D P W F S   M F U U F S

For

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

1 0 1 6 7 6

COMPANY NAME

T U L A Y S A P A G - U N L A D , I N C .

(A M i c r o f i n a n c e N G O)

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

2 3 6 3 A n t i p o l o S t .

G u a d a l u p e N u e v o , M a k a t i C i t y

Form Type	Department requiring the report	Secondary License Type, If Applicable
A F S		

COMPANY INFORMATION

Company's email Address	Company's Telephone Number/s	Mobile Number
N/A	8403-8619	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
N/A	4^{th} Monday of May	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Sandra G. Serapio	sgserapio@tspi.org	403-8619	N/A

CONTACT PERSON's ADDRESS

#2363 Antipolo St., Guadalupe Nuevo, Makati City

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

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR ANNUAL INCOME TAX RETURN

The Management of **Tulay Sa Pag-unlad, Inc. (A Microfinance NGO)** (the "**Organization**") is responsible for all information and representations contained in the Annual Income Tax Return for the year ended **December 31, 2019**. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the management affirms that the attached audited financial statements for the year ended **December 31, 2019** and the accompanying Annual Income Tax Return are in accordance with the books and records of the Organization, complete and correct in all material respects. Management likewise affirms that:

(a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

(b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to Philippine Financial Reporting Standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Organization's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances; and

(c) the Organization has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

Signed this 13th day of April 2020.

RENE E. CRISTOBAL
President

RICARDO G. LAZATIN
Treasurer

ALICE Z. CORDERO
Executive Director

SANDRA G. SERAPIO
Chief Financial Officer

TULAY SA PAG-UNLAD, INC.
(A Microfinance NGO)
(Formerly Tulay Sa Pag-unlad, Inc.)

FINANCIAL STATEMENTS
December 31, 2019 and 2018

With Independent Auditors' Report

REPORT OF INDEPENDENT AUDITORS

The Board of Trustees and Members
Tulay sa Pag-unlad, Inc. (A Microfinance NGO)
(Formerly Tulay sa Pag-unlad, Inc.)
2363 Antipolo St. Guadalupe Nuevo
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Tulay sa Pag-unlad, Inc. (A Microfinance NGO) (the Organization), which comprise the statements of assets, liabilities and fund balance as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in fund balance and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

PRC-BOA Registration No. 0003, valid until November 21, 2023
SEC Accreditation No. 0004-FR-5, Group A, valid until November 15, 2020
IC Accreditation No. F-2017/010-R, valid until August 26, 2020
BSP - Selected External Auditors, Category A, valid for 3-year audit period (2017 to 2019)

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of 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 in Note 28 to the basic 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 supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

Vanessa P. Macamos

VANESSA P. MACAMOS
Partner
CPA License No. 0102309
SEC Accreditation No. 1619-A, Group A, valid until June 30, 2020
Tax Identification No. 920-961-311
BIR Accreditation No. 08-001987-38-2019
Issued September 25, 2019; valid until September 24, 2022
PTR No. MKT 8116770
Issued January 2, 2020 at Makati City

April 14, 2020
Makati City, Metro Manila

KPMG

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Website home.kpmg/ph
Email ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS

The Board of Trustees and Members
Tulay sa Pag-unlad, Inc. (A Microfinance NGO)
(Formerly Tulay sa Pag-unlad, Inc.)
2363 Antipolo St. Guadalupe Nuevo
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Tulay sa Pag-unlad, Inc. (A Microfinance NGO) (the Organization), which comprise the statements of assets, liabilities and fund balance as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in fund balance and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of 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 in Note 28 to the basic 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 supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

Vanessa P. Macamos

VANESSA P. MACAMOS
Partner
CPA License No. 0102309
SEC Accreditation No. 1619-A, Group A, valid until June 30, 2020
Tax Identification No. 920-961-311
BIR Accreditation No. 08-001987-38-2019
Issued September 25, 2019; valid until September 24, 2022
PTR No. MKT 8116770
Issued January 2, 2020 at Makati City

April 14, 2020
Makati City, Metro Manila

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Website home.kpmg/ph
Email ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE BUREAU OF INTERNAL REVENUE

The Board of Trustees and Members
Tulay sa Pag-unlad, Inc. (A Microfinance NGO)
(Formerly Tulay sa Pag-unlad, Inc.)
2363 Antipolo St. Guadalupe Nuevo
Makati City

We have audited the accompanying financial statements of Tulay sa Pag-unlad, Inc. (A Microfinance NGO) (the Organization) as at and for the year ended December 31, 2019, on which we have rendered our report dated April 14, 2020.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the Chairman or any members of the Board of Trustees of the Organization.

R.G. MANABAT & CO.

Vanessa P. Macamos

VANESSA P. MACAMOS
Partner
CPA License No. 0102309
SEC Accreditation No. 1619-A, Group A, valid until June 30, 2020
Tax Identification No. 920-961-311
BIR Accreditation No. 08-001987-38-2019
Issued September 25, 2019; valid until September 24, 2022
PTR No. MKT 8116770
Issued January 2, 2020 at Makati City

April 14, 2020
Makati City, Metro Manila

TULAY SA PAG-UNLAD, INC. (A Microfinance NGO)
(Formerly Tulay Sa Pag-unlad, Inc.)

STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

		December 31	
	Note	**2019**	2018
ASSETS			
Current Assets			
Cash and cash equivalents	*6*	**P255,473,048**	P290,738,559
Loans receivable - net	*8*	**1,193,011,583**	1,476,258,614
Other receivables - net	*9*	**9,064,506**	29,155,479
Due from related parties	*18*	**16,699,193**	40,889,449
Prepayments and other current assets		**2,572,332**	5,042,089
Total Current Assets		**1,476,820,662**	1,842,084,190
Noncurrent Assets			
Property and equipment - net	*10*	**170,211,419**	186,091,515
Right-of-use asset - net	*12, 25*	**18,432,081**	-
Intangible assets - net	*11*	**3,086,276**	1,859,961
Restricted investments	*7*	**55,145,263**	54,592,281
Retirement asset - net	*19*	**27,512,530**	58,816,002
Other noncurrent assets	*13*	**11,590,374**	14,134,157
Total Noncurrent Assets		**285,977,943**	315,493,916
		P1,762,798,605	P2,157,578,106
LIABILITIES AND FUND BALANCE			
Current Liabilities			
Clients' capital build up	*14*	**P651,263,614**	P646,007,217
Accounts payable and accrued expenses	*15*	**166,726,436**	191,153,019
Loans payable - current portion	*16*	**146,693,767**	537,575,980
Due to related parties	*18*	**2,487,982**	188,457
Funds held in trust	*17*	**816,105**	859,757
Other current liabilities	*25*	**8,600,329**	-
Total Current Liabilities		**976,588,233**	1,375,784,430
Noncurrent Liabilities			
Loans payable - noncurrent portion	*16*	**-**	14,357,353
Deferred tax liability - net	*26*	**29,052,267**	36,476,451
Other noncurrent liabilities	*25*	**9,894,077**	-
Total Noncurrent Liabilities		**38,946,344**	50,833,804
Total Liabilities		**1,015,534,577**	1,426,618,234
Fund Balance			
Accumulated net income		**600,497,005**	567,532,943
Employee benefit reserve	*19*	**88,763,996**	105,423,902
Revaluation increment on property	*10*	**58,003,027**	58,003,027
Total Fund Balance		**747,264,028**	730,959,872
		P1,762,798,605	P2,157,578,106

See Notes to the Financial Statements.

TULAY SA PAG-UNLAD, INC. (A Microfinance NGO)
(Formerly Tulay Sa Pag-unlad, Inc.)
STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31	
	Note	**2019**	2018
REVENUES			
Interest income calculated using the effective interest method	*8, 20*	**P638,692,333**	P818,865,957
Service income	*20*	**42,336,343**	68,598,351
	20	**681,028,676**	887,464,308
EXPENSES			
Project and operational costs	*22*	**502,284,210**	629,006,875
General and administrative expenses	*23*	**100,377,233**	126,431,860
Finance charges	*16*	**22,116,992**	39,784,120
Interest expense on client's capital build up	*14, 20*	**12,278,907**	11,365,741
Impairment losses	*8, 9*	**21,697**	59,783,152
		637,079,039	866,371,748
OPERATING INCOME BEFORE FINANCE COST AND OTHER INCOME - Net		**43,949,637**	21,092,560
FINANCE COST	*25*	**(716,069)**	-
OTHER INCOME - Net	*24*	**3,177,656**	39,066,256
NET INCOME BEFORE INCOME TAX		**46,411,224**	60,158,816
INCOME TAX EXPENSE (BENEFIT)			
Current	*26*	**13,731,388**	28,655,476
Deferred	*26*	**(284,226)**	279,454
	26	**13,447,162**	28,934,930
NET INCOME		**32,964,062**	31,223,886
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit liability	*19*	**(23,799,866)**	58,827,310
Tax effect	*19, 26*	**7,139,960**	(17,648,193)
		(16,659,906)	41,179,117
Items that may be reclassified to profit or loss			
Net change in revaluation increment on property		**-**	48,955,181
Tax effect	26	**-**	(14,686,554)
		-	34,268,627
TOTAL COMPREHENSIVE INCOME		**P16,304,156**	P106,671,630

See Notes to the Financial Statements.

TULAY SA PAG-UNLAD, INC. (A Microfinance NGO)
(Formerly Tulay Sa Pag-unlad, Inc.)
STATEMENTS OF CHANGES IN FUND BALANCE

Years Ended December 31

	Note	Accumulated Net Income	Employee Benefit Reserves (Note 19)	Revaluation Increment on Property (Note 10)	Total Fund Balance
Balance at January 1, 2019		**P567,532,943**	**P105,423,902**	**P58,003,027**	**P730,959,872**
Net income		**32,964,062**	**-**	**-**	**32,964,062**
Other comprehensive loss:					
Remeasurement of defined benefit liability		**-**	**(23,799,866)**	**-**	**(23,799,866)**
Tax effect	*19, 26*	**-**	**7,139,960**	**-**	**7,139,960**
Total comprehensive income		**32,964,062**	**(16,659,906)**	**-**	**16,304,156**
Balance at December 31, 2019		**P600,497,005**	**P88,763,996**	**P58,003,027**	**P747,264,028**
Balance at January 1, 2018		P534,479,479	P64,244,785	P23,734,400	P622,458,664
Net income		31,223,886	-	-	31,223,886
Other comprehensive income:					
Revaluation increment on property		-	-	48,955,181	48,955,181
Remeasurement of defined benefit liability		-	58,827,310	-	58,827,310
Tax effect	*19, 26*	-	(17,648,193)	(14,686,554)	(32,334,747)
Total comprehensive income		31,223,886	41,179,117	34,268,627	106,671,630
Reclassification of revaluation increment on property		1,829,578	-	-	1,829,578
Balance at December 31, 2018		P567,532,943	P105,423,902	P58,003,027	P730,959,872

See Notes to the Financial Statements.

TULAY SA PAG-UNLAD, INC. (A Microfinance NGO)
(Formerly Tulay Sa Pag-unlad, Inc.)
STATEMENTS OF CASH FLOWS

		Years Ended December 31	
	Note	**2019**	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income before income tax		**P46,411,224**	P60,158,816
Adjustments for:			
Interest income	*20*	**(681,028,676)**	(887,464,308)
Depreciation and amortization	*10, 11, 12*	**25,147,112**	20,038,299
Interest expense	*16*	**22,116,992**	39,784,120
Interest expense on Lease Liability	*25*	**716,069**	-
Retirement expense	*19*	**7,503,608**	16,973,145
PFRS 16 transition adjustment	*3*	**(418,600)**	-
Gain from disposal of property and equipment	*10, 24*	**(946,126)**	(32,306,052)
Impairment losses	*8, 9*	**-**	59,783,152
Recovery of impairment loss	*24*	**-**	(5,045,988)
Operating loss before working capital changes		**(580,498,397)**	(728,078,816)
Decrease (increase) in:			
Loans receivable		**283,247,031**	354,989,184
Other receivables		**20,090,974**	20,468,427
Due from related party		**24,190,255**	(34,777,530)
Prepayments and other current assets		**2,469,757**	1,077,314
Increase (decrease) in:			
Clients' capital build up		**5,256,397**	(82,781,821)
Accounts payable and accrued expenses		**(24,426,583)**	(16,615,127)
Due to related parties		**2,299,525**	(8,311,910)
Funds held in trust		**(43,652)**	(209,578)
Cash used in operations		**(267,414,693)**	(494,239,857)
Interest received	*20*	**681,028,676**	887,464,308
Interest paid		**(22,116,992)**	(39,784,120)
Income tax paid		**(13,731,388)**	(28,655,476)
Net cash provided by operating activities		**377,765,603**	324,784,855
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to right-of-use asset	*12*	**(16,682,106)**	-
Additions to property and equipment and intangible assets	*10, 11*	**(3,675,744)**	(12,241,423)
Decrease in other noncurrent assets		**2,543,783**	313,076
Proceeds from disposal of property and equipment and intangible assets		**1,344,240**	50,540,360
Increase in restricted investments		**(552,982)**	(547,382)
Decrease in restricted cash		**-**	7,230,995
Net cash provided by (used in) investing activities		**(17,022,809)**	45,295,626

Forward

		Years Ended December 31	
	Note	**2019**	2018
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of loans		**(P601,339,566)**	(P1,504,266,667)
Availment of loans		**196,100,000**	1,270,100,000
Availment of lease liability		**16,053,643**	-
Payment of lease liability	*25*	**(6,106,313)**	-
Payment of interest on lease liability	*25*	**(716,069)**	-
Net cash provided by (used in) investing activities		**(396,008,305)**	(234,166,667)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(35,265,511)**	135,913,814
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**290,738,559**	154,824,745
CASH AND CASH EQUIVALENTS AT END OF YEAR	*6*	**P255,473,048**	P290,738,559

See Notes to the Financial Statements.

