# TULAY SA PAG-UNLAD, INC.
**(A Non-stock, Non-profit Organization)**

**FINANCIAL STATEMENTS**
**December 31, 2017 and 2016**

## REPORT OF INDEPENDENT AUDITORS

The Board of Trustees and Members
**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 financial statements of Tulay sa Pag-Unlad, Inc. (the "Organization"), a non-stock, not-for-profit organization, which comprise the statements of assets, liabilities and fund balance as at December 31, 2017 and 2016, 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, 2017 and 2016, 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 March 15, 2020
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 PFRSs, 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 29 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

DENNIS I. ILAN
Partner
CPA License No. 089564
SEC Accreditation No. 1182-AR-1, Group A, valid until April 30, 2018
Tax Identification No. 161-313-405
BIR Accreditation No. 08-001987-28-2017
Issued September 5, 2017; valid until September 4, 2020
PTR No. 6615137MD
Issued January 3, 2018 at Makati City

April 11, 2018
Makati City, Metro Manila

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# REPORT OF INDEPENDENT AUDITORS

The Board of Trustees and Members
**Tulay sa Pag-Unlad, Inc.**
2363 Antipolo St., Guadalupe Nuevo
Makati City

## Report on the Audit of the Financial Statements

*Opinion*

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In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2017 and 2016, 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 PFRSs, 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 29 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

DENNIS I. ILAN
Partner
CPA License No. 089564
SEC Accreditation No. 1182-AR-1, Group A, valid until April 30, 2018
Tax Identification No. 161-313-405
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  Issued September 5, 2017; valid until September 4, 2020
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April 11, 2018
Makati City, Metro Manila

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**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.**
2363 Antipolo St., Guadalupe Nuevo
Makati City

We have audited the accompanying financial statements of Tulay sa Pag-Unlad, Inc. (the “Organization”) as at and for the year ended December 31, 2017, on which we have rendered our report dated April 11, 2018.

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.**

DENNIS I. ILAN
Partner
CPA License No. 089564
SEC Accreditation No. 1182-AR-1, Group A, valid until April 30, 2018
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## REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Board of Trustees and Members
**Tulay sa Pag-Unlad, Inc.**
2363 Antipolo St., Guadalupe Nuevo
Makati City

We have audited the financial statements of Tulay sa Pag-Unlad, Inc. (the "Organization") as at and for the year ended December 31, 2017, on which we have rendered our report dated April 11, 2018.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Organization taken as a whole. The following schedules of supplementary information are the responsibility of the Organization's management:

- Schedule of Philippine Financial Reporting Standards;
- Schedule of Receipts and Disbursements according to their sources and activities; and
- Schedule of Contributions and Donations.

These supplementary information are presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and are not required parts of the basic financial statements. Such supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the supplementary information are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

DENNIS I. ILAN
Partner
CPA License No. 089564
SEC Accreditation No. 1182-AR-1, Group A, valid until April 30, 2018
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Issued September 5, 2017; valid until September 4, 2020
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Issued January 3, 2018 at Makati City

April 11, 2018
Makati City, Metro Manila

## TULAY SA PAG-UNLAD, INC.
## (A Non-stock, Non-profit Organization)
## STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

| | | December 31 | |
|---|---|---|---|
| | *Note* | **2017** | 2016 |
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | *6* | **P154,824,745** | P167,363,257 |
| Loans receivable - net | *8* | **1,967,501,499** | 1,648,979,584 |
| Other receivables - net | *9* | **51,125,152** | 21,940,408 |
| Due from related parties | *17* | **6,111,919** | 9,339,030 |
| Prepayments and other current assets | | **6,119,402** | 1,650,033 |
| **Total Current Assets** | | **2,185,682,717** | 1,849,272,312 |
| **Noncurrent Assets** | | | |
| Property and equipment - net | *10* | **157,319,252** | 163,454,822 |
| Intangible assets - net | *11* | **832,660** | 5,698,737 |
| Retirement asset - net | *18* | **16,961,837** | 16,746,544 |
| Short-term investments | *7* | **54,044,899** | 53,504,677 |
| Restricted cash | *25* | **7,230,995** | 7,174,025 |
| Other noncurrent assets | *12* | **14,447,233** | 15,747,603 |
| **Total Noncurrent Assets** | | **250,836,876** | 262,326,408 |
| | | **P2,436,519,593** | P2,111,598,720 |
| **LIABILITIES AND FUND BALANCE** | | | |
| **Current Liabilities** | | | |
| Clients' capital build up | *13* | **P728,789,036** | P742,480,723 |
| Accounts payable and accrued expenses | *14* | **207,121,382** | 153,362,139 |
| Loans payable | *15* | **786,100,000** | 501,100,000 |
| Due to related parties | *17* | **8,500,367** | 241,303 |
| Funds held in trust | *16* | **1,069,335** | 1,486,610 |
| **Total Current Liabilities** | | **1,731,580,120** | 1,398,670,775 |
| **Noncurrent Liability** | | | |
| Deferred tax liability | *27* | **4,509,014** | - |
| **Total Noncurrent Liability** | | **4,509,014** | - |
| **Total Liabilities** | | **1,736,089,134** | 1,398,670,775 |
| **Fund Balance** | | | |
| Accumulated net income | | **612,451,274** | 633,960,674 |
| Employee benefit reserves | *18* | **64,244,785** | 55,232,871 |
| Revaluation increment on property and equipment | | **23,734,400** | 23,734,400 |
| **Total Fund Balance** | | **700,430,459** | 712,927,945 |
| | | **P2,436,519,593** | P2,111,598,720 |

*See Notes to the Financial Statements.*

## TULAY SA PAG-UNLAD, INC.
## (A Non-stock, Non-profit Organization)
## STATEMENTS OF COMPREHENSIVE INCOME

| | | Years Ended December 31 | |
|---|---|---|---|
| | *Note* | **2017** | 2016 |
| **REVENUE** | | | |
| Financial income - net | *19* | **P836,820,603** | P752,385,934 |
| **EXPENSES** | | | |
| Project and operational costs | *21* | **621,252,783** | 567,414,786 |
| General and administrative expenses | *22* | **130,289,633** | 111,837,200 |
| Impairment losses | *8, 9* | **35,736,217** | 38,965,895 |
| Finance charges | *15* | **26,428,248** | 16,839,085 |
| | | **813,706,881** | 735,056,966 |
| **OPERATING INCOME BEFORE OTHERS** - Net | | **23,113,722** | 17,328,968 |
| **OTHERS** - Net | *23* | **(1,672,649)** | 5,960,004 |
| **NET OPERATING INCOME** | | **21,441,073** | 23,288,972 |
| **INCOME TAX COMPROMISE** | *25* | **(24,464,682)** | - |
| **NET (LOSS) INCOME BEFORE INCOME TAX** | | **(3,023,609)** | 23,288,972 |
| **INCOME TAX EXPENSE** | | | |
| Current | *27* | **17,839,026** | 15,823,355 |
| Deferred | *27* | **646,765** | - |
| | | **18,485,791** | 15,823,355 |
| **NET (LOSS) INCOME AFTER TAX** | | **(21,509,400)** | 7,465,617 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | |
| Remeasurements of defined benefit liability | *18* | **12,874,163** | (1,478,840) |
| Tax effect | | **(3,862,249)** | - |
| | | **9,011,914** | (1,478,840) |
| **TOTAL COMPREHENSIVE (LOSS) INCOME** | | **(P12,497,486)** | P5,986,777 |

*See Notes to the Financial Statements.*

**TULAY SA PAG-UNLAD, INC.**
**(A Non-stock, Non-profit Organization)**

# STATEMENTS OF CHANGES IN FUND BALANCE

| | | | | Years Ended December 31 |
|---|---|---|---|---|
| | **Accumulated Net Income** | **Employee Benefit Reserves** (Note 18) | **Revaluation Increment on Property and Equipment** | **Total Fund Balance** |
| **Balance at January 1, 2017** | P633,960,674 | P55,232,871 | P23,734,400 | P712,927,945 |
| Net loss | (21,509,400) | - | - | (21,509,400) |
| Remeasurements of defined benefit liability | - | 12,874,163 | - | 12,874,163 |
| Tax effect | - | (3,862,249) | - | (3,862,249) |
| Total comprehensive income | (21,509,400) | 9,011,914 | - | (12,497,486) |
| **Balance at December 31, 2017** | **P612,451,274** | **P64,244,785** | **P23,734,400** | **P700,430,459** |
| Balance at January 1, 2016 | P626,495,057 | P56,711,711 | P23,734,400 | P706,941,168 |
| Net income | 7,465,617 | - | - | 7,465,617 |
| Remeasurements of defined benefit liability | - | (1,478,840) | - | (1,478,840) |
| Total comprehensive income | 7,465,617 | (1,478,840) | - | 5,986,777 |
| Balance at December 31, 2016 | P633,960,674 | P55,232,871 | P23,734,400 | P712,927,945 |

