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

FINANCIAL STATEMENTS
December 31, 2018 and 2017

REPORT OF INDEPENDENT AUDITORS

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Tulay sa Pag-unlad, Inc. (A Microfinance NGO) (the Organization), which comprise the statements of assets, liabilities and fund balance as at December 31, 2018 and 2017, 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, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). 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.

KPMG

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA 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 PSA, 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 26 to the basic financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

VANESSA P. MACAMOS
Partner
CPA License No. 0102309
SEC Accreditation No. 1619-A, Group A, valid until March 15, 2020
Tax Identification No. 920-961-311
BIR Accreditation No. 08-001987-38-2016
  Issued December 16, 2016; valid until December 15, 2019
PTR No. MKT 7333621
  Issued January 3, 2019 at Makati City

April 8, 2019
Makati City, Metro Manila

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REPORT OF INDEPENDENT AUDITORS

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

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- 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

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R.G. MANABAT & CO.

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Partner
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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. (A Microfinance NGO)
2363 Antipolo St., Guadalupe Nuevo
Makati City

We have audited the accompanying financial statements of Tulay sa Pag-unlad, Inc. (A Microfinance NGO) (the Organization) as at and for the year ended December 31, 2018, on which we have rendered our report dated April 8, 2019.

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

R.G. MANABAT & CO.

VANESSA P. MACAMOS
Partner
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REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING
WITH THE SECURITIES AND EXCHANGE COMMISSION

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

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of Tulay sa Pag-unlad, Inc. (A Microfinance NGO) (the Organization) as at and for the year ended December 31, 2018 on which we have rendered our report dated April 8, 2019.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Organization's management:

- Schedule of Philippine Financial Reporting Standards and Interpretations;
- 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 Securities Regulation Code (SRC) Rule 68, As Amended, and are not parts of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

VANESSA P. MACAMOS
Partner
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April 8, 2019
Makati City, Metro Manila

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

		December 31	
	Note	**2018**	2017
ASSETS			
Current Assets			
Cash and cash equivalents	*6*	**P290,738,559**	P154,824,745
Loans receivable - net	*8*	**1,476,258,614**	1,967,501,499
Other receivables - net	*9*	**29,155,479**	51,125,152
Due from related parties	*17*	**40,889,449**	6,111,919
Prepayments and other current assets		**5,042,089**	6,119,402
Total Current Assets		**1,842,084,190**	2,185,682,717
Noncurrent Assets			
Property and equipment - net	*10*	**186,091,515**	157,319,252
Intangible assets - net	*11*	**1,859,961**	832,660
Retirement asset - net	*18*	**58,816,002**	16,961,837
Restricted investments	*7*	**54,592,281**	54,044,899
Restricted cash		**-**	7,230,995
Other noncurrent assets	*12*	**14,134,157**	14,447,233
Total Noncurrent Assets		**315,493,916**	250,836,876
		P2,157,578,106	P2,436,519,593

LIABILITIES AND FUND BALANCE			
Current Liabilities			
Clients' capital build up	*13*	**P646,007,217**	P728,789,036
Accounts payable and accrued expenses	*14*	**191,153,019**	207,121,382
Loans payable - current portion	*15*	**537,575,980**	786,100,000
Due to related parties	*17*	**188,457**	8,500,367
Funds held in trust	*16*	**859,757**	1,069,335
Total Current Liabilities		**1,375,784,430**	1,731,580,120
Noncurrent Liabilities			
Loans payable - noncurrent portion	*15*	**14,357,353**	-
Deferred tax liability	*25*	**36,476,451**	4,509,014
Total Noncurrent Liabilities		**50,833,804**	4,509,014
Total Liabilities		**1,426,618,234**	1,736,089,134
Fund Balance			
Accumulated net income		**567,532,943**	612,451,274
Employee benefit reserve	*18*	**105,423,902**	64,244,785
Revaluation increment on property	*10*	**58,003,027**	23,734,400
Total Fund Balance		**730,959,872**	700,430,459
		P2,157,578,106	P2,436,519,593

See Notes to the Financial Statements.

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

		Years Ended December 31	
	Note	**2018**	2017
REVENUES			
Interest income	*19*	**P818,865,957**	P812,671,570
Service income	*19*	**68,598,351**	53,872,246
		887,464,308	866,543,816
EXPENSES			
Project and operational costs	*21*	**629,006,875**	621,252,783
General and administrative expenses	*22*	**126,431,860**	130,289,633
Impairment losses	*8, 9*	**59,783,152**	35,736,217
Finance charges	*15*	**39,784,120**	26,428,248
Interest expense on client's capital build up	*19*	**11,365,741**	29,723,213
		866,371,748	843,430,094
OPERATING INCOME BEFORE OTHER INCOME - Net		**21,092,560**	23,113,722
OTHER INCOME (LOSS) - Net	*23*	**39,066,256**	(1,672,649)
NET OPERATING INCOME		**60,158,816**	21,441,073
INCOME TAX COMPROMISE	*14*	**-**	(24,464,682)
NET INCOME (LOSS) BEFORE INCOME TAX		**60,158,816**	(3,023,609)
INCOME TAX EXPENSE			
Current	*25*	**28,655,476**	17,839,026
Deferred	*25*	**279,454**	646,765
		28,934,930	18,485,791
NET INCOME (LOSS) AFTER TAX		**31,223,886**	(21,509,400)
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit liability	*18*	**58,827,310**	12,874,163
Tax effect	*25*	**(17,648,193)**	(3,862,249)
		41,179,117	9,011,914
Items that may be reclassified to profit or loss			
Net change in revaluation increment on property	*10*	**48,955,181**	-
Tax effect		**(14,686,554)**	-
		34,268,627	-
TOTAL COMPREHENSIVE INCOME (LOSS)		**P106,671,630**	(P12,497,486)

See Notes to the Financial Statements.

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

		Years Ended December 31			
	Note	**Accumulated Net Income**	**Employee Benefit Reserves** (Note 18)	**Revaluation Increment on Property and Equipment** (Note 10)	**Total Fund Balance**
Balance at January 1, 2018		**P612,451,274**	**P64,244,785**	**P23,734,400**	**P700,430,459**
Opening equity adjustment - PFRS 9	*3*	**(77,971,795)**	**-**	**-**	**(77,971,795)**
Balance at January 1, 2018, as restated		**534,479,479**	**64,244,785**	**23,734,400**	**622,458,664**
Net income		**31,223,886**	**-**	**-**	**31,223,886**
Other comprehensive income:					
Revaluation increment on property		**-**	**-**	**48,955,181**	**48,955,181**
Remeasurement of defined benefit liability		**-**	**58,827,310**	**-**	**58,827,310**
Tax effect	*25*	**-**	**(17,648,193)**	**(14,686,554)**	**(32,334,747)**
Total comprehensive income		**31,223,886**	**41,179,117**	**34,268,627**	**106,671,630**
Reclassification of revaluation increment on property		**1,829,578**	**-**	**-**	**1,829,578**
Balance at December 31, 2018		**P567,532,943**	**P105,423,902**	**P58,003,027**	**P730,959,872**
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	*25*	-	(3,862,249)	-	(3,862,249)
Total comprehensive income (loss)		(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

See Notes to the Financial Statements.