1. Reporting Entity

Tulay sa Pag-unlad, Inc. (A Microfinance NGO) (TSPI or the Organization), was registered with the Philippine Securities and Exchange Commission (SEC) on October 30, 1981. Its mission is to provide individuals, families and communities the opportunity to experience fullness of life in Christ through Christian micro-enterprise development.

On June 21, 2018, the Board of Trustees and members amended the Organization's Articles of Incorporation and By-laws and approved the change of the Organization's corporate name from "Tulay sa Pag-unlad, Inc." to "Tulay sa Pag-unlad, Inc. (A Microfinance NGO)". On June 27, 2018, the SEC approved the amendment of the Organization's corporate name.

With the effectivity of Republic Act (RA) 10693 or Microfinance NGOs Act (the Act) in November 2016 and at least for the first year of implementation, the Organization is required to pay two percent (2%) gross receipts tax on all microfinance activities in lieu of income taxes and all national taxes, provided that the Organization has no derogatory record with the SEC. Accreditation with the Microfinance NGO Council is required for the Organization to be exempt from income and all national taxes beyond the initial year of implementation of the Act.

The Organization was granted a 3-year accreditation by the Microfinance NGO Regulatory Council (MNRC) on May 15, 2019 valid until May 14, 2022. A certification of no derogatory record from SEC was also issued to the Organization on February 13, 2020.

The Organization's head office address is at 2363 Antipolo St., Guadalupe Nuevo, Makati City. As at December 31, 2019 and 2018, the Organization has 124 and 136 branches and head office, respectively.

The Organization currently administers the following programs and services:

<u>Microfinance for Livelihood</u>
These are loans that are aimed at assisting poor households in sustaining or growing their business, including marginalized farmers for cheaper source of production capital.

1. TSPI Kabuhayan (Livelihood) Program (TKP)
   This program offers micro loans to qualified individuals, groups into centers, for livelihood and micro-enterprise development such as retail and buy and sell of various products, cottage industries and livestock raising. The TKP loan cycle is between 12 to 25 weeks with weekly repayment.

2. TSPI Programang Pang-agrikultura (TPP)
   This program offers micro loans for rice, corn and high value crops production to qualified farmers grouped into centers. It is designed to provide small farmers with timely access to production inputs through accredited farm input suppliers. TPP loan cycle is one cropping season with lump sum payment upon harvest. It is covered by crop insurance in partnership with the Philippine Crop Insurance Corporation (PCIC). TPP loans are guaranteed in partnership with Agricultural Guarantee Fund Pool (AGFP) led by the Department of Agriculture.

3. TSPI Maunlad Program (TMP)
   This program provides non-collateral and collateral-based loans to individuals graduating from TKP and new clients with existing businesses for at least two (2) years. Loans are payable in three (3) to 24 months, with flexible repayment schedule varying from weekly, semi-monthly to monthly term.

4. Water Pump Loan Program
   This program offers TPP land-owners and tenants with collateral-based loans for setting-up their irrigation system. Loans are payable for a maximum of three (3) years with monthly repayment or every end of each cropping season. It is covered by asset insurance in partnership with the PCIC.

5. Livestock Loan Program
   This program targets new and existing clients engaged in hog-raising. It offers individual loans for the purchase of piglets, feeds, vitamins and repair/construction/expansion of pig pens. Payment is lump sum for a maximum loan term of 164 days from the date of loan disbursement, depending on the duration of hog-fattening activity. It is covered by livestock insurance in partnership with the PCIC.

<u>Microfinance for Social Development</u>
These are loans that are not for the purpose of generating revenue for the clients but to contribute to their productivity and address their vulnerabilities, with interest rates less than that of livelihood loans:

1. Housing Improvement and Sanitation Loan Program (HISLP)
   This program provides loan to incoming clients and existing qualified clients intended for house and toilet improvement or construction, water access, and electricity connection. It mobilizes local manpower for construction works. Loans are payable from six (6) months to three (3) years with weekly, semi-monthly, and monthly repayment.

2. Educational Loan Assistance Program
   This program provides assistance to existing qualified clients for the cost of sending their children and/or beneficiaries to elementary, high school, technical/vocational and college education. It includes the cost of tuition fee, school supplies and graduation fee, among others. Loan is payable in (3) to six (6) months with weekly repayment.

3. Healthcare Loan Program
   This program provides access to health care for existing clients and their family members, in partnership with the Philippine Health Insurance Corporation (PhilHealth), who implements the government's health care program for organized groups. Maximum loan amount is equivalent to the cost of one year premium payable in three to six months with weekly repayment.

4. Micro-insurance Loan Program
   This program offers life insurance coverage to clients and their immediate relatives. The loan amounts are equivalent to the premium of life insurance packages available. The loan is payable in three to six months with weekly, semi-monthly and monthly payment.

5. Micro-insurance (MI) Premium Loan Program
   This is a new loan program of the Organization which started in October 2019. It allows clients to loan basic life micro-insurance policies amounting to P240, payable by P20 pesos, semi-monthly for one year.

2. Basis of Preparation

Statement of Compliance
The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations.

This is the first set of the Organization's financial statements in which PFRS 16 *Leases* has been applied. Changes to significant accounting policies are described in Note 3.

Basis of Measurement
The financial statements have been prepared on the historical cost basis except for the following items, which are measured on another basis at each reporting date.

Items	Measurement Basis
Property and equipment (land, buildings and improvements)	Revalued amount
Retirement asset - net	Fair value of plan assets less present value of the defined benefit obligation
Lease liability	Present value of cash flows discounted using the Organization's internal borrowing rate

Functional and Presentation Currency
The financial statements of the Organization are presented in Philippine peso, which is also the Organization's functional currency. All financial information presented in Philippine peso have been rounded off to the nearest peso, unless otherwise indicated.

The accompanying financial statements were approved for issuance by the Board of Trustees (BOT) during its regular meeting on April 13, 2020.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently by the Organization to all years presented in these financial statements, except for the changes in accounting policies as explained below.

Adoption of New Standard, Amendments to Standards and Interpretation
The FRSC approved the adoption of a number of new standard, amended standards and interpretation as part of PFRS. The Organization has adopted the following new standard, amendments to standards and interpretation starting January 1, 2019 and, accordingly changed its accounting policies. Except as otherwise indicated, the adoption of these new standard, amendments to standards and interpretation did not have any significant impact on the Organization's financial statements.

- PFRS 16 *Leases* supersedes PAS 17 *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. The Organization currently has no lease agreements where it is a lessor but has several contracts to lease office spaces for its branches classified as operating lease. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

  The Organization adopted PFRS 16 on January 1, 2019 using the modified retrospective approach without restating comparative information. The Organization elected to apply PFRS 16 to contracts that were previously identified as leases applying PAS 17 and Interpretation International Financial Reporting Standards (IFRIC) 4 *Determining whether an Arrangement Contains a Lease* and practical expedient to use hindsight in determining the lease term.

  Definition of a Lease
  Previously, the Organization determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under PFRS 16, the Organization assesses whether a contract is or contains a lease based on the definition of a lease as explained in the significant accounting policies of leases.

  Under IFRIC 4, the Organization assessed a lease based on the assessment of whether:

  - fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
  - the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
    - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
    - the purchaser had the ability or right to control physical access to the asset while obtaining or control more than an insignificant amount of the output; or

- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a Lessee

As a lessee, the Organization previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Organization. Under PFRS 16, the Organization recognizes right-of-use (ROU) assets and lease liabilities for most leases i.e. these leases are on the statements of assets, liabilities and fund balance.

Short-term Leases and Low-value Lease Assets

The Organization decided to apply the recognition exemptions to short-term leases and low value items i.e. those with value lower than P250,000.

The Organization elected not to recognize ROU assets and lease liabilities for short term lease of office facilities that have a lease term of 12 months or less and the lease of office equipment such as photocopying machine and scanner which were considered as low value assets, defined as those items below P250,000.

Use of Single Discount Rate

The Organization elected to apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

Impact of Transition

The impact on transition is summarized below:

	Note	**January 1, 2019 Increase (Decrease)**
Right-of-use assets	*12, 25*	**P8,965,676**
Lease liabilities		**8,547,076**
Prepaid rent		**(418,600)**

When measuring lease liabilities that were classified as operating leases, the Organization discounted the lease payments using its incremental borrowing rate at January 1, 2019. The weighted average incremental borrowing rate applied is 6.00%.

	January 1, 2019
Minimum lease payments for contract entered on January 1, 2019	**P13,246,234**
Discounting of lease liability	**(783,973)**
Recognition exemption for leases with less than 12 months of term at transition	**(3,915,185)**
Lease liabilities recognized at January 1, 2019	**P8,547,076**

- *Prepayment Features with Negative Compensation (Amendments to PFRS 9 Financial Instruments)*. The amendments cover the following areas:

  - *Prepayment features with negative compensation.* The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination.

  - *Modification of financial liabilities.* The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e., the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss.

  These amendments to standards have no significant impact to the Organization as there were neither financial asset with a prepayment feature nor modifications and exchanges of financial liabilities identified as at January 1, 2019.

- Amendments to PAS 19 *Plan Amendment, Curtailment or Settlement*. In February 2018, the IASB issued ‘Plan Amendment, Curtailment or Settlement’ (Amendments to PAS 19) that specifies how companies determine pension expenses when changes to a defined benefit pension plan occur. The Amendments to PAS 19 were effective for annual periods beginning on or after January 1, 2019. The Organization adopted the Amendments to PAS 19 on January 1, 2019 and the adoption did not have a material impact to the Organization’s financial position, results of operation or cash flows since the Organization does not have any plans on changing their defined benefit pension plans.

- *Philippine IFRIC 23 Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12 *Income Taxes* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Organization’s chosen tax treatment. If it is not probable that the tax authority will accept the Organization’s chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgements and estimates applied if facts and circumstances change - e.g., as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority’s right to challenge a treatment expires.

  The Organization adopted IFRIC 23 on January 1, 2019. The adoption did not have a material impact to the Organization’s financial position, results of operation or cash flows since there were no identified uncertainty over income tax.

Amendments to Standards Not Yet Adopted

A number of amendments to standards are effective for annual periods beginning after January 1, 2019. However, the Organization has not applied the following new amendments to standards in preparing these financial statements.

The Organization will adopt the following amendments to standards in the respective effective dates:

Effective January 1, 2020

▪ *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework).

  The 2018 Conceptual Framework includes:

  - a new chapter on measurement;
  - guidance on reporting financial performance;
  - improved definitions of an asset and a liability, and guidance supporting these definitions; and
  - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

  Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

  These amendments are effective for annual reporting periods beginning on or after January 1, 2020.

  The Organization is currently assessing the potential impact on its financial statements resulting from the application of the amendments to standards and has yet to reasonably estimate the impact.

▪ *Definition of Material (Amendments to PAS 1 Presentation of Financial Statements and PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors).* The amendments refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:

  (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence';

  (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;

(c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;

(d) clarifying the explanatory paragraphs accompanying the definition; and

(e) aligning the wording of the definition of material across PFRS and other publications.

The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

The amendments apply prospectively for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

The Organization is currently assessing the potential impact on its financial statements resulting from the application of the amendments to standards and has yet to reasonably estimate the impact.

<u>Financial Instruments</u>

Date of Recognition

Financial instruments are recognized in the statements of assets, liabilities and fund balance 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 trade date.

<u>Initial Recognition and Classification and Measurement</u>

Financial Assets

PFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

PFRS 9 includes three principal classification categories for financial assets based on measurement principles: amortized cost, FVOCI and fair value through profit or loss (FVPL).

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- its contractual terms give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Organization may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by- investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVPL. In addition, on initial recognition the Organization may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

As at December 31, 2019 and 2018, the Organization has no financial assets and financial liabilities at FVPL and financial assets at FVOCI.

Financial Assets Measured at Amortized Cost
Debt financial assets meeting the hold to collect business model and contractual terms that are SPPI are measured initially at fair value plus transaction costs. These financial assets are subsequently measured at amortized cost using the effective interest method less any impairment value, with the interest calculated and recognized as "Interest income calculated using the effective interest method" presented under "Revenue" in profit or loss.

As at December 31, 2019 and 2018, the Organization's financial assets measured at amortized cost consist of:

- Cash and Cash Equivalents - comprises cash balances (excluding cash on hand) and all deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in value, and are used by the Organization in the management of its short-term commitments (see Note 6).

- Loans Receivables - represents interest-bearing loans granted to individuals as well as small, cottage-scale and micro-entrepreneurs under various programs (see Note 8).

- Other Receivables - are receivables which generally include receivables from employees (including separated) and accrued interest receivable (see Note 9).

- Due from Related Parties - includes receivable of service fee amounting to 15% of premiums collected on behalf of TSPI Mutual Benefit Association, Inc. (TSPI MBAI) and advances for operational expenses to Tulay sa Pag-unlad Social Enterprise, Inc. (TSEI) (see Note 18).

- Restricted Investments - serve as security for the surety bond issued by Liberty Insurance Corporation in connection with the tax case pending with the First Division of the Court of Tax Appeals (CTA), thus, presented as noncurrent asset (see Note 7).

- Other Noncurrent Assets - consists of rental deposits and other noncurrent receivables of the Organization (see Note 13).

