14,860,868	9,955,144
Provision for impairment losses	8	12,682,841	7,420,294
Retirement	19, 21	2,243,947	1,799,898
Gain on sale of transportation equipment	11	-	(350,000)
Operating income before working capital changes		<u>212,084,558</u>	<u>140,011,789</u>
Changes in working capital:			
Decrease (increase) in:			
Loans and other receivables		(449,305,739)	(233,299,667)
Prepayments and other current assets		2,984,012	(13,554,962)
Increase in:			
Members' deposits		101,451,678	56,558,054
Accounts and other payables		16,835,173	6,769,635
Cash used in operations		<u>(115,950,318)</u>	<u>(43,515,151)</u>
Income tax paid	24	(3,832,018)	(1,133,338)
Contributions to retirement fund	19	(13,203,844)	(10,007,606)
Net cash used in operating activities		<u>(132,986,180)</u>	<u>(54,656,095)</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of investment in a subsidiary	10	-	5,000,000
Acquisition of property and equipment	11	(30,231,232)	(23,694,381)
Proceeds on sale of transportation equipment	11	-	350,000
Development of intangible assets	13	(1,807,650)	-
Net cash used in investing activities		<u>(32,038,882)</u>	<u>(18,344,381)</u>
<b>Cash flows from financing activities</b>			
Proceeds from loan availments	18	657,137,563	395,797,311
Payment of loans	18	(484,154,271)	(261,086,651)
Additional revolving fund	5	377,588	540,091
Net cash provided by financing activities		<u>173,360,880</u>	<u>135,250,751</u>
Net increase in cash on hand and in banks		<u>8,335,818</u>	<u>62,250,275</u>
Cash on hand and in banks	7		
January 1		<u>116,172,763</u>	<u>53,922,488</u>
December 31		<u>P124,508,581</u>	<u>P116,172,763</u>
<b>Information on significant non-cash transaction:</b>			
Appropriation of funds	5	P40,000,000	P40,000,000
Transfer of retirement liability from (to) a subsidiary	19, 22	(247,145)	P610,938
<b>Operational cash flows from interest</b>			
Interest received		P487,034,963	P351,797,421
Interest paid		47,481,790	22,671,460

(The notes on pages 5 to 64 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, 2015 AND 2014**

**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, non-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 61 and 47 branches as at December 31, 2015 and 2014, respectively, in Catanduanes and in the provinces of Albay, Sorsogon, Quezon, Laguna, Camarines Sur, Camarines Norte, Batangas, Mindoro, Bataan, Zambales and Pampanga and has a membership of 120,673 and 95,106 in 2015 and 2014, respectively.

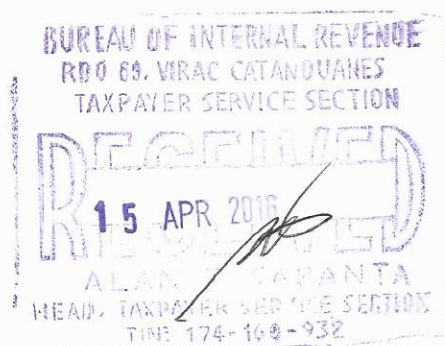
The Organization's registered address is located at Sta. Elena, Virac, Catanduanes. On October 8, 2013, the Organization transferred its office to the 3rd Floor of ARDCI Corporate Bldg. located at San Roque, Virac, Catanduanes. The amended Articles of Incorporation of the Organization for the change in address was approved by SEC on June 22, 2015.

The Organization currently holds interest in two subsidiaries as follows:

Subsidiaries	Line of business	Effective percentage of controlling interest	
		2015	2014
Vision Bank, Inc. (VBI)	Rural Bank	79.71%	79.71%
ARDCI Corporate Inn, Inc. (ARDCI Corporate Inn)	Hotels and Motels	99.97%	99.97%

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.

(5)



On April 24, 2015, during the Annual Stockholder's Meeting, the Board of Directors and the stockholders representing more than two-thirds of the outstanding capital stock of VBI approved the motion on renaming VBI from VisionBank, Inc., A Rural Bank to ARDCIBank, Inc. - A Rural Bank in order to identify VBI more with the mother organization, ARDCI NGO Group, Inc. Consequently, pursuant to the provisions of Section 16 of Batas Pambansa Bilang 68, otherwise known as the Corporation Code of the Philippines and the By-Laws of VisionBank, Inc. and subject to the approval of the Bangko Sentral ng Pilipinas, the stockholders representing majority of the shares of stock of VBI amended the Articles of Incorporation specifying the change in name of the entity. The amended Articles of Incorporation was approved by SEC on February 4, 2016.

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. ARDCIMBA commenced its operations on January 28, 2015. In its initial phase of operations, it covered the provinces of Catanduanes, Albay, Sorsogon, Bataan, Zambales and Pampanga with 38,532 members as of December 31, 2015.

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

## 1.2 Approval of financial statements

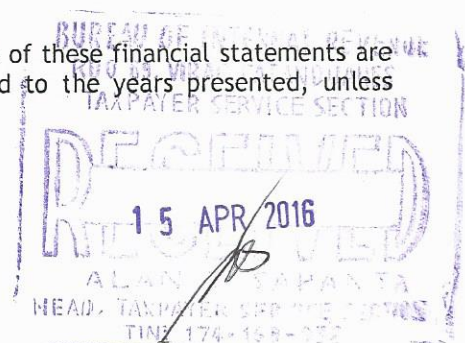
The financial statements were approved and authorized for issue by the Board of Trustees (BOT) on April 7, 2016. The Organization's Chief Executive Officer, Mr. Victor T. Bernal, or Finance and Administrative Services Unit Head, Ms. Evelyn T. Teves, was authorized by the BOT to sign and cause the issuance 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.

(6)



### *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, 2015. Except as otherwise indicated, the adoption of these new standards, interpretations and amendments did not have significant impact on the Company's financial statements.

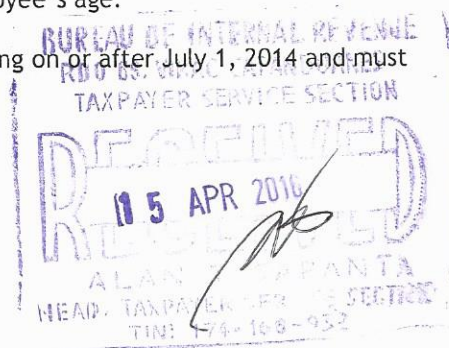
### **Amendments to PAS 19, *Employee Benefits: Defined benefit plans - Employee contributions***

PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. It requires such contributions that are linked to service to be attributed to periods of service as a negative benefit.

The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. Examples of such contributions include those that are a fixed percentage of the employee's salary, a fixed amount of contributions throughout the service period, or contributions that depend on the employee's age.

The amendments are effective for annual periods beginning on or after July 1, 2014 and must be applied retrospectively.

(7)



## Annual Improvements to PFRSs (2010-2012 Cycle)

The annual improvements, which are effective for annual periods beginning on or after July 1, 2014 address the following issues:

- **Amendment to PFRS 2, Share-based Payment: Definition of vesting condition**

The definitions of vesting and market conditions have been clarified by separately defining a performance condition and a service condition, both of which were previously incorporated within the definition of a vesting condition without themselves specifically being defined.

The amendment is applicable for share-based payments for which the grant date is on or after July 1, 2014 and must be applied prospectively.

- **Amendment to PFRS 3, Business Combinations: Accounting for contingent consideration in a business combination**

The amendment clarifies that all contingent consideration arrangements classified as liabilities or assets arising from a business combination must be subsequently measured at fair value through profit or loss whether or not they fall within the scope of PFRS 9 (or PAS 39, as applicable).

This amendment must be applied prospectively.

- **Amendments to PFRS 8, Operating Segments: Aggregation of operating segments and Reconciliation of the total of the reportable segments' assets to the entity's assets**

The amendments require an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments. These also clarify that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly. The amendments must be applied retrospectively.

- **Amendments to PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets: Revaluation method - proportionate restatement of accumulated depreciation/amortization**

The computation of accumulated depreciation when items of property, plant and equipment and intangible assets are revalued has been clarified. The net carrying amount of the asset is adjusted to the revalued amount and either:

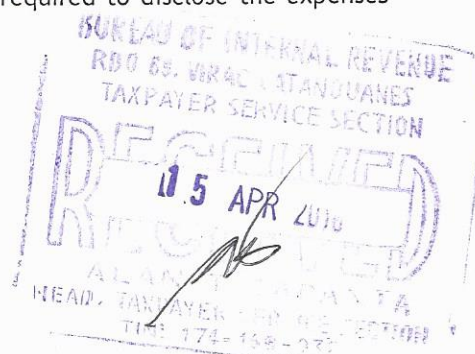
- a) the gross and accumulated depreciation/amortization amounts are adjusted; or
- b) the accumulated depreciation/amortization is eliminated against the gross carrying amount.

The amendments must be applied retrospectively.

- **Amendment to PAS 24, Related Party Disclosures: Key management personnel**

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

This amendment must be applied retrospectively.



## Annual Improvements to PFRSs (2011-2013 Cycle)

These annual improvements, which are effective for annual periods beginning on or after July 1, 2014 address the following issues:

- **Amendment to PFRS 3, *Business Combinations: Scope exceptions for joint ventures***

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

This amendment must be applied prospectively.

- **Amendment to PAS 13, *Fair Value Measurement: Portfolio exception***

PFRS 13 contains an exception that permits the fair value of a group of financial assets and financial liabilities to be measured on a net basis (the 'portfolio exception'). The amendment clarifies that the portfolio exception applies to all contracts within the scope of the financial instruments standards, including certain contracts for the purchase or sale of non-financial items that are scoped into those standards.

The amendment must be applied prospectively.

- **PAS 40, *Investment Property: Clarifying the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property***

The amendment clarifies that in determining whether a specific transaction meets the definition of both a business combination as defined in PFRS 3, *Business Combinations* and investment property as defined in PAS 40, *Investment Property* requires the separate application of both standards independently of each other.

### *New standards and amendments issued but not yet effective*

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

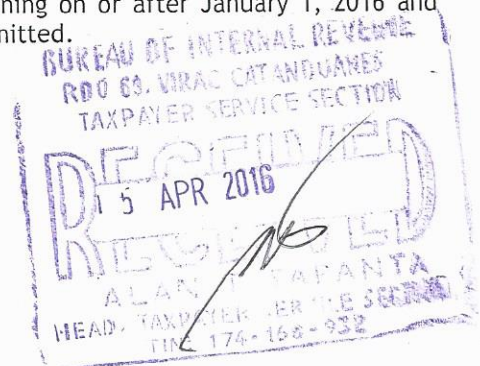
### **Amendments to PFRS 11, *Joint Arrangements: Accounting for acquisitions of interests in joint operations***

The amendments require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in PFRS 3 and other PFRSs that do not conflict with the requirements of PFRS 11, *Joint Arrangements*. Furthermore, entities are required to disclose the information required by PFRS 3 and other PFRSs for business combinations.

The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint operation on its formation. Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operator retains joint control.

The amendments are effective for annual periods beginning on or after January 1, 2016 and must be applied prospectively. Earlier application is permitted.