*See Notes to the Financial Statements.*

**TULAY SA PAG-UNLAD, INC.**
**(A Non-stock, Non-profit Organization)**

## STATEMENTS OF CASH FLOWS

| | | Years Ended December 31 | |
|---|---|---|---|
| | ***Note*** | **2017** | 2016 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net (loss) income before income tax | | **(P3,023,609)** | P23,288,972 |
| Adjustments for: | | | |
| Depreciation and amortization | *10, 11* | **23,086,592** | 25,817,797 |
| Impairment losses | *8, 9* | **35,736,217** | 38,965,895 |
| Retirement expense | *18, 21, 22* | **16,658,870** | 16,012,237 |
| Gain from disposal of property and equipment and intangible assets | *23* | **(438,213)** | (1,324,188) |
| Operating income before working capital changes | | **72,019,857** | 102,760,713 |
| Decrease (increase) in: | | | |
| Short-term investments | | **(540,222)** | (539,169) |
| Loans receivable | | **(351,694,970)** | (128,045,038) |
| Other receivables | | **(31,747,906)** | (2,199,060) |
| Due from related party | | **3,227,111** | (1,542,263) |
| Prepayments and other current assets | | **(4,469,369)** | 1,143,606 |
| Restricted cash | | **(56,970)** | 246,515 |
| Increase (decrease) in: | | | |
| Clients' capital build up | | **(13,691,687)** | (16,481,841) |
| Accounts payable and accrued expenses | | **54,406,008** | 4,379,761 |
| Due to related parties | | **8,259,064** | (5,206,507) |
| Funds held in trust | | **(417,275)** | 146,437 |
| | | **(264,706,359)** | (45,336,846) |
| Income tax paid | | **(18,485,791)** | (15,823,355) |
| Contribution to retirement plan | | **(4,000,000)** | (18,000,000) |
| Net cash used in operating activities | | **(287,192,150)** | (79,160,201) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to property and equipment and intangible assets | *10, 11* | **(12,322,241)** | (22,654,911) |
| Other noncurrent assets | | **1,300,370** | (594,030) |
| Proceeds from disposal of property and equipment and intangible assets | | **675,509** | 2,397,379 |
| Net cash used in investing activities | | **(10,346,362)** | (20,851,562) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Availment of loans | *26* | **1,700,000,000** | 1,056,100,000 |
| Payments of loans | *26* | **(1,415,000,000)** | (926,418,750) |
| Net cash provided by financing activities | | **285,000,000** | 129,681,250 |

| | | Years Ended December 31 | |
|---|---|---|---|
| | ***Note*** | **2017** | 2016 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **(P12,538,512)** | P29,669,487 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **167,363,257** | 137,693,770 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | *6* | **P154,824,745** | P167,363,257 |

*See Notes to the Financial Statements.*

# TULAY SA PAG-UNLAD, INC.
## (A Non-stock, Non-profit Organization)
## NOTES TO THE FINANCIAL STATEMENTS

### 1. Reporting Entity

Tulay sa Pag-unlad, Inc. ("TSPI" or the "Organization"), a non-stock, non-profit organization, was originally registered with the Philippine Securities and Exchange Commission (SEC) in October 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 April 10, 2011, 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 "TSPI Development Corporation" to "Tulay sa Pag-unlad, Inc." On July 26, 2011, the SEC approved the amendment of the Organization's corporate name.

With the effectivity of Republic Act (RA) 10693 or Microfinance NGOs Act in November 2016 and at least for the first year of implementation provided that the Organization has no derogatory record with the SEC, 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. Accreditation with the Microfinance NGO Council is required for the Organization to remain exempt from income and all national taxes beyond the initial year of implementation of the Act.

The Organization obtained their certification of no derogatory action from SEC on March 2, 2018 to be accredited as a Microfinance NGO for a period of one (1) year.

The Organization's address is at 2363 Antipolo St., Guadalupe Nuevo, Makati City. 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 of at least three members, 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 (in group of at least three members). It is designed to provide small farmers with timely access to production inputs through accredited farm inputs 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).

3. TSPI Maunlad Program
   This program provides non-collateral and collateral-based loans to individuals graduating from TKP or Masikap Program 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.

   During 2017, this program has expanded its client outreach and now offers the same non-collateral and collateral-based loans to individuals with existing businesses for at least two years and are new to TSPI. Same program features, benefits, and recruitment criteria apply to existing, graduating clients from other TSPI programs, and new clients.

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 and Sanitation Loan Program (HSLP)
   This program provides assistance to incoming TKP 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 three (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. Loan is payable in three to six months with weekly repayment.

   As at December 31, 2017, the Organization has 142 branches.

## 2. Basis of Preparation

Statement of Compliance

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

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 and buildings and improvements) | Revalued amount |
| Retirement asset - net | Present value of the defined benefit obligation less fair value of plan assets |

The accompanying financial statements were approved for issuance by the Board of Trustees (BOT) during its regular meeting on April 11, 2018.

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 has been rounded off to the nearest peso, unless otherwise indicated.

Use of Judgments and Estimates

The preparation of financial statements in conformity with PFRSs requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts in the financial statements and notes to the financial statements.

The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are readily apparent from other sources. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in Note 4 to the financial statements.

## 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.

Certain comparative amounts in the statement of financial position have been reclassified as a result of changes in the classification of certain accounts to be consistent with its nature during the current year. Accordingly, the Organization also reclassified the comparative figures in 2016 (see Note 28).

Adoption of Amendments to Standards
The Organization has adopted the following amendments to standards starting January 1, 2017 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Organization's financial statements.

- *Disclosure initiative (Amendments to PAS 7, Statement of Cash Flows).* The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

  The amendments are effective for annual periods beginning on or after January 1, 2017. When an entity first applies the amendments, it is not required to provide comparative information for preceding periods.

  The Organization has provided the required information in Note 26 to the financial statements. As allowed under the transition provision of the standards, the Organization did not present comparative information for the year ended December 31, 2016.

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12, Income Taxes).* The amendments clarify that:

  - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;

  - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;

  - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and

  - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

Financial Instruments

*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 (i.e., the date that the Organization purchased or sold the instrument).

*Initial Recognition*

Financial instruments are recognized initially at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is normally the transaction price (e.g. the fair value of the consideration given or received). If a financial asset is not subsequently accounted for at fair value through profit or loss (FVPL), the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination.

*Classification*

The Organization classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, available-for-sale (AFS) financial assets, and held-to-maturity (HTM) investments. The Organization classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the financial assets are acquired or the financial liabilities are incurred, and whether the instruments are quoted in an active market, and for HTM investments, the ability and intention to hold the investment until maturity.

As at December 31, 2017 and 2016, the Organization has no financial assets and liabilities at FVPL, AFS financial statements and HTM investments.

*Fair Value Measurement*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or, in the absence of principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Organization.

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

*'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.

*Loans and Receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and such are not classified as financial assets at FVPL or AFS.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate (EIR) which is the rate that exactly discounts estimated future cash payment or receipts through the expected life of the financial instrument or the shorter period, where appropriate to the net carrying amount of the financial asset or financial liability. The amortization is included as part of “Financial income” in profit or loss. The losses arising from the impairment of such loans and receivables are charged to current operations.

The Organization’s cash and cash equivalents, short-term investments, loans receivable, other receivables excluding advances to suppliers and customers, due from related parties, restricted cash and other noncurrent assets such as rental deposits and other noncurrent receivables are classified under this category.

*Cash and Cash Equivalents*
Cash and cash equivalents comprise cash balances 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.

*Other Financial Liabilities*
Issued financial instruments or their component, which are not classified as FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Organization having an obligation either to deliver cash or another financial asset to the holder or lender, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Organization’s own equity instruments.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. The amortization is included as part of interest expense in profit or loss.

This category includes the Organization’s accounts payable and accrued expenses excluding amounts payable to government agencies, loans payable, funds held in trust, clients’ capital build up and due to related parties.

<u>Measurement of Fair Values</u>
A number of the Organization’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

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

When measuring the fair values of an asset or liability, 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, then 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.

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

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 generally not the case with master netting agreements, thus, the related assets and liabilities are presented on a gross basis in the statements of assets, liabilities and fund balance.

Income and expenses are presented on a net basis only when permitted under PFRSs, such as in the case of any realized gains or losses arising from the Organization's trading activities.

Impairment of Financial Assets

The Organization assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, that it has become probable that the borrower will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial Assets Carried at Amortized Cost*
If there is objective evidence that an impairment loss on financial assets carried at amortized cost (e.g. loans and receivables) has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original EIR. Time value is generally not considered when the effect of discounting is not material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure, less cost for obtaining and selling the collateral, whether or not foreclosure is probable.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to profit or loss as "Impairment losses" in profit or loss. Interest income continues to be recognized based on the original EIR of the asset. Where there is no realistic prospect of future recovery and all collateral has been realized, the financial assets, together with the associated allowance accounts, are written-off. If, subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized as part of "Impairment losses" in profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.
With respect to receivables, the Organization performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment losses. The Organization writes off its long-outstanding receivable accounts from deceased, unallocated, or migrated debtors, where they have exhausted all efforts to collect.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as type of borrower, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not exist currently.

<u>Derecognition of Financial Assets and Liabilities</u>
*Financial Asset*
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset have expired;

- the Organization retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Organization has transferred its right to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control over the asset.

Where the Organization has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Organization's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Organization could be required to pay.

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

<u>Leases</u>
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.