Business Model in Managing Financial Assets
Business model pertains to the manner by which a portfolio of financial assets is managed to generate cash flows such as by collecting contractual cash flows or by both collecting contractual cash flows and selling the financial assets, among others. The Organization determines the business model for a portfolio of financial assets based on scenarios that are reasonably expected to occur. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Organization’s management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Organization’s continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVPL.

Assessment whether Contractual Cash Flows are SPPI
For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Organization considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Organization considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Organization’s claim to cash flows from specified assets - e.g., non-recourse asset arrangements; and
- features that modify consideration for the time value of money - e.g., periodic reset of interest rates.

The Organization assessed that its financial assets are held until maturity to collect the principal and interest when these mature.

<u>Financial Liabilities</u>

Classification and Subsequent Measurement

Financial liabilities are initially recognized at fair value. Transaction costs are deducted from the initial measurement of the Organization's financial liabilities except for debt instruments classified at FVPL.

Financial liabilities are classified as measured at amortized cost or FVPL. A financial liability is classified as at FVPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

As at December 31, 2019 and 2018, the Organization's financial liabilities consist of:

- Client's Capital Build Up - represents mandatory deposit of members for them to avail of Organization's program, which are refunded once the members withdraw their membership from the Organization (see Note 14).

- Accounts Payable and Accrued Expenses - include liabilities incurred from operations, salaries, wages and employee benefits and other amounts payable by the Organization within one-year. Financial liabilities under accounts payable and accrued expenses exclude amounts payable to government agencies (see Note 15).

- Loans Payable - are loans from commercial banks, financial institutions and non-government organization which are secured by assignment of certain loans receivable portfolio (see Note 16).

- Due to Related Parties - are loans of employees of Tulay sa Pag-unlad Cooperative Inc. (TCI) and premiums collected in behalf of TSPI MBAI (see Note 18).

- Fund Held in Trust - funds received from various funding agencies with a conditional promise to contribute. This is classified as liability until the conditions of the grantor have been substantially met or the conditions have been explicitly waived by the funding agencies (see Note 17).

- Other Current and Noncurrent Liabilities - refers to the Organization's obligation for its lease payments on its branches (see Note 25).

<u>Identification and Measurement of Impairment</u>

ECL model of PFRS 9 model is forward-looking and it eliminates the threshold for the recognition of expected credit losses, so that it is no longer necessary for a trigger event to have occurred before credit losses are recognized. Consequently, more timely information is required to be provided about expected credit losses.

The Organization uses reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that a financial instrument was initially recognized and compared that to the credit risk at the date of initial recognition.

The Organization applies the simplified approach in providing for expected credit losses. To measure the expected credit losses, the Organization use the provision matrix in the form of aging analysis, including relevant forward-looking information.

The Organization recognizes allowance for ECL on the following financial instruments that are not measured at FVPL:

- financial assets that are debt instruments measured at amortized cost or FVOCI; and

- loan commitments and financial guarantee contracts issued (previously, impairment was measured under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*).

Under PFRS 9, no impairment loss is recognized on equity investments as at December 31, 2019 and 2018.

PFRS 9 requires a loss allowance to be recognized at an amount equal to either 12-month ECLs or lifetime ECLs. The Organization measures loss allowance at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and

- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The 12-month ECLs are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and is measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls - i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Organization expects to receive;

- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;

- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Organization if the commitment is drawn and the cash flows that the Organization expects to receive from this commitment; and

- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Organization expects to recover.

Financial assets that are credit-impaired are defined by PFRS 9 in a similar way to financial assets that are impaired under PAS 39.

Inputs into Measurement of ECLs
The key inputs into the measurement of ECLs are - in general - the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters are derived - alone or together - from internally developed statistical models based on own historical data or derived from available market data.

For the Organization's portfolio, LGD is used to measure the potential losses of defaulted accounts after considering historical recoveries. LGD is then computed by 1 less net recovery over the total outstanding balance. PD pertains to the average of net flow rate. EAD is the outstanding balance of the loans broken down into its repayment schedule. ECL is computed as the product of EAD, PD and LGD.

Where modelling of a parameter is carried out on a collective basis, the financial instruments were grouped on the basis of shared risk characteristics, such as:

- instrument type;
- credit risk grade;
- collateral type;
- date of initial recognition; and
- remaining term to maturity.

The grouping is subject to regular review to ensure that exposures within a particular Organization remain appropriately homogeneous.

External benchmark information is used for portfolios in respect of which the Organization has limited historical data to supplement the internally available data.

Forward-looking Information
Under PFRS 9, the Organization incorporates forward-looking information into assessment of whether the credit risk of an instrument has increased significantly since initial recognition and - where possible - as part of measurement of ECLs. External information used may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Organization operates (i.e. Bangko Sentral ng Pilipinas, Trading Economics and Statista). Internal information then consists of both portfolio and vintage risk parameters and calibrated clients scoring models and functions.

The Organization used - based on data availability and credibility of sources - an analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses. The key external drivers may include variables such as interest rates, unemployment rates, inflation rates, gross domestic product growth rates, foreign exchange rates and other macroeconomic variables and their forecasts.

Definition of Default
Under PFRS 9, the Organization considers a financial asset to be in default when there is available information that:

- the borrower is unlikely to pay its credit obligations to the Organization in full, without recourse by the Organization to actions such as realizing security (if any is held); or

- the borrower is more than 90 days past due on the respective significant credit obligation to the Organization. The Organization considered more than 30 days past due as overdraft/default in the ECL model used.

In assessing whether a borrower is in default, the Organization considers indicators that are:

- qualitative: e.g., breaches of covenant;
- quantitative: e.g., overdue status; and
- based on data developed internally and obtained from external sources (e.g., insolvency or bankruptcy loan registers).

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Probability Weighted Expected Credit Loss
ECL is the weighted estimated value of the credit loss within the expected lifetime of the financial instruments. The Organization reflects the ECL of the financial instruments measured by the following means:

a. the unbiased and probability-weighted amount determined by evaluating various possible results;
b. the time value of money; and
c. the reasonable and supportable information related to the previous events, current condition and prediction of future economic condition.

The Organization adopts the ECL model in measuring credit impairment. In this respect, the Organization recognizes credit impairment even before an objective evidence of impairment becomes apparent. The Organization considers past events, current conditions and forecasts of future economic conditions in assessing impairment.

Credit exposures are classified into three stages of credit impairment with corresponding time horizons in measuring ECL (see Note 5).

Movement of ECLs
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Organization expects to receive).

ECLs are discounted at the effective interest rate of the financial assets.

Credit-impaired Financial Assets
At each reporting date, the Organization assesses whether financial assets carried at amortized cost are credit-impaired. The financial asset is “credit impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as default or being more than the normal credit terms of the Organization;
- the restructuring of a loan or advance by the Organization on terms that the Organization would not consider otherwise;

- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowance for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

The write-off policy of the Organization requires that the outstanding amount of a loan shall be written off if there is any instalment overdue for 365 or more days. However, the loan shall remain in the Organization's statements of assets, liabilities and fund balance even after 365 days of non-payment if it is probable that the loan will be sold in a near future, or significant recoveries are expected. In such case, the loan outstanding amount shall be derecognized at the moment of the sale or later as soon as no significant recoveries are expected.

Presentation of Allowance for ECL in the Statements of Assets, Liabilities and Fund Balance

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Derecognition of Financial Instruments

Financial Assets

The Organization derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risk and rewards of the ownership of the financial asset are transferred or in which the Organization neither transfers nor retains substantially all of the risk and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of: (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that had been recognized in profit or loss.

Financial Liabilities

Financial liabilities are removed from the statements of assets, liabilities and fund balance when, and only when, it is extinguished, that is, when the obligation specified in the contract is either discharged or cancelled or expires. Where there has been an exchange between an existing borrower and lender of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. A gain or loss from extinguishment of the original financial liability is recognized in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statements of assets, liabilities and fund balance 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, thus the related assets and liabilities are presented gross in the statements of assets, liabilities and fund balance.

Income and expenses are presented on a net basis only when permitted by the accounting standards.

Determination of Fair Value

When measuring the fair value of assets or liabilities, the Organization uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Transfers between levels of the fair value hierarchy, when applicable, is recognized at the end of the reporting period during which the change has occurred.

The Organization recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

'Day 1' Difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Organization recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in profit or loss in the period when the asset is acquired or the liability is incurred. In cases where the transaction price used is based on inputs which is not observable, the difference between the transaction price and model value is only recognized in profit or loss in the period when the inputs become observable or when the instrument is derecognized. For each transaction, the Organization determines the appropriate method of recognizing the 'Day 1' difference.

Prepayments

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

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization, and impairment loss, if any, except for land and buildings and improvements which are carried at revalued amounts. The revalued amount is the fair value determined on the basis of existing use at the date of revaluation less any subsequent accumulated depreciation and impairment losses, if any. Revaluations, using market data and cost approach, are performed by independent professional appraisers with sufficient regularity to ensure that the carrying amounts of these assets do not differ materially from that which would be determined using fair values at the financial reporting date.

The frequency of revaluation depends upon the changes in fair values of the items of property and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three (3) or five (5) years.

Any increase in the revaluation of land and building is credited to the "Revaluation increment on property" under fund balance unless it offsets a previous decrease in value of the same asset recognized in profit or loss. A decrease in value is recognized in profit or loss when it exceeds the increase previously recognized in the revaluation increment. As the asset is used by the Organization, the amount equal to the difference between the depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost is transferred from "Revaluation increment on property" to "Accumulated net income" under fund balance. Upon disposal, any related revaluation increment is transferred from the revaluation increment to Accumulated net income and is not taken into account in arriving at the gain or loss on disposal.

Initially, an item of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable cost in bringing the asset to the location and condition for its intended use. Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Organization. Costs of day-to-day servicing of an asset are recognized in profit or loss as incurred.

Depreciation and amortization are recognized in profit or loss on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

	Number of Years
Buildings and improvements	25
Office equipment	5
Computer equipment	3
Furniture and fixtures	5
Transportation equipment	5
ROU assets	Lease term
Leasehold improvements	Lesser of lease term or useful life, not to exceed 5 years.

The estimated useful lives, depreciation and amortization methods and residual values are reviewed periodically and adjusted, if appropriate, to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the property and equipment accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates. The depreciation and amortization expense on property and equipment is recognized in profit or loss in the expense category consistent with the function of the property and equipment.

When an asset is disposed of or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and related accumulated depreciation and amortization, and any allowance for impairment are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss. The resulting gain or loss is recorded as gain from disposal of property and equipment presented under "Others income - net" in profit or loss.

Intangible Assets
Computer software is initially measured at cost which is comprised of costs incurred to acquire the computer software (not an integral part of its related hardware) and bring it to its intended use. All other costs of developing and maintaining computer software are recognized as expense when incurred.

Subsequently, computer software is measured at cost less amortization and impairment, if any. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the computer software, from the date that they are available for use, not to exceed three (3) years.

When assets are retired or otherwise disposed of, both the cost and related accumulated amortization and any allowance for impairment are removed from the accounts. Any gains or losses arising from the retirement or disposal of an item of computer software determined as the difference between the estimated net disposal proceeds and the carrying value of the asset are recognized in profit or loss on the date of retirement or disposal. The resulting gain or loss is recorded as gain from disposal of intangible assets presented under “Others income - net” in profit or loss.

Impairment of Nonfinancial Assets
At each reporting date, the Organization assess whether there is any indication that nonfinancial assets (such as investment properties, property and equipment and intangible assets) may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Organization make a formal estimate of recoverable amount. Recoverable amount is the higher of an asset’s or cash generating unit’s (CGU’s) fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or CGU).

An impairment loss is recognized in profit or loss in the period in which it arises. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal can be made only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization is adjusted in future years to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Clients’ Capital Build-up
Clients’ capital build-up is recognized upon collection from members while interest expense of two percent (2%) on clients’ capital build up is recognized when incurred. It is given back to clients once the clients withdraw their membership from the Organization.

Funds Held in Trust

Funds received from various funding agencies with a conditional promise to contribute them are recognized in the books as “Funds held in trust”, classified as liability until the conditions of the grantor have been substantially met or the conditions have been explicitly waived by the funding agencies.

Retirement Benefits

The Organization’s net obligation in respect of the defined benefit plan is calculated by estimating the amount of the future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligation is performed on a periodic basis by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Organization, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Remeasurement of defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Organization determines the net interest expense (income) on the defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then defined benefit liability (asset), taking into account any changes in the defined liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized in profit or loss.

The Organization recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Early Retirement Benefits

Early retirement benefit is allowed by the Organization, members who retire prior to the normal retirement date shall receive an amount equal to a percentage of the plan salary for every year of credited service in accordance with the following vesting schedule:

Years of Service	Percentage
Less than 10 years	0%
10 but less than 12	75%
12 but less than 15	80%
15 but less than 20	95%
20 years and over	100%

Normal and Late Retirement Benefits

Normal and late retirement benefits is equal to the sum equivalent to 100% of plan salary for every year of credited service.

Fund Balance

Accumulated Net Income

Accumulated net income represents the cumulative balance of the net income or loss of the Organization, and the transition impact of the new standards.

Employee Benefit Reserve

Employee benefit reserve represents the accumulated actuarial gains and losses from the remeasurement of the defined benefit liability.

Revaluation Increment on Property
Revaluation increment on property pertains to the accumulated increase or decrease in the carrying amount of land and building and improvements which are recognized in other comprehensive income as a result of revaluation.

<u>Revenue Recognition</u>
Under PFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control - at a point in time or over time - requires judgment.