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#### **PFRS 14, *Regulatory Deferral Accounts***

PFRS 14 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. The standard does not apply to existing PFRS preparers. Also, an entity whose current generally accepted accounting principles (GAAP) do not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognize them on first-time application 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 profit or loss and other comprehensive income (OCI).

The standard requires disclosure of the nature of, and risks associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements.

The standard is effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

#### **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 use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

The amendments are effective for annual periods beginning on or after January 1, 2016 and are applied prospectively. Earlier application is permitted.

#### **Amendments to PAS 16, *Property, Plant and Equipment* and PAS 41, *Agriculture: Bearer plants***

The amendments change the scope of PAS 16 to include biological assets that meet the definition of bearer plants (e.g., fruit trees). Agricultural produce growing on bearer plants (e.g., fruit growing on a tree) will remain within the scope of PAS 41. As a result of the amendments, bearer plants will be subject to all the recognition and measurement requirements in PAS 16, including the choice between the cost model and revaluation model for subsequent measurement.

In addition, government grants relating to bearer plants will be accounted for in accordance with PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, instead of PAS 41.

The amendments are effective for annual periods beginning on or after January 1, 2016. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may choose to measure a bearer plant at its fair value at the beginning of the earlier period presented. Earlier application is permitted.



**Amendments to PAS 27, *Separate Financial Statements: Equity method in separate financial statements***

The amendments to PAS 27, *Separate Financial Statements* allow an entity to use the equity method as described in PAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. Therefore, an entity must account for these investments either:

- At cost
- In accordance with PFRS 9 (or PAS 39), or
- Using the equity method

The entity must apply the same accounting for each category of investment.

A consequential amendment was also made to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*. The amendment to PFRS 1 allows a first-time adopter accounting for investments in the separate financial statements using the equity method, to apply the PFRS 1 exemption for past business combinations to the acquisition of the investment.

The amendments are effective for annual periods beginning on or after January 1, 2016 and must be applied retrospectively. Earlier application is permitted.

**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***

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

The amendments must be applied prospectively. Earlier application is permitted.

On January 13, 2016, the Financial Reporting Standards Council decided to postpone the original effective date of January 1, 2016 of the above amendments until the International Accounting Standards Board (IASB) has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

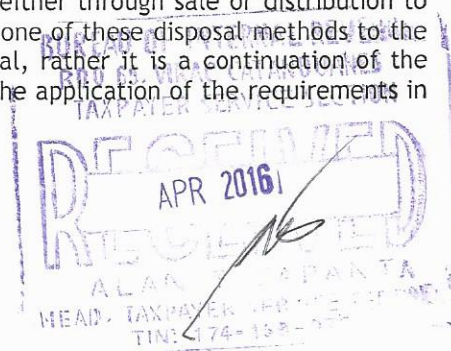
**Annual Improvements to PFRSs (2012-2014 Cycle)**

The changes summarized below are effective for annual reporting periods beginning on or after January 1, 2016. Earlier application is permitted.

- **Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations: Changes in methods of disposal***

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered 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 must be applied prospectively.



- **Amendments to PFRS 7, *Financial Instruments: Disclosures: Servicing contracts and Applicability of the amendments to PFRS 7 to condensed interim financial statements***

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 the arrangement against the guidance for continuing involvement in order to assess whether the disclosures are required.

The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendment.

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.

This amendment must be applied retrospectively.

- **Amendment to PAS 19, *Employee Benefits: Discount rate - regional market issue***

The amendment 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.

This amendment must be applied prospectively.

- **Amendment to PAS 34, *Interim Financial Reporting: Disclosure of information "elsewhere in the interim financial report"***

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

The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.

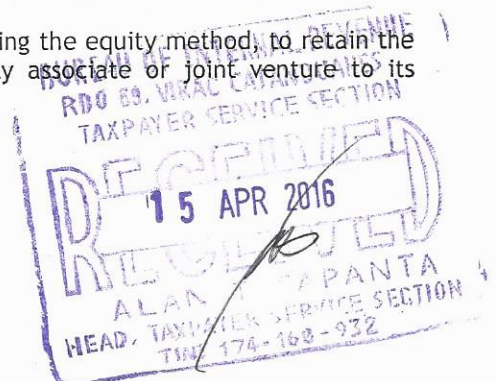
This amendment must be applied retrospectively.

**Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interest in Other Entities* and PAS 28, *Investments in Associates and Joint Ventures: Investment entities - Applying the consolidation exception***

The amendments address three issues that have arisen in applying the investment entities exception under PFRS 10. The amendments to PFRS 10 clarify that the exemption in paragraph 4 of PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value.

Furthermore, the amendments to PFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value.

The amendments to PAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.



The amendments are effective for annual periods beginning on or after January 1, 2016 and must be applied retrospectively. Earlier application is permitted.

**Amendments to PAS 1, *Presentation of Financial Statements: Disclosure initiative***

The amendments include the following:

- Materiality. The aggregation or disaggregation should not obscure useful information. Materiality applies to each of the primary financial statements, the notes and each specific disclosure required by PFRSs.
- Line items in primary financial statements. The amendments (1) introduce a clarification that the list of line items to be presented in primary statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and (2) clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.
- Notes to the financial statements. The determination of the order of the notes should include consideration of understandability and comparability of financial statements. It has been clarified that the order listed in paragraph 114 of PAS 1 is illustrative only.
- Accounting policies. The IASB also removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful.
- Equity-accounted investments. The share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

**PFRS 9, *Financial Instruments (2014)***

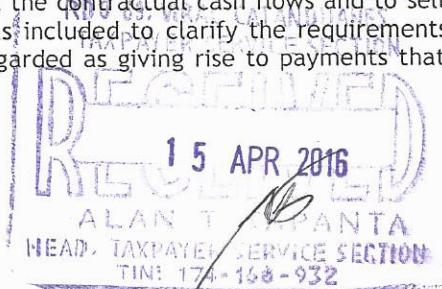
In July 2014, the PFRS 9, *Financial Instruments (2014)* was published which incorporated the final requirements on all three phases of the financial instruments projects - classification and measurement, impairment, and hedge accounting.

*Phase 1: Classification and measurement of financial assets and financial liabilities*

The original version of PFRS 9, issued in 2009, introduced new criteria for the classification and measurement of financial assets to be measured at amortized cost. In order to qualify for amortized cost measurement, a two stage test is applied. Firstly, the entity's business model must be to collect the contractual cash flows from the asset, rather than selling it to realize its fair value. Secondly, the asset must have contractual cash flows which are comprised solely of the principal amount due plus interest on the principal amount outstanding (which is only time value plus a margin for credit risk), often referred to as Solely Payments of Principal and Interest (or SPPI). Financial assets that pass those two tests are measured at amortized cost, with all others being measured at fair value. The criteria are applied to the assets as a whole, with the previous guidance in PAS 39, *Financial Instruments: Recognition and Measurement* for embedded derivatives no longer applying to financial assets.

PFRS 9 (2014) introduces amendments to the previously finalized classification and measurement requirements for financial assets. A third measurement category has also been added for debt instruments - Fair value through OCI. This new measurement category applies to debt instruments that meet the SPPI contractual cash flow characteristics test and where the entity is holding the debt instrument to both collect the contractual cash flows and to sell the financial assets. Additional application guidance was included to clarify the requirements for contractual cash flows of a financial asset to be regarded as giving rise to payments that are SPPI.

(13)



The classification and measurement requirements for financial liabilities were first added to PFRS 9 in 2010 and have been carried forward from PAS 39 largely unchanged, including a continuation of the requirement to separate embedded derivatives. However, a significant change is that, if a financial liability is designated (under the option available in PFRS 9) as at fair value through profit or loss, changes in the fair value of that financial liability that are attributable to changes in the entity's own credit risk will typically be recorded in OCI instead of profit or loss. This change has been made in order to prevent a deterioration in an entity's financial position (and hence, credit status) resulting in gains being reported in profit or loss.

The existing guidance for derecognition of financial assets and financial liabilities has been carried forward from PAS 39 unchanged, with some improvements to disclosure requirements being added to PFRS 7, *Financial Instruments: Disclosures*.

#### *Phase 2: Impairment methodology*

The impairment model under this standard reflects expected credit losses, as opposed to incurred credit losses under PAS 39. Under the impairment approach of this standard, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each financial reporting date to reflect changes in credit risk since initial recognition.

#### *Phase 3: Hedge accounting*

The general hedge accounting requirements for this standard retain the three types of hedge accounting mechanism in PAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of economic relationships. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

The standard is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted.

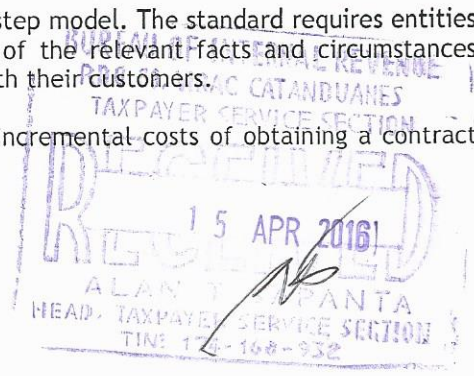
#### *PFRS 15, Revenue from Contracts with Customers (issued by the IASB which is effective after the reporting period ended December 31, 2015 but pending for adoption in the Philippines)*

PFRS 15 replaces all existing revenue requirements in PFRS and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as PAS 17. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, equipment and intangible assets.

The standard outlines the principles an entity must apply to measure and recognize revenue. The core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in PFRS 15 will be applied using a five-step model. The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.



Application guidance is provided in PFRS 15 to assist entities in applying its requirements to certain common arrangements, including licenses of intellectual property, warranties, rights of return, principal-versus-agent considerations, options for additional goods or services and breakage.

The amendments are effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

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.

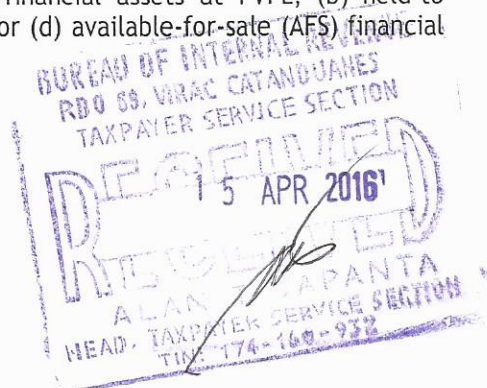
Financial instruments carried at FVPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss.

#### *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, 2015 and 2014, 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.

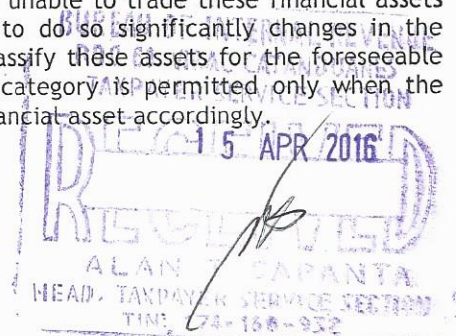
As at December 31, 2015 and 2014, the Organization does not have financial assets under this category.

*(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, 2015 and 2014, 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.