*Organization as a Lessee*
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 21 and 22, respectively to the financial statements on a straight-line basis over the lease term.

<u>Prepayments</u>
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.

Investment Properties

Investment properties, which consists of those acquired from *dacion en pago* are initially measured at cost of the asset acquired from acquisition date. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired from acquisition date unless the fair value of each asset cannot be measured; in which case the investment property acquired is measured at the carrying amount of the asset given up. Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation and impairment in value, except for land which is carried at cost less impairment in value.

An investment property is derecognized when it has either been disposed of or when it is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on derecognition of an investment property is recognized under gain (loss) from disposal of other noncurrent assets account as part of "Others - net" in profit or loss in the period of derecognition.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation or the start of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by the start of owner-occupation or of development with a view to sell.

The Organization's investment properties include land acquired in settlement of loans and are presented as acquired assets under "Other noncurrent assets" account in the statements of assets, liabilities and fund balance.

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 revaluations 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 property and equipment is credited to the "Revaluation increment on property and equipment" 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 and equipment" to "Accumulated net income" under fund balance. Upon disposal, any related revaluation increment is transferred from the revaluation increment to fund balance 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 |
| Leasehold improvements | 5 or lease term, whichever is shorter |

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 and intangible assets presented under “Others - 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 property and equipment and intangible assets presented under “Others - 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 five percent (5%) 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.

Remeasurements 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.

*Employee Benefit Reserves*

Employee benefit reserves represents actuarial gains and losses from the remeasurement of the defined benefit obligation.

*Revaluation Increment on Property and Equipment*

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

These are accumulated in the fund balance in the statements of assets, liabilities and fund balance.

Revenue Recognition

*Financial Income - net*

For all interest-bearing financial instruments, interest income is recognized on an accrual basis using the effective interest method net of interest expense. 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.

*Grants*

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.

*Interest Expense*

Interest expense on clients' capital build-up are recognized in profit or loss under "Financial income - net".

*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;
- whether the Organization has discretion in establishing prices; and
- whether the Organization bears the credit risk.

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.

Expense Recognition

*Finance Charges*

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

*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.

*Income Taxes*
Income tax expense comprises current and deferred taxes. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income (OCI).

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The amount of deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when these reverse, based on the tax rates enacted at or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and deferred tax liabilities are offset if the Organization has a legally enforceable right to offset the amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Related Party Transactions
Related party relationships exist when one (1) party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the enterprise and its key management personnel, trustees, or its members.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

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 an 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.

Standards Issued but Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017. However, the Organization has not applied the following new or amended standards in preparing this financial statements. The Organization is currently assessing the potential impact of these on its financial statements.

*Effective January 1, 2018*

- *PFRS 9, Financial Instruments (2014) replaces PAS 39, Financial Instrument: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

  The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted.

  The management is currently assessing the potential impact on its financial statements resulting from the application of PFRS 9.

- *PFRS 15, Revenue from Contracts with Customers* replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretations Committee-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

  The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

  The management is currently assessing the potential impact on its financial statements resulting from the application of PFRS 15 in the initial year of adoption.

*Effective January 1, 2019*

- *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. 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.

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16.

  The management is assessing the potential impact on its financial statements resulting from the application of PFRS 16 in the initial year of adoption.

- Philippine Interpretation IFRIC-23*, Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12 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 judgments 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 management is currently assessing the potential impact on its financial statements resulting from the application of IFRIC-23 in the initial year of adoption.

## 4. Critical Accounting Judgments and Estimates

Judgments are made by management on the development, selection and disclosure of the Organization's critical accounting policies and estimates and the application of these policies and estimates.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are as follows:

Judgments

a. *Classifying Financial Instruments*

The Organization exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of assets, liabilities and fund balance. In addition, the Organization classifies assets by evaluating among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

As at December 31, 2017 and 2016, the Organization classifies its financial instruments as loans and receivables and other financial liabilities.

b. *Organization as Lessee*

The Organization has entered into various lease agreements, where it was determined that all significant risks and rewards of ownership of the leased premises remain with the lessors due to the following:

a. the ownership of the asset does not transfer at the end of the lease term;

b. the Organization has no option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised; and the lease term is not for the major part of the economic life of the asset even if the title is not transferred.

   Rent expense charged to operations amounted to P25.85 million in 2017 and P24.82 million in 2016.

c. *Impairment of Receivables*

The Organization reviews its receivables to assess impairment at least on an annual basis, or as the need arises due to significant movements on certain accounts. Receivables that are individually significant are assessed to determine whether objective evidence of impairment exists on an individual basis, while those that are not individually significant are assessed for objective evidence of impairment either on an individual or on collective basis. In determining whether an impairment loss should be recorded in the profit or loss, the Organization makes judgment as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio.

As at December 31, 2017 and 2016, the Organization has recognized impairment loss amounting to P35.74 million and P38.97 million, respectively (see Notes 8 and 9).

d. *Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 3 and relevant disclosures are presented in Note 25.

In 2017, management has agreed with the 40% compromise settlement with the BIR for the 2007 and 2008 deficiency tax assessment for Value Added Tax (VAT) and Documentary Stamp Tax (DST). The Organization agreed to pay 40% of basic tax assessment as their compromise settlement which amounted to P39.4 million. On February 23, 2018, the Organization paid the remaining P24.46 million for the said compromise settlement. The amount was recognized in the financial statements as of and for the year ended December 31, 2017.

Pending acceptance from the tax authority of the Organization's offer of compromise, the Organization did not recognize the remaining unpaid assessment since it is yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources. Also, there is no sufficient reliable estimate yet on the amount to be recorded by the Organization.

Estimates

a. *Estimating Allowance for Impairment Losses on Loans and Other Receivables*

The Organization maintains an allowance for impairment losses at a level considered adequate to provide for probable uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Organization's relationship with the debtor, the debtor's payment behavior and known market factors. The Organization reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis.

As at December 31, 2017 and 2016, allowance for impairment losses on loans receivable amounted to P123.94 million and P99.23 million, respectively (see Note 8).

Other receivables has an allowance for impairment losses as at December 31, 2017 and 2016 amounting to P20.07 million and P18.16 million, respectively (see Note 9).

b. *Estimating Useful Lives of Property and Equipment and Intangible Asset*

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 asset would increase the recorded depreciation and amortization expenses and decrease noncurrent assets of both current and future periods.

As at December 31, 2017 and 2016, the carrying amount of the Organization's property and equipment amounted to P157.32 million and P163.45 million, respectively (see Note 10).

The carrying value of the Organization's intangible asset with finite useful lives amounted to P0.83 million and P5.70 million as at December 31, 2017 and 2016, respectively (see Note 11).

c. *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 OCI and accumulated in fund balance under "Revaluation increment in property and equipment" in the statements of assets, liabilities and fund balance. The fair value is dependent on the selection of certain assumptions by the appraisers. 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 and equipment" account.

d. *Impairment of Nonfinancial Assets*
The Organization assesses impairment on its property and equipment, intangible asset and investment properties 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, 2017 and 2016, there were no indications of impairment on the Organization's property and equipment and intangible asset.

e. *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 obligations.

As at December 31, 2017 and 2016, the Organization's retirement assets amounted to P16.96 million and P16.75 million, respectively (see Note 18).

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

Risk Management Framework

The BOT of the Organization's has overall responsibility for the establishment and oversight of the risk management framework. The BOT has delegated to the senior management the responsibility for developing and monitoring the Organization's risk management policies in their specified areas.

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.

The following information discusses the Organization's exposure to each of the above risks and the objectives, policies and processes for measuring and managing risk.

Financial Risk

The Organization is exposed to financial risk through its financial assets and financial liabilities. The most important components of this financial risk are credit risk, liquidity risk and market risk.

There has been no change to the Organization's exposure to financial risks (i.e., credit risk, liquidity risk and market risks) or the manner in which it manages and measures the risks since prior financial year.

*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 creditworthiness 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, 2017 and 2016.

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*** | **2017** | 2016 |
|---|---|---|---|
| Cash and cash equivalents* | *6* | **P150,950,245** | P164,905,257 |
| Short-term investments | *7* | **54,044,899** | 53,504,677 |
| Loans receivable - net | *8* | **1,967,501,499** | 1,648,979,584 |
| Other receivables - net** | *9* | **50,875,042** | 21,783,488 |
| Due from related parties | *17* | **6,111,919** | 9,339,030 |
| Rental deposits and other noncurrent receivables | *12* | **9,356,893** | 10,525,676 |
| Restricted cash | *25* | **7,230,995** | 7,174,025 |
| | | **P2,246,071,492** | P1,916,211,737 |

**Excluding cash on hand.*
***Excluding advances to suppliers and contractors.*

The Organization's concentration of credit risk arises from loans receivables since the said financial instruments amounted to P1.97 billion (2016: P1.65 billion) and 87.60% (2016: 86.05%) of its total financial assets as at December 31, 2017.

The table below provides information regarding the credit risk exposure of the Organization by classifying assets according to the Organization's credit grading of counterparties.