Revenue Streams
The Organization generates revenue primarily from the interest income earned from its lending transactions. Other sources of revenue include grants and income from service fees. Grant and income from service fees fall under PFRS 15 while interest income (under certain programs) is under PFRS 9.

a. Grants - are funds received from various funding agencies without donor-imposed conditions are recognized as revenue in profit or loss when the right to receive is established. Grants are initially recorded as “Funds held in trust” in the statements of assets, liabilities and fund balance and are recognized as revenue upon its utilization for their intended purpose and satisfaction of donor-imposed conditions.

b. Income from Service Fees - pertains to revenues not within the regular course of business and subject to 30% regular corporate income tax. These are recognized at a point in time when the related services are performed.

<u>Revenue Out of Scope of PFRS 15</u>
Interest Income - from certain loans receivable programs which are subject to 2% gross receipts tax are recognized on an accrual basis using the effective interest rate (EIR) method. The EIR of a financial instrument is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (e.g. prepayment options), and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recognized as interest income in profit or loss.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR to discount future cash flows.

<u>Expense Recognition</u>
Expenses are recognized when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Finance Charges
Interest expense on loans payable are recognized in profit or loss when incurred.

Interest Expenses
Interest expense on capital build-up which are recognized in profit or loss.

Project and Operational Cost
Project and operational cost are expenses incurred on the related project from which the grants were received.

General and Administrative Expenses
Expenses are recognized when the decrease in future economic benefits related to a decrease in an asset or increase of a liability has arisen that can be measured reliably. Expenses are recognized when incurred.

Finance Cost
Finance cost represents the interest expense impart to the recording of settlement of lease liability on the Organization's leased offices premises.

<u>Leases</u>
Applicable from January 1, 2019
At inception of a contract, the Organization assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Organization assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

- the Organization has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and

- the Organization has the right to direct the use of the asset. The Organization has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where all the decision about how and for what purpose the asset is used in predetermined, the Organization has the right to direct the use of the asset if either:

    - the Organization has the right to operate the asset; or
    - the Organization designed the asset in a way that predetermines how and for what purpose it will be used.

The Organization has applied this approach to contracts entered into or changed on or after January 1, 2019.

As a Lessee under PFRS 16
At commencement or on modification of a contract that contains a lease component, the Organization allocates the consideration in the contract to each lease components on the basis of its relative stand-alone prices.

The Organization recognizes a ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. The estimated useful lives of the ROU assets are determined on the same basis as those of property and equipment. In addition, the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability. A lessee applies PAS 36 to determine whether the ROU asset is impaired.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Organization's incremental borrowing rate. Generally, the Organization uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Organization is reasonably certain to exercise, lease payments in an optional renewal period if the Organization is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Organization is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payment arising from a change in an index or rate, if there is a change in the Organization's estimate of the amount expected to be payable under a residual value guarantee or if the Organization changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in profit or loss if the carrying amount of the ROU asset has been reduced to zero or the change in the lease liability relates to variable lease payment that does not depend on an index or rate.

Short-term Leases and Leases of Low-value Assets
The Organization decided to apply the recognition exemptions to short-term leases and low value items amounting to at most P0.25 million. The Organization recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term which is recorded under “Rent, utilities and maintenance” in profit or loss.

Applicable before January 1, 2019
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless the 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 gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments are recognized on a straight-line basis over the lease term.

As a Lessee under PAS 17
As a lessee, the Organization previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Organization.

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments on operating leases are recognized under “Project and operational costs” and “General and administrative expenses” in profit or loss and as disclosed in Notes 22 and 23, respectively, to the financial statements on a straight-line basis over the lease term.

<u>Income Taxes</u>
Current Tax
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The amount of current tax payable is the best estimate of the tax amount expected to be paid that reflects uncertainty related to income taxes, if any.

Deferred Tax
Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - excess of Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of excess of MCIT over RCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Organization expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at reporting date, and reflects uncertainty related to income taxes, if there is any.

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Final Tax
Interest income from cash on hand and in banks and financial assets, which is subject to final withholding tax, is presented at gross amounts while taxes paid or withheld are included in 'Income tax expense (benefit)" account in profit or loss.

Value-added Tax (VAT)
Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of other receivables and accounts payable and accrued expenses in the statements of assets, liabilities and fund balance.

Provisions
Provisions are recognized when the Organization has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and 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 interest expense.

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

Events After the Reporting Date
Post year-end events that provide additional information about the Organization's position at the reporting date (adjusting events) are recognized in the financial statements. Post year-end events that are not adjusting events are disclosed in notes to the financial statements when material.

4. Critical Accounting Judgments and Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, expenses and disclosures of contingent assets and contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors including expectations of future date that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

The following are the critical judgments and key estimates and assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year and/or in future periods:

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

Significant Accounting Judgements Applicable in 2019

Assessing Lease Agreements
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and requires assessment of whether the fulfilment of the arrangement is dependent on the use of specific asset and the arrangement conveys a right to use the asset.

Short-term Leases and Leases of Low-value Assets
The Organization elected not to recognize ROU assets and lease liabilities for short term lease of 12 months or less and the low value assets, defined as those items below P0.25 million.

Ability to Continue as Going Concern
The financial statements have been prepared on a going concern basis. The validity of the going concern assumption is critical to the preparation of the financial statements of the Organization as at and for the years ended December 31, 2019 and 2018 since the measurement bases applied were made on the assumption that the Organization will continue to operate as a going concern for at least the next 12 months after reporting date.

In view of the Corona Virus Disease 2019 (COVID-19) pandemic, the management made an assessment of the Organization's ability to continue as going concern. Based on the evaluation, the Organization's financial statements are expected to be affected by delayed payments and requests for restructuring, moratorium programs and volatile market. The Organization may scale down operations, as needed, to sustain long-term operations.

As such, the management believes that the consequences of the outbreak have not led to a material deterioration in operating results and financial position after the reporting date but before the financial statements are authorized for issue, that is so severe that the going concern basis of preparation is no longer considered appropriate. Furthermore, management deems that the outbreak does not constitute a material uncertainty that may cast significant doubt on the Organization's ability to continue as a going concern. Therefore, the financial statements as at and for the year ended December 31, 2019 continue to be prepared on the going concern basis.

Significant Accounting Estimate Applicable from and before January 1, 2019

Determining whether the Organization is Acting as Principal or an Agent
The Organization assesses its revenue arrangements against the following criteria to determine whether it is acting as a principal or an agent:

- whether the Organization has primary responsibility for providing the services; and

- whether the Organization has discretion in establishing prices.

If the Organization has determined it is acting as a principal, the Organization recognizes revenue on gross basis with the amount remitted to the other party being accounted as part of cost and expenses. If the Organization has determined it is acting as an agent, only the net amount retained is recognized as revenue.

The Organization has determined that it is acting as principal in its revenue arrangements.

Classifying Financial Assets into Principal Measurement Categories
The Organization classifies a financial asset into principal measurement category based on both the Organization's business model for managing the financial asset and contractual cash flows characteristics of the financial asset such as the assessment if the financial asset met the criteria for it to be considered as held SPPI to the Organization, rather than the intention of management. The implementation of a business model approach and the SPPI criterion requires judgment to ensure that the financial asset is classified into the appropriate category. Deciding whether the SPPI criterion is met will require assessment of contractual provisions that do or may change the timing or amount of contractual cash flows - e.g. prepayment features.

Determining whether an Arrangement Contains a Lease
The Organization uses its judgment in determining whether an arrangement contains a lease, based on the substance of the arrangement and makes assessment of whether the arrangement is dependent on the use of a specific asset or assets, the arrangement conveys a right to use the asset and the arrangement transfers substantially all the risks and rewards incidental to ownership to the Organization.

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments on operating leases are recognized under "Project and operational costs" and "General and administrative expenses" in profit or loss and as disclosed in Notes 22 and 32, respectively, to the financial statements on a straight-line basis over the lease term.

Rent expense charged to "Project and operational costs" account amounted to P19.10 million in 2019 and P27.11 million in 2018 (see Note 25). While rent expense recognized under "General and administrative expenses" amounted to P0.06 million and P0.08 million in 2019 and 2018, respectively (see Note 25).

<u>Estimates</u>

Significant Accounting Estimate Applicable from January 1, 2019

Estimating Incremental Borrowing Rate
The Organization uses its incremental borrowing rate as the discount rate in measuring its lease liability. The Organization determines its incremental borrowing rate through its most appropriate borrowing rate from its loans from different banks. The rate reflects how the Organization (acting as a lessee) would obtain financing to procure a similar asset. The incremental borrowing rate used is the average borrowing rate from the banks.

Significant Accounting Estimate Applicable from and before January 1, 2019

Measurement of ECL under PFRS 9
The Organization's ECL is based on a probability-weighted estimate of credit losses. ECL on financial assets that are not credit-impaired at the reporting date is measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Organization expects to receive). For financial assets that are credit-impaired at the reporting date, the ECL is measured as the difference between the gross carrying amount and the present value of estimated future cash flows.

Key inputs into the measurement of ECL include PD, LGD and EAD adjusted for forward looking factors from external and internal information. External information used may include economic data and forecasts published by governmental bodies and selected private sector and academic forecasters. Internal information then consists of both portfolio and vintage risk parameters and calibrated clients scoring models and functions.

As at December 31, 2019 and 2018, the Organization has considered gross domestic product, inflation, unemployment, foreign exchange and poverty index growth rates as external driver into the ECL calculation process and the calculated result was deemed immaterial, therefore, it was not reflected in the financial statements.

Such estimation of the ECL may not be representative of the actual default in the future. The allowance for impairment losses on the Organization's financial assets at amortized cost amounted to P263.12 million and P267.56 million as at December 31, 2019 and 2018, respectively (see Notes 8 and 9).

Estimating Useful Lives of Property and Equipment, Intangible Assets and ROU Assets

The Organization reviews annually the estimated useful lives of property and equipment and intangible assets based on the period over which the assets are expected to be available for use and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence.

It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property and equipment and intangible assets would increase the recorded depreciation and amortization expenses and decrease noncurrent assets of both current and future periods.

As at December 31, 2019 and 2018, the carrying amount of the Organization's property and equipment amounted to P170.21 million and P186.09 million, respectively (see Note 10).

The carrying value of the Organization's intangible assets with finite useful lives amounted to P3.09 million and P1.86 million as at December 31, 2019 and 2018, respectively (see Note 11).

The carrying amount of the Organizations' ROU assets amounted to P25.65 million and nil as at December 31, 2019 and 2018, respectively (see Note 12).

Determining Fair Value of Land and Building

The Organization initially measures its land and building under "Property and equipment" in the statements of assets, liabilities and fund balance at cost and subsequently measured at fair value. Any change in such fair value is recognized in other comprehensive income and accumulated in fund balance under "Revaluation increment in property" in the statements of assets, liabilities and fund balance. The fair value is dependent on the selection of certain assumptions by the appraiser. The appraiser used the cost approach to determine the fair values, except for a building located in a commercial area, where the market data approach was used.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. An increase in carrying amount as a result of revaluation, however, shall be recognized in other comprehensive income to the extent of the amount accumulated in fund balance under "Revaluation increment in property" account.

The carrying value of the Organization's land and building lodged in the "Property and equipment" account amounted to P156.13 million and P160.84 million as at December 31, 2019 and 2018, respectively (see Note 10).

Impairment of Nonfinancial Assets
The Organization assesses impairment on its property and equipment and intangible asset with definite useful life 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:

- Significant underperformance relative to the expected historical or projected future operating results;

- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and

- Significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and that of its value in use. The fair value less costs of disposal is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Organization is required to make estimates and assumptions that can materially affect the financial statements.

As at December 31, 2019 and 2018, there were no indications of impairment on the Organization's property and equipment, intangible assets and ROU assets.

Retirement Benefits
The determination of the net defined benefit obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions include, among others, discount rates, expected return on plan assets and salary increase rates.

While the Organization believes that the assumptions are reasonable and appropriate, significant differences between actual experience and assumptions may materially affect the cost of employee benefits and related obligation.

As at December 31, 2019 and 2018, the Organization's retirement asset amounted to P27.51 million and P58.82 million, respectively (see Note 19).

Provisions and Contingencies
The Organization, in the ordinary course of business, sets up appropriate provisions for its present legal or constructive obligations, if any, in accordance with its policies on provisions and contingencies. In recognizing and measuring provisions, management takes risk and uncertainties into account.

As at December 31, 2019 and 2018, there are two ongoing tax assessments for taxable years 2014 and 2015. As at December 31, 2019, the Organization did not provide any provision for contingent tax liability. Sufficient documents have been submitted to the local tax authorities. As of date, it has yet to act on the reinvestigation.

5. Financial Risk Management, Fund Management and Fair Value Measurement

Risk Management Framework

The BOT of the Organization has overall responsibility for the establishment and oversight of the risk management framework. The oversight function is carried out through its Board committees: 1) Audit and Compliance Committee (ACC), 2) Risk Committee and Executive Committee (ExeCom). These committees perform its tasks mainly through regular meetings held every two months.

The Organization's risk management policies are established to identify and analyze the risks faced by the Organization, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Organization, through its training program and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The senior management is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Organization.

In the ordinary course of business, the Organization is exposed to the following financial risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

There are no changes in the risk assessment on the objectives, policies and manner of how the Organization manages these risks in 2019 and in 2018.

a. *Credit Risk*

Credit risk is the risk of financial loss to the Organization if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from receivables from borrowers. The Organization manages its credit risk by setting limits for individual borrowers and group of borrowers. It also monitors credit exposures, and continually assesses the credit worthiness of counterparties. In addition, the Organization obtains security where appropriate, enters into collateral arrangements with counterparties and limits the duration of the exposures. Moreover, certain loans are guaranteed by co-makers or by the group to which the individual belongs.