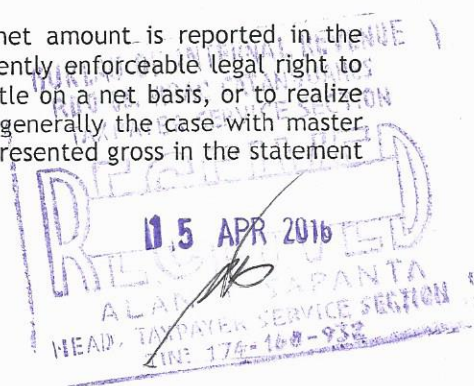
Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the suppliers, including amounts due to employees. It is necessary to estimate the amount or timing of accruals, however, the uncertainty is generally much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

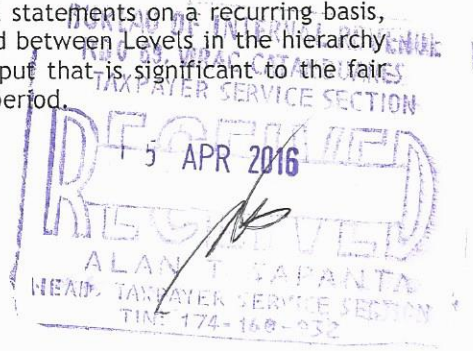
The Organization uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

Disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value.

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, 2015 and 2014, 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 profit or loss.

#### ***Impairment of financial assets***

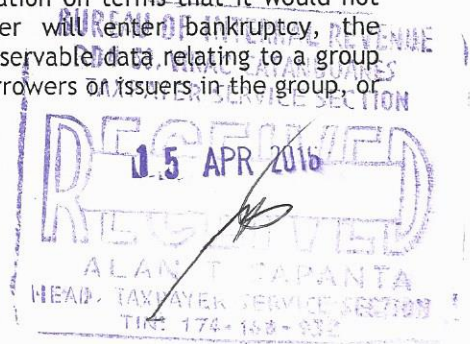
##### ***Assessment of impairment***

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**

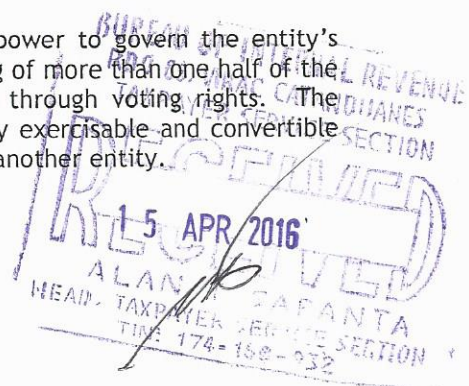
Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as asset and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in the operations or expire with the passage of time.

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.

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 entity's 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.

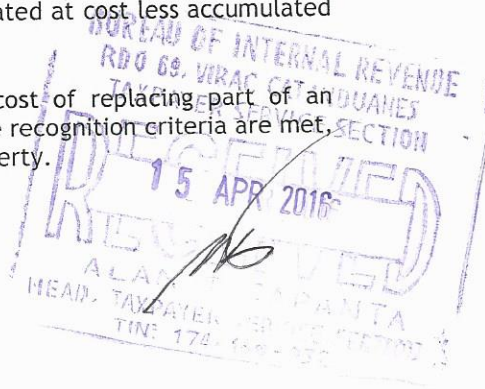
When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment in value are removed from the accounts and any resulting gain or loss arising from the disposal or retirement of an asset, determined as the difference between the sales proceeds and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

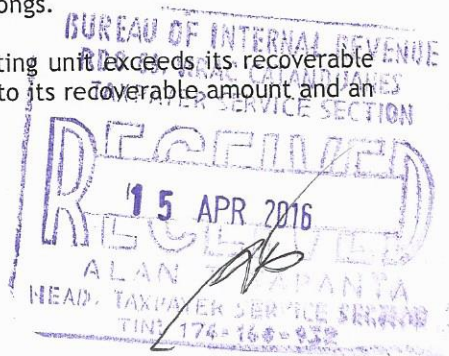
The capitalized costs of intangible assets were incurred to develop the computer software until it can be used to render service to customers. The intangible assets are to be amortized over a period of ten years using the straight-line method starting from the time the asset becomes available for use.

## 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

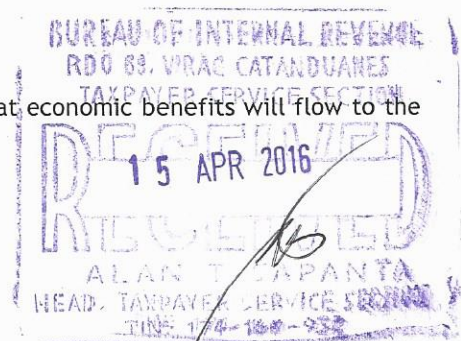
Fund balance includes the one-time-payment of non-refundable membership fee, actuarial gains (losses) on retirement liability, and all appropriated and unappropriated current and prior period results.

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.

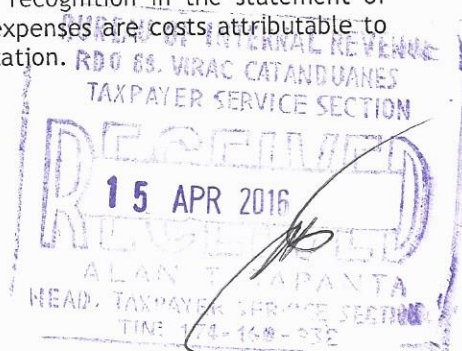
**2.16 Interest expense**

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 current and deferred income tax. Income tax expense is recognized in the profit or loss 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.

The Organization has not recognized deferred income tax as at December 31, 2015 and 2014. The management believes that the Organization will not benefit from it in the future periods due to its income tax exempt status pursuant to Section 30 (e) of the National Internal Revenue Code of 1997.

## 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.

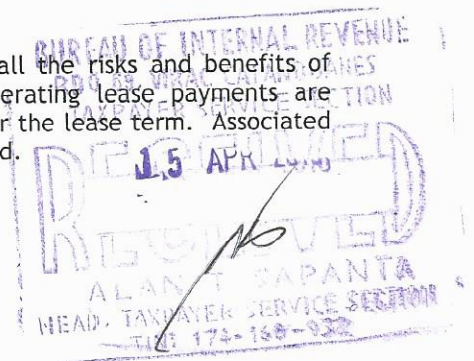
Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

### 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 influenced 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.

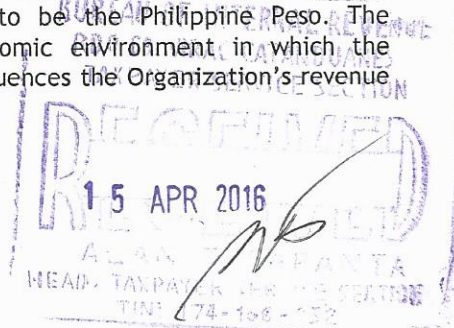
#### **Judgments**

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.

(27)



*(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 P9,388,895 and P7,531,958 for the years ended December 31, 2015 and 2014, respectively (see Note 21).

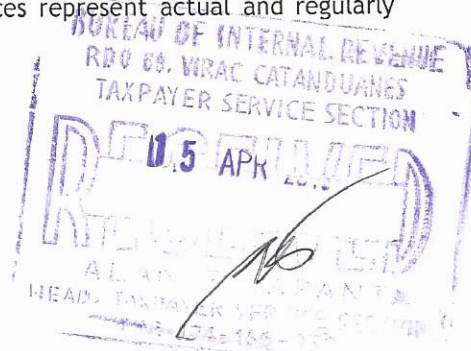
Rental income amounted to P1,497,000 and P1,449,511 for the years ended December 31, 2015 and 2014, respectively (see Note 20).

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:

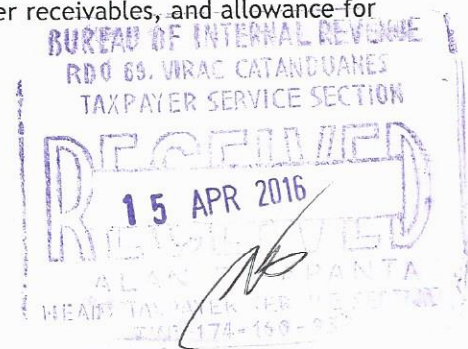
<u>No. of days missed payment</u>	<u>Required allowance</u>
PAR 1-30	2%
31-60 and/or loans restructured once	20%
61-90	50%
91 or more and/or loans restructured twice	100%

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, 2015 and 2014.



*(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, 2015 and 2014 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.

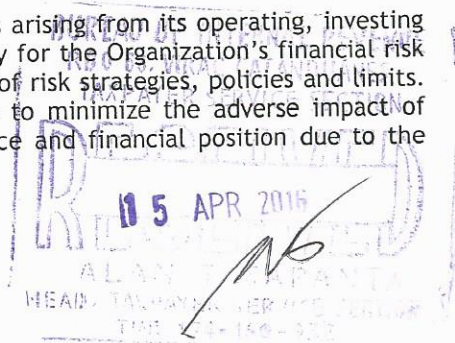
The carrying values of prepayments and other current assets, investment in subsidiaries, property and equipment, investment property, and intangible assets are disclosed in Notes 9, 10, 11, 12 and 13, respectively.

*(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.

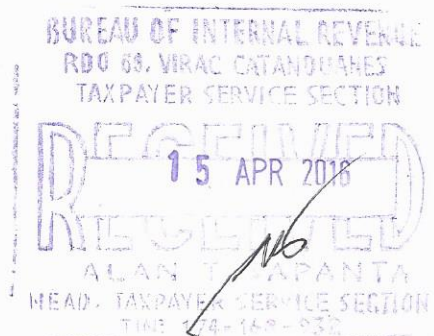
Implementation of loan tracking mechanism to monitor loan status, PAR, portfolio quality, repayment performance and history is made to mitigate risk. Furthermore, strict adherence to credit discipline is observed.

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.