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | 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* | P150,950,245 | P - | P - | P - | P150,950,245 |
| Short-term investments | 54,044,899 | - | - | - | 54,044,899 |
| Loans receivables | - | 1,808,062,563 | 159,438,936 | 123,942,352 | 2,091,443,851 |
| Other receivables** | - | 50,875,042 | - | 20,070,599 | 70,945,641 |
| Due from related parties | - | 6,111,919 | - | - | 6,111,919 |
| Rental deposits and other noncurrent receivables | - | 9,356,893 | - | - | 9,356,893 |
| Restricted cash | 7,230,995 | - | - | - | 7,230,995 |
| | P212,226,139 | P1,874,406,417 | P159,438,936 | P144,012,951 | P2,390,084,443 |

**Excluding cash on hand.*
***Excluding advances to suppliers and contractors.*

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | 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* | P164,905,257 | P - | P - | P - | P164,905,257 |
| Short-term investments | 53,504,677 | - | - | - | 53,504,677 |
| Loans receivables | - | 1,603,831,900 | 45,147,684 | 99,229,309 | 1,748,208,893 |
| Other receivables** | - | 21,783,488 | - | 18,164,243 | 39,947,731 |
| Due from related parties | - | 9,339,030 | - | - | 9,339,030 |
| Rental deposits and other noncurrent receivables | - | 10,525,676 | - | - | 10,525,676 |
| Restricted cash | 7,174,025 | - | - | - | 7,174,025 |
| | P225,583,959 | P1,645,480,094 | P45,147,684 | P117,393,552 | P2,033,605,289 |

**Excluding cash on hand.*
***Excluding advances to suppliers and contractors.*

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

The Organization classifies its credit risk exposure as investment grade and non-investment grade. The Organization uses a credit rating concept based on the borrowers and counterparties' overall credit worthiness, as follows:

*Investment Grade* - rating given to borrowers and counterparties who possess strong to very strong capacity to meet their obligations.

*Non-investment Grade* - rating given to borrowers and counterparties who possess above average capacity to meet their obligations.

*Past Due but not Impaired* - this pertains to past due receivables where the credit exposure is adequately secured.

*Past Due and Impaired* - this pertains to the allowance for impairment losses that the Organization recognizes due to the uncertainty of the collectability of the Organization's receivables.

The analysis of loans and receivables as at December 31, 2017 and 2016 are as follows (amounts gross of allowances):

| | **December 31, 2017** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Neither Past** | **Past Due nor Impaired** | | | **Total Past** | | |
| | **Due nor Impaired** | **1 - 30 Days** | **31 - 180 Days** | **More than 180** | **Due but not Impaired** | **Past Due and Impaired** | **Total** |
| Cash and cash equivalents* | **P150,950,245** | **P -** | **P -** | **P -** | **P -** | **P -** | **P150,950,245** |
| Short-term investments | **54,044,899** | **-** | **-** | **-** | **-** | **-** | **54,044,899** |
| Loans receivables | **1,808,062,563** | **31,863,323** | **87,453,079** | **40,122,534** | **159,438,936** | **123,942,352** | **2,091,443,851** |
| Other receivables** | **50,875,042** | **-** | **-** | **-** | **-** | **20,070,599** | **70,9425,641** |
| Due from related parties | **6,111,919** | **-** | **-** | **-** | **-** | **-** | **6,111,919** |
| Rental deposits and other noncurrent receivables | **9,356,893** | **-** | **-** | **-** | **-** | **-** | **9,356,893** |
| Restricted cash | **7,230,995** | **-** | **-** | **-** | **-** | **-** | **7,230,995** |
| | **P2,086,632,556** | **P31,863,323** | **P87,453,079** | **P49,122,534** | **P159,438,936** | **P144,012,951** | **P2,390,084,443** |

**Excluding cash on hand.*
***Excluding advances to suppliers and contractors.*

| | December 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Neither Past | Past Due nor Impaired | | | Total Past | | |
| | Due nor Impaired | 1 - 30 Days | 31 - 180 Days | More than 180 | Due but not Impaired | Past Due and Impaired | Total |
| Cash and cash equivalents* | 164,905,257 | P - | P - | P - | P - | P - | P164,905,257 |
| Short-term investments | 53,504,677 | - | - | - | - | - | 53,504,677 |
| Loans receivables | 1,603,831,900 | 8,734,894 | 5,021,818 | 31,390,972 | 45,147,684 | 99,229,309 | 1,748,208,893 |
| Other receivables** | 21,783,488 | - | - | - | - | 18,164,243 | 39,947,731 |
| Due from related parties | 9,339,030 | - | - | - | - | - | 9,339,030 |
| Rental deposits and other noncurrent receivables | 10,525,676 | - | - | - | - | - | 10,525,676 |
| Restricted cash | 7,174,025 | - | - | - | - | - | 7,174,025 |
| | P1,871,064,053 | P8,734,894 | P5,021,818 | P31,390,972 | P45,147,684 | P117,393,552 | P2,033,605,289 |

**Excluding cash on hand.*
***Excluding advances to suppliers and contractors.*

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.

*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 assets and 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, 2017** | | |
|---|---|---|---|
| | **Up to a Year** | **1 - 5 Years** | **Total** |
| Clients' capital build-up | **P728,789,036** | **P -** | **P728,789,036** |
| Accounts payable and accrued expenses* | **192,486,678** | **-** | **192,486,678** |
| Loans payable | **786,100,000** | **-** | **786,100,000** |
| Due to related parties | **8,500,367** | **-** | **8,500,000** |
| Funds held in trust | **1,069,335** | **-** | **1,069,335** |
| **Net Liquidity** | **P1,716,945,416** | **P -** | **P1,716,945,416** |

**Excluding payables to regulatory agencies.*

| | December 31, 2016 | | |
|---|---|---|---|
| | Up to a Year | 1 - 5 Years | Total |
| Clients' capital build-up | P742,480,723 | P - | P742,480,723 |
| Accounts payable and accrued expenses* | 138,375,526 | - | 138,375,526 |
| Loans payable | 501,100,000 | - | 501,100,000 |
| Due to related parties | 241,303 | - | 241,303 |
| Funds held in trust | 1,486,610 | - | 1,486,610 |
| Net Liquidity | P1,383,684,162 | P - | P1,383,684,162 |

**Excluding payables to regulatory agencies.*

*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. The Organization is not exposed to price risk as it does not hold any investment in equity securities.

Market risks arise from open position in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

*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* | **2017** | 2016 |
|---|---|---|---|
| **Financial Assets** | | | |
| Cash and cash equivalents* | *6* | **P150,950,245** | P164,905,257 |
| Short-term investments | *7* | **54,044,899** | 53,504,677 |
| Loans receivable - net | *8* | **1,967,501,499** | 1,648,979,584 |
| Other receivables - net | *9* | **15,082,856** | 5,265,383 |
| Other noncurrent assets** | *12* | **3,987,211** | 5,359,842 |
| Restricted cash | *25* | **7,230,995** | 7,174,025 |
| | | **2,198,797,705** | 1,885,188,768 |
| **Financial Liabilities** | | | |
| Clients' capital build-up | *13* | **728,789,036** | 742,480,723 |
| Loans payable | *15* | **786,100,000** | 501,100,000 |
| | | **1,514,889,036** | 1,243,580,723 |
| Net exposure | | **P683,908,669** | P641,608,045 |

**Excluding cash on hand*
***Excluding rental deposits, acquired assets and others.*

*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 statements of total comprehensive income before income and final tax for the years ended December 31:

| | Increase/ Decrease in Interest Rate (in basis points) | Effect in Income Before Income Tax |
|---|---|---|
| **2017** | **+100bps** | **P6,839,087** |
| | **-100bps** | **(6,839,087)** |
| 2016 | +100bps | 6,416,080 |
| | -100bps | (6,416,080) |

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. It is done either through deposit of payment by members to bank or through every center meetings. 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 considers its accumulated net income amounted to P612.45 million and P633.96 million as at December 31, 2017 and 2016, respectively, as its fund. The Organization manages its capital structure and makes adjustments to it 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 2017 and 2016.

The Organization is not subject to externally-imposed fund requirements as at December 31, 2017 and 2016.

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 and cash equivalents, short-term investments, other receivables - net, clients' capital build-up, loans payable and accounts payable and accrued expenses (excluding government payables) approximate fair value at year end due to the relatively short-term maturities of these financial assets and liabilities.

The fair value of loans receivable are estimated using the discounted cash flow methodology using the current EIR.

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 fair market value of these properties is based on the latest appraisal report as of June 2014 by an independent appraiser, value of land and building were arrived using Market Data approach. In this approach, the values are based on the inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

## 6. Cash and Cash Equivalents

This account consists of:

| | **2017** | 2016 |
|---|---|---|
| Cash on hand | **P3,874,500** | P2,458,000 |
| Cash in banks | **145,357,268** | 159,379,630 |
| Short-term placements | **5,592,977** | 5,525,627 |
| | **P154,824,745** | P167,363,257 |

Cash in banks which composed of savings and demand deposits earn interest at the respective bank deposit rates ranging from 0.10% to 0.35% and from 0.10% to 0.38% in 2017 and 2016, 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 1.50% in 2017 and 2016.

Interest income earned from cash in banks amounted to P0.54 million and P0.55 million net of tax in 2017 and 2016, respectively (see Note 23).