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

		Years Ended December 31	
	Note	**2018**	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss) before income tax		**P60,158,816**	(P3,023,609)
Adjustments for:			
Interest income	*19*	**(887,464,308)**	(866,543,816)
Impairment losses	*8, 9*	**59,783,152**	35,736,217
Interest expense	*15*	**39,784,120**	26,428,248
Gain from disposal of property and equipment	*23*	**(32,306,052)**	(438,213)
Depreciation and amortization	*10, 11*	**20,038,299**	23,086,592
Retirement expense	*18, 21, 22*	**16,973,145**	16,658,870
Recovery of previous impairment loss	*23*	**(5,045,988)**	-
Operating loss before working capital changes		**(728,078,816)**	(768,095,711)
Decrease (increase) in:			
Loans receivable		**354,989,184**	(351,694,970)
Other receivables		**20,468,427**	(31,747,906)
Due from related party		**(34,777,530)**	3,227,111
Prepayments and other current assets		**1,077,314**	(4,469,369)
Restricted investments		**(547,382)**	(540,222)
Restricted cash		**7,230,995**	(56,970)
Increase (decrease) in:			
Clients' capital build up		**(82,781,821)**	(13,691,687)
Accounts payable and accrued expenses		**(16,615,127)**	53,759,243
Due to related parties		**(8,311,910)**	8,259,064
Funds held in trust		**(209,578)**	(417,275)
Cash used in operations		**(487,556,244)**	(1,105,468,692)
Interest received		**887,464,308**	866,543,816
Interest paid		**(39,784,120)**	(26,428,248)
Income tax paid		**(28,655,476)**	(17,839,026)
Contribution to retirement plan	*18*	**-**	(4,000,000)
Net cash provided by (used in) operating activities		**331,468,468**	(287,192,150)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property and equipment and intangible assets	*10*	**50,540,360**	675,509
Additions to property and equipment and intangible assets	*10, 11*	**(12,241,423)**	(12,322,241)
Decrease in other noncurrent assets	*12*	**313,076**	1,300,370
Net cash provided by (used in) investing activities		**38,612,013**	(10,346,362)

Forward

	Note	**2018**	2017
		Years Ended December 31	
CASH FLOWS FROM FINANCING ACTIVITIES			
Availment of loans		**P1,270,100,000**	P1,700,000,000
Payments of loans		**(1,504,266,667)**	(1,415,000,000)
Net cash (used in) provided by financing activities		**(234,166,667)**	285,000,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**135,913,814**	(12,538,512)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**154,824,745**	167,363,257
CASH AND CASH EQUIVALENTS AT END OF YEAR	*6*	**P290,738,559**	P154,824,745

See Notes to the Financial Statements.

1. Reporting Entity

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

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

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

The Organization obtains every year a certification of no derogatory record from SEC from November 2016 to January 2019. The recent certification of accreditation as a Microfinance NGO was obtained on January 28, 2019 and is valid until January 28, 2020.

The Organization's head office address is at 2363 Antipolo St., Guadalupe Nuevo, Makati City. As at December 31, 2018 and 2017, the Organization has 136 and 142 branches and head office, respectively.

The Organization currently administers the following programs and services:

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

1. TSPI Kabuhayan (Livelihood) Program (TKP)
   This program offers micro loans to qualified individuals, groups 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 input suppliers. TPP loan cycle is one cropping season with lump sum payment upon harvest. It is covered by crop insurance in partnership with the Philippine Crop Insurance Corporation (PCIC).

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

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

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

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

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

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

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

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

2. Basis of Preparation

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

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

Items	Measurement Basis
Property and equipment (land, buildings and improvements)	Revalued amount
Retirement asset - net	Fair value of plan assets less present value of the defined benefit obligation

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

The accompanying financial statements were approved for issuance by the Board of Trustees (BOT) during its regular meeting on April 8, 2019.

3. Summary of Significant Accounting Policies

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

Adoption of New Standards
The Organization has adopted the following new standards starting January 1, 2018 and, accordingly changed its accounting policies.

- PFRS 9, *Financial Instruments (2014).* PFRS 9 (2014) replaces PAS 39, *Financial Instruments: 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 Organization has adopted PFRS 9 with a date of transition of January 1, 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. The Organization did not early adopt any of the PFRS 9 versions in previous periods.

As permitted by the transitional provisions of PFRS 9, the Organization elected to apply the modified prospective approach in applying PFRS 9. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening "Accumulated net income" of the current period. Thus, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The adoption of PFRS 9 has resulted in changes in the Organization's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. PFRS 9 also significantly amends other standards dealing with financial instruments such as PFRS 7, *Financial Instruments: Disclosures*. Set out below are disclosures relating to the impact of the adoption of PFRS 9 on the Organization. Further details of the specific PFRS 9 accounting policies applied in the current period (as well as the previous PAS 39 accounting policies applied in the comparative period) are described in more detail below.

Classification and Measurement of Financial Instruments

The Organization reassessed the classification of its financial assets and financial liabilities on the date of initial recognition under PFRS 9. The following table and the accompanying notes below explain the original measurement categories under PAS 39 and the new measurement categories under PFRS 9 for each class of the Organization's financial assets and financial liabilities as at January 1, 2018:

		Classification		**Carrying Amount**	
	Note	**Under PAS 39**	**Under PFRS 9**	**Under PAS 39**	**Under PFRS 9**
Financial Assets					
Cash and cash equivalents*	*6*	Loans and receivables	Amortized cost	P150,950,245	P150,950,245
Restricted investments	*7*	Loans and receivables	Amortized cost	54,044,899	54,044,899
Loans receivables - net	*8*	Loans and receivables	Amortized cost	1,967,501,499	1,967,501,499
Other receivables - net**	*9*	Loans and receivables	Amortized cost	50,875,042	50,875,042
Due from related parties	*17*	Loans and receivables	Amortized cost	6,111,919	6,111,919
Restricted cash		Loans and receivables	Amortized cost	7,230,995	7,230,995
Other noncurrent assets***	*12*	Loans and receivables	Amortized cost	9,356,893	9,356,893
				P2,246,071,492	P2,246,071,492

**Excluding cash on hand.*
***Excluding advances to suppliers and contractors.*
****Excluding acquired assets and others.*

		Classification		Carrying Amount	
	Note	**Under PAS 39**	**Under PFRS 9**	**Under PAS 39**	**Under PFRS 9**
Financial Liabilities					
Client's capital build up	*13*	Other financial liabilities	Other financial liabilities	P728,789,036	P728,789,036
Accounts payable and accrued expenses****	*14*	Other financial liabilities	Other financial liabilities	192,486,678	192,486,678
Loans payable	*15*	Other financial liabilities	Other financial liabilities	786,100,000	786,100,000
Due to related parties	*17*	Other financial liabilities	Other financial liabilities	8,500,367	8,500,367
Funds held in trust	*16*	Other financial liabilities	Other financial liabilities	1,069,335	1,069,335
				P1,716,945,416	P1,716,945,416

*****Excluding amount payable to government agencies.*

Cash and cash equivalents (excluding cash on hand), loans receivables, other receivables, due from related parties, restricted investments, restricted cash and other noncurrent assets (excluding advances to suppliers and contractors) that were classified as loans and receivables under PAS 39 are now classified as amortized cost. While, financial liabilities under PAS 39 remained the same under PFRS 9.