To further mitigate the risk for its TPP program the Organization has also partnered with the Agricultural Guarantee Fund Pool (AGFP), a pool of contributions from the National Government and various government-owned and controlled corporations. Specifically, the AGFP provides an 85% guarantee cover on the principal balance of the TPP loan at the time of claim but not to exceed the amount of credit ceiling per commodity as set by the AGFP Governing Board. The Organization shall be charged a guarantee fee based on the amount of loan.

The Organization's policy towards credit risk management remains the same from prior year.

Exposure to Credit Risk

The following summarizes the Organization's quantitative credit risk information as at December 31, 2019 and 2018.

The carrying amount of financial assets represents the maximum credit risk exposure. The Organization's maximum exposure to credit risk as at December 31 follows:

	Note	**2019**	2018
Cash and cash equivalents*	*6*	**P253,447,479**	P286,967,059
Restricted investments	*7*	**55,145,263**	54,592,281
Loans receivable - net	*8*	**1,193,011,583**	1,476,258,614
Other receivables - net**	*9*	**8,682,835**	29,014,879
Due from related parties	*18*	**16,699,193**	40,889,449
Rental deposits and other noncurrent receivables***	*13*	**6,535,270**	8,985,722
		P1,533,521,623	P1,896,708,004

**Excluding cash on hand.*
***Excluding advances to suppliers and contractors.*
****Presented under other noncurrent assets.*

The Organization's concentration of credit risk arises from loans receivables since the said financial instruments amounted to P1.19 billion (2018: P1.48 billion) and 77.80% (2018: 77.83%) of its total financial assets as at December 31, 2019 (see Note 8).

The table below provides information regarding the credit risk of financial instruments for which loss allowance are recognized:

	December 31, 2019				
	Neither Past Due nor Impaired				
	Investment Grade	**Non-investment Grade Satisfactory**	**Past Due but not Impaired**	**Past Due and Impaired**	**Total**
Cash and cash equivalents*	**P253,447,479**	**P -**	**P -**	**P -**	**P253,447,479**
Restricted investments	**55,145,263**	**-**	**-**	**-**	**55,145,263**
Loans receivables	**-**	**1,193,011,583**	**-**	**241,537,664**	**1,434,549,247**
Other receivables**	**-**	**8,682,835**	**-**	**21,580,981**	**30,263,816**
Due from related parties	**-**	**16,699,193**	**-**	**-**	**16,699,193**
Rental deposits and other noncurrent receivables***	**-**	**6,535,270**	**-**	**-**	**6,535,270**
	P308,592,742	**P1,224,928,881**	**P -**	**P263,118,645**	**P1,796,640,268**

**Excluding cash on hand.*
***Excluding advances to suppliers and contractors.*
****Presented under other noncurrent assets.*

	December 31, 2018				
	Neither Past Due nor Impaired				
	Investment Grade	Non-investment Grade Satisfactory	Past Due but not Impaired	Past Due and Impaired	Total
Cash and cash equivalents*	P286,967,059	P -	P -	P -	P286,967,059
Restricted investments	54,592,281	-	-	-	54,592,281
Loans receivables	-	1,476,258,614	-	246,004,313	1,722,262,927
Other receivables**	-	29,014,879	-	21,559,284	50,574,163
Due from related parties	-	40,889,448	-	-	40,889,448
Rental deposits and other noncurrent receivables***	-	8,985,723	-	-	8,985,723
	P341,559,340	P1,555,148,664	P -	P267,563,597	P2,164,271,601

**Excluding cash on hand.*
***Excluding advances to suppliers and contractors.*
****Presented under other noncurrent assets.*

As at December 31, 2019 and 2018, the exposure to credit risk for the loans receivable by geographic region of the Organization was as follows:

	2019			2018		
	Outstanding Balance	**Portfolio-at-risk**	**%**	Outstanding Balance	Portfolio-at-risk	%
North Region	**P605,739,605**	**P137,903,878**	**22.77%**	P 554,546,152	P 58,993,413	10.64%
South Region	**494,823,645**	**171,439,885**	**34.65%**	363,189,357	84,305,233	23.21%
Central Region	**411,291,337**	**122,877,442**	**29.88%**	406,642,659	135,134,555	33.23%
North Central	**-**	**-**	**0.00%**	478,450,346	118,128,230	24.69%
	1,511,854,587	**432,221,205**	**28.59%**	1,802,828,514	396,561,431	22.00%
Collection from AGFP	**(77,305,341)**	**(77,305,341)**	**100.00%**	(80,565,587)	(80,565,587)	100.00%
Receivable from AGFP	**-**	**(67,880,733)**	**0.00%**	-	(64,380,020)	0.00%
	(77,305,341)	**(145,186,074)**	**188.81%**	(80,565,587)	(144,945,607)	179.91%
	P1,434,549,246	**P287,035,131**	**20.01%**	P1,722,262,927	P251,615,824	14.61%

As at December 31, 2019 and 2018, the exposure to credit risk for trade receivables per product was as follows:

	2019			2018		
	Outstanding Balance	**Portfolio-at-risk**	**%**	Outstanding Balance	Portfolio-at-risk	%
TKP	**P979,792,507**	**P165,285,075**	**16.87%**	P1,041,940,200	P147,304,322	14.14%
HSLP	**190,165,908**	**35,471,942**	**18.65%**	245,204,902	30,651,806	12.50%
TPP	**143,646,633**	**57,471,609**	**40.01%**	333,823,116	52,216,465	15.64%
TMP	**115,012,872**	**23,376,022**	**20.32%**	95,744,846	15,893,298	16.60%
SEDP	**5,432,858**	**5,432,858**	**100.00%**	5,549,863	5,549,863	100.00%
TSPI MI Premium Loan Program	**498,469**	**-**	**0.00%**	-	-	0.00%
	P1,434,549,247	**P287,037,506**	**20.01%**	P1,722,262,927	P251,615,754	14.61%

Portfolio-at-risk pertains to the portion of outstanding balance of loans with arrears of over 30 days and refinanced loans as of reporting date. The Organization does not require collateral in respect of loans and other receivables. The Organization does not have loans receivables for which no allowance is recognized because of collateral.

Loans receivable are regularly monitored and reviewed to ascertain the recoverability and collectible values as at reporting date.

Credit exposures are classified into three expects of credit impairment with corresponding time horizons in measuring ECL:

- Stage 1 - High Grade (Neither Past Due nor Impaired) pertains to accounts with very low probability of default as demonstrated by the debtor's long history of stability, profitability and diversity. The debtor has the ability to raise substantial amounts of funds through the public market. The debtor has a strong debt service record and a moderate use of leverage.

- Stage 2 - Medium Grade (Past Due but not Impaired) is when the borrower is expected to be able to adjust to the cyclical downturns in its operations. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues. Operating performance could be marginal or on the decline.

  The borrower may have a history of default of interest but must have regularized its service record to date.

- Stage 3 - Low Grade (Past Due and Impaired) is where contractual interest or principal payments are past due and the Organization believes that there is evidence of impairment based on the cash flows of the available collateral or status of collection of the amounts due to the Organization.

Most of the Organization's financial assets are classified as high grade. The past due and impaired financial assets as of December 31, 2019 and 2018 amounted to P263.12 million and P267.56 million, respectively.

The analysis of financial assets and amortized cost in 2019 and 2018 are as follows (amounts gross of loss allowances):

	2019						
	Neither Past Due nor Impaired	**Past Due nor Impaired 1 - 30 Days**	**31 - 180 Days**	**More than 180**	**Total Past Due but not Impaired**	**Past Due and Impaired**	**Total**
Cash and cash equivalents*	**P253,447,479**	**P -**	**P -**	**P -**	**P -**	**P -**	**P253,447,479**
Restricted investments	**55,145,263**	**-**	**-**	**-**	**-**	**-**	**55,145,263**
Loans receivables	**1,193,011,583**	**-**	**-**	**-**	**-**	**241,537,664**	**1,434,549,247**
Other receivables**	**8,682,835**	**-**	**-**	**-**	**-**	**21,580,981**	**30,263,816**
Due from related parties	**15,699,193**	**-**	**-**	**-**	**-**	**-**	**15,699,193**
Rental deposits and other noncurrent receivables***	**6,535,270**	**-**	**-**	**-**	**-**	**-**	**6,535,270**
	P1,532,521,623	**P -**	**P -**	**P -**	**P -**	**P263,118,645**	**P1,795,640,268**

**Excluding cash on hand.*
***Excluding advances to suppliers and contractors.*
****Presented under other noncurrent assets.*

	2018						
	Neither Past Due nor Impaired	Past Due nor Impaired 1 - 30 Days	31 - 180 Days	More than 180	Total Past Due but not Impaired	Past Due and Impaired	Total
Cash and cash equivalents*	P286,967,059	P -	P -	P -	P -	P -	P286,967,059
Restricted investments	54,592,281	-	-	-	-	-	54,592,281
Loans receivables	1,476,258,614	-	-	-	-	246,004,313	1,722,262,927
Other receivables**	29,014,879	-	-	-	-	21,559,284	50,574,163
Due from related parties	40,889,449	-	-	-	-	-	40,889,449
Rental deposits and other noncurrent receivables***	8,985,722	-	-	-	-	-	8,985,722
	P1,896,708,004	P -	P -	P -	P -	P267,563,597	P2,164,271,601

**Excluding cash on hand.*
***Excluding advances to suppliers and contractors.*
****Presented under other noncurrent assets.*

The Organization uses a credit rating concept based on the borrowers and counterparties' overall creditworthiness. A satisfactory rating is given to borrowers and counterparties who possess strong to very strong capacity to meet their obligations in accordance with the agreed terms and conditions and unsatisfactory rating to borrowers and counterparties who possess average capacity.

b. *Liquidity Risk*

Liquidity risk is the risk that the Organization will encounter difficulty in meeting obligations from its financial liabilities. The Organization's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Organization's reputation.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by senior management.

The table below analyzes the financial liabilities of the Organization into their relevant maturity groups using contractual undiscounted amounts based on the remaining period at the reporting dates to their contractual maturities or based on the estimated timing of the net cash outflows:

	December 31, 2019		
	Up to a Year	**1 - 5 Years**	**Total**
Clients' capital build-up	**P651,263,614**	**P -**	**P651,263,614**
Accounts payable and accrued expenses*	**154,924,260**	**-**	**154,924,260**
Loans payable	**146,693,767**	**-**	**146,693,767**
Due to related parties	**2,487,982**	**-**	**2,487,982**
Funds held in trust	**816,105**	**-**	**816,105**
Other current liabilities	**8,600,329**	**-**	**8,600,329**
Other noncurrent liabilities	**-**	**9,894,077**	**9,894,077**
	P964,786,057	**P9,894,077**	**P974,680,134**

**Excluding payables to government agencies.*

	December 31, 2018		
	Up to a Year	1 - 5 Years	Total
Clients' capital build-up	P646,007,217	P -	P646,007,217
Accounts payable and accrued expenses*	170,879,633	-	170,879,633
Loans payable	537,575,980	14,357,353	551,933,333
Due to related parties	188,457	-	188,457
Funds held in trust	859,757	-	859,757
	P1,355,511,044	P14,357,353	P1,369,868,397

**Excluding payables to government agencies.*

c. *Market Risk*
Market risk is the risk of change in fair value of financial instruments from fluctuation in market interest rates (interest rate risk) whether such change is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. Market risks arise from open position in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Organization is not exposed to price risk as it does not hold any investment in equity securities while the exposure to market risk due to foreign currency is insignificant as the Association holds a minimal amount of currency other than Philippine peso.

Interest Rate Risk
The Organization's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Organization's business strategies.

Asset-liability risk management activities are conducted in the context of the Organization's sensitivity to interest rate changes.

The interest rate profiles of the Organization's interest-bearing financial instruments as at December 31 are as follows:

	Note	2019	2018
Financial Assets			
Cash and cash equivalents*	*6*	**P253,447,479**	P286,967,059
Restricted investments	*7*	**55,145,263**	54,592,281
Loans receivable - net	*8*	**1,193,011,583**	1,476,258,614
Other receivables - net**	*9*	**3,027,976**	6,054,382
Rental deposits and other noncurrent receivables***	*13*	**1,807,151**	3,366,685
		1,506,439,452	1,827,239,021
Financial Liabilities			
Clients' capital build-up	*14*	**651,263,614**	646,007,217
Loans payable	*16*	**146,693,767**	551,933,333
		797,957,381	1,197,940,550
Net Exposure		**P708,482,071**	P629,298,471

**Excluding cash on hand.*
***Includes receivable from employees, receivable from client for basic life insurance (BLIP), receivable from Social Security System (SSS), and receivable from Lafarge.*
****Presented under other noncurrent assets.*

Sensitivity of Net Interest Income
The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the Organization's interest-bearing financial instruments, with all other variables held constant, on the Organization's profit or loss for the years ended December 31:

	Increase/Decrease in Interest Rate (in basis points)	Effect in Income before Income Tax
2019	**+100bps**	**P7,084,821**
	-100bps	**(7,084,821**
2018	+100bps	P6,292,985
	-100bps	(6,292,985)

Fund Management
The overarching principle of the Organization in terms of fund management is to have sufficient fund to meet its obligations, business needs and ensure the safety of these funds. The Organization has two main sources of funding. These are: (a) internally generated funds from collection of receivables and from (b) borrowings.