These balances are maintained by the Organization to meet its funding requirements for continuing projects and activities. These accounts are maintained in US dollar and Philippine peso.

## 7. Short-term Investments

This account consists of 90 to 180 days placements in a local bank amounting to P54.04 million and P53.50 million for 2017 and 2016, respectively, which earn interest at the rates of 1.13% to 1.38% per annum in 2017 and 2016. Since the short-term 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 (see Note 25).

Interest income earned from these placements amounted to P0.61 million in 2017 and 2016 (see Note 23).

## 8. **Loans Receivable** - net

Loans receivable represents 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:

| | **2017** | 2016 |
|---|---|---|
| TKP | **P1,194,418,764** | P992,820,370 |
| TPP | **518,533,570** | 405,440,367 |
| HSLP | **250,598,687** | 209,708,735 |
| TSPI Maunlad Program | **91,743,028** | 60,692,189 |
| Small Enterprise Development Program (SEDP) | **5,699,030** | 5,922,348 |
| TSPI Masikap Program | **989,963** | 1,827,952 |
| Receivable from AGFP | **29,460,809** | 71,796,932 |
| | **2,091,443,851** | 1,748,208,893 |
| Less allowance for impairment losses | **123,942,352** | 99,229,309 |
| | **P1,967,501,499** | P1,648,979,584 |

Receivables from AGFP of P29.46 million in 2017 and P71.80 million in 2017 represents 85% of the total principal amount of TPP claims filed with AGFP.

The Organization has 207,850 and 168,119 outstanding loan borrowers as at December 31, 2017 and 2016, respectively.

The aging analysis of the gross loan portfolios follows:

| Age | 2017 | % to Total | 2016 | % to Total |
|---|---|---|---|---|
| Current | **P1,808,062,563** | **86.45%** | P1,603,831,900 | 91.74% |
| 1 - 30 days | **31,863,323** | **1.52%** | 8,734,894 | 0.50% |
| 31 - 90 days | **54,844,810** | **2.62%** | 3,908,174 | 0.22% |
| 91 - 180 days | **32,608,269** | **1.56%** | 1,113,645 | 0.07% |
| More than 180 days | **164,064,886** | **7.85%** | 130,620,280 | 7.47% |
| Total | **P2,091,443,851** | **100%** | P1,748,208,893 | 100% |

The 'more than 180 days' figures for 2017 and 2016 on the above aging analysis is net of Receivables from AGFP.

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, 2017 and 2016 amounted to P812.67 million and P766.39 million, respectively (see Note 19).

The Organization's main measure of loan delinquency is an 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 allowance for impairment loss).

The analysis of portfolio at risk follows:

| Days Past Due | 2017 | Portfolio at Risk | 2016 | Portfolio at Risk |
|---|---|---|---|---|
| 31 - 90 days | **P31,165,012** | **1.49%** | P11,017,100 | 0.63% |
| 91 - 180 days | **13,301,388** | **0.64%** | 4,883,022 | 0.28% |
| More than 180 days | **256,156,689** | **12.25%** | 132,398,923 | 7.57% |
| Total | **P300,623,089** | **14.38%** | P148,299,045 | 8.48% |

The movements in the allowance for impairment losses on loans receivable are as follows:

| | 2017 | 2016 |
|---|---|---|
| Balance at beginning of year | **P99,229,309** | P74,975,009 |
| Provision during the year | **33,173,055** | 27,406,055 |
| Write-off during the year | **(8,460,012)** | (3,151,755) |
| Balance at end of year | **P123,942,352** | P99,229,309 |

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.

Certain loans receivable amounting to P950.86 million and P585.00 million were assigned as collaterals for loans payable for the year 2017 and 2016, respectively (see Note 15).

## 9. **Other Receivables** - net

This account consists of:

| | **2017** | 2016 |
|---|---|---|
| Receivable from separated employees | **P20,070,599** | P18,164,243 |
| Accrued interest receivable | **32,338,235** | 15,670,859 |
| Receivables from client for basic life insurance (BLIP) | **10,146,538** | - |
| Receivables from employees | **3,579,243** | 3,570,127 |
| Receivables from Social Security System | **1,088,587** | 1,092,008 |
| Receivables from Lafarge/Republic Cement Services (Philippines), Inc. | **268,488** | 603,248 |
| Advances to suppliers and contractors | **250,110** | 156,920 |
| Others | **3,453,951** | 847,246 |
| | **71,195,751** | 40,104,651 |
| Less allowance for impairment losses | **20,070,599** | 18,164,243 |
| | **P51,125,152** | P21,940,408 |

Receivables from BLIP represents the balance of non-interest bearing insurance loans granted to clients in 2017. This benefit to clients started in March 2017 but eventually discontinued in August of same year as premiums on BLIP are now deducted from the clients' loan proceeds. Others receivables relate to suppliers, employees, separated employees (with allowance for impairment losses) and unsecured deposits.

The movements in the allowance for impairment losses on other receivables are as follows:

| | **2017** | 2016 |
|---|---|---|
| Balance at beginning of year | **P18,164,243** | P7,087,922 |
| Provision during the year | **2,563,162** | 11,559,840 |
| Write-off during the year | **(656,806)** | (483,519) |
| Balance at end of year | **P20,070,599** | P18,164,243 |

## 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* | **Leasehold Improvements** *Cost* | **Furniture and Fixtures** *Cost* | **Transportation Equipment** *Cost* | **Total** |
|---|---|---|---|---|---|---|---|---|
| **Gross Carrying Amounts** | | | | | | | | |
| January 1, 2016 | P56,604,400 | P136,912,218 | P33,761,981 | P71,891,895 | P2,769,154 | P31,592,611 | P34,888,544 | P368,420,803 |
| Additions | - | 1,278,750 | 2,138,366 | 7,689,765 | 51,477 | 1,011,870 | 9,334,900 | 21,505,128 |
| Disposals | - | - | (1,137,140) | (10,214,850) | (35,000) | (485,254) | (5,880,953) | (17,753,197) |
| December 31, 2016 | 56,604,400 | 138,190,968 | 34,763,207 | 69,366,810 | 2,785,631 | 32,119,227 | 38,342,491 | 372,172,734 |
| Additions | - | - | 1,735,754 | 5,470,017 | - | 903,926 | 3,822,464 | 11,932,161 |
| Disposals | - | - | (307,146) | (1,565,026) | (2,785,631) | (163,277) | (4,901,223) | (9,722,303) |
| **December 31, 2017** | **56,604,400** | **138,190,968** | **36,191,815** | **73,271,801** | **-** | **32,859,876** | **37,263,732** | **374,382,592** |
| **Accumulated Depreciation** | | | | | | | | |
| January 1, 2016 | - | 57,858,962 | 30,905,819 | 63,754,086 | 2,633,595 | 30,543,389 | 24,768,978 | 210,464,829 |
| Depreciation | - | 4,641,765 | 1,282,243 | 4,863,417 | 104,030 | 627,120 | 4,268,882 | 15,787,457 |
| Disposals | - | (1,700) | (1,104,685) | (10,163,103) | (972) | (466,979) | (5,796,935) | (17,534,374) |
| December 31, 2016 | - | 62,499,027 | 31,083,377 | 58,454,400 | 2,736,653 | 30,703,530 | 23,240,925 | 208,717,912 |
| Depreciation | - | 4,619,077 | 1,348,340 | 6,176,013 | - | 544,292 | 5,142,714 | 17,830,436 |
| Disposals | - | - | (275,648) | (1,464,482) | (2,736,653) | (117,017) | (4,891,208) | (9,485,008) |
| **December 31, 2017** | **-** | **67,118,104** | **32,156,069** | **63,165,931** | **-** | **31,130,805** | **23,492,431** | **217,063,340** |
| **Net Carrying Amounts** | | | | | | | | |
| December 31, 2016 | P56,604,400 | P75,691,941 | P3,679,830 | P10,912,410 | P48,978 | P1,415,697 | P15,101,566 | P163,454,822 |
| **December 31, 2017** | **P56,604,400** | **P71,072,864** | **P4,035,746** | **P10,105,870** | **P -** | **P1,729,071** | **P13,771,301** | **P157,319,252** |

Depreciation and amortization consists of:

| | Note | 2017 | 2016 |
|---|---|---|---|
| Property and equipment | | **P17,830,436** | P15,787,457 |
| Intangible asset | *11* | **5,256,156** | 10,030,340 |
| | | **P23,086,592** | P25,817,797 |

Depreciation and amortization are distributed as follows:

| | Note | 2017 | 2016 |
|---|---|---|---|
| Project and operational costs | *21* | **P8,249,234** | P6,826,220 |
| General and administrative expenses | *22* | **14,837,358** | 18,991,577 |
| | | **P23,086,592** | P25,817,797 |

The revalued amounts of the properties shown in the statements of assets, liabilities and fund balance were based on an independent appraisal conducted by Professional Asset Valuers, Inc., Intech Property Appraisal, Inc. and Royal Asia Appraisal Corporation in June 2014.