Impairment of Financial Assets

PFRS 9 replaces the 'incurred loss' model in PAS 39 with an Expected Credit Losses (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at fair value through other comprehensive income (FVOCI), but not to investments in equity instruments. Under PFRS 9, credit losses are recognized earlier than PAS 39.

The Organization applies the simplified approach to providing for ECL prescribed by PFRS 9. The Organization's accounting policy for setting impairment is discussed in the subsequent section of the notes to the financial statements.

As a result of the adoption of the impairment guidance of PFRS 9, the Organization recognized additional ECL and loss allowance amounting to P77.97 million which was charged against "Accumulated net income" account in the statements of assets, liabilities and fund balance as at January 1, 2018.

- 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 Organization'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 PFRS. 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 Organization has adopted PFRS 15 using cumulative effect approach, the effect of initially applying this standard recognized at January 1, 2018, the date of initial application. Accordingly, the information presented for 2017 has not been restated and is presented, as previously reported, under PAS 18 and related interpretations. Additionally, the disclosures of PFRS 15 have not generally been applied to comparative information.

The adoption of PFRS 15 did not result to any changes in the performance obligation and the timing of revenue recognition. Thus, the impact of the adoption to the financial statement of the Organization is immaterial.

<u>Financial Instruments</u>
Date of Recognition
Financial instruments are recognized in the statements of assets, liabilities and fund balance when the Organization becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

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

Policy Applicable starting January 1, 2018

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

PFRS 9 includes three principal classification categories for financial assets based on measurement principles: amortized cost, FVOCI and fair value through profit or loss (FVPL). It eliminates the previously existing PAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

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

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

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

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

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

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

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

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

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

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

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

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

- Loans receivables - represents interest-bearing loans granted to individuals as well as small, cottage-scale and micro-entrepreneurs under various programs.

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

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

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

- Other noncurrent assets - consists of rental deposits and other noncurrent receivables of the Organization.

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

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

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

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

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

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

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

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

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

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

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

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

Financial Liabilities

Classification and Subsequent Measurement

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

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

As at December 31, 2018, the Organization’s financial liabilities consist of:

- Client’s capital build up - is part of the Organization's program wherein the members are required to deposit a mandatory amount and given back to clients once the clients withdraw their membership from the Organization.

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

- Loans payable - are loans from commercial banks, financial institutions and non-government organization which are secured by assignment of certain loans receivable portfolio.

- Due to related parties - are loans of employees of Tulay sa Pag-unlad Cooperative Inc. (TCI) and premiums collected in behalf of TSPI MBAI.

- Fund held in trust - funds received from various funding agencies with a conditional promise to contribute. This is classified as liability until the conditions of the grantor have been substantially met or the conditions have been explicitly waived by the funding agencies.

Policy Applicable before January 1, 2018

Financial Instruments

Initial Recognition and Classification of Financial Instruments

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs. The Organization classifies its financial assets into the following categories: financial assets at FVPL, available-for-sale (AFS) financial assets, held-to-maturity (HTM) investments and loans and receivables. The Organization classifies its financial liabilities either as financial liabilities at FVPL or other financial liabilities at amortized cost.

The classification depends on the purpose for which the instruments were acquired or incurred and whether these are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

Financial Assets at FVPL
A financial asset is classified at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at FVPL if the Organization manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Organization's documented risk management or investment strategy. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial assets may be designated by management at initial recognition at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;

- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

Financial assets at FVPL are initially measured at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Fair value changes and realized gains or losses are recognized in profit or loss.

As at December 31, 2017, the Organization's has no financial assets at FVPL.

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 are not held for trading. After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included as part of interest income in profit or loss. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, as well as through amortization process.

As at December 31, 2017, this category includes cash and cash equivalents (excluding cash on hand), loans receivable - net, other receivables- net (excluding advances to suppliers and customers), due from related parties, restricted cash and investments and other noncurrent assets (excluding acquired assets and other noncurrent assets) (see Notes 6, 7, 8, 9, 12 and 17).

Cash and cash equivalents which include cash on hand, in banks, electronic-money, and short-term placements are carried at face amount. Short-term placements are highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of changes in value.

Other Financial Liabilities
Issued financial instruments or their components, 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 recognized as part of interest expense in the statements of comprehensive income.

As at December 31, 2017, this category includes the Organization's clients' capital build up, accounts payable and accrued expenses (excluding amounts payable to government agencies), loans payable, due to related parties and fund held in trust (see Notes 13, 14, 15, 16 and 17).

Identification and Measurement of Impairment

Policy Applicable starting January 1, 2018

PFRS 9 replaces the 'incurred loss' model in PAS 39 with the ECL model. This model is forward-looking and it eliminates the threshold for the recognition of expected credit losses, so that it is no longer necessary for a trigger event to have occurred before credit losses are recognized. Consequently, more timely information is required to be provided about expected credit losses.

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

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

Under the new impairment guidance there will be no change to the write-off policy compared to PAS 39.

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

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

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

Under PFRS 9, no impairment loss is recognized on equity investments.
PFRS 9 requires a loss allowance to be recognized at an amount equal to either 12-month ECLs or lifetime ECLs. The Organization measures loss allowance at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The amount calculated resulted to a nominal reduction of the loss allowance during 2018.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as default or being more than the normal credit terms of the Organization;
- the restructuring of a loan or advance by the Organization on terms that the Organization would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

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

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

Presentation of allowance for ECL in the statements of financial position
Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Policy Applicable before January 1, 2018

The Organization first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Organization determines that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, it includes the assets in group of financial assets with similar risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a financial asset has been incurred, the amount of the loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the financial asset's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows. Financial assets with a short duration are not discounted.

In some cases the observable data required to estimate the amount of an impairment loss on a financial asset may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Organization uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of financial assets are recognized in the statements of comprehensive income and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount of the asset that would have been determined, net of amortization, if no impairment loss had been recognized.