Internally generated funds from collection of receivables are managed at the branches. Collection is done either through deposit of payment by members to bank or through an agent. Any excess funds from the Branches are siphoned to the Head Office for liquidity management. Overall liquidity is adjusted depending on the requirements of the Organization. Seasonal spikes in releases and collections are a natural occurrence in their business cycle. In addition, the Organization partnered with various institutions to ensure a steady source of fund from borrowings. It actively continues to explore for possible partners who has the same vision as the Organization, in terms of inclusive financing.

The Organization manages its capital structure and makes adjustments, in light of changes in economic conditions, its business activities, expansion programs, and the risk characteristics of the underlying assets. There are no changes made in the fund management objectives, policies or processes in 2019 and 2018.

The Organization is not subject to externally-imposed fund requirements as at December 31, 2019 and 2018.

Fair Value Measurement

A number of the Organization's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. When applicable, further information about the assumptions made in determining fair values are disclosed in the noted specific to that asset or liability.

The carrying amounts of cash in bank and cash equivalents, restricted investments, other receivables, clients' capital build-up, accounts payable and accrued expenses (excluding government payables) and funds held in trust approximate fair value at year end due to the relatively short-term maturities of these financial assets and liabilities.

The carrying amounts of rental deposits and other noncurrent receivables (presented under noncurrent assets), and funds held in trust approximate their fair values at year end. The management believes that the effect of discounting and future cash flows of this instrument using prevailing market rare is not significant.

The fair value of loans receivable are determined based on published quotes or price valuations provided by counterparties or calculations using market-accepted valuation techniques. It is estimated using the discounted cash flow methodology using the current EIR which amounted to P1.19 billion and P1.48 billion as at December 31, 2019 and 2018, respectively (see Note 8). While, the fair value of the lease liability presented under "Other current liabilities" and "Other noncurrent liabilities" are calculated using the present value of cash flows discounted using the Organization's internal borrowing rate.

Fair value of due to and due from related parties approximate carrying amount considering that these are expected to be received and paid by the Organization within the next 12 months.

The carrying amount of loans payable approximate the fair values either due to the relatively short-term maturities of these payables or the estimated future cash flows expected to be paid discounted using current market rates approximates the carrying amount of the payables.

In addition, land and building under "Property and equipment - net" are stated at fair value. These have been categorized under Level 2 of the fair value hierarchy. The Organization engaged with Intech Property Appraisal, Inc. and Royal Asia Appraisal Corporation in June 2018, external appraisers for the valuation of land, building and improvements. The value of the property was arrived using the Sales Comparison approach for land and Cost approach for building. The Sales Comparison approach considers the sales of similar or substitute properties and related market data and establishes a value estimate by process involving comparison. The Cost approach on the other hand, estimates the current replacement/reproduction cost of the replaceable property in accordance with prevailing market prices for materials, labor, contractor's overhead and other related expenses. Adjustments are made to reflect depreciation resulting from physical deterioration and any functional and economic obsolescence that may exist to arrive at a reasonable valuation (see Note 10).

As at December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements and no transfer into and out of Level 3 fair value measurement.

6. Cash and Cash Equivalents

This account consists of:

	2019	2018
Cash on hand	**P2,025,569**	P3,771,500
Cash in banks	**211,750,543**	251,135,861
E-money	**5,932,195**	30,169,862
Short-term placements	**35,764,741**	5,661,336
	P255,473,048	P290,738,559

Cash in banks which composed of demand deposits earn interest at bank deposit rates averaging 0.20% and 0.92% in 2019 and 2018, respectively. Short-term placements are made for varying periods of up to three (3) months and earn interest at the respective short-term placement rates at 3.71% and 3.16% in 2019 and 2018, respectively.

Interest income earned from cash in banks (net of final tax) amounted to P0.76 million and P0.65 million in 2019 and 2018, respectively (see Note 24).

E-money account pertains to the Organization's G-cash wallet powered by G-Xchange, a company affiliated with Globe. This account is used by the Organization for the disbursement of loans and CBU withdrawal of its clients.

7. Restricted Investments

This account consists of 90 to 180 days placements in a local bank amounting to P55.15 million and P54.60 million as at December 31, 2019 and 2018, respectively (see Note 5), which earn interest at the rates of 1.25% and 1.24% per annum in 2019 and 2018, respectively. Since the restricted investments serve as security for the surety bond issued by Liberty Insurance Corporation in connection with the tax case pending with the First Division of the Court of Tax Appeals (CTA), it was reclassified into a noncurrent asset.

Interest income earned from these placements amounted to P0.55 million and P0.62 million in 2019 and 2018, respectively (see Note 24).

8. **Loans Receivable** - net

Loans receivable represents short term and interest-bearing loans (with interest rates of 1.50% and 3.00% per month) granted to individuals as well as small, cottage-scale and micro-entrepreneurs under the following lending programs:

	Note	**2019**	2018
TKP		**P979,792,507**	P1,041,940,200
TPP		**75,765,900**	269,443,096
HSLP		**190,165,908**	245,204,902
TSPI Maunlad Program		**114,168,088**	94,862,629
Small Enterprise Development Program (SEDP)		**5,432,858**	5,549,863
TSPI Masikap Program		**844,784**	882,217
TSPI MI Premium Loan Program		**498,469**	-
Receivable from AGFP		**67,880,733**	64,380,020
		1,434,549,247	1,722,262,927
Less loss allowance		**241,537,664**	246,004,313
	5	**P1,193,011,583**	P1,476,258,614

Receivables from AGFP of P67.88 million in 2019 and P64.38 million in 2018 represents 85% of the total principal amount of TPP claims filed with AGFP.

The Organization has 173,803 and 196,161 outstanding loan borrowers as at December 31, 2019 and 2018, respectively.

The staging analysis of the gross loan portfolios follows:

	2019	2018
Stage 1	**P1,160,209,733**	P1,485,253,136
Stage 2	**16,303,641**	26,705,448
Stage 3	**258,035,873**	210,304,343
	1,434,549,247	1,722,262,927
Less loss allowance	**241,537,664**	246,004,313
	P1,193,011,583	P1,476,258,614

Loans are considered past due if any payment has fallen due and remained unpaid. The number of days overdue is based on the due date of the earliest loan installment that has not been fully paid. Under the TKP program, payments are applied in the following order - mandatory and loan availment insurance, interest and principal.

Interest income earned on these loans for the years ended December 31, 2019 and 2018 amounted to P638.69 million and P818.87 million, respectively (see Note 20).

The Organization's main measure of loan delinquency is based on aged portfolio-at-risk ratio. Loans are separated into classes depending on the number of days they are overdue. For each class of loans, the outstanding principal balance of such loans is divided by the outstanding principal balance of the gross loan portfolio (i.e., before deducting the loss allowance).

The movements in the loss allowance on loans receivable are as follows:

	2019	2018
Balance at beginning of year	**P246,004,313**	P201,914,147
Impairment loss for the year	**-**	58,281,906
Write-off during the year	**(4,466,649)**	(14,191,740)
Balance at end of year	**P241,537,664**	P246,004,313

At the reporting date, the Organization reviews all loans overdue for 365 days. The Organization's management makes case-to-case decisions on loan write-offs, depending on whether reasonable collection efforts have failed.

Loans receivable amounting to P168.00 million and P767.39 million were assigned as collateral for loans payable as at December 31, 2019 and 2018, respectively (see Note 16).

9. **Other Receivables** - net

This account consists of:

	2019	2018
Receivable from separated employees	**P21,582,138**	P21,559,284
Accrued interest receivable	**3,110,825**	13,972,712
Receivables from employees	**1,677,808**	4,244,032
Receivables from Social Security System	**1,228,072**	720,551
Advances to suppliers and contractors	**102,215**	140,600
Receivables from client for basic life insurance (BLIP)	**67,996**	964,486
Receivables from lafarge	**54,100**	125,313
Others	**2,542,877**	8,987,785
	30,366,031	50,714,763
Less loss allowance	**21,580,981**	21,559,284
	P8,785,050	P29,155,479

Receivable from separated employees refers to claims from terminated or resigned employees of the organization.

Receivable from employees relates to claims from existing employees of the Organization through cash advances for their official business and personal loans.

Advances to suppliers and contractors are cash advances given by the Organization for certain goods and services providers.

The movements in the loss allowance account on other receivables are as follows:

	2019	2018
Balance at beginning of year	**P21,559,284**	P20,070,599
Impairment loss for the year	**21,697**	1,501,246
Write-off during the year	**-**	(12,561)
Balance at end of year	**P21,580,981**	P21,559,284

10. Property and Equipment - net

The movements in this account are as follows:

Measurement Bases	Land Revalued	Buildings and Improvements Revalued	Office Equipment Cost	Computer Equipment Cost	Furniture and Fixtures Cost	Transportation Equipment Cost	Total
Gross Carrying Amounts							
January 1, 2018	P56,604,400	P138,190,968	P36,191,815	P73,271,801	P32,859,876	P37,263,732	P374,382,592
Additions	-	-	1,369,287	6,290,349	411,088	2,169,931	10,240,655
Recovery of impairment loss	-	5,045,988	-	-	-	-	5,045,988
Appraisal increase	39,378,600	11,406,160	-	-	-	-	50,784,760
Disposals	(15,064,000)	(15,127,002)	(5,613,133)	(13,302,496)	(2,972,289)	(2,404,428)	(54,483,348)
December 31, 2018	80,919,000	139,516,114	31,947,969	66,259,654	30,298,675	37,029,235	385,970,647
Additions	-	-	414,212	348,030	-	-	762,242
Recovery of impairment loss	-	-	-	-	-	-	-
Reclassification	-	-	(11,520)	-	-	-	(11,520)
Disposals	-	-	(1,110,783)	(1,339,110)	(2,746,542)	(5,253,300)	(10,449,735)
December 31, 2019	**80,919,000**	**139,516,114**	**31,239,878**	**65,268,574**	**27,552,133**	**31,775,935**	**376,271,634**
Accumulated Depreciation							
January 1, 2018	-	67,118,104	32,156,069	63,165,931	31,130,805	23,492,431	217,063,340
Depreciation	-	4,529,069	1,561,571	6,861,246	592,172	5,520,944	19,065,002
Disposals	-	(12,053,060)	(5,630,822)	(13,212,408)	(2,945,537)	(2,407,383)	(36,249,210)
December 31, 2018	-	59,594,113	28,086,818	56,814,769	28,777,440	26,605,992	199,879,132
Depreciation	-	4,712,105	1,443,739	5,598,177	492,973	3,997,235	16,244,228
Disposals	-	-	(1,110,631)	(1,338,014)	(2,746,209)	(4,868,292)	(10,063,146)
December 31, 2019	**-**	**64,306,218**	**28,419,926**	**61,074,932**	**26,524,204**	**25,734,935**	**206,060,215**
Net Carrying Amounts							
December 31, 2018	P80,919,000	P79,922,001	P3,861,151	P9,444,885	P1,521,235	P10,423,243	P186,091,515
December 31, 2019	**P80,919,000**	**P75,209,897**	**P2,819,952**	**P4,193,641**	**P1,027,929**	**P6,041,000**	**P170,211,419**

Depreciation and amortization consists of:

	Note	**2019**	2018
Property and equipment		**P16,244,228**	P19,065,002
Intangible asset	*11*	**1,687,183**	973,297
ROU assets	*12*	**7,215,701**	-
		P25,147,112	P20,038,299

Depreciation and amortization are distributed as follows:

	Note	**2019**	2018
Project and operational costs	*22*	**P15,642,843**	P9,654,824
General and administrative expenses	*23*	**9,504,269**	10,383,475
		P25,147,112	P20,038,299

The revaluation increment on land and building amounted to P58.00 million. This is based on the latest appraisal report determined by the independent appraisers in June 2018.

The carrying amounts of land, buildings and improvements at revaluation model are as follows:

	Note	**2019**	2018
Land		**P80,919,000**	P80,919,000
Buildings and improvements		**75,209,897**	79,922,001
	4	**P156,128,897**	P160,841,001

On December 26, 2018, TSPI MBAI acquired the property of the Organization amounting to P50.00 million, excluding value added tax (VAT). The Organization earned P31.86 million from the sale which is presented as part of "Other income" in profit or loss (see Note 24). The related revaluation increment related to the said property amounted to P1.83 million. The outstanding balance was fully settled on March 21, 2019.

In 2019 and 2018, the organization sold properties (other than the intercompany sale) amounting to P1.34 million and P0.68 million, respectively. As a result, a gain on disposal of P0.95 million and P32.30 million was earned in 2019 and 2018, respectively (see Note 24).

The costs of fully depreciated property and equipment which are still in use as at December 31, 2019 and 2018 amounted to P271.44 million and P177.50 million, respectively.

There are no properties and equipment that are pledged as collateral as at December 31, 2019 and 2018.