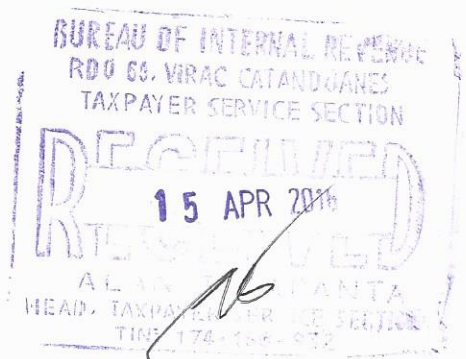
The Organization's maximum exposure to credit risk before collateral held or other credit enhancements as at December 31 follows:

	<u>2015</u>	<u>2014</u>
Cash in banks (Note 7)	P124,458,581	P116,122,763
Loans and other receivables, net (Note 8)	1,255,561,829	818,799,341
Refundable deposits (Note 14)	<u>874,975</u>	<u>1,014,565</u>
	<u>P1,380,895,385</u>	<u>P935,936,669</u>



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

	2015						
	Neither past due nor impaired	Past due but not impaired					Impaired
		30 days	31-60 Days	61-90 days	> 90 days		
Cash in banks (Note 7)	P124,458,581	P-	P-	P-	P-	P-	P-
Loans and other receivables (Note 8)	1,290,627,252	10,308,125	923,945	972,204	13,096,100	-	-
Refundable deposits (Note 14)	874,975	874,975	-	-	-	-	-
	P1,415,960,808	P1,390,660,434	P10,308,125	P923,945	P972,204	P13,096,100	P-
	2014						
	Neither past due nor impaired	Past due but not impaired					Impaired
		30 days	31-60 Days	61-90 Days	> 90 days		
Cash in banks (Note 7)	P116,122,763	P-	P-	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	1,014,565	-	-	-	-	-
	P958,319,251	P935,308,682	P10,441,907	P1,736,036	P888,712	P9,943,914	P-



*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:

	2015			
	Neither past due nor impaired			
	High Grade	Standard grade	Substandard Grade	Total
Cash in banks (Note 7)	P124,458,581	P-	P-	P124,458,581
Loans and other receivables (Note 8)	1,265,326,878	-	-	1,265,326,878
Refundable deposits (Note 14)	874,975	-	-	874,975
	<b>P1,390,660,434</b>	<b>P-</b>	<b>P-</b>	<b>P1,390,660,434</b>

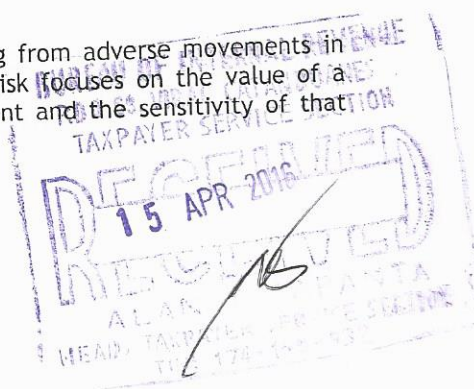
	2014			
	Neither past due nor impaired			
	High Grade	Standard grade	Substandard Grade	Total
Cash in banks (Note 7)	P116,122,763	P-	P-	P116,122,763
Loans and other receivables (Note 8)	818,171,354	-	-	818,171,354
Refundable deposits (Note 14)	1,014,565	-	-	1,014,565
	<b>P935,308,682</b>	<b>P-</b>	<b>P-</b>	<b>P935,308,682</b>

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 exchange 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 2015 and 2014.

*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 ensure 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, 2015 and 2014 to a reasonably possible change in interest rates, with all other variables held constant:

Increase (decrease) in market basis points	2015		2014	
	1%	-1%	1%	-1%
Effect on income before income tax	2,106,917	(2,106,917)	1,570,821	(1,570,821)
Effect on members' equity	2,106,917	(2,106,917)	1,570,821	(1,570,821)

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

	2015		
	Within 1 year	Beyond 1 year	Total
<b>Financial assets</b>			
Cash in banks (Note 7)	P124,458,581	P-	P124,458,581
Loans and other receivables (Note 8)	1,209,012,185	22,031,136	1,231,043,321
	<u>P1,333,470,766</u>	<u>P22,031,136</u>	<u>P1,355,501,902</u>
<b>Financial liabilities</b>			
Members' deposit (Note 15)	P372,910,876	P610,390	P373,521,266
Loans payable (Note 18)	487,290,225	82,677,796	569,968,021
	<u>P860,201,101</u>	<u>P83,288,186</u>	<u>P943,489,287</u>
	2014		
	Within 1 year	Beyond 1 year	Total
<b>Financial assets</b>			
Cash in banks (Note 7)	P116,122,763	P-	P116,122,763
Loans and other receivables (Note 8)	793,881,901	2,620,137	796,502,038
	<u>P910,004,664</u>	<u>P2,620,137</u>	<u>P912,624,801</u>
<b>Financial liabilities</b>			
Members' deposit (Note 15)	P271,374,088	P695,500	P272,069,588
Loans payable (Note 18)	273,515,206	123,469,523	396,984,729
	<u>P544,889,294</u>	<u>P124,165,023</u>	<u>P669,054,317</u>



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

	2015		2014	
	Within 1 year	Beyond 1 year	Within 1 year	Beyond 1 year
<b>Financial assets</b>				
Cash in banks	0.13% - 5%	-	0.13% - 5%	-
Loans and other receivables	10% - 34%	10% - 17%	10% - 34%	10% - 17%
<b>Financial liabilities</b>				
Members' deposits	5% - 7%	5% - 7%	5% - 7%	5% - 7%
Loans payable	3.5% - 13%	3.5% - 13%	3% - 13%	3% - 13%

*Foreign exchange risk*

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

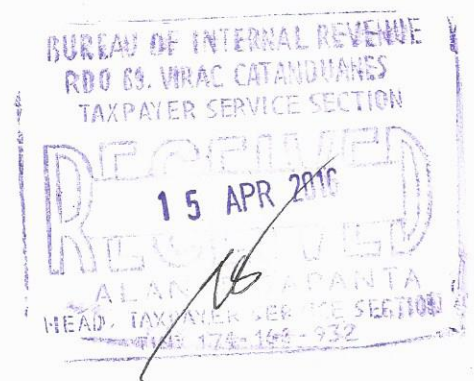
c. Liquidity risk

Liquidity risk is the risk from an entity's inability to meet obligations when they become due because of its 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 discounts loans with entities that have given the Organization more than sufficient discounting 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.



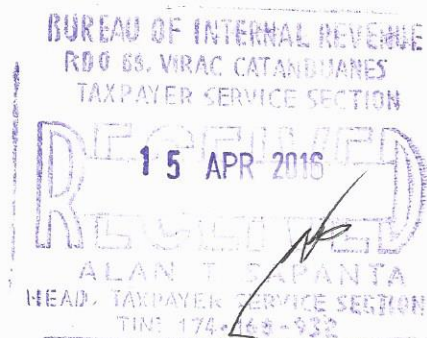
	2015				
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
<b>Financial assets</b>					
Cash on hand and in banks (Note 7)	P124,508,581	P-	P-	P-	P124,508,581
Loans and other receivables (Note 8)	33,339,404	76,480,642	1,123,710,647	22,031,136	1,255,561,829
Refundable deposits (Note 14)	-	-	-	874,975	874,975
	<u>157,847,985</u>	<u>76,480,642</u>	<u>1,123,710,647</u>	<u>22,906,111</u>	<u>1,380,945,385</u>
<b>Financial liabilities</b>					
Members' deposit (Note 15)	354,845,203	3,124,822	14,940,851	610,390	373,521,266
Accounts and other payables (Note 16)*	12,605,153	24,634,344	6,158,586	-	43,398,083
Loans payable (Note 18)	-	12,128,428	475,161,797	82,677,796	569,968,021
	<u>367,450,356</u>	<u>39,887,594</u>	<u>496,261,234</u>	<u>83,288,186</u>	<u>986,887,370</u>
<b>Net assets (liabilities)</b>	<u>(P209,602,371)</u>	<u>P36,593,048</u>	<u>P627,449,413</u>	<u>(P60,382,075)</u>	<u>P394,058,015</u>

\*excluding government liabilities

	2014				
	On demand	Less than 3 months	3 to 12 Months	1 to 5 years	Total
<b>Financial assets</b>					
Cash on hand and in banks (Note 7)	P116,172,763	P-	P-	P-	P116,172,763
Loans and other receivables (Note 8)	8,739,189	32,673,344	774,766,671	2,620,137	818,799,341
Refundable deposits (Note 14)	-	-	-	1,014,565	1,014,565
	<u>124,911,952</u>	<u>32,673,344</u>	<u>774,766,671</u>	<u>3,634,702</u>	<u>935,986,669</u>
<b>Financial liabilities</b>					
Members' deposit (Note 15)	254,505,774	5,441,392	11,426,922	695,500	272,069,588
Accounts and other payables (Note 16)*	6,198,538	14,450,755	3,293,312	-	23,942,605
Loans payable (Note 18)	-	97,283,968	176,231,238	123,469,523	396,984,729
	<u>260,704,312</u>	<u>117,176,115</u>	<u>190,951,472</u>	<u>124,165,023</u>	<u>692,996,922</u>
<b>Net assets (liabilities)</b>	<u>(P135,792,360)</u>	<u>(P84,502,771)</u>	<u>P583,815,199</u>	<u>(P120,530,321)</u>	<u>P242,989,747</u>

\*excluding government liabilities

(36)



**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:

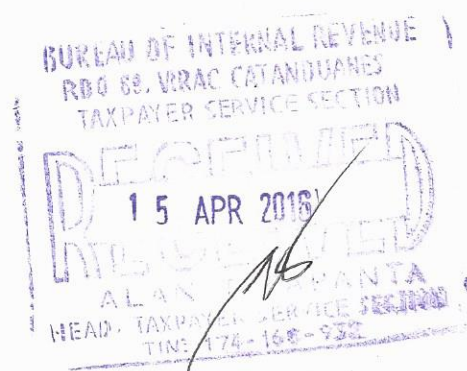
	<u>2015</u>	<u>2014</u>
Fund balance		
Appropriated	P40,000,000	P40,000,000
Unappropriated	559,694,088	379,717,936
	<u>P599,694,088</u>	<u>P419,717,936</u>

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.

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

	<u>2015</u>	<u>2014</u>
Balance at January 1	P379,717,936	P301,124,161
Additional revolving fund	377,588	540,091
Profit for the year	179,598,564	118,053,684
Appropriations during the year	-	(40,000,000)
Appropriated funds used	-	-
Balance at December 31	<u>P559,694,088</u>	<u>P379,717,936</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 of the Organization's financial assets and financial liabilities at December 31:

	2015	2014
<b>Financial assets</b>		
Loans and receivables		
Cash on hand and in banks (Note 7)	P124,508,581	P116,172,763
Loans and other receivables (Note 8)	1,255,561,829	818,799,341
Refundable deposits (Note 14)	874,975	1,014,565
	<u>P1,380,945,385</u>	<u>P935,986,669</u>
<b>Financial liabilities</b>		
Financial liabilities at amortized cost		
Members' deposit (Note 15)	P373,521,266	P272,069,588
Accounts and other payables (Note 16)*	43,398,083	23,942,605
Loans payable (Note 18)	569,968,021	396,984,729
	<u>P986,887,370</u>	<u>P692,996,922</u>

\*excluding government liabilities

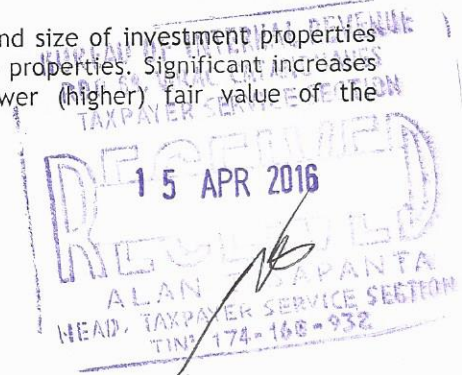
The above carrying values of financial assets and financial liabilities, carried at amortized cost, approximate their fair values due to the relatively short-term nature of the financial instruments (except for loans and other receivables, and loans payable, which are interest bearing instruments) and their being subject to insignificant risk of changes in value.

As discussed in Note 2.4, the disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value.

*Fair value determination of non-financial assets*

	2015			
	Carrying value	Fair value		
		Level 1	Level 2	Level 3
Investment property	P57,788,961	P-	P-	P57,788,961
	2014			
	Carrying value	Fair value		
		Level 1	Level 2	Level 3
Investment property	P60,329,135	P-	P-	P60,329,135

Significant increases (decreases) in price per square meter and size of investment properties would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in discount would result in a significantly lower (higher) fair value of the properties.