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

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

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

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

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

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

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

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

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

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

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

‘Day 1’ Difference

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

Prepayments

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

Property and Equipment

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

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

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

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

	Number of Years
Buildings and improvements	25
Office equipment	5
Computer equipment	3
Furniture and fixtures	5
Transportation equipment	5
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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Leases
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.

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.

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.

Provisions

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

Contingencies

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

Events After the Reporting Date

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

Standards Issued but Not Yet Adopted

A number of new standards and amendments to standards and interpretation are effective for annual periods beginning after January 1, 2019. However, the Organization has not applied the following new or amended standards in preparing these financial statements. The Association is currently assessing the potential impact on these new, amended standards and interpretation on its financial statements.

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 also introduced.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019 with several transition approaches and individual options and practical expedients that can be elected independently of each other. Earlier application is permitted for entities that apply PFRS 15 Revenue from Contracts with Customers at or before the date of initial application of PFRS 16.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Organization's chosen tax treatment. If it is not probable that the tax authority will accept the Organization's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value.

  The interpretation also requires the reassessment of 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 interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The interpretation can be initially applied retrospectively applying PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* if possible without the use of hindsight, or retrospectively with the cumulative effect recognized at the date of initial application without restating comparative information.

- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19, Employee Benefits). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

  The amendments apply for plan amendments, curtailments or settlements that occur on or after the beginning of the first annual reporting period that begins on or after January 1, 2019. Earlier application is permitted.

- Annual Improvements to PFRSs 2015 - 2017 Cycle. This cycle of improvements contains amendments includes:

  - Income tax consequences of payments on financial instruments classified as equity (Amendments to PAS 12). The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits, i.e. in profit or loss, OCI or equity.

    The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. When an entity first applies those amendments, it shall apply them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

Effective January 1, 2020

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

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

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

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

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

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

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

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

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

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

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

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

4. Critical Accounting Judgments and Estimates

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

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

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

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

Significant Accounting Judgment applicable for 2018

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

Significant Accounting Judgments Applicable for 2017 and 2018

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

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

- whether the Organization has discretion in establishing prices.

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

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

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

Operating Lease - the Organization as a Lessee
The Organization has entered into a lease agreement, where it was determined that all significant risks and rewards of ownership of the leased premises remain with the lessor due to the following:

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

- 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.

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.

Rent expense charged to operations amounted to P27.18 million in 2018 and P27.71 million in 2017 (see Note 24).

<u>Estimates</u>

Significant Accounting Estimate applicable for 2018

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

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

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

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

Significant Accounting Estimate applicable for 2017

Impairment of Loans and receivables under PAS 39
The Organization evaluates specific accounts for which the Organization has identified objective evidence of impairment. Only individually significant accounts are subjected to specific impairment test. Specific impairment test requires management to estimate and make certain assumptions about the amount and timing of future cash flows from certain impaired receivables.

In addition, the Organization makes a collective assessment against credit exposures which are not individually significant and those which, although not specifically identified as requiring a specific allowance for impairment, have a greater risk of default than when originally granted.

The amount and timing of recognizing impairment losses for any period would differ if the Organization made different assumptions or utilized different estimates. An increase in allowance for impairment would decrease net income and decrease total assets. The allowance for impairment losses on the Organization's loans and receivables as at December 31, 2017 amounted to P144.01 million (see Notes 8 and 9).

Significant Accounting Estimate Applicable for 2018 and 2017

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

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

As at December 31, 2018 and 2017, the carrying amount of the Organization's property and equipment amounted to P186.09 million and P157.32 million, respectively (see Note 10).

The carrying value of the Organization's intangible assets with finite useful lives amounted to P1.86 million and P0.83 million as at December 31, 2018 and 2017, respectively (see Note 11).

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

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

The carrying value of the Organization's land and building lodged in the "Property and equipment" account amounted to P160.84 million and P103.94 million as at December 31, 2018 and 2017, respectively.

Impairment of Nonfinancial Assets
The Organization assesses impairment on its property and equipment and intangible asset with definite useful life whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Organization considers important which could trigger an impairment review include the following:

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

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

- Significant negative industry or economic trends.

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

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

As at December 31, 2018 and 2017, there were no indications of impairment on the Organization's property and equipment, and intangible assets.

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

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

As at December 31, 2018 and 2017, the Organization's retirement asset amounted to P58.82 million and P16.96 million, respectively (see Note 18).

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

In 2018, there are two ongoing tax assessments for taxable years 2014 and 2015. As at December 31, 2018, management believes that there is no probable reason that an outflow of resources will be required considering the merits of the Organization's protest and the sufficiency and validity of the documents submitted to the local tax authorities to support such protest. Accordingly, the Organization did not provide any provision for contingent tax liability.

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

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

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

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

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

- Credit Risk
- Liquidity Risk
- Market Risk

There are no changes in the risk assessment on the objectives, policies and manner of how the Organization manages these risks in 2018 and in 2017.

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

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

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

Exposure to Credit Risk
The following summarizes the Organization's quantitative credit risk information as at December 31, 2018 and 2017.

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	**2018**	2017
Cash and cash equivalents*	*6*	**P286,967,059**	P150,950,245
Restricted investments	*7*	**54,592,281**	54,044,899
Loans receivable - net	*8*	**1,476,258,614**	1,967,501,499
Other receivables - net**	*9*	**29,014,879**	50,875,042
Due from related parties	*17*	**40,889,449**	6,111,919
Rental deposits and other noncurrent receivables***	*12*	**8,985,722**	9,356,893
Restricted cash		**-**	7,230,995
		P1,896,708,004	P2,246,071,492

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

The Organization's concentration of credit risk arises from loans receivables since the said financial instruments amounted to P1.48 billion (2017: P1.97 billion) and 77.83% (2017: 87.60%) of its total financial assets as at December 31, 2018 (see Note 8).

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

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

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

	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
Restricted 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.*
****Presented under other noncurrent assets.*

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

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

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

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

  The borrower may have a history of default of interest but must have regularized its service record to date. The use of leverage is above industry standards but has contributed to shareholders value.

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

Most of the Organization's financial assets are classified as high grade. The past due and impaired financial assets as of December 31, 2018 and 2017 amounted to P267.56 million and P144.01 million, respectively.