11. Intangible Asset - net

The Organization's intangible asset pertains to computer software. The movements in this account are as follows:

	Note	**2019**	2018
Gross Carrying Amount			
Balance at beginning of year		**P38,827,205**	P41,079,350
Additions during the year		**2,913,502**	2,000,768
Disposal		**(38,300)**	(4,252,913)
Balance at end of year		**41,702,407**	38,827,205
Accumulated Amortization			
Balance at beginning of year		**36,967,244**	40,246,690
Amortization during the year	*10*	**1,687,183**	973,297
Disposal		**(38,296)**	(4,252,743)
Balance at end of year		**38,616,131**	36,967,244
Net Carrying Amount		**P3,086,276**	P1,859,961

12. Right-of-Use Assets - net

The Organization's ROU assets pertain to the Organization's leases to its office branches from various third parties. The movements in this account are as follows:

	Note	**2019**
Gross Carrying Amount		
Balance at beginning of year		**P -**
PFRS 16 Transition adjustment	*3, 25*	**8,965,676**
Additions during the year	*25*	**16,682,106**
Balance at end of year		**25,647,782**
Accumulated Depreciation		
Balance at beginning of year		**-**
Depreciation during the year	*10, 25*	**7,215,701**
Balance at end of year	*22, 25*	**7,215,701**
Net Carrying Amount	*25*	**P18,432,081**

13. Other Noncurrent Assets

This account consists of:

	Note	**2019**	2018
Rental deposits	*5*	**P4,728,119**	P5,619,037
Acquired assets		**5,040,705**	5,040,705
Other noncurrent receivables	*5*	**1,807,151**	3,366,685
Others		**14,399**	107,730
		P11,590,374	P14,134,157

Rental deposits are to be refunded to the Organization by the respective lessors at the end of the lease term.

Acquired assets represent ceded properties of SEDP loans' borrowers which by law are subject to one (1) year redemption period and for sale to generate cash. The recorded value of the account approximates its fair value as at December 31, 2019 and 2018.

Other noncurrent receivables pertain to car and housing loans availed by the Organization's employees.

14. Clients' Capital Build-up

Clients' capital build-up represents client deposit under each of the following programs administered by the Organization:

TSPI Kabuhayan (Livelihood) Program (TKP)
- Weekly deposit ranging from sixty pesos (P60) to two hundred pesos (P200) from all members, depending on loan amount.

TSPI Programang Pang-agrikultura (TPP)
- Monthly deposit of two hundred pesos (P200) to nine hundred pesos (P900) from all members, depending on loan amount.

TSPI Maunlad Program
- Mandatory deposit is based on approved loan amount and repayment frequency. The weekly deposit of three hundred fifty pesos (P350) to one thousand one hundred pesos (P1,100) from all members, depending on loan amount must be multiplied by 2, for semi-monthly payments, or by 4, if paid monthly.

The clients' capital build-up earns interest at a rate of 2.00% per annum for the above loan programs (5% per annum before January 1, 2018). The amount of deposit plus any interest thereon can be withdrawn by the members subject to certain conditions as set by the Organization (such as the member must have no delinquent loan balance and the deposit must not fall below 30.00% of the last loan availment of the member).

As at December 31, 2019 and 2018, clients' capital build-up amounted to P651.26 million and P646.01 million, respectively (see Note 5). The interest expense on the clients' capital build up amounted to P12.28 million and P11.37 million in 2019 and 2018, respectively (see Note 20).

15. Accounts Payable and Accrued Expenses

This account consists of:

	2019	2018
Accounts payable	**P122,810,955**	P138,856,726
Accrued expenses	**32,113,305**	32,022,907
Gross receipt tax	**3,337,519**	4,825,801
Other payables	**8,464,657**	15,447,585
	P166,726,436	P191,153,019

Accounts payable and accrued expenses include liabilities incurred from operations, salaries, wages and employee benefits and other amounts payable by the Organization within one-year.

Other payables include payables to regulatory agencies such as Bureau of Internal Revenue (BIR), Philhealth and Social Security System.

16. Loans Payable

This account consists of:

	Note	**2019**	2018
Commercial Banks and Financial Institution			
Land Bank of the Philippines		**P110,000,000**	P220,000,000
Bank of the Philippine Islands		**4,999,999**	135,833,333
Union Bank of the Philippines		**10,000,000**	160,000,000
Small Business Corporation (SBC)		**15,593,768**	30,000,000
		140,593,767	545,833,333
Non-government Organization			
Rotary Club of Makati		**3,000,000**	3,000,000
Cemex Philippines Foundation, Inc.		**1,500,000**	1,500,000
Zonta Club of Makati		**1,000,000**	1,000,000
Rotary Club of Pasay		**600,000**	600,000
		6,100,000	6,100,000
Total Loans Payable	*5*	**146,693,767**	551,933,333
Less: Loans payable - noncurrent portion		**P -**	P14,357,353
Loans Payable - current portion		**P146,693,767**	P537,575,980

Loans from commercial banks and financial institution represent short-term loans with annual interest rates ranging from 6.0% to 7.5% and from 6.5% to 8.00% in 2019 and 2018, respectively. Loans from non-government organization are short-term loans with annual interest of 3.00% in 2019 and 2018.

Finance charges on these loans amounted to P22.12 million and P39.78 million in 2019 and 2018, respectively.

Loans payable are secured by assignment of certain loans receivable portfolio (see Note 8).

17. Funds Held in Trust

This account consists of cash obtained from various funding agencies.

	2019	2018
Water.Org, Inc.	**P567,813**	P487,257
Opportunity International	**114,599**	135,337
Jollibee Group Foundation, Inc	**18,838**	122,308
Others	**114,855**	114,855
	P816,105	P859,757

In 2019 and 2018, the Organization incurred expenses related to the above mentioned projects amounting to P0.20 million and P0.28 million, respectively (see Note 21).

18. Related Party Transactions

Parties are considered related party if one party has control, joint control, or significant influence over the other party in making financial and operating decisions. The key management personnel of the Organization are also considered to be related parties. The Organization's key management personnel are composed of the senior management and directors.

Outstanding receivables from and payables to related parties which are expected to be settled in cash.

				Outstanding Balance			
Category/Transaction	Year	*Note*	Amount of the Transaction	Due from Related Parties	Due to Related Parties	Terms	Conditions
Entity under Common Key Management							
▪ Credit Life and Life Insurance premiums collected from client on behalf of TSPI MBAI - net of claims and benefits	**2019**	*18a*	**P211,366,309**	**P9,457,645**	**P -**	**On demand; non-interest bearing**	**Unsecured; no impairment**
	2018		263,394,395	34,770,038	-	On demand; non-interest bearing	Unsecured; no impairment
▪ Reimbursable expenses by TSPI on behalf of TSPI MBAI	**2019**	*18b*	**102,074,449**	**-**	**-**	**On demand; non-interest bearing**	**Unsecured; no impairment**
	2018		115,281,149	-	-	On demand; non-interest bearing	Unsecured; no impairment
▪ Advances by TSPI on behalf of TSEI	**2019**	*18c*	**-**	**6,239,243**	**-**	**On demand; non-interest bearing**	**Unsecured; no impairment**
	2018		-	6,119,411	-	On demand; non-interest bearing for the excess of P1.30 million	Unsecured; no impairment
▪ Loan premium collected from TSPI employees on behalf of TSPI	**2019**	*18d*	**48,521,946**	**-**	**2,487,982**	**On demand; non-interest bearing**	**Unsecured; no impairment**
	2018		48,380,527	-	188,457	On demand; non-interest bearing	Unsecured; no impairment
▪ Sale of property to TSPI MBAI	**2019**		**-**	**-**	**-**	**On demand; non-interest bearing**	**Unsecured; no impairment**
	2018	*10*	50,000,000	-	-		
▪ Advances by TSPI on behalf of TSPI Foundation	**2019**	*18e*	**1,002,305**	**1,002,305**	**-**	**Non-interest bearing**	**Unsecured; no impairment**
	2018		-	-	-		
TOTAL	**2019**			**P16,699,193**	**P2,487,982**		
TOTAL	2018	*5*		P40,889,449	P188,457		

18a) In case of death and physical disability, the credit life insurance covers not only the life of borrowers but also pays off their outstanding debt to the Organization.

The Organization's mutual benefit fund management was formalized under the umbrella of TSPI MBAI, which was registered with SEC on May 12, 2006 and was given license to operate by the Insurance Commission on December 22, 2006. Effective January 2007, the mutual fund collections under the TSPI TKP program was transferred to TSPI MBAI. However, all insurance premiums paid under the TSPI TKP program are collected by the Organization on behalf of TSPI MBAI.

18b) The Organization provides the promotion and marketing of the TSPI MBAI's products to the Organization's microfinance clients including collection of premium payments for the said products of the TSPI MBAI. Effective January 1, 2018 based on the Amendment to the Memorandum of Agreement dated September 27, 2017, TSPI charges the TSPI MBAI 15% service fee based on members' contributions and premiums collected for the services rendered for the Association.

18c) The Organization made cash advances to TSEI such as payment of expenses on behalf of TSEI. Out of the outstanding cash advances, P1.30 million is subject to interest of 6.25% per annum starting 2013.

18d) The Organization, through employee payroll deductions, collects payment of employees for loans TCI and certain amounts for employee savings contributions. The amounts represent the December 2019 collections to be remitted to TCI.

18e) The Organization made cash advances to TSPI Foundation Inc. to cover for its corporate registration requirements.

Compensation of Key Management Personnel

Compensation of key management personnel consists of salaries and other short-term benefits amounting to P28.64 million and P38.12 million in 2019 and 2018, respectively. The retirement expense recognized in profit or loss of the Organization in 2019 and 2018 amounted to P0.83 million and P1.34 million, respectively; while this was offset by the actuarial gain recognized in the other comprehensive income in 2019 and 2018 amounting to P7.50 million and P7.25 million, respectively.

19. Retirement Plan - net

The Organization has a funded, non-contributory, defined benefit plan covering all of its officers and permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Organization’s latest actuarial valuation date is as at December 31, 2019. Valuations are obtained on a periodic basis.

The Plan entitles a retired employee to receive a lump sum pension payment. Employees who retire at the normal age of 60 with at least five (5) years of credited service are entitled to receive payment equal to 100% of the latest monthly salary per year of service.

Employees may elect to retire with the consent of the Organization prior to their normal retirement date provided he is at least 50 years old and has completed at least 10 years of credited service.

Employees who are allowed by the Organization to continue to work on a yearly extension basis beyond their normal retirement age shall continue to be a member of the plan until they retire. However, the benefit shall be computed only up to the employee’s normal retirement date.

The Plan is registered with the BIR as a tax-qualified plan under Republic Act No. 4917, an act providing that retirement benefits of employees of private firms shall not be subject to attachment, levy, execution or any tax whatsoever, as amended. The control and administration of the plan is vested in the BOT. The retirement plan is being administered by its trustee, BPI Asset Management and Trust Corporation.

	Defined Benefit Obligation		Fair Value of Plan Assets		Effect of Asset Ceiling		Net Defined Benefit (Asset) Liability	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Balance at January 1	**P98,464,577**	P135,534,647	**P157,280,581**	P167,629,494	**P -**	(P15,133,010)	**(P58,816,004)**	(P16,961,837)
Included in Profit or Loss								
Current service cost	**11,470,634**	17,792,523	**-**	-	**-**	-	**11,470,634**	17,792,523
Interest cost (income)	**7,524,169**	6,637,644	**11,491,195**	8,198,143	**-**	-	**(3,967,026)**	(1,560,499)
Interest on effect of asset ceiling	**-**	-	**-**	-	**-**	(741,121)	**-**	741,121
	18,994,803	24,430,167	**11,491,195**	8,198,143	**-**	(741,121)	**7,503,608**	16,973,145
Included in other comprehensive income								
Remeasurement loss (gain):								
Actuarial loss (gain) arising from:								
Financial assumptions	**41,335,871**	(57,902,258)	**-**	-	**-**	-	**41,335,871**	(57,902,258)
Experience adjustment	**(16,437,907)**	(3,136,237)	**-**	-	**-**	-	**(16,437,907)**	(3,136,237)
Return on plan assets excluding interest income	**-**	-	**12,204,025**	(18,085,316)	**-**	-	**(12,204,025)**	18,085,316
Change in the effect of asset ceiling	**-**	-	**-**	-	**(11,105,927)**	15,874,131	**11,105,927**	(15,874,131)
	24,897,964	(61,038,495)	**12,204,025**	(18,085,316)	**(11,105,927)**	15,874,131	**23,799,866**	(58,827,310)
Others								
Benefits paid directly from book reserve	**(13,803,523)**	(461,740)	**(13,803,523)**	(461,740)	**-**	-	**-**	-
	(13,803,523)	(461,740)	**(13,803,523)**	(461,740)	**-**	-	**-**	-
Balance at December 31	**P128,553,821**	P98,464,579	**P167,172,278**	P157,280,581	**(P11,105,927)**	P -	**(P27,512,530)**	(P58,816,002)

The following table shows reconciliation from the opening balances to the closing balances for defined benefit liability (asset) and its components.

The retirement benefit expense under “Project and operational costs” and “General and administrative expenses” in profit or loss amounted to P7.50 million and P16.97 million in 2019 and 2018, respectively (see Notes 22 and 23).

The movements in the employee benefit reserve are as follows:

	Note	**2019**	2018
Balance at the beginning of the year		**(P105,423,902)**	(P64,244,785)
Amount charged to other comprehensive income			
Actuarial (gain) loss due to decrease in defined benefit obligation		**24,897,964**	(61,038,495)
Remeasurement (gain) loss on plan asset		**(12,204,025)**	18,085,316
Remeasurement (gain) loss on changes in the effect of asset ceiling		**11,105,927**	(15,874,131)
		23,799,866	(58,827,310)
Tax effect	*26*	**(7,139,960)**	17,648,193
		16,659,906	(41,179,117)
Balance at the end of the year		**(P88,763,996)**	(P105,423,902)

The changes in the effect of asset ceiling are as follows:

	2019	2018
Balance at beginning of period	**P -**	P15,133,010
Remeasurement gain on the change in the effect of asset ceiling	**11,105,927**	(15,874,131)
Interest expense on effect of asset ceiling	**-**	741,121
Balance at end of period	**P11,105,927**	P -

The Organization's plan assets consist of the following:

	2019	2018
Cash and cash equivalents	**P574**	P512
Investments	**165,491,006**	156,107,066
Receivables	**1,836,561**	1,373,679
Accrued income receivable	**26,311**	64,002
Trust fee payable	**(182,174)**	(200,662)
Other payables	**-**	(64,016)
	P167,172,278	P157,280,581

The expected contribution to the defined benefit retirement plan in 2020 is P7.50 million.