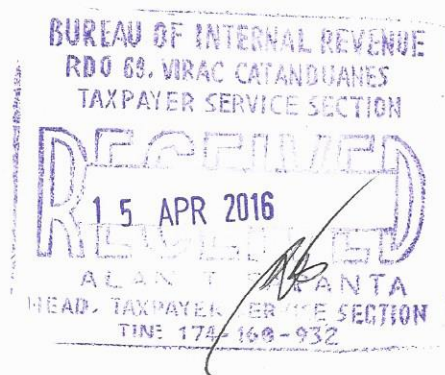
*Significant unobservable inputs*

- Size** Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of the lot size differences on land value.
- Shape** Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
- Location** Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
- Time element** An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investor's perceptions of the market over time. In which case, the current data is superior to historic data.

*Income, expense, gains or losses on financial instruments*

Items of income, expense, gains or losses with respect to financial assets and financial liabilities in the statement of comprehensive income are as follows:

	2015	2014
Interest income from:		
On loans and receivables (Note 8)	P490,247,421	P359,220,562
On bank deposits (Note 7)	418,193	502,500
On finance lease receivable (Note 20)	33,664	44,953
	P490,699,278	P359,768,015
Interest expense on:		
On loans payable (Note 18)	P31,488,166	P23,025,572
On members' deposits (Note 15)	15,503,438	11,883,351
	P46,991,604	P34,908,923
Provision for probable losses on		
Loans and receivables (Note 8)	P12,682,841	P7,420,294



**NOTE 7 - CASH ON HAND AND IN BANKS**

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

	2015	2014
Cash in banks	P124,458,581	P116,122,763
Cash on hand	50,000	50,000
	<u>P124,508,581</u>	<u>P116,172,763</u>

Cash in banks generally earns interest at the daily bank deposit rates ranging from 0.13% to 5% per annum in 2015 and in 2014. Interest earned for the years ended December 31, 2015 and 2014 amounted to P418,193 and P502,500, respectively (see Note 20).

**NOTE 8 - LOANS AND OTHER RECEIVABLES, NET**

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

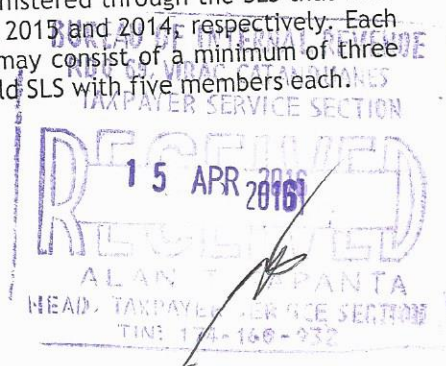
	2015	2014
Loans		
Micro-business loans (MBLs)	P984,589,682	P599,019,847
Multi-purpose loans (MPLs)	209,690,655	161,254,254
Staff loans	27,853,475	19,331,185
Individual loans	6,156,339	12,065,524
Employee loans	1,480,270	4,317,437
	<u>1,229,770,421</u>	<u>795,988,247</u>
Accounts receivable	23,404,364	15,270,551
Interest receivable	17,667,752	14,455,294
Due from related parties (Note 22)	18,511,815	14,954,040
Finance lease receivable	1,272,900	513,791
	<u>1,290,627,252</u>	<u>841,181,923</u>
Allowance for credit losses	(35,065,423)	(22,382,582)
	<u>P1,255,561,829</u>	<u>P818,799,341</u>

Loans and other receivables are classified as follows:

	2015	2014
Current	P1,233,530,693	P816,179,204
Non-current	22,031,136	2,620,137
	<u>P1,255,561,829</u>	<u>P818,799,341</u>

Loans receivable represents loans to members who are administered through the SLS that have been established through each of the 61 and 47 branches in 2015 and 2014, 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.

(40)



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. Members can avail loan up to P1,500,000 with a maximum repayment term of 24 months and interest rate of 17% per annum.

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.

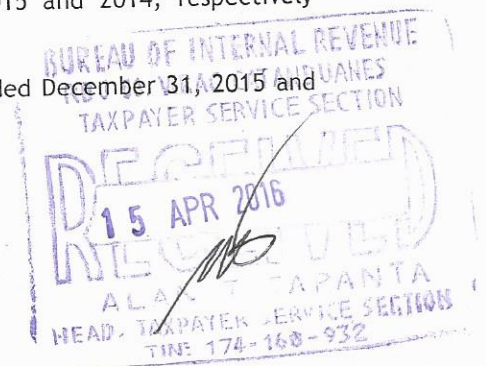
Loans receivable amounting to P560,995,476 and P459,615,560 as at December 31, 2015 and 2014, respectively, has been pledged as collateral for loans from financial institutions (see Note 18).

Accounts receivable includes unliquidated cash advances, receivable from the insurance unit, receivable from Social Security System (SSS) for advances for maternity benefits and receivable from Philippine Life Financial Assurance Corp. (PhilLife) and Country Bankers Life Insurance Corporation (CBLIC).

Finance lease receivable represents car and motorcycle loans granted to the Organization's employees particularly to CDOs. This loan is executed under a loan agreement with ARDCI employees. Car loan was recently offered to managerial and supervisory employees of the Organization payable over five (5) years. 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 2015 and 2014. Interest earned for the years ended December 31, 2015 and 2014 amounted to P33,664 and P44,953, respectively (see Note 20).

The Organization collected accounts previously written-off from its members amounting to P917,522 and P1,006,593 for the years ended December 31, 2015 and 2014, respectively (see Note 20).

Interest earned from loans and other receivables for the years ended December 31, 2015 and 2014 amounted to P490,247,421 and P359,220,562 respectively.



The movements in allowance for impairment are as follows:

	2015	2014
At January 1	P22,382,582	P14,962,288
Provision for credit losses	12,682,841	7,420,294
Write-off	-	-
	<u>P35,065,423</u>	<u>P22,382,582</u>

**NOTE 9 - PREPAYMENTS AND OTHER CURRENT ASSETS**

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

	2015	2014
Stationery and supplies on hand	P10,417,257	P14,918,616
Prepayments	5,781,518	3,978,121
Miscellaneous asset	-	359,550
	<u>P16,198,775</u>	<u>P19,256,287</u>

Stationery and supplies on hand include unused passbooks, office and medicine supplies and promotional T-shirts and calendars to be given to members at SLS meetings. Prepayments pertain to the unexpired portion of the Organization's fidelity and health insurance for the staff.

**NOTE 10 - INVESTMENT IN SUBSIDIARIES**

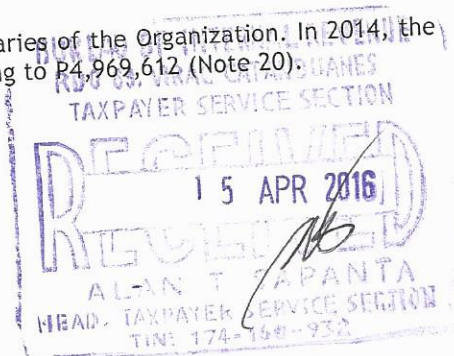
The account represents the Organization's investments in the shares of stock of VBI and ARDCI Corporate Inn. Details of the investments are as follows:

	2015	2014
Investment in:		
VBI	P20,250,000	P20,250,000
ARDCI Corporate Inn	5,000,000	5,000,000
	<u>P25,250,000</u>	<u>P25,250,000</u>

The investment in VBI represents the Organization's 79.71% ownership in the issued and outstanding shares of stock of VBI as at December 31, 2015 and 2014, respectively, which is accounted for using the cost method.

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, 2015 and 2014.

In 2015, no dividend was declared or paid by the subsidiaries of the Organization. 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 follows:

	2015					
	Building	Land	Land and building improvements	Furniture, fixtures and equipment	Construction in progress	Total
<b>Cost</b>						
At January 1, 2015	P31,820,767	P16,953,309	P1,399,662	P43,762,702	P360,446	P94,296,886
Additions	-	-	208,115	12,638,339	17,384,778	30,231,232
Retirement	-	-	-	(69,419)	-	(69,419)
Reclassification	437,602	-	(437,602)	-	-	-
At December 31, 2015	32,258,369	16,953,309	1,170,175	56,331,622	17,745,224	124,458,699
<b>Accumulated depreciation</b>						
At January 1, 2015	6,744,838	-	149,820	21,040,020	-	27,934,678
Depreciation (Note 21)	1,370,004	-	101,389	10,849,301	-	12,320,694
Retirement	-	-	-	(69,419)	-	(69,419)
At December 31, 2015	8,114,842	-	251,209	31,819,902	-	40,185,953
<b>Net book value</b>						
At December 31, 2015	P24,143,527	P16,953,309	P918,966	P24,511,720	P17,745,224	P84,272,746



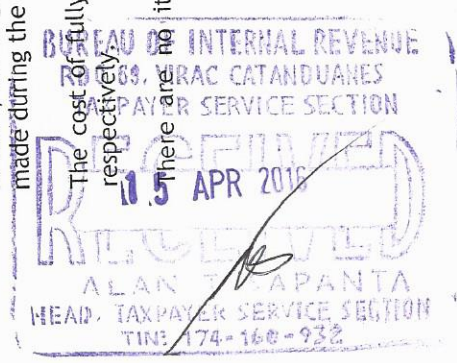
2014

	Building	Land	Land and building improvements	Furniture, fixtures and equipment	Construction in progress	Total
<b>Cost</b>						
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
<b>Accumulated depreciation</b>						
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
<b>Net book value</b>						
At December 31, 2014	P25,075,929	P16,953,309	P1,249,842	P22,722,682	P360,446	P66,362,208

The Organization retired fully depreciated assets amounting to P69,419 as at December 31, 2015.

In 2014, the Organization disposed fully depreciated assets amounting to P10,327,588 and realized a gain of P350,000 (see Note 20). No disposal was made during the year.

The cost of fully depreciated assets of the Organization still in use amounted to P6,303,937 and P5,604,547 as at December 31, 2015 and 2014, respectively. There are no items of property and equipment used as security for any liabilities of the Organization as at December 31, 2015 and 2014.



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, consisting of a building, are as follows:

	2015	2014
<b>Cost</b>		
At January 1	P63,504,353	P63,504,353
Additions	-	-
At December 31	<u>63,504,353</u>	<u>63,504,353</u>
<b>Accumulated depreciation</b>		
At January 1	3,175,218	635,044
Depreciation (Note 21)	<u>2,540,174</u>	<u>2,540,174</u>
At December 31	<u>5,715,392</u>	<u>3,175,218</u>
Net book value at December 31	<u><u>P57,788,961</u></u>	<u><u>P60,329,135</u></u>

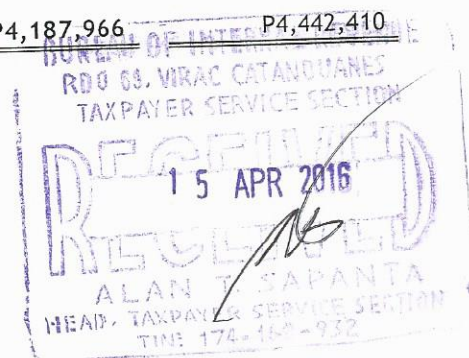
The foregoing net book value of the building approximates its fair value as at December 31, 2015 and 2014 as determined by the Organization's engineers, and is within Level 3 of the fair value hierarchy (see Note 6).