The analysis of financial assets and amortized cost in 2018 and 2017 are as follows (amounts gross of loss allowances):

	2018						
	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*	P286,967,059	P -	P -	P -	P -	P -	P286,967,059
Restricted investments	54,592,281	-	-	-	-	-	54,592,281
Loans receivables	1,476,258,614	-	-	-	-	246,004,313	1,722,262,927
Other receivables**	29,014,879	-	-	-	-	21,559,284	50,574,163
Due from related parties	40,889,449	-	-	-	-	-	40,889,449
Rental deposits and other noncurrent receivables***	8,985,722	-	-	-	-	-	8,985,722
Restricted cash	-	-	-	-	-	-	-
	P1,896,708,004	P -	P -	P -	P -	P267,563,597	P2,164,271,601

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

	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
Restricted 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	70,945,641
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
	P2,086,632,556	P31,863,323	P87,453,079	P40,122,534	P159,438,936	P144,012,951	P2,390,084,443

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

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

b. Liquidity Risk

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

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

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

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

**Excluding payables to government agencies.*

	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	-	8,500,367
Funds held in trust	1,069,335	-	1,069,335
	P1,716,945,416	P -	P1,716,945,416

**Excluding payables to regulatory agencies.*

c. *Market Risk*

Market risk is the risk of change in fair value of financial instruments from fluctuation in market interest rates (interest rate risk) whether such change is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. 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.

d. *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	**2018**	2017
Financial Assets			
Cash and cash equivalents*	*6*	**P286,967,059**	P150,950,245
Restricted investments	*7*	**54,592,281**	54,044,899
Loans receivable - net	*8*	**1,476,258,614**	1,967,501,499
Other receivables - net**	*9*	**6,054,382**	15,082,856
Rental deposits and other noncurrent receivables***	*12*	**3,366,685**	3,987,211
Restricted cash		**-**	7,230,995
		1,827,239,021	2,198,797,705
Financial Liabilities			
Clients' capital build-up	*13*	**646,007,217**	728,789,036
Loans payable	*15*	**551,933,333**	786,100,000
		1,197,940,550	1,514,889,036
Net exposure		**P629,298,471**	P683,908,669

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

Sensitivity of Net Interest Income
The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the Organization's interest-bearing financial instruments, with all other variables held constant, on the Organization's 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
2018	**+100bps**	**P6,292,985**
	-100bps	**(6,292,985)**
2017	+100bps	P6,839,087
	-100bps	(6,839,087)

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 P567.53 million and P612.45 million as at December 31, 2018 and 2017, 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 2018 and 2017.

The Organization is not subject to externally-imposed fund requirements as at December 31, 2018 and 2017.

Fair Value Measurement

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

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

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

The fair value of loans receivable are determined based on published quotes or price valuations provided by counterparties or calculations using market-accepted valuation techniques. It is estimated using the discounted cash flow methodology using the current EIR which amounted to P1.48 billion and P1.98 billion as at December 31, 2018 and 2017, respectively.

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

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

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

As at December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements and no transfer into and out of Level 3 fair value measurement.

6. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand	**P3,771,500**	P3,874,500
Cash in banks	**251,135,861**	139,037,902
E-money	**30,169,862**	6,319,366
Short-term placements	**5,661,336**	5,592,977
	P290,738,559	P154,824,745

Cash in banks which composed of savings and demand deposits earn interest at the respective bank deposit rates averaging to 0.92% and 0.69% in 2018 and 2017, respectively. Short-term placements are made for varying periods of up to three (3) months and earn interest at the respective short-term placement rates at 3.16% and 1.78% in 2018 and 2017, respectively.

Interest income earned from cash in banks (net of final tax) amounted to P0.65 million and P0.54 million in 2018 and 2017, respectively (see Note 23).

E-money account pertains to the Organization's G-cash wallet powered by G-Xchange, a company affiliated with Globe. This account is used by the Organization for the collection from borrowers.

7. Restricted Investments

This account consists of 90 to 180 days placements in a local bank amounting to P54.60 million and P54.04 million as at December 31, 2018 and 2017, respectively, which earn interest at the rates of 3.16% to 1.78% per annum in 2018 and 2017. Since the restricted investments serve as security for the surety bond issued by Liberty Insurance Corporation in connection with the tax case pending with the First Division of the Court of Tax Appeals (CTA), it was reclassified into a noncurrent asset.

Interest income earned from these placements amounted to P0.62 million and P0.61 million in 2018 and 2017, respectively (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:

	2018	2017
TKP	**P1,041,940,200**	P1,194,418,764
TPP	**269,443,096**	518,533,570
HSLP	**245,204,902**	250,598,687
TSPI Maunlad Program	**94,862,629**	91,743,028
Small Enterprise Development Program (SEDP)	**5,549,863**	5,699,030
TSPI Masikap Program	**882,217**	989,963
Receivable from AGFP	**64,380,020**	29,460,809
	1,722,262,927	2,091,443,851
Less loss allowance	**246,004,313**	123,942,352
	P1,476,258,614	P1,967,501,499

Receivables from AGFP of P64.38 million in 2018 and P29.46 million in 2017 represents 85% of the total principal amount of TPP claims filed with AGFP.

The Organization has 196,161 and 207,850 outstanding loan borrowers as at December 31, 2018 and 2017, respectively.

The staging analysis of the gross loan portfolios follows:

	2018	2017
Stage 1	**P1,485,253,136**	P1,808,062,564
Stage 2	**26,705,448**	31,863,323
Stage 3	**210,304,343**	251,517,965
	1,722,262,927	2,091,443,851
Less loss allowance	**246,004,313**	123,942,352
	P1,476,258,614	P1,967,501,499

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, 2018 and 2017 amounted to P818.87 million and P812.67 million, respectively (see Note 19).

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

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

	Note	2018	2017
Balance at beginning of year		**P123,942,352**	P99,229,309
Opening equity adjustment - PFRS 9	*3*	**77,971,795**	-
Balance at beginning of year, as restated		**201,914,147**	99,229,309
Impairment loss for the year		**58,281,906**	33,173,055
Write-off during the year		**(14,191,740)**	(8,460,012)
Balance at end of year		**P246,004,313**	P123,942,352

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 P767.39 million and P950.86 million were assigned as collateral for loans payable for the years 2018 and 2017, respectively (see Note 15).

9. **Other Receivables** - net

This account consists of:

	2018	2017
Receivable from separated employees	**P21,559,284**	P20,070,599
Accrued interest receivable	**13,972,712**	32,338,235
Receivables from client for basic life insurance (BLIP)	**964,486**	10,146,538
Receivables from employees	**4,244,032**	3,579,243
Receivables from Social Security System	**720,551**	1,088,587
Receivables from Lafarge/Republic Cement Services (Philippines), Inc.	**125,313**	268,488
Advances to suppliers and contractors	**140,600**	250,110
Others	**8,987,785**	3,453,951
	50,714,763	71,195,751
Less loss allowance	**21,559,284**	20,070,599
	P29,155,479	P51,125,152

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

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

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

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

	2018	2017
Balance at beginning of year	**P20,070,599**	P18,164,243
Impairment loss for the year	**1,501,246**	2,563,162
Write-off during the year	**(12,561)**	(656,806)
Balance at end of year	**P21,559,284**	P20,070,599