The carrying amounts of land, buildings and improvements if cost model was used are as follows:

| | 2017 | 2016 |
|---|---|---|
| Land | **P32,870,000** | P32,870,000 |
| Buildings and improvements | **71,072,865** | 79,629,880 |
| | **P103,942,865** | P112,499,880 |

## 11. Intangible Asset - net

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

| | Note | 2017 | 2016 |
|---|---|---|---|
| **Gross Carrying Amount** | | | |
| Balance at beginning of year | | **P40,690,970** | P40,398,504 |
| Additions during the year | | **390,080** | 1,149,783 |
| Disposal | | **(1,700)** | (857,317) |
| **Balance at end of year** | | **41,079,350** | 40,690,970 |
| **Accumulated Amortization** | | | |
| Balance at beginning of year | | **34,992,233** | 24,964,842 |
| Amortization during the year | *10* | **5,256,156** | 10,030,340 |
| Disposal | | **(1,699)** | (2,949) |
| **Balance at end of year** | | **40,246,690** | 34,992,233 |
| **Net Carrying Amount** | | **P832,660** | P5,698,737 |

## 12. Other Noncurrent Assets

This account consists of:

| | 2017 | 2016 |
|---|---|---|
| Rental deposits | **P5,369,682** | P5,165,834 |
| Acquired assets | **5,040,705** | 5,165,162 |
| Other noncurrent receivables | **3,987,211** | 5,359,842 |
| Others | **49,635** | 56,765 |
| | **P14,447,233** | P15,747,603 |

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 carrying value of the account approximates its fair value as at December 31, 2017 and 2016.

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

## 13. 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

- Weekly deposit of three hundred fifty pesos (P350) to one thousand one hundred pesos (P1,100) from all members, depending on loan amount

The clients' capital build-up earns interest at a rate of 5.00% per annum for the above loan programs. 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, 2017 and 2016, clients' capital build-up amounted to P728.79 million and P742.48 million, respectively. The interest expense on the clients' capital build up amounted to P29.72 million and P29.58 million in 2017 and 2016, respectively (see Note 19).

## 14. Accounts Payable and Accrued Expenses

This account consists of:

| | **2017** | 2016 |
|---|---|---|
| Accounts payable | **P130,795,392** | P105,899,806 |
| Accrued expenses | **61,691,286** | 32,475,720 |
| Gross receipt tax | **1,619,118** | 2,463,631 |
| Other payables | **13,015,586** | 12,522,982 |
| | **P207,121,382** | P153,362,139 |

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.

## 15. Loans Payable

This account consists of:

| | **2017** | 2016 |
|---|---|---|
| **Commercial banks and financial institution** | | |
| Land Bank of the Philippines | **P460,000,000** | P285,000,000 |
| Bank of the Philippine Islands | **100,000,000** | 120,000,000 |
| Union Bank of the Philippines | **220,000,000** | 90,000,000 |
| | **780,000,000** | 495,000,000 |
| **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 |
| | **P786,100,000** | P501,100,000 |

Loans from commercial banks and financial institution represent short-term loans with annual interest rates ranging from 4.00% to 5.00% and from 4.00% to 4.75% in 2017 and 2016, respectively. Loans from non-government organization are short-term loans with annual interest of 3.00% in 2017 and 2016. Finance charges on these loans amounted to P26.43 million and P16.84 million in 2017 and 2016, respectively.

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

## 16. Funds Held in Trust

This account consists of cash obtained from various funding agencies.

| | **2017** | 2016 |
|---|---|---|
| Water.Org, Inc. | **P879,848** | P1,184,757 |
| Opportunity International | **136,177** | - |
| Unilever Philippines, Inc. | **17,310** | 18,000 |
| Wholistic Transformation Resource Center | **-** | 281,913 |
| Others | **36,000** | 1,940 |
| | **P1,069,335** | P1,486,610 |

In 2017 and 2016, the Organization incurred expenses related to the above mentioned projects amounting to P0.65 million and P4.57 million, respectively (see Note 20).

## 17. 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 MBA - net of claims and benefits | **2017** | *17a* | **P295,545,077** | **P -** | **P8,197,755** | **On demand; non-interest bearing** | **Unsecured** |
| | 2016 | *17a* | 152,100,280 | - | - | On demand; non-interest bearing | Unsecured |
| ▪ Reimbursable expenses by TSPI on behalf of TSPI MBA | **2017** | *17b* | **95,185,678** | **-** | **-** | **On demand; non-interest bearing** | **Unsecured** |
| | 2016 | *17b* | 75,398,169 | 1,068,348 | - | On demand; non-interest bearing | Unsecured |
| ▪ Advances by TSPI on behalf of TSEI | **2017** | *17c* | **-** | **6,111,919** | **-** | **On demand; non-interest bearing** | **Unsecured** |
| | 2016 | *17c* | 473,916 | 8,270,682 | 199,174 | On demand; non-interest bearing for the excess of P1.30 million | Unsecured |
| ▪ Loan premium collected from TSPI employees on behalf of TSPI | **2017** | *17d* | **39,707,772** | **-** | **302,612** | **On demand; non-interest bearing** | **Unsecured** |
| | 2016 | *17d* | 33,647,900 | - | 42,129 | On demand; non-interest bearing | Unsecured |
| **TOTAL** | **2017** | | | **P6,111,919** | **P8,500,367** | | |
| TOTAL | 2016 | | | P9,339,030 | P241,303 | | |

17a 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 MBA, 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 MBA. However, all insurance premiums paid under the TSPI TKP program are collected by the Organization on behalf of TSPI MBA.

17b The Organization provides the promotion and marketing of the TSPI MBA's products to the Organization's microfinance clients including collection of premium payments for the said products of the TSPI MBA. Effective July 2016, The Organization charges the TSPI MBA 7.00% of net premiums collected as its service fees.

17c The Organization made cash advances to Tulay sa Pag-unlad Social Enterprise, Inc. (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.

17d The Organization, through employee payroll deductions, collects payment of employees for loans TSPI Cooperative and certain amounts for employee savings contributions. The amounts represent the December 2017 collections to be remitted to TSPI Cooperative (see Note 28).

Compensation of Key Management Personnel

Compensation of key management personnel consists of salaries and other short-term benefits amounting to P37.23 million and P36.80 million in 2017 and 2016, respectively. Total retirement benefits of key management personnel amounted to P1.81 million and P2.89 million in 2017 and 2016, respectively.

## 18. 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 2017. Valuations are obtained on a periodic basis.

The plan entitles a retired employee to receive an annual 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, Bank of the Philippine Islands.

| | **Defined Benefit Obligation** | | **Fair Value of Plan Assets** | | **Effect of Asset Ceiling** | | **Net Defined Benefit (Asset)Liability** | |
|---|---|---|---|---|---|---|---|---|
| Balance at January 1 | **P128,384,571** | P115,697,609 | **P156,543,830** | P137,407,178 | **(P11,412,715)** | (P5,471,946) | **(P16,746,544)** | (P16,237,623) |
| **Included in Profit or Loss** | | | | | | | | |
| Current service cost | **17,603,967** | 17,307,972 | **-** | - | **-** | - | **17,603,967** | 17,307,972 |
| Interest cost (income) | **6,573,290** | 5,964,276 | **8,102,718** | 7,542,092 | **-** | - | **(1,529,428)** | (1,577,816) |
| Interest on effect of asset ceiling | **-** | - | **-** | - | **(584,331)** | (282,083) | **584,331** | 282,083 |
| | **24,177,257** | 23,272,248 | **8,102,718** | 7,542,092 | **(584,331)** | (282,083) | **16,658,870** | 16,012,239 |
| **Included in OCI** | | | | | | | | |
| Remeasurement loss (gain): | | | | | | | | |
| Actuarial loss (gain) arising from: | | | | | | | | |
| Financial assumptions | **5,594,619** | 831,519 | **-** | - | **-** | - | **5,594,619** | 831,519 |
| Experience adjustment | **(22,046,550)** | (11,211,999) | **-** | - | **-** | - | **(22,046,550)** | (11,211,999) |
| Return on plan assets excluding interest income | **-** | - | **(441,804)** | (6,200,634) | **-** | - | **441,804** | 6,200,634 |
| Change in the effect of asset ceiling | **-** | - | **-** | - | **(3,135,964)** | (5,658,686) | **3,135,964** | 5,658,686 |
| | **(16,451,931)** | (10,380,480) | **(441,804)** | (6,200,634) | **(3,135,964)** | (5,658,686) | **(12,874,163)** | 1,478,840 |
| **Others** | | | | | | | | |
| Contributions paid by the employer | **-** | - | **4,000,000** | 18,000,000 | **-** | - | **(4,000,000)** | (18,000,000) |
| Benefits paid directly from book reserve | **(575,250)** | (204,806) | **(575,250)** | (204,806) | **-** | - | **-** | - |
| | **(575,250)** | (204,806) | **3,424,750** | 17,795,194 | **-** | - | **(4,000,000)** | (18,000,000) |
| **Balance at December 31** | **P135,534,647** | P128,384,571 | **P167,629,494** | P156,543,830 | **(P15,133,010)** | (P11,412,715) | **(P16,961,837)** | (P16,746,544) |

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 P16.66 million and P16.01 million in 2017 and 2016, respectively (see Notes 21 and 22).