The rental income from investment property amounted to P1,497,000 and P1,449,511 for the year ended December 31, 2015 and 2014, respectively (Note 20).

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

	2015	2014
<i>Expenses that generated rental income during the period</i>		
Depreciation (Note 21)	P2,540,174	P2,540,174
Repairs and maintenance	449,353	583,137
Building insurance	122,631	366,441
Power, light and water	177,558	143,991
Security and janitorial services	<u>613,297</u>	<u>503,225</u>
	<u>3,903,013</u>	<u>4,136,968</u>
<i>Expenses that did not generate rental income during the period</i>		
Repairs and maintenance	85,591	97,190
Insurance	23,358	109,932
Power, light and water	59,186	47,997
Security and janitorial services	<u>116,818</u>	<u>50,323</u>
	<u>284,953</u>	<u>305,442</u>
	<u><u>P4,187,966</u></u>	<u><u>P4,442,410</u></u>

(45)



**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 P3,271,635 and P1,827,500 as at December 31, 2015 and 2014, respectively.

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

	2015	2014
Balance at January 1	P1,827,500	P-
Additions	1,807,650	1,827,500
Amortization (Note 21)	<u>(363,515)</u>	<u>-</u>
Balance at December 31	<u>P3,271,635</u>	<u>P1,827,500</u>

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 at branches in Caramoran, San Andres, Irosin, Caramoan, Baras and Tagkawayan. The contract is for five (5) years starting 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\$300 annual license fees, and a refundable deposit amounting to P874,975 and P1,014,565 as at December 31, 2015 and 2014, respectively. These deposits will be refunded upon contract termination.

During the year, the Organization did not renew the contract for the ATM installed in Viga thus, the corresponding refundable deposit was reclassified to receivable account under current asset. The refundable deposits pertaining to unexpired contracts 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% to 7% for the years ended December 31, 2015 and 2014, 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:

	2015	2014
Compulsory	P304,110,575	P225,941,261
Voluntary	<u>69,410,691</u>	<u>46,128,327</u>
	<u>P373,521,266</u>	<u>P272,069,588</u>



	2015	2014
Current	P372,910,876	P271,374,088
Noncurrent	610,390	695,500
	<u>P373,521,266</u>	<u>P272,069,588</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, 2015 and 2014 amounted to P15,503,438 and P11,883,351, respectively.

#### NOTE 16 - ACCOUNTS AND OTHER PAYABLES

The details of this account are as follows:

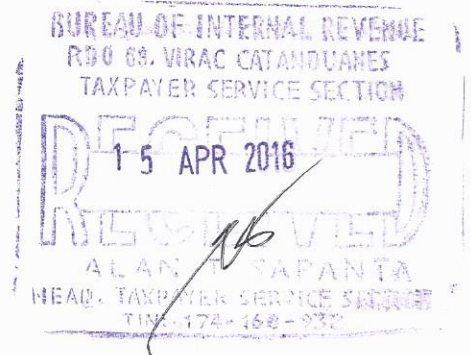
	2015	2014
Accounts payable	P28,775,098	P18,433,976
Due to related parties (Note 22)	9,790,253	299,071
Accrued interest payable	3,556,790	4,046,975
Government liabilities	1,914,241	4,287,401
Accrued expenses	1,275,942	1,162,583
	<u>P45,312,324</u>	<u>P28,230,006</u>

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 and administrative expenses to be remitted to PhilLife.

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, unpaid hotel services of ARDCI Corporate Inn provided to the Organization and unremitted premiums, contributions and membership fees to ARDCIMBA (see Note 22).

#### 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 follows:

	2015	2014
Cost	P9,676,639	P9,676,639
Accumulated depreciation		
At January 1	4,257,902	3,870,838
Amortization (Note 20)	387,064	387,064
At December 31	4,644,966	4,257,902
Net book value	5,031,673	5,418,737
Current portion	387,064	387,064
Non-current portion	P4,644,609	P5,031,673

**NOTE 18 - LOANS PAYABLE**

The details of this account are as follows:

	2015	2014
Banking institutions	P256,965,272	P57,885,526
Other financial institutions	313,002,749	339,099,203
	P569,968,021	P396,984,729

The movements in the account are as follows:

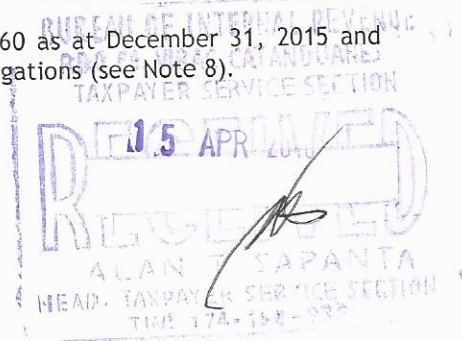
	2015	2014
Balance at January 1	P396,984,729	262,274,069
Proceeds	657,137,563	395,797,311
Payments	(484,154,271)	(261,086,651)
Balance at December 31	P569,968,021	P396,984,729

Loans payable represents loan rediscounting facility availed from financial institutions with annual interest rates of 3.5% to 13% and 3% to 13% in 2015 and 2014, respectively.

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

	2015	2014
Due within one year	P487,290,225	P273,515,206
Due beyond 1 year but not more than 5 years	82,677,796	123,469,523
	P569,968,021	P396,984,729

Loans receivable amounting to P560,995,476 and P459,615,560 as at December 31, 2015 and 2014, respectively, has been pledged as collateral for said obligations (see Note 8).



Interest expense on loans payable for the years ended December 31, 2015 and 2014 amounted to P31,488,166 and P23,025,572, respectively.

No other assets and restrictions are pledged in relation to the loans availed as at December 31, 2015 and 2014.

#### NOTE 19 - RETIREMENT BENEFITS

The Organization has a 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, 2015. 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, 2015.

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.

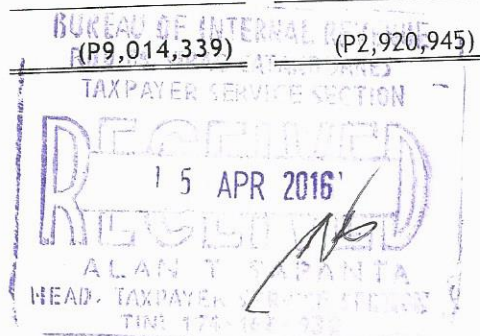
The retirement benefit liability recognized in the statements of financial position as at December 31 follows:

	2015	2014
Present value of DBO at December 31	P13,910,232	P11,875,311
Fair value of plan asset at December 31	<u>22,924,571</u>	<u>14,796,256</u>
Net retirement benefit asset at December 31	<u>(P9,014,339)</u>	<u>(P2,920,945)</u>

The movements in the net retirement benefit asset recognized in the statements of financial position are as follows:

	2015	2014
Retirement benefit liability at January 1	(P2,920,945)	P1,879,176
Transfer (to) from a subsidiary (Note 22)	(247,145)	610,938
Amount recognized in profit or loss (Note 21)	2,243,947	1,799,898
Amount recognized in OCI - actuarial loss	5,113,648	2,796,649
Contributions	(13,203,844)	(10,007,606)
Benefits paid directly by the Organization	-	-
Retirement benefit asset at December 31	<u>(P9,014,339)</u>	<u>(P2,920,945)</u>

(49)



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

	2015	2014
Present value of DBO at January 1	P11,875,311	P9,090,907
Interest cost	615,141	470,909
Current service cost	2,395,252	1,702,557
Defined benefit cost recognized in profit or loss	3,010,393	2,173,466
Actuarial (gain) loss from:		
Changes in financial assumptions	505,772	-
Experience	(1,405,984)	-
Changes in demographic assumptions	171,885	-
Defined benefit cost recognized in OCI	(728,327)	-
Benefits paid	-	-
Transfer (to)/from a subsidiary (Note 22)	(247,145)	610,938
Present value of DBO at December 31	<u>P13,910,232</u>	<u>P11,875,311</u>

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

	2015	2014
Fair value of plan assets at January 1	P14,796,256	P7,211,731
Asset return in net interest cost recognized in profit or loss	766,446	373,568
Contributions	13,203,844	10,007,606
Remeasurement - plan assets recognized in OCI	(5,841,975)	(2,796,649)
Fair value of plan assets at December 31	<u>P22,924,571</u>	<u>P14,796,256</u>

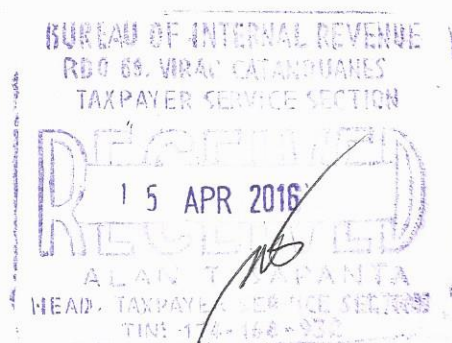
There was no plan amendment, curtailment or settlement recognized in 2015 and 2014.

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:

	2015	2014
Current service cost	P2,395,252	P1,702,557
Net interest cost	(151,305)	97,341
	<u>P2,243,947</u>	<u>P1,799,898</u>

(50)



Amount recognized in OCI follows:

	2015	2014
Actuarial gains - DBO	P728,327	P-
Remeasurement - plan assets	(5,841,975)	(2,796,649)
	<u>(P5,113,648)</u>	<u>(P2,796,649)</u>

The cumulative actuarial losses in OCI amounted to P17,939,324 and P12,825,676 in 2015 and 2014, respectively.

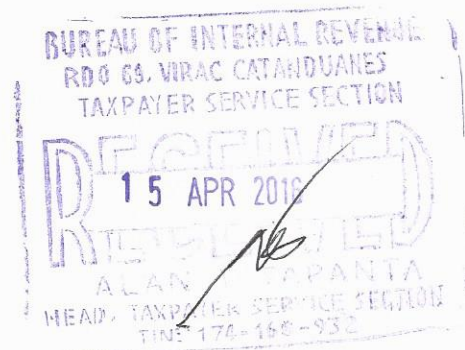
The weighted average duration of the DBO is 24 years.