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, 2017	P56,604,400	P138,190,968	P34,763,207	P69,366,810	P2,785,631	P32,119,227	P38,342,491	P372,172,734
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
Additions	-	-	1,369,287	6,290,349	-	411,088	2,169,931	10,240,655
Recovery of previous impairment loss	-	5,045,988	-	-	-	-	-	5,045,988
Appraisal increase	39,378,600	11,406,160	-	-	-	-	-	50,784,760
Disposals	(15,064,000)	(15,127,002)	(5,613,133)	(13,302,496)	-	(2,972,289)	(2,404,428)	(54,483,348)
December 31, 2018	**P80,919,000**	**P139,516,114**	**P31,947,969**	**P66,259,654**	**P -**	**P30,298,675**	**P37,029,235**	**P385,970,647**
Accumulated Depreciation								
January 1, 2017	-	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
Depreciation	-	4,529,069	1,561,571	6,861,246	-	592,172	5,520,944	19,065,002
Disposals	-	(12,053,060)	(5,630,822)	(13,212,408)	-	(2,945,537)	(2,407,383)	(36,249,210)
December 31, 2018	**-**	**59,594,113**	**28,086,818**	**56,814,769**	**-**	**28,777,440**	**26,605,992**	**199,879,132**
Net Carrying Amounts								
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
December 31, 2018	**P80,919,000**	**P79,922,001**	**P3,861,151**	**P9,444,885**	**P -**	**P1,521,235**	**P10,423,243**	**P186,091,515**

Depreciation and amortization consists of:

	Note	2018	2017
Property and equipment		**P19,065,002**	P17,830,436
Intangible asset	*11*	**973,297**	5,256,156
		P20,038,299	P23,086,592

Depreciation and amortization are distributed as follows:

	Note	2018	2017
Project and operational costs	*21*	**P9,654,824**	P8,249,234
General and administrative expenses	*22*	**10,383,475**	14,837,358
		P20,038,299	P23,086,592

In 2018 and 2017, the revaluation increment on land and building amounted to P58.00 million and P23.73 million, respectively. This is based on the latest appraisal report determined by the independent appraisers in June 2018.

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

	2018	2017
Land	**P80,919,000**	P32,870,000
Buildings and improvements	**79,922,001**	71,072,865
	P160,841,001	P103,942,865

On December 26, 2018, TSPI MBAI acquired the property of the Organization amounting to P50.00 million, excluding value added tax (VAT). The Organization earned P31.86 million from the sale which is presented as part of “Other income” in the statements of comprehensive income (see Notes 17 and 23). The related revaluation increment related to the said property amounted to P1.83 million.

In 2018 and 2017, the organization sold properties (other than the intercompany sale) amounting to P0.54 million and P0.68 million, respectively. As a result, a gain on disposal of P0.45 million and P0.44 million was earned in 2018 and 2017, respectively (see Note 23).

11. Intangible Asset - net

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

	Note	2018	2017
Gross Carrying Amount			
Balance at beginning of year		**P41,079,350**	P40,690,970
Additions during the year		**2,000,768**	390,080
Disposal		**(4,252,913)**	(1,700)
Balance at end of year		**38,827,205**	41,079,350
Accumulated Amortization			
Balance at beginning of year		**40,246,690**	34,992,233
Amortization during the year	*10*	**973,297**	5,256,156
Disposal		**(4,252,743)**	(1,699)
Balance at end of year		**36,967,244**	40,246,690
Net Carrying Amount		**P1,859,961**	P832,660

12. Other Noncurrent Assets

This account consists of:

	2018	2017
Rental deposits	**P5,619,037**	P5,369,682
Acquired assets	**5,040,705**	5,040,705
Other noncurrent receivables	**3,366,685**	3,987,211
Others	**107,730**	49,635
	P14,134,157	P14,447,233

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

Acquired assets represent ceded properties of SEDP loans' borrowers which by law are subject to one (1) year redemption period and for sale to generate cash. The recorded value of the account approximates its fair value as at December 31, 2018 and 2017.

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

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

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

As at December 31, 2018 and 2017, clients' capital build-up amounted to P646.01 million and P728.79 million, respectively. The interest expense on the clients' capital build up amounted to P11.37 million and P29.72 million in 2018 and 2017, respectively (see Note 19).

14. Accounts Payable and Accrued Expenses

This account consists of:

	2018	2017
Accounts payable	**P138,856,726**	P130,795,392
Accrued expenses	**32,022,907**	61,691,286
Gross receipt tax	**4,825,801**	1,619,118
Other payables	**15,447,585**	13,015,586
	P191,153,019	P207,121,382

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.

On February 23, 2018, the Organization paid a compromise settlement for 2007 and 2008 tax assessment amounting to P24.46 million. The amount was recognized in the financial statements as accrued expense for the year ended December 31, 2017.

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:

	2018	2017
Commercial Banks and Financial Institution		
Land Bank of the Philippines	**P220,000,000**	P460,000,000
Bank of the Philippine Islands	**135,833,333**	100,000,000
Union Bank of the Philippines	**160,000,000**	220,000,000
Small Business Corporation (SBC)	**30,000,000**	-
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
Total Loans Payable	**551,933,333**	786,100,000
Less: Loans payable - noncurrent portion	**P14,357,353**	P -
Loans Payable- current Portion	**P537,575,980**	P786,100,000

Loans from commercial banks and financial institution represent short-term loans with annual interest rates ranging from 6.50% to 8.00% and from 4.00% to 4.75% in 2018 and 2017, respectively. Loans from non-government organization are short-term loans with annual interest of 3.00% in 2018 and 2017.

Loans from SBC includes short-term and long-term loans amounting to P15.64 million and P14.36 million, respectively, with annual interest rate of 8% and payable two (2) years. Finance charges on these loans amounted to P39.78 million and P26.43 million in 2018 and 2017, 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.

	2018	2017
Water.Org, Inc.	**P487,257**	P879,848
Opportunity International	**135,337**	136,177
Jollibee Group Foundation, Inc	**122,308**	-
Unilever Philippines, Inc.	**-**	17,310
Others	**114,855**	36,000
	P859,757	P1,069,335