The movements in the employee benefit reserves are as follows:

| | **2017** | 2016 |
|---|---|---|
| Balance at the beginning of the year | **(P55,232,871)** | (P56,711,711) |
| Actuarial gain due to decrease in defined benefit obligation | **(16,451,931)** | (10,380,480) |
| Remeasurement gain on plan asset | **441,804** | 6,200,634 |
| Remeasurement gain on changes in the effect of asset ceiling | **3,135,964** | 5,658,686 |
| | **(68,107,034)** | (55,232,871) |
| Income tax effect | **3,862,249** | - |
| Balance at the end of the year | **(P64,244,785)** | (P55,232,871) |

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

| | **2017** | 2016 |
|---|---|---|
| Balance at beginning of period | **P11,412,715** | P5,471,946 |
| Remeasurement gain on the change in the effect of asset ceiling | **3,135,964** | 5,658,686 |
| Interest expense on effect of asset ceiling | **584,331** | 282,083 |
| Balance at end of period | **P15,133,010** | P11,412,715 |

The Organization's plan assets consist of the following:

| | **2017** | 2016 |
|---|---|---|
| Cash and cash equivalents | **P206** | P71 |
| Investments | **162,590,400** | 155,736,750 |
| Accrued income receivable | **1,251,844** | 1,013,078 |
| Receivables | **4,000,000** | - |
| Trust fee payable | **(212,956)** | (206,069) |
| | **P167,629,494** | P156,543,830 |

The expected contribution to the defined benefit retirement plan in 2018 is P16.66 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 32.08.

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

| | **2017** | 2016 |
|---|---|---|
| Discount rate | **4.90%** | 5.12% |
| Future salary growth | **5.00%** | 5.00% |

The weighted-average duration of the defined benefit obligation is 27.12 years and 27.09 years as at December 31, 2017 and 2016, 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) | P28,990,146 | (P21,469,450) |
| Future salary growth (1% movement) | (22,156,509) | 27,103,641 |

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 Board of Trustee 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.

## 19. Financial Income - net

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

| | *Note* | 2017 | 2016 |
|---|---|---|---|
| Interest income from loans receivable: | | | |
| TKP | | **P567,526,620** | P563,062,425 |
| TPP | | **134,195,873** | 119,280,579 |
| HSLP | | **70,726,065** | 55,978,048 |
| TSPI Maunlad Program | | **40,078,320** | 27,433,365 |
| SEDP | | **141,217** | 32,570 |
| TSPI Masikap Program | | **3,060** | 502,783 |
| Microhealth | | **415** | 104,421 |
| Income from service fees on collection | | **30,178,202** | 6,403,663 |
| Income from service fees on Pureit | | **11,435,901** | 562,301 |
| Income from administrative fees on housing loan to client | | **7,625,841** | 6,452,217 |
| Income from service fees on TAAS | | **4,492,242** | 2,120,715 |
| Income from Philhealth - premium discount | | **140,060** | 32,664 |
| | | **866,543,816** | 781,965,751 |
| Interest expense on clients' capital build up | *13* | **(29,723,213)** | (29,579,817) |
| | | **P836,820,603** | P752,385,934 |

## 20. Grants

The sources of grants are as follows:

| | 2017 | 2016 |
|---|---|---|
| Opportunity International - Australia | **P370,182** | P3,463,507 |
| Wholistic Transformation Resource Center | **281,913** | - |
| Water.Org, Inc. | **-** | 754,949 |
| Christian Transformation Foundation, Incorporated (Funds through WTRC) - Community Development Project | **-** | 277,634 |
| Others | **1,940** | 78,881 |
| | **654,035** | 4,574,971 |
| Program and project expenses | **(654,035)** | (4,574,971) |
| | **P -** | P - |

Program and project expenses are distributed as follows:

| | 2017 | 2016 |
|---|---|---|
| Trainings | **P370,182** | P395 |
| Community development expenses | **243,080** | 345,385 |
| Project expenses | **40,773** | 4,218,456 |
| Rent, utilities and maintenance | **-** | 10,030 |
| Transportation, meals and lodging | **-** | 705 |
| | **P654,035** | P4,574,971 |

## 21. Project and Operational Costs

This account consists of:

| | Note | 2017 | 2016 |
|---|---|---|---|
| Salaries, wages and employee benefits | | **P415,614,336** | P383,434,660 |
| Transportation, meals and lodging | | **69,807,551** | 61,910,432 |
| Rent, utilities and maintenance | | **45,267,605** | 42,467,705 |
| Office supplies | | **19,708,532** | 16,243,234 |
| Guarantee fees and premiums | | **19,176,797** | 16,547,549 |
| Retirement expense | *18* | **15,346,878** | 16,012,237 |
| Postage, telephone and communication | | **10,346,298** | 10,279,264 |
| Depreciation and amortization | *10* | **8,249,234** | 6,826,220 |
| Trainings | | **7,502,248** | 7,227,082 |
| Taxes and licenses | | **4,730,048** | 4,618,405 |
| Project expenses | | **3,385,778** | 195,684 |
| Miscellaneous | | **761,238** | 436,336 |
| Community development expense | | **554,757** | 678,388 |
| Insurance, membership dues and subscriptions | | **514,571** | 526,643 |
| Professional Fees | | **286,912** | - |
| Loss due to theft | | **-** | 10,947 |
| | | **P621,252,783** | P567,414,786 |

## 22. General and Administrative Expenses

This account consists of:

| | Note | 2017 | 2016 |
|---|---|---|---|
| Salaries, wages and employee benefits | | **P81,157,688** | P67,372,364 |
| Depreciation and amortization | *10* | **14,837,358** | 18,991,577 |
| Rent, utilities and maintenance | | **10,461,574** | 6,691,396 |
| Insurance, membership dues and subscriptions | | **7,520,731** | 3,053,304 |
| Transportation, meals and lodging | | **5,315,896** | 2,960,424 |
| Training | | **2,743,286** | 2,238,624 |
| Postage, telephone and communication | | **2,336,104** | 1,624,976 |
| Office supplies | | **1,856,975** | 708,695 |
| Retirement expense | *18* | **1,311,992** | - |
| Taxes and licenses | | **1,305,020** | 6,962,012 |
| Professional fees | | **1,135,100** | 898,025 |
| Miscellaneous | | **307,909** | 335,803 |
| | | **P130,289,633** | P111,837,200 |

## 23. Others - net

This account consists of:

| | Note | 2017 | 2016 |
|---|---|---|---|
| Bank charges | | **(P4,186,606)** | (P2,647,685) |
| Interest income from employee loans | | **731,553** | 1,437,732 |
| Interest income from short-term investments | *7* | **607,572** | 605,703 |
| Interest income from cash in banks | *6* | **544,426** | 547,131 |
| Gain from disposal of property and equipment and intangible asset | | **438,213** | 1,324,188 |
| Collection of previously written-off accounts | | **192,193** | 4,692,935 |
| | | **(P1,672,649)** | P5,960,004 |

Bank charges represent mainly documentary stamp taxes on loan availments.

## 24. Leases

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

Total rent expense amounted to P27.71 million and P25.09 million in 2017 and 2016, respectively.

| | 2017 | 2016 |
|---|---|---|
| Project and operational costs | **P25,852,178** | P24,821,767 |
| General and administrative expenses | **1,857,751** | 264,989 |
| | **P27,709,929** | P25,086,756 |

## 25. Provisions and Contingencies

The Organization has ongoing tax assessments involving VAT, Expanded Withholding Tax (EWT), and Documentary Stamp Tax (DST) for the 2007 taxable year, VAT and DST for the 2008 taxable year and VAT, EWT, Withholding Tax on Compensation (WTC) and DST for the taxable year 2014.

On the 2007 assessment, the Commissioner of Internal Revenue (CIR) issued on January 26, 2016 a Final Decision on Disputed Assessment (FDDA), maintaining the assessment against the Organization. It has been resolved that the Organization shall file a Petitioner for Review before the CTA to appeal the FDDA. Further, the Warrant of Distraint/Levy was issued on March 18, 2016, which was already beyond the period of prescription. There is a high probability that this assessment will be cancelled at the level of the CTA on the basis of prescription of collection. The 2007 assessment is docketed as CTA Case No. 9271, pending before the CTA Second Division.

The 2008 assessment docketed as CTA en banc Case No. 1528 (CTA Case No.8480), pending before the Court of Tax appeals en banc. The CTA en banc issued a resolution dated March 19, 2018 denying the Motion for Reconsideration filed by TSPI. During the Board Meeting held last April 11, 2018, it was resolved that TSPI file a Petition for Review to the Supreme Court. The last day for filing of the Petition for Review with the Supreme Court is on May 2, 2018.

In connection with the 2008 tax assessments, bank accounts in the total amount of P7.23 million and P7.17 million remain garnished as at December 31, 2017 and December 31, 2016, respectively, are presented under “Restricted cash” in the statements of assets, liabilities and fund balance.

On December 13, 2017, the Board agreed on the tax compromise settlement for the years 2008 and 2007 tax assessments.

For the two cases above-mentioned, the Organization remitted to the BIR on February 23, 2018 the balance of P17.47 million, and the garnished funds amounting to P6.99 million. In total, the Organization has paid P24.46 million on February 2018 to complete the payments on the 40% compromise settlement with the basic tax assessment amounting to P98.59 million for the two (2) years. Further, the amount paid is already compliant with the requirement under the Tax Code that an offer of compromise should be at 40% based on doubtful validity. It is also worth mentioning, that after the payment of the 40% offer, the Regional Director of the BIR Revenue Region No. 8 lifted the garnishment previously imposed by them in connection with the tax assessment.

