

**Peace Equity Access for  
Community Empowerment (PEACE)  
Foundation Inc.**

Parent Company Financial Statements  
December 31, 2016 and 2015

and

Independent Auditor's Report



## **INDEPENDENT AUDITOR'S REPORT**

The Board of Trustees  
Peace Equity Access for Community Empowerment (PEACE) Foundation Inc.

### **Report on the Audit of the Parent Company Financial Statements**

#### **Opinion**

We have audited the parent company financial statements of Peace Equity Access for Community Empowerment (PEACE) Foundation, Inc. (the Parent Company), which comprise the parent company statements of financial position as at December 31, 2016 and 2015, and the parent company statements of comprehensive income, statements of changes in fund balances and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Parent Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

#### **Basis for Opinion**

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

#### **Responsibilities of Management and Those Charged with Governance for the Parent Company Financial Statements**

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

In preparing the parent company financial statements, management is responsible for assessing the Parent Company'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 Parent Company or to cease operations, or has no realistic alternative but to do so.



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

### **Auditor's Responsibilities for the Audit of the Parent Company Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the parent company 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 Parent Company'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 Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company 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 auditor's report. However, future events or conditions may cause the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company 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**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 24 to the parent company 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. Revenue Regulations No. 15-2010 requires the information presented in the notes to parent company financial statements. The information is also required by Securities Regulation Code No. 68, as amended (2011). Such information is the responsibility of the management of Peace Equity Access for Community Empowerment (PEACE) Foundation, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Wenda Lynn M. Loyola

Partner

CPA Certificate No. 109952

SEC Accreditation No. 1540-A (Group A),

March 8, 2016, valid until March 8, 2019

Tax Identification No. 242-019-387

BIR Accreditation No. 08-001998-117-2016,

February 15, 2016, valid until February 14, 2019

PTR No. 5908712, January 3, 2017, Makati City

March 20, 2017



**PEACE EQUITY ACCESS FOR COMMUNITY EMPOWERMENT  
(PEACE) FOUNDATION INC.**

**PARENT COMPANY STATEMENTS OF FINANCIAL POSITION**

	December 31	
	2016	2015
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash (Note 4)	₱30,843,609	₱27,620,262
Receivables - net (Note 5)	112,188,471	87,459,487
Available-for-sale (AFS) financial assets (Note 6)	1,820,635,108	1,879,237,244
Other current assets (Note 7)	1,616,607	2,976,349
<b>Total Current Assets</b>	<b>1,965,283,795</b>	<b>1,997,293,342</b>
<b>Noncurrent Assets</b>		
Receivables - net of current portion and allowance (Note 5)	33,763,176	56,265,689
Property and equipment - net (Note 8)	29,105,641	30,217,258
Investment properties (Note 9)	4,911,814	4,911,814
Investment in Peace and Equity Holdings Inc. (PEHI; Note 10)	125,000,000	31,250,000
Other noncurrent assets (Note 18)	896,452	847,954
<b>Total Noncurrent Assets</b>	<b>193,677,083</b>	<b>123,492,715</b>
<b>TOTAL ASSETS</b>	<b>₱2,158,960,878</b>	<b>₱2,120,786,057</b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Note 11)	₱8,809,142	₱10,446,232
Grants payable (Note 12)	35,202,989	32,333,657
Funds held in trust (Note 13)	110,634,049	32,217,092
<b>Total Liabilities</b>	<b>154,646,180</b>	<b>74,996,981</b>
<b>Fund Balances</b>		
Restricted	2,053,980,142	1,994,155,478
Unrestricted	(49,665,444)	51,633,598
<b>Total Fund Balances</b>	<b>2,004,314,698</b>	<b>2,045,789,076</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>₱2,158,960,878</b>	<b>₱2,120,786,057</b>

*See accompanying Notes to Parent Company Financial Statements.*



**PEACE EQUITY ACCESS FOR COMMUNITY EMPOWERMENT  
(PEACE) FOUNDATION INC.**

**PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>REVENUE</b>		
Investment income (Note 6)	<b>₱104,559,460</b>	₱213,561,050
Foreign exchange gains - net	<b>8,639,958</b>	-
Interest income - net (Notes 4, 5, 7 and 17)	<b>6,469,078</b>	9,004,988
Others (Note 17)	<b>116,802</b>	863,498
	<b>119,785,298</b>	223,429,536
<b>EXPENSES</b>		
Project expenses (Note 14)	<b>41,903,945</b>	45,469,468
Grant expenses (Note 12)	<b>36,656,762</b>	44,896,270
General and administrative (Note 15)	<b>17,600,012</b>	18,999,175
Provision for impairment losses on AFS (Note 6)	<b>14,480,338</b>	18,992,215
Provision for impairment losses on receivables - net (Note 5)	<b>12,067,001</b>	18,552,874
Depreciation and amortization (Note 8)	<b>3,039,549</b>	3,151,261
Foreign exchange loss - net	-	460,446
	<b>125,747,607</b>	150,521,709
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>(5,962,309)</b>	72,907,827
<b>PROVISION FOR INCOME TAX</b> (Note 20)	<b>(3,250,227)</b>	(5,101,983)
<b>NET INCOME (LOSS)</b>	<b>(9,212,536)</b>	67,805,844
<b>OTHER COMPREHENSIVE LOSS</b>		
<i>Item to be reclassified to profit or loss in subsequent periods:</i>		
Net unrealized valuation loss on AFS financial assets (Note 6)	<b>(32,304,170)</b>	(191,599,413)
<i>Item not to be reclassified to profit or loss in subsequent periods:</i>		
Remeasurement gain on defined benefit plan (Note 18)	<b>42,328</b>	90,417
	<b>(32,261,842)</b>	(191,508,996)
<b>TOTAL COMPREHENSIVE LOSS</b>	<b>(₱41,474,378)</b>	(₱123,703,152)

*See accompanying Notes to Parent Company Financial Statements.*



**PEACE EQUITY ACCESS FOR COMMUNITY EMPOWERMENT (PEACE) FOUNDATION INC.**

**PARENT COMPANY STATEMENTS OF CHANGES IN FUND BALANCES**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Unrestricted Funds					Restricted Funds			Grand Total
	Members' Contribution	Cumulative Excess of Revenues over Expenses	Revaluation Gains (Losses) on AFS (Note 6)	Remeasurement Gains (Losses) on Defined Benefit Plan (Note 18)	Total	Endowment Fund (Note 1)	Provision for Inflation (Note 23)	Total	
<b>Balances at January 1, 2016</b>	<b>₱100,000</b>	<b>₱23,788,538</b>	<b>₱27,654,643</b>	<b>₱90,417</b>	<b>₱51,633,598</b>	<b>₱1,318,371,694</b>	<b>₱675,783,784</b>	<b>₱1,994,155,478</b>	<b>₱2,045,789,076</b>
Net income	