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

	2015	2014
Discount rate	5.02%	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, 2015 and 2014 follows:

Principal assumptions	Increase (Decrease) in assumption	Effect on retirement liability (in Philippine Peso)	
		2015	2014
Discount rate	0.50%	(P1,530,169)	(P1,189,096)
	-0.50%	1,751,391	1,358,900
Salary increase rate	1%	3,635,661	2,823,309
	-1%	(2,840,565)	(2,211,464)



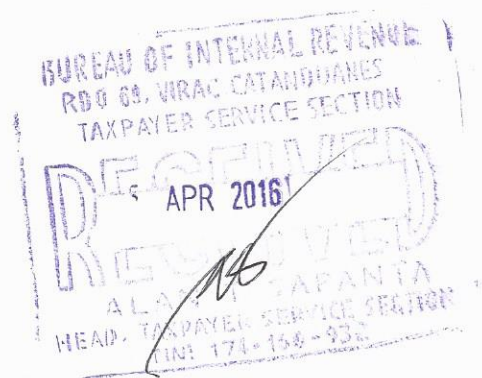
**NOTE 20 - OTHER OPERATING INCOME**

The details of the account are as follow:

	2015	2014
Share in Credit Group Life Insurance (CGLI)	P3,448,307	P8,181,756
Rental income (Notes 12 and 23)	1,497,000	1,449,511
Recovery of previously written off accounts (Note 8)	917,522	1,006,593
Interest from deposits in banks (Note 7)	418,193	502,500
Amortization of deferred income from government grants (Note 17)	387,064	387,064
Convenience charge	372,867	297,978
Service charges	262,174	78,946
Interest on finance lease receivable (Note 8)	33,664	44,953
Dividend income (Note 10)	-	4,969,612
Gain on sale of asset (Note 11)	-	350,000
Miscellaneous income	3,071,881	942,568
	<u>P10,408,672</u>	<u>P18,211,481</u>

The share in CGLI pertains to the Organization's 30% share in the CGLI premiums on loan releases. During the year, the Organization transferred some of its members' insurance coverage from PhilLife to ARDCIMBA. Further, the Organization does not share anymore in the collected CGLI premiums on loan releases to members who were transferred to ARDCIMBA.

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

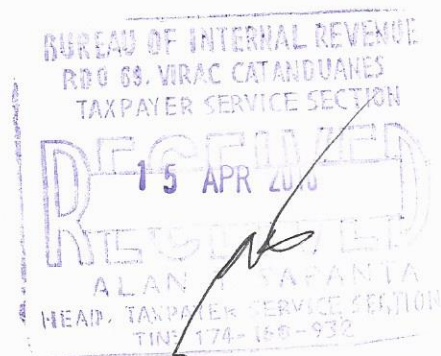


**NOTE 21 - GENERAL AND ADMINISTRATIVE EXPENSES**

The details of the account are as follows:

	2015	2014
Salaries, wages and employee benefits	P148,764,008	P119,556,576
Microfinance-related expenses	18,753,737	14,871,092
Transportation, fuel and oil	15,360,002	11,943,817
Depreciation and amortization (Notes 11, 12 and 13)	15,224,383	9,955,144
Rental (Note 23)	9,388,895	7,531,958
Security and janitorial services	7,942,710	7,584,891
Communication, light and water	6,369,522	5,940,897
Trainings and seminars	4,479,791	4,372,104
Professional fee	3,481,658	2,479,958
Documentary stamp tax (DST)	3,095,561	2,007,478
Supplies	2,975,824	6,653,630
Insurance	2,899,898	2,160,599
Representation	2,501,688	2,899,297
Fines, penalties and dues	2,335,926	1,090,733
Retirement (Note 19)	2,243,947	1,799,898
Advertising	1,671,602	1,383,729
Repairs and maintenance	1,631,270	2,307,992
Taxes and licenses	1,622,377	2,295,613
Charitable contributions	1,255,974	511,955
Finance charges	1,012,343	2,861,417
Organization charges	678,661	528,292
Fringe benefit tax	321,129	-
Research and development costs	194,183	100,459
Miscellaneous	4,456,108	2,691,780
	<u>P258,661,197</u>	<u>P213,529,309</u>

Miscellaneous expenses include various expenses incurred by the Organization's head office and other branches, deficiency taxes paid, 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 cash transfer and payment of all expenses attributed to the operation of ARDCIMBA, acquisition of property, purchase of supplies, regular/special meetings of the BOTs of ARDCIMBA, collections fees and CGLI benefit claims (see Note 8).

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

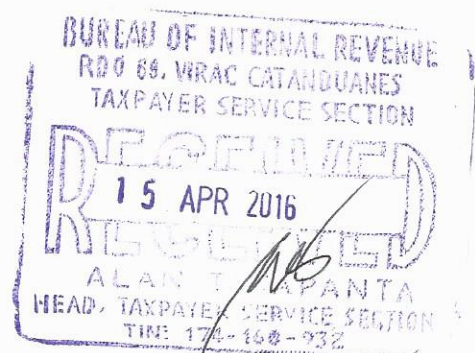
Due from ARDCI Corporate Inn represents the receivable arising from expenses paid by the Organization on behalf of ARDCI Corporate Inn (see Note 8).

Due to ARDCIMBA represents unremitted membership fees, premiums and contributions collected from the members (see Note 16).

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.

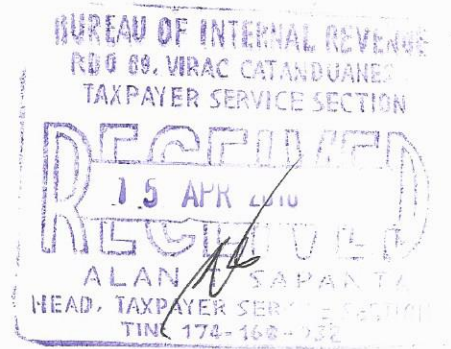


The amount of outstanding balances and the details of due to/from related parties, including their terms and conditions, security, nature of the consideration to be provided in settlement, and details of any guarantees given or received are as follows:

2015

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	P10,374,358	P-	P-	Non- interest bearing, unsecured, negotiable	N/A	Cash	N/A
	Balance at January 1, 2015							
	Cash transferred to ARDCIMBA	1,249,354	-	-				
	Assets transferred to ARDCIMBA	72,885	-	-				
	Operating expenses shouldered by ARDCI	5,397,176	-	-				
	Pre-operating expenses paid in cash	(903,896)	-	-				
	Collection fees	121,240	-	-				
	CGLI claims	211,357	-	-				
	Unremitted members' contributions, dues and fees	-	6,107,490	-				
	Unremitted premiums	-	2,813,447	-				
	Provision for impairment losses	-	N/A	223,253				
	Balance at December 31, 2015	P16,522,474	P8,920,937	P223,253				
VBI	Subsidiary	P3,856,190	P6,250	P-	Non- interest bearing, unsecured, negotiable	N/A	Cash	N/A
	Balance at January 1, 2015							
	General and administrative expenses	(2,655,360)	-	-				
	Payments	-	-	-				
	Transfer of retirement liability (Note 19)	-	247,145	-				
	Unremitted collection	-	8,077	-				
	Provision for impairment losses	-	N/A	-				
	Balance at December 31, 2015	P1,200,830	P261,472	P-				

(55)



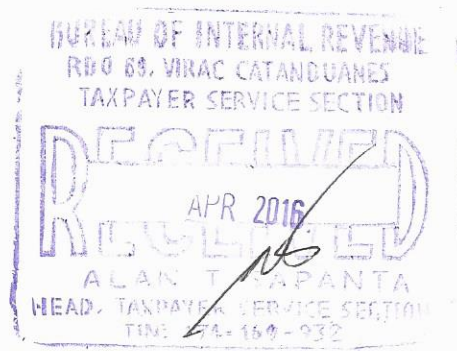
2015

Related party	Relationship/ category	Balance at January 1, 2015	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 Corporate Inn	Subsidiary		P723,492	P292,821	P-	Non-interest bearing, unsecured, on demand	N/A	Cash	N/A
		Balance at January 1, 2015							
		Hotel expenses	3,411,339	-	-				
		Rent expense	720,000	-	-				
		Collections	(4,066,320)	-	-				
		Services rendered	-	3,324,719	-				
		Payments	-	-	(3,009,696)				
	Provision for impairment losses		-	N/A					
	Balance at December 31, 2015		P788,511	P607,844	P-				
	Total		P18,511,815	P9,790,253	P223,253				

BUREAU OF INTERNAL REVENUE  
 RDO 05, VIRAC CATANDUANES  
 TAXPAYER SERVICE SECTION  
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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	P-	P-	Non-interest bearing, unsecured, on demand	N/A	Cash	N/A
		Cash transferred to ARDCIMBA	-	-				
		Assets transferred to ARDCIMBA	-	-				
		Pre-operating expenses paid in cash	3,518,760	-				
		Provision for impairment losses	-	N/A				
		Balance at December 31, 2014	P-	P-				
VBI	Subsidiary							
		Balance at January 1, 2014	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	P3,856,190	P6,250				





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, 2015 and 2014, respectively.

Compensation of key management personnel for the years ended December 31, 2015 and 2014 amounted to P3,452,188 and P3,924,657, respectively. The total staff loans receivable from key management amounted to P8,002,634 and P7,680,319 as at December 31, 2015 and 2014, respectively.

#### NOTE 23 - CONTINGENCIES AND COMMITMENTS

##### Legal cases

The Organization is involved in cases that arise in its normal course of business. The management believes that the outcome of the cases will not materially affect the financial condition and performance of the Organization.

##### 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	
	2015	2014
Not later than one year	P5,214,392	P3,540,349
Later than one year but not later than five years	1,872,656	716,390

Total rent expense recognized in profit or loss for the years ended December 31, 2015 and 2014 amounted to P9,388,895 and P7,531,958, respectively (see Note 21).

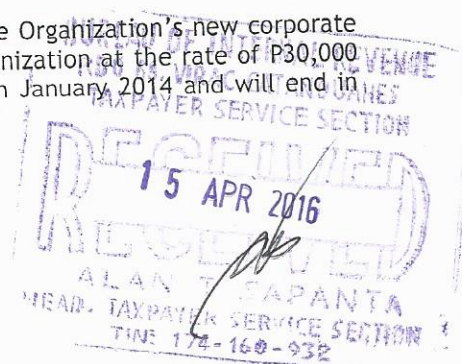
###### *As a lessor*

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 the 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 the 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	
	2015	2014
Not later than one year	P1,440,000	P1,440,000
Later than one year but not later than five years	6,060,000	6,450,000
Later than five years	3,060,000	3,060,000

Rental income recognized for the years ended December 31, 2014 and 2013 amounted to P1,497,000 and P1,449,511, respectively (see Note 20).

#### NOTE 24 - INCOME TAXES

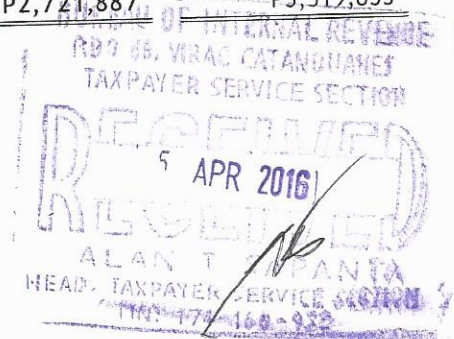
The Organization, being a non-stock, not-for-profit organization operating for social welfare purposes, is exempt from income tax pursuant to Section 30 (e) of the National Internal Revenue Code of 1997. However, income derived from whatever kind and character from any of their properties, real or personal, 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 P2,721,887 and P3,519,833 for the years ended December 31, 2015 and 2014.
- A numerical reconciliation between the tax expense computed at the statutory income tax rate and the actual expense follows:

	2015	2014
Provision for income tax computed at 30%	P3,122,602	P5,463,444
Less adjustments for:		
Nontaxable income	275,257	301,978
Income subject to final tax	125,458	150,750
Tax-exempt income	-	1,490,883
	<u>P2,721,887</u>	<u>P3,519,833</u>



c. Movements in income tax payable follow:

	2015	2014
At January 1	P2,337,424	P-
Charged to profit or loss	2,721,887	3,519,833
Income tax paid	(3,832,018)	(1,133,338)
Prepaid tax - creditable	(73,500)	(49,071)
At December 31	<u>P1,153,793</u>	<u>P2,337,424</u>

The Organization has not recognized deferred tax asset from its actuarial loss on retirement liability amounting to P1,534,094 and P838,995 as at December 31, 2015 and 2014, respectively. 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.