In 2018 and 2017, the Organization incurred expenses related to the above mentioned projects amounting to P0.28 million and P0.65 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 MBAI - net of claims and benefits	**2018**	*17a*	**P263,394,395**	**P34,770,038**	**P -**	**On demand; non-interest bearing**	**Unsecured**
	2017	*17a*	295,545,077	-	8,197,755	On demand; non-interest bearing	Unsecured
▪ Reimbursable expenses by TSPI on behalf of TSPI MBAI	**2018**	*17b*	**115,281,149**	**-**	**-**	**On demand; non-interest bearing**	**Unsecured**
	2017	*17b*	95,185,678	-	-	On demand; non-interest bearing	Unsecured
▪ Advances by TSPI on behalf of TSEI	**2018**	*17c*	**-**	**6,119,411**	**-**	**On demand; non-interest bearing**	**Unsecured**
	2017	*17c*	-	6,111,919	-	On demand; non-interest bearing for the excess of P1.30 million	Unsecured
▪ Loan premium collected from TSPI employees on behalf of TSPI	**2018**	*17d*	**48,380,527**	**-**	**188,457**	**On demand; non-interest bearing**	**Unsecured**
	2017	*17d*	39,707,772	-	302,612	On demand; non-interest bearing	Unsecured
▪ Sale of property to TSPI MBAI	**2018**	*10*	**50,000,000**	**-**	**-**	**On demand; non-interest bearing**	**Unsecured**
TOTAL	**2018**			**P40,889,449**	**P188,457**		
TOTAL	2017			P6,111,919	P8,500,367		

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

17b) The Organization provides the promotion and marketing of the TSPI MBAI's products to the Organization's microfinance clients including collection of premium payments for the said products of the TSPI MBAI. Effective July 1, 2016, TSPI charges the TSPI MBAI 7% service fee based on members' contributions and premiums collected for the services rendered for the Association.

However, based on the Amendment to the Memorandum of Agreement dated September 27, 2017, TSPI MBAI agreed to pay a collection fee of 15% of premiums to the Organization for all premiums paid through the latter.

17c) The Organization made cash advances to TSEI such as payment of expenses on behalf of TSEI. Out of the outstanding cash advances, P1.30 million is subject to interest of 6.25% per annum starting 2013.

17d) The Organization, through employee payroll deductions, collects payment of employees for loans TCI and certain amounts for employee savings contributions. The amounts represent the December 2018 collections to be remitted to TCI.

Compensation of Key Management Personnel

Compensation of key management personnel consists of salaries and other short-term benefits amounting to P38.12 million and P37.23 million in 2018 and 2017, respectively. The retirement expense recognized in the profit or loss of the Organization in 2018 and 2017 amounted to P1.34 million and P2.06 million, respectively; while this was offset by the actuarial gain recognized in the other comprehensive income in 2018 and 2017 amounting to P7.25 million and P0.25 million, 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 31, 2018. 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**	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Balance at January 1	**P135,534,647**	P128,384,571	**P167,629,494**	P156,543,830	**(P15,133,010)**	(P11,412,715)	**(P16,961,837)**	(P16,746,544)
Included in Profit or Loss								
Current service cost	**17,792,523**	17,603,967	**-**	-	**-**	-	**17,792,523**	17,603,967
Interest cost (income)	**6,637,644**	6,573,290	**8,198,143**	8,102,718	**-**	-	**(1,560,499)**	(1,529,428)
Interest on effect of asset ceiling	**-**	-	**-**	-	**(741,121)**	(584,331)	**741,121**	584,331
	24,430,167	24,177,257	**8,198,143**	8,102,718	**(741,121)**	(584,331)	**16,973,145**	16,658,870
Included in OCI								
Remeasurement loss (gain):								
Actuarial loss (gain) arising from:								
Financial assumptions	**(57,902,258)**	5,594,619	**-**	-	**-**	-	**(57,902,258)**	5,594,619
Experience adjustment	**(3,136,237)**	(22,046,550)	**-**	-	**-**	-	**(3,136,237)**	(22,046,550)
Return on plan assets excluding interest income	**-**	-	**(18,085,316)**	(441,804)	**-**	-	**18,085,316**	441,804
Change in the effect of asset ceiling	**-**	-	**-**	-	**15,874,131**	(3,135,964)	**(15,874,131)**	3,135,964
	(61,038,495)	(16,451,931)	**(18,085,316)**	(441,804)	**15,874,131**	(3,135,964)	**(58,827,310)**	(12,874,163)
Others								
Contributions paid by the employer	**-**	-	**-**	4,000,000	**-**	-	**-**	(4,000,000)
Benefits paid directly from book reserve	**(461,740)**	(575,250)	**(461,740)**	(575,250)	**-**	-	**-**	-
	(461,740)	(575,250)	**(461,740)**	3,424,750	**-**	-	**-**	(4,000,000)
Balance at December 31	**P98,464,579**	P135,534,647	**P157,280,581**	P167,629,494	**P -**	(P15,133,010)	**(P58,816,002)**	(P16,961,837)

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 P16.97 million and P16.66 million in 2018 and 2017, respectively (see Notes 21 and 22).

The movements in the employee benefit reserve are as follows:

	2018	2017
Balance at the beginning of the year	**(P64,244,785)**	(P55,232,871)
Amount charged to OCI		
Actuarial gain due to decrease in defined benefit obligation	**(61,038,495)**	(16,451,931)
Remeasurement gain on plan asset	**18,085,316**	441,804
Remeasurement gain on changes in the effect of asset ceiling	**(15,874,131)**	3,135,964
	(58,827,310)	(12,874,163)
Tax effect	**17,648,193**	3,862,249
	(41,179,117)	(9,011,914)
Balance at the end of the year	**(P105,423,902)**	(P64,244,785)

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

	2018	2017
Balance at beginning of period	**P15,133,010**	P11,412,715
Remeasurement gain on the change in the effect of asset ceiling	**(15,874,131)**	3,135,964
Interest expense on effect of asset ceiling	**741,121**	584,331
Balance at end of period	**P -**	P15,133,010

The Organization's plan assets consist of the following:

	2018	2017
Cash and cash equivalents	**P512**	P206
Investments	**156,107,066**	162,590,400
Receivables	**1,373,679**	1,251,844
Accrued income receivable	**64,002**	4,000,000
Trust fee payable	**(200,662)**	(212,956)
Other payables	**(64,016)**	-
	P157,280,581	P167,629,494

The expected contribution to the defined benefit retirement plan in 2018 is P16.97 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 32.68.

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

	2018	2017
Discount rate	**7.64%**	4.90%
Future salary growth	**5.00%**	5.00%

The weighted-average duration of the defined benefit obligation is 18.33 years and 26.28 years as at December 31, 2018 and 2017, 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)	(P14,153,120)	P17,347,553
Future salary growth (1% movement)	16,550,097	(13,792,905)

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

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

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

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

19. Revenues

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

	Note	**2018**	2017
Interest income:			
TKP		**P582,233,415**	P567,526,620
TPP		**110,798,598**	134,195,873
HSLP		**77,958,757**	70,726,065
TSPI Maunlad Program		**47,708,315**	40,078,320
SEDP		**107,959**	141,217
TSPI Masikap Program		**57,407**	3,060
Microhealth		**1,506**	415
	8	**818,865,957**	812,671,570
Service income:			
Income from service fees on collection		**39,509,159**	30,178,202
Income from service fees on Pureit		**11,730,788**	11,435,901
Income from service fees on TAAS		**9,790,164**	4,492,242
Income from administrative fees on housing loan to client		**7,470,789**	7,625,841
Commission fees		**97,451**	13,592
Income from Philhealth - premium discount		**-**	126,468
		68,598,351	53,872,246
Total revenues		**887,464,308**	866,543,816
Interest expense on clients' capital build up	*13*	**(11,365,741)**	(29,723,213)
		P876,098,567	P836,820,603