While there is a high probability of having the 2007 tax assessment cancelled at the level of the CTA on the basis of prescription of collection, there is still an ongoing negotiation with the BIR with regards to 2008 tax assessment for VAT and DST. The remaining tax due which is estimated to be in the amount of P57.29 million or sixty percent (60%) of the basic tax assessment and penalties is still uncertain as to amount and timing of payment since the alleged tax liabilities for the year 2008 is still subject for review until the offer of compromise is formally accepted by the BIR. Moreover, the Organization does not expect any reimbursement from third party for any possible payment to be made with the BIR.

On March 20, 2018, the Organization and the BIR issued a Joint Manifestation and Motion to request the CTA to defer its judgment on the 2007 and 2008 cases.

The 2014 tax assessment case involves alleged income, VAT, EWT, WTC and DST payment deficiencies aggregating to P291.65 million, including surcharges, penalties and interests. The BIR has already issued a Final Assessment Notice dated January 9, 2018 and the Organization has submitted a Protest Letter on February 9, 2018. The 2014 tax assessment is still uncertain as to amount and timing of payment since negotiation with the BIR of the alleged tax deficiency is still ongoing and no decision yet has been issued for the tax assessment.

## 26. Notes to Statements of Cash Flows

The following table shows reconciliation analysis of liabilities arising from financing activities for the year ended December 31, 2017:

| | | |
|---|---|---|
| Beginning balance | | P501,100,000 |
| Cash flow during the year | | |
| Proceeds from availment of loan | P1,700,000,000 | |
| Payment of loan to related party | (1,415,000,000) | 285,000,000 |
| **Ending balance** | | **P786,100,000** |

## 27. Income Taxes

The Organization's income tax expense amounting to P18.49 million and P15.82 million for the year ended December 31, 2017 and 2016, 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:

| | **2017** | 2016 |
|---|---|---|
| Current tax expense: | | |
| 2% preferential tax (gross tax receipts | **P17,300,175** | P15,426,520 |
| 30% income tax | **538,851** | 396,835 |
| Deferred tax expense | **646,765** | - |
| Income tax expense | **P18,485,791** | P15,823,355 |

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:

| | **2017** | 2016 |
|---|---|---|
| Preferential tax at 2% | **P428,821** | P465,779 |
| Statutory tax at 30% | **538,851** | - |
| Increase (decrease) in income tax resulting from tax effects of: | | |
| Nontaxable income | **(53,516)** | (19,941) |
| Nondeductible expense | **17,199,260** | 15,377,517 |
| Interest income subject to final tax | **(23,040)** | - |
| Other income tax expense | **395,415** | - |
| Income tax expense | **P18,485,791** | P15,823,355 |

The Organization's deferred tax liability as at December 31, 2017 amounted to P4.51 million which pertains to the accrued interest receivable and remeasurement on defined benefit liability.

## 28. Reclassification

In 2017, the Organization reclassified TSPI Cooperative account in the statements of assets, liabilities and fund balance to be consistent with the nature of the account. Accordingly, the Organization also reclassified the comparative figures in 2016.

| | Before Reclassification | Reclassification | After Reclassification |
|---|---|---|---|
| TSPI Cooperative - accounts payables | P302,612 | (P302,612) | P - |
| TSPI Cooperative - due to related party | - | 302,612 | 302,612 |

The reclassification represents the related party transaction of the Organization which amounted to P0.30 million as of December 31, 2017. This was previously presented under "Accounts payable and accrued expenses" in the statements of assets, liabilities and fund balances.

The above reclassification have no material effect on the information in the statements of assets, liabilities and fund balances since there were no changes in the balances as of December 31, 2017.

## 29. Supplementary Information Required under Revenue Regulations No. 15-2010 of the BIR

In addition to the disclosures mandated under PFRSs 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 PFRSs. The following is the tax information required for the taxable year ended December 31, 2017:

### A. Value Added Tax

| | |
|---|---|
| Disposal of property and equipment | **P525,40** |

### 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 | **P30,951,453** |
| Creditable withholding taxes | **2,772,404** |
| Fringe benefit tax | **36,792** |
| | **P33,760,649** |

### 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 | **P4,714,294** |
| Compromise tax settlement | **24,464,682** |
| Real estate taxes | **1,279,795** |
| Others | **40,979** |
| | **P30,499,750** |

## F. Deficiency Tax Assessments

| Period Covered | Amount |
|---|---|
| 2007 | **P76,503,020** |
| 2008 | **101,235,533** |
| 2014 | **291,646,714** |

*Amount of deficiency tax assessments, whether protested or not are inclusive of surcharges, penalties, and interest charges.*

## G. Tax Cases

2007 Tax Assessment

a. *Commissioner of Internal Revenue vs. Tulay sa Pag-Unlad, Inc.*
*CTA Case No. 9271*

On May 18, 2010, the Organization received a Preliminary Assessment Notice (PAN) outlining the Organization's deficiency tax liabilities for VAT, EWT, WTC and DST. On July 2, 2010, the Organization received a Formal Assessment Notice (FAN) dated June 29, 2010 together with the following Assessment Notice no.:

1. VT-LA1612-FY07-10-0349 with P66.87 million;
2. WE-LA1612-FY07-10-0349 with P1.53 million;
3. WC-LA1612-FY07-10-0349 with P8.85 million; and
4. DS-LA1612-FY07-10-0349 with P5.30 million.

Subsequently, the Organization filed a Request for Reconsideration containing defenses against the findings per FAN. In 2013 and 2014, the Organization filed compromise applications with the offer to pay 10% of the total VAT and DST findings.

On February 24, 2016, the Organization filed a Petition for Review with the CTA docketed as CTA case no. 9271. BIR then issued a Warrant of Distraint and Levy to enforce the collection for VAT, EWT and DST.

On May 5, 2016, the BIR issued a Notice of Denial on the compromise application of the Organization. The BIR then issued a Preliminary Collection Letter covering the 2007 and 2008 tax assessments.

2008 Tax Assessment

b. *Commissioner of Internal Revenue vs. Tulay sa Pag-Unlad, Inc.*
*CTA Case No. 8480*

On June 16, 2010, the Organization received a PAN dated June 11, 2010, issued by the BIR Revenue Region No. 8, Revenue District Office No. 50, representing alleged VAT and DST, deficiencies, for the year ending June 30, 2008.

The Organization filed a Protest to dispute the findings contained in the PAN, and on July 23, 2010, a reply letter was received from the BIR, in response to Petitioner's Protest Letter which recommended the issuance of the FAN.

On August 25, 2010, the Organization received the FAN, dated August 20, 2010, together with the Assessment Notice No.:

1. VT-LA3431-08-10-0434 with P88.13 million; and
2. DS-LA3431-08-10-0434 with P7.35 million;

On November 19, 2010, the Organization submitted all the necessary documents and evidence to substantiate its protest against the FAN, in compliance with the sixty (60) day period within which to submit supporting documents.

On March 11, 2011 after receiving the Final Decision on Disputed Assessment (FDDA), the Organization then appealed the FDDA before the Office of the Commissioner of Internal Revenue (OCIR).

On March 29, 2012, the Organization received the final decision of the Commissioner dated February 16, 2012 denying its Protest against the alleged VAT and DST deficiencies for the year ending 2008 in the amount of P101.24 million.

<u>Joint Manifestation and Motion for 2008 and 2007 Tax Assessments</u>

1. The Organization submitted to the BIR an offer to compromise for the alleged tax deficiencies for taxable years 2008 and 2007, pursuant to Section 204 of the National internal Revenue Code (NIRC) of 1997. The Organization paid the amount of P14.97 million in previous years.

2. It is further manifested that on February 27, 2018, the Organization submitted a Letter to the BIR which contained a renewed offer of compromise the alleged tax deficiency assessment for taxable years 2008 and 2007. As contained in the said letter, the Organization additionally paid the amount of P17.47 million for the 2008 and 2007 tax assessments. In addition to the forgoing payments, on March 2, 2018, the Organization paid the amount of P6.99 million.

3. It was respectfully manifested that the Organization has already paid a total amount of compromise offer equivalent to forty percent (40%) of the principal amount of alleged tax deficiency for taxable years 2008 and 2007. In order that the Organization’s compromise offer at 40% be given a chance, both the Organization and the BIR jointly manifested to defer the resolution of the case until such reasonable time that the BIR may be able to complete their evaluation on the Organization’s compromise offer.

# COVER SHEET

For

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

| 1 | 0 | 1 | 6 | 7 | 6 |
|---|---|---|---|---|---|

COMPANY NAME

**TULAY SA PAG-UNLAD, INC.**

(A Non-stock, Non-profit Organization)

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

2363 Antipolo St.

Guadalupe Nuevo, Makati City

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

## COMPANY INFORMATION

| Company's email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| N/A | 403-8619 | N/A |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| N/A | N/A | 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 |
|---|---|---|---|
| Victor C. Libunao | vclibunao@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.*