Further, deferred income taxes arising from other temporary differences were not recognized because the management believes there are no future benefits that will be derived from these temporary differences since the Organization is exempted from income tax.

**NOTE 25 - 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, 2015:

**1. Documentary stamp tax (DST)**

The DST paid/accrued amounted to:

Transaction	Amount	DST thereon
Loan instruments	<u>P622,152,563</u>	<u>P3,095,561</u>

**2. Taxes and licenses**

Permits and licenses

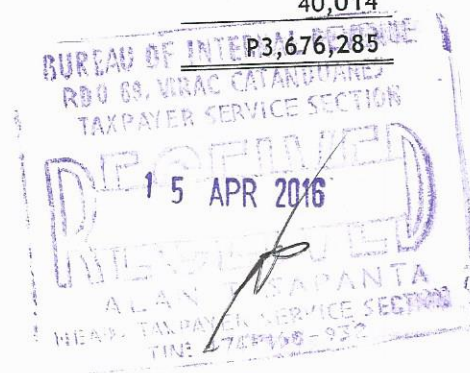
P 1,622,377

**3. Withholding taxes**

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

a. Taxes on compensation and benefits	P3,015,744
b. Expanded withholding taxes	620,527
c. Percentage tax	40,014
	<u>P3,676,285</u>

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4. Tax cases/assessments

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.

On September 24, 2015, the Organization paid deficiency tax on expanded withholding tax amounting to P324,719 and the corresponding surcharge and interest of P81,180 and P467,408, respectively.

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.

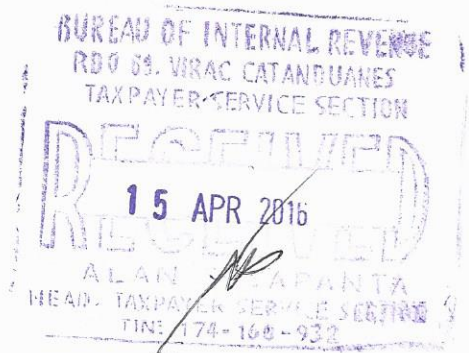
Following are the required schedules in compliance with the aforesaid revenue issuances:

1. Revenue

	Exempt	Special rate	Regular rate
Interest income on loans and receivables	P490,247,421	P-	P-

2. Cost of services

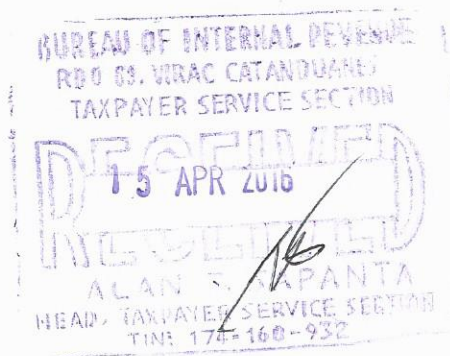
	Exempt	Special rate	Regular rate
Salaries, wages and benefits	P111,017,023	P-	P-
SSS, GSIS, Philhealth, HDMF, and other contributions	5,353,115	-	-
Interest expense	46,991,604	-	-
	P163,361,742	P-	P-



3. Other operating income

	Exempt	Special rate	Regular rate
Share in Credit Group Life Insurance(CGLI)	P-	P-	P3,448,307
Rental income	-	-	1,497,000
Amortization of deferred income from government grants	-	-	387,064
Convenience charge	-	-	372,867
Service charges	-	-	262,174
Interest on finance lease receivable (Note 8)	-	-	33,664
Miscellaneous income	-	-	3,071,881
	P-	P-	P9,072,957

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4. Itemized deductions

	Exempt	Special rate	Taxable
Salaries and allowances	P31,134,836	P-	P-
Depreciation	15,224,383	-	-
Rental	9,388,895	-	-
Fuel and oil	8,642,488	-	-
Security services	7,942,710	-	-
Transportation and travel	6,717,514	-	-
Communication, light and water	6,369,522	-	-
Office supplies	2,975,824	-	-
Insurance	2,899,898	-	-
Representation and entertainment	2,501,688	-	-
Management and consultancy fee	2,324,900	-	-
Trainings and seminars	2,244,781	-	-
Director's fees	2,235,010	-	-
Advertising and promotions	1,671,602	-	-
Repairs and maintenance (labor or labor and materials)	1,631,270	-	-
Taxes and licenses	1,622,377	-	-
SSS, GSIS, Philhealth, HDMF, and other contributions	1,259,034	-	-
Charitable contributions	1,255,974	-	-
Professional fees	1,156,758	-	-
Interest	1,012,343	-	-
Research and development	194,183	-	-
Miscellaneous	4,456,108	-	-
Others:			
Microfinance-related expenses	18,753,737	-	-
Retirement contribution	13,203,844	-	-
DST	3,095,561	-	-
Organization charges	678,661	-	-
Fringe benefit tax	321,129	-	-
	<b>P150,915,030</b>	<b>P-</b>	<b>P-</b>

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**INDEPENDENT AUDITORS' SUPPLEMENTAL WRITTEN STATEMENT**

The Members and the Board of Trustees  
ARDCI NGO Group, Inc.  
2nd Floor, ARDCI Corporate Building  
San Roque, Virac, Catanduanes

We have examined the financial statements of ARDCI NGO Group, Inc. (the "Company") as at and for the year ended December 31, 2015, on which we have rendered the attached report dated April 7, 2016.

In compliance with SRC Rule 68, we are stating that the said Company has no stockholders 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. 5358086, issued on January 26, 2016, Makati City

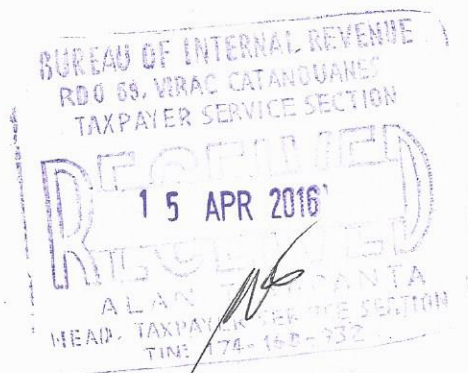
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effective until December 31, 2018

SEC Accreditation PA-A-733-A (Individual), Group A (conditional),  
issued on February 3, 2016, effective until June 3, 2016

SEC Accreditation No. 0007-FR-4 (Firm), Group A, issued on July 16, 2015,  
effective until July 15, 2018

BIR Accreditation No. 08-001682-6-2014, issued on January 5, 2015,  
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April 7, 2016  
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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 Building  
San Roque, Virac, Catanduanes

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of ARDCI NGO Group, Inc. as at and for the years ended December 31, 2015 and 2014 and have issued our report thereon dated April 7, 2016. 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

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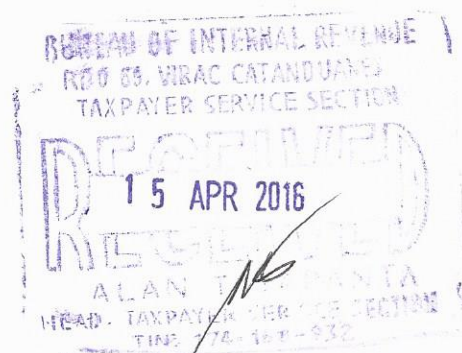
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ARDCI NGO GROUP, INC.

SCHEDULE OF STANDARDS AND INTERPRETATIONS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		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 and Financial Liabilities			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
	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, PFRS 12 and PAS 27: Investment Entities	✓		
	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*			✓
<b>Philippine Accounting Standards</b>				
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	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		

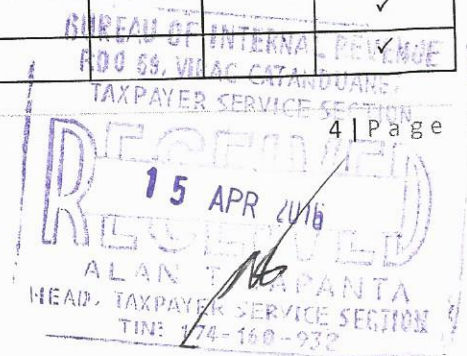


PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employment Contributions *		✓	
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			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities			✓
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*			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup 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			✓
	Amendments to PAS 39: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants*			✓
<b>Philippine Interpretations</b>				
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			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for 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 and Segment Information for Total Assets and Liabilities	✓		✓ ✓ ✓ ✓
	Annual Improvements to PFRSs (2010-2012 Cycle) - PFRS 13 (Amendment), Fair Value Measurement	✓		

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ALAN T. APANTA  
HEAD, TAXPAYER SERVICE SECTION  
TIN: 174-160-932

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015	Adopted	Not Adopted	Not Applicable
<ul style="list-style-type: none"> <li>- PFRS 2 (Amendment), Share-based Payment: Definition of Vesting Condition *</li> <li>- PFRS 3 (Amendment), Business Combinations: Accounting for Contingent Consideration in a Business Combination *</li> <li>- PFRS 8 (Amendments), Operating Segments: Aggregation of Operating Systems and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets *</li> <li>- PAS 16 (Amendment), Property, Plant and Equipment and PAS 38 (Amendment): Intangible Assets *</li> <li>- PAS 24 (Amendment), Related Party Disclosures *</li> </ul>		<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> </ul>	
<ul style="list-style-type: none"> <li>Annual Improvements to PFRSs (2011-2013 Cycle)</li> <li>- PFRS 1 (Amendment), First-time Adoption of Philippine Financial Reporting Standards: Meaning of "Effective PFRSs"</li> <li>- PFRS 3 (Amendment), Business Combinations: Scope Exceptions for Joint Arrangements *</li> <li>- PFRS 13 (Amendment), Fair Value Measurement: Portfolio Exception *</li> <li>- PAS 40 (Amendment), Investment Property *</li> </ul>		<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> </ul>	
<ul style="list-style-type: none"> <li>Annual Improvements to PFRSs (2012-2014 Cycle)</li> <li>- PFRS 5 (Amendment), Non-current Assets Held for Sale and Discontinued Operations: Changes in Methods of Disposal *</li> <li>- PFRS 7 (Amendment), Financial Instruments: Disclosures - Servicing Contracts *</li> <li>- PFRS 7 - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Report *</li> <li>- PAS 19 (Amendment), Employee Benefits: Regional Market Issue Regarding Discount Rate *</li> <li>- PAS 34 (Amendment), Interim Financial Reporting: Disclosure of Information "Elsewhere in the Interim Financial Report *</li> </ul>			<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> </ul>

\* Issued but not yet effective

BUREAU OF INTERNAL REVENUE  
 RDO 69, VIRAC CATANDUAN  
 TAXPAYER SERVICE SECTION  
 APR 2016  
 ALAN SAPANTA  
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