Assumptions regarding future mortality have been based on published statistics and on the 2001 CSO Table - Generational mortality table. The current members' longevity is at age 33.97.

The following were the principal actuarial assumptions at the reporting date:

	2019	2018
Discount rate	**5.30%**	7.64%
Future salary growth	**5.00%**	5.00%

The weighted-average duration of the defined benefit obligation is 25.57 years and 26.28 years as at December 31, 2019 and 2018, respectively.

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	Defined Benefit Obligation	
	Increase	Decrease
Discount rate (1% movement)	(P20,126,372)	P24,858,296
Future salary growth (1% movement)	23,231,515	(19,312,810)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

These defined benefit plans expose the Organization to actuarial risks, such as longevity risk, interest rate risk, and market (investment) risk.

The BOT reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Organization's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Organization monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligations.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

20. Revenues

Financial income is earned from the lending programs as shown below:

	Note	**2019**	2018
Interest income:			
TKP		**P485,318,542**	P582,233,415
TPP		**33,007,927**	110,798,598
HSLP		**75,004,721**	77,958,757
TSPI Maunlad Program		**45,260,213**	47,708,315
SEDP		**39,175**	107,959
TSPI Masikap Program		**54,586**	57,407
TSPI MI Premium Loan Program		**6,945**	-
Microhealth		**224**	1,506
	8	**638,692,333**	818,865,957
Service income:			
Income from service fees on collection		**31,705,446**	39,509,159
Income from service fees on Pureit		**5,312,310**	11,730,788
Income from service fees on TAAS		**5,317,516**	9,790,164
Income from administrative fees on housing loan to client		**-**	7,470,789
Commission fees		**1,071**	97,451
		42,336,343	68,598,351
Total revenues		**681,028,676**	887,464,308
Interest expense on clients' capital build up	*14*	**(12,278,907)**	(11,365,741)
		P668,749,769	P876,098,567

21. Grants

The sources of grants are as follows:

	Note	**2019**	2018
Jollibee Group Foundation, Inc.		**P183,470**	P274,692
Opportunity International - Australia		**-**	840
Others		**20,738**	2,715
		204,208	278,247
Program and project expenses	*17*	**(204,208)**	(278,247)
		P -	P -

Program and project expenses are distributed as follows:

	2019	2018
Supply/Market linkages	**P183,470**	P274,692
Social performance management/Client journey	**-**	3,555
Transportation Expenses	**20,738**	-
	P204,208	P278,247

22. Project and Operational Costs

This account consists of:

	Note	2019	2018
Salaries, wages and employee benefits		**P358,992,762**	P413,822,003
Transportation, meals and lodging		**51,150,586**	77,021,141
Rent, utilities and maintenance		**35,475,978**	47,991,129
Depreciation and amortization	*10*	**15,642,843**	9,654,824
Office supplies		**13,670,457**	22,939,250
Postage, telephone and communication		**9,243,807**	10,773,730
Taxes and licenses		**5,261,469**	5,382,668
Retirement expense	*19*	**5,877,745**	15,614,432
Trainings		**3,449,890**	8,263,034
Guarantee fees and premiums		**2,229,314**	12,561,972
Insurance, membership dues and subscriptions		**472,784**	444,537
Professional fees		**353,000**	655,546
Project expenses		**255,162**	2,867,306
Community development expense		**-**	522,710
Miscellaneous		**208,412**	492,593
		P502,284,210	P629,006,875

Project and operation costs are expenses operating expenses which is directly related to the services of the Organization.

Salaries and wages expense and other benefits account is used to record the gross wages and salaries and other benefits earned by employees directly related to operations. While, other benefits includes various types of non-wage compensation provided to employees in addition to their normal wages or salaries such as meal allowance, rice allowance, medical assistance, wedding gifts, birthday gifts, bereavements, vacation and sick leaves, insurance and the like.

Transportation meals and lodging refers to travel expenses incurred by personnel assigned to carry out task in other branches. It also includes project meals pertains to meal allowances for employees to cover working meals and light refreshments given to employees.

23. General and Administrative Expenses

This account consists of:

	Note	**2019**	2018
Salaries, wages and employee benefits		**P54,785,683**	P76,919,683
Rent, utilities and maintenance		**18,205,614**	19,377,530
Depreciation and amortization	*10*	**9,504,269**	10,383,475
Professional fees		**6,534,165**	1,881,114
Project expense		**1,822,711**	-
Postage, telephone and communication		**1,881,545**	2,085,439
Taxes and licenses		**1,684,631**	1,369,992
Retirement expense	*19*	**1,625,863**	1,358,713
Transportation, meals and lodging		**1,587,727**	4,779,210
Office supplies		**831,360**	3,334,899
Training		**823,567**	2,917,676
Insurance, membership dues and subscriptions		**899,713**	1,814,580
Miscellaneous		**190,385**	209,549
		P100,377,233	P126,431,860

General and administrative expenses pertain to operation expenses rather than to expenses that can be directly related to the production of services, including rent, utilities, insurance, and salaries.

Salaries and wages expense and other benefits account is used to record the gross wages and salaries and other benefits earned by employees not directly related to operations.

Rent, utilities and maintenance account pertains to expenses related to the head office.

24. Other Income - net

This account consists of:

	Note	**2019**	2018
Gain from disposal of property	*10*	**P946,126**	P32,306,052
Recovery of previous impairment loss	*10*	**-**	5,045,988
Interest income from:			
Cash in banks	*6*	**759,301**	647,825
Restricted investments	*7*	**552,982**	615,741
Employee loans		**355,791**	408,709
Collection of previously written-off accounts		**563,620**	402,069
Bank charges		**(306,289)**	(704,418)
Miscellaneous income		**306,125**	344,290
		P3,177,656	P39,066,256

Gain from disposal of property and equipment amounting to P0.95 million in 2019 is recognized by the Organization upon sale of various fully depreciated assets to the Organization's employees.

In 2018, gain from disposal of property amounting to P31.86 million is recognized by the Organization upon sale of property to TSPI MBAI (see Note 10) and various fully depreciated assets to the Organization's employees.

Bank charges represent mainly documentary stamp taxes on loan availment.

25. Leases

The Organization leases its branch office spaces from various third parties. The lease agreements are for a period of three years and are renewable under terms and conditions mutually acceptable to the parties of the lease contract.

Information about leases for which the Organization is a lessee is presented below.

Right-of-Use Assets

	Note	2019
Balance at 1 January	*3*	**P8,965,676**
Additions	*12*	**16,682,106**
Depreciation	*12, 22*	**(7,215,701)**
Balance at 31 December	*12*	**P18,432,081**

Lease Liabilities

	2019
Maturity analysis - contractual undiscounted cash flows	
Less than one year	**P9,347,993**
More than one year	**10,560,545**
Total undiscounted lease liabilities at December 31	**19,908,538**
Lease liabilities included in the statements of assets, liabilities and fund balance as at December 31	**P18,492,025**
Current	**P8,597,948**
Non-current	**9,894,077**

As at December 31, 2019, the accrued interest related to lease liability amounted to P2,381 is recognized under "Other current liabilities" account in the statements of assets, liabilities and fund balance.

	Note	2019
Amounts Recognized in Profit and Loss		
Depreciation of right-of-use assets	*12, 22*	**P7,215,701**
Interest expense on lease liabilities		**716,069**
Rent expense relating to short-term lease		**19,096,727**
Rent expense relating to low-value items		**59,595**
Total		**P27,088,092**

Amounts Recognized in the Statements of Cash Flows

	2019
Total cash outflow for lease liabilities	**P6,106,313**

Total rent expense recognized is as follow:

	2019	2018
Project and operational costs	**P19,096,727**	P27,107,241
General and administrative expenses	**59,595**	77,107
	P19,156,322	P27,184,348

Rental commitments of the Organization for the remaining term of the short lease contracts amounted to P1.08 million as at December 31, 2019.

26. Income Taxes

The Organization's income tax expense amounting to P13.73 million and P28.93 million for the year ended December 31, 2019 and 2018, respectively, is based on R.A. No. 10693 which subjects the Organization to a two percent (2.00%) tax based on its gross receipts from microfinance operations in lieu of all national taxes. R.A. No. 10693 was approved on November 3, 2015 and took effect on November 23, 2015.

The components of the Organization's income tax expense in profit or loss are as follows:

	2019	2018
Current tax expense:		
2% preferential tax (gross tax receipts)	**P13,731,388**	P17,272,079
30% income tax	**-**	11,383,397
Deferred tax expense (benefit)	**(284,226)**	279,454
Income tax expense	**P13,447,162**	P28,934,930

The reconciliation between the income tax expense based on statutory income tax rate and the effective income tax rate on income before income tax is as follows:

	2019	2018
Preferential tax at 2%	**P1,229,863**	P1,203,176
Statutory tax at 30%	**(66,987)**	11,383,397
Increase (decrease) in income tax resulting from tax effects of:		
Nondeductible expense	**12,324,454**	17,249,657
Interest income subject to final tax	**(26,246)**	(25,272)
Nontaxable income	**(13,922)**	(876,028)
Income tax expense	**P13,447,162**	P28,934,930

Below is the movement of the deferred tax liabilities recognized as at December 31, 2019 and 2018:

	2019			
	Beginning Balance	**Amount Charged to (Profit) or Loss**	**Amount Recognized in Other Comprehensive Income**	**Ending Balance**
Retirement asset	**P21,510,442**	**P -**	**(P7,139,960)**	**P14,370,482**
Revaluation increment on property	**14,686,554**	**-**	**-**	**14,686,554**
Accrued interest receivable	**279,455**	**(217,239)**	**-**	**62,216**
NOLCO	**-**	**(66,987)**	**-**	**(66,987)**
Deferred Tax Liabilities - net	**P36,476,451**	**(P284,226)**	**(P7,139,960)**	**P29,052,265**

	2018			
	Beginning Balance	Amount Charged to (Profit) or Loss	Amount Recognized in Other Comprehensive Income	Ending Balance
Retirement asset	P3,862,249	P -	P17,648,193	P21,510,442
Revaluation increment on property	-	-	14,686,554	14,686,554
Accrued interest receivable	646,765	(367,310)	-	279,455
Deferred Tax Liabilities	P4,509,014	(P367,310)	P32,334,747	P36,476,451

The Organization's NOLCO that can be claimed as deduction from future taxable income or used as deduction against future income tax liabilities is as follow:

Inception Year	Amount	Used	Balance	Expiry Year
2019	P223,290	P -	P223,290	2022

27. Events After the Reporting Period

On March 8, 2020, under Proclamation 922, the Office of the President has declared a state of public health emergency and subsequently on March 16, 2020, under Proclamation 929, a state of calamity throughout the Philippines due to the spread of the COVID-19. To manage the spread of the disease, the entire Luzon has been placed under an Enhanced Community Quarantine, effective from March 17, 2020 until April 14, 2020, that is subject for further extension which involved several measures including travel restrictions, home quarantine and temporary suspension or regulation of business operations, among others, limiting activities related to the provision of essential goods and services.

Management is cognizant of the significant impact of COVID-19 pandemic. Debt relief programs shall be provided to the Organization's clients and operations shall be aligned with the laws, rules and regulations recently issued to address concerns brought about by the COVID-19 pandemic. The Organization's financials are expected to be affected mainly by the delayed payments and volatile market condition.

However, the effect of COVID-19 to the financials cannot be made at this time. As this pandemic is unprecedented, the Organization will rely upon future guidance and issuances of the MNRC. The Organization is a member of the two major Microfinance Institution industry organizations, namely the Microfinance Council of the Philippines, Inc. (MCPI) and Alliance of Philippine Partners in Enterprise Development (APPEND), which work closely with the MNRC and various government agencies.

28. Supplementary Information Required under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue (BIR)

In addition to the disclosures mandated under PFRS and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS. The following is the tax information required for the taxable year ended December 31, 2019:

A. VAT

Disposal of property and equipment	**P706,190**

B. Excise Taxes

The Organization has no transactions subject to excise taxes.

C. Documentary Stamp Tax

The Organization has no transactions subject to documentary stamp taxes.

D. Withholding Taxes

Tax on compensation and benefits	**P6,983,147**
Creditable withholding taxes	**4,500,111**
Final tax	**2,455,782**
Fringe benefit tax	**21,649**
	P13,960,689

E. All Other Taxes (Local and National)

Other taxes paid during the year recognized under "Project and operational costs" and "General and administrative" accounts	
License and permit fees	**P5,431,517**
Real estate taxes	**1,153,967**
Others	**360,616**
	P6,946,100

F. Tax Assessments

The Organization has 2014 and 2015 tax assessment which involved alleged income, VAT, expanded withholding tax, withholding tax on compensation, compromise penalty and documentary stamp tax payment deficiencies. The BIR issued Final Assessment Notices in 2018 and 2019, for CY 2014 and CY 2015, respectively. The Organization submitted Formal Protest Letters for both assessments together with documents in support thereof, in compliance with the sixty (60) period to submit the same, pursuant to the Tax Code.

G. Tax Cases

As at December 31, 2019, aside from the ongoing tax assessments, the Organization is not a party to any outstanding tax case that is under investigation, litigation and/or prosecution in courts or bodies outside BIR.