20. Grants

The sources of grants are as follows:

	2018	2017
Jollibee Group Foundation, Inc.	**P274,692**	P -
Opportunity International - Australia	**840**	370,182
Wholistic Transformation Resource Center	**-**	281,913
Others	**2,715**	1,940
	278,247	654,035
Program and project expenses	**(278,247)**	(654,035)
	P -	P -

Program and project expenses are distributed as follows:

	2018	2017
Supply/Market linkages	**P274,692**	P -
Social performance management/Client journey	**3,555**	-
Trainings	**-**	370,182
Community development expenses	**-**	243,080
Project expenses	**-**	40,773
	P278,247	P654,035

21. Project and Operational Costs

This account consists of:

	Note	2018	2017
Salaries, wages and employee benefits		**P413,822,003**	P415,614,336
Transportation, meals and lodging		**77,021,141**	69,807,551
Rent, utilities and maintenance		**47,991,129**	45,267,605
Office supplies		**22,939,250**	19,708,532
Retirement expense	*18*	**15,614,432**	15,346,878
Guarantee fees and premiums		**12,561,972**	19,176,797
Postage, telephone and communication		**10,773,730**	10,346,298
Depreciation and amortization	*10*	**9,654,824**	8,249,234
Trainings		**8,263,034**	7,502,248
Taxes and licenses		**5,382,668**	4,730,048
Project expenses		**2,867,306**	3,385,778
Professional fees		**655,546**	286,912
Community development expense		**522,710**	554,757
Insurance, membership dues and subscriptions		**444,537**	514,571
Miscellaneous		**492,593**	761,238
		P629,006,875	P621,252,783

22. General and Administrative Expenses

This account consists of:

	Note	2018	2017
Salaries, wages and employee benefits		**P76,919,683**	P81,157,688
Rent, utilities and maintenance		**19,377,530**	10,461,574
Depreciation and amortization	*10*	**10,383,475**	14,837,358
Transportation, meals and lodging		**4,779,210**	5,315,896
Office supplies		**3,334,899**	1,856,975
Training		**2,917,676**	2,743,286
Postage, telephone and communication		**2,085,439**	2,336,104
Professional fees		**1,881,114**	1,135,100
Insurance, membership dues and subscriptions		**1,814,580**	7,520,731
Taxes and licenses		**1,369,992**	1,305,020
Retirement expense	*18*	**1,358,713**	1,311,992
Miscellaneous		**209,549**	307,909
		P126,431,860	P130,289,633

23. Others - net

This account consists of:

	Note	**2018**	2017
Gain from disposal of property	*10*	**P32,306,052**	P438,213
Recovery of previous impairment loss	*10*	**5,045,988**	-
Interest income from:			
Cash in banks	*6*	**647,825**	544,426
Restricted investments	*7*	**615,741**	607,572
Employee loans		**408,709**	731,553
Collection of previously written-off accounts		**402,069**	192,193
Bank charges		**(704,418)**	(4,186,606)
Miscellaneous income		**344,290**	-
		P39,066,256	(P1,672,649)

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

Bank charges represent mainly documentary stamp taxes on loan availment.

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 P27.18 million and P27.71 million in 2018 and 2017, respectively.

	2018	2017
Project and operational costs	**P27,107,241**	P25,852,178
General and administrative expenses	**77,107**	1,857,751
	P27,184,348	P27,709,929

25. Income Taxes

The Organization's income tax expense amounting to P28.93 million and P18.49 million for the year ended December 31, 2018 and 2017, 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:

	2018	2017
Current tax expense:		
2% preferential tax (gross tax receipts)	**P17,272,079**	P17,300,175
30% income tax	**11,383,397**	538,851
Deferred tax expense	**279,454**	646,765
Income tax expense	**P28,934,930**	P18,485,791

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:

	2018	2017
Preferential tax at 2%	**P1,203,176**	P428,821
Statutory tax at 30%	**11,383,397**	538,851
Increase (decrease) in income tax resulting from tax effects of:		
Nondeductible expense	**17,249,657**	17,199,260
Nontaxable income	**(876,028)**	(53,516)
Interest income subject to final tax	**(25,272)**	(23,040)
Other income tax expense	**-**	395,415
Income tax expense	**P28,934,930**	P18,485,791

Below is the movement of the deferred tax liabilities recognized as at December 31, 2018 and 2017:

	2018			
	Beginning Balance	**Amount Charged to (Profit) or Loss**	**Amount Recognized in Other Comprehensive Income**	**Ending Balance**
Retirement asset	**P3,862,249**	**P -**	**P17,648,193**	**P21,510,442**
Revaluation increment on property	**-**	**-**	**14,686,554**	**14,686,554**
Accrued interest receivable	**646,765**	**(367,310)**	**-**	**279,454**
Deferred Tax Liabilities	**P4,509,014**	**(P367,310)**	**P32,334,747**	**P36,476,451**

	2017			
	Beginning Balance	Amount Charged to (Profit) or Loss	Amount Recognized in Other Comprehensive Income	Ending Balance
Retirement asset	P -	P -	P3,862,249	P3,862,249
Accrued interest receivable	-	646,765	-	646,765
Deferred Tax Liabilities	P -	P646,765	P3,862,249	P4,509,014

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

In addition to the disclosures mandated under PFRS and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS. The following is the tax information required for the taxable year ended December 31, 2018:

A. VAT

Disposal of property and equipment	**P7,214,103**

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	**P10,082,959**
Creditable withholding taxes	**6,315,463**
Final Tax	**2,273,148**
Fringe benefit tax	**32,331**
	P18,703,901

E. All Other Taxes (Local and National)

Other taxes paid during the year recognized under "Project and operational costs" and "General and administrative" accounts	
License and permit fees	**P5,362,944**
Real estate taxes	**1,261,902**
Others	**127,814**
	P6,752,660

F. Tax Cases

The Organization has 2014 and 2015 tax assessment cases which involved alleged income, VAT, expanded withholding tax, withholding tax on compensation, compromise penalty and documentary stamp tax payment deficiencies. The BIR issued a Final Assessment Notice in the year 2018 and the Organization has submitted Protest Letters for both cases and submitted documents in support of the protest, in compliance with the sixty (60) period to submit the same, pursuant to the Tax Code.

COVER SHEET

For

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

1 0 1 6 7 6

COMPANY NAME

TULAY SA PAG-UNLAD, INC.
(A Microfinance NGO)

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
AAFS		

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	4th Monday of May	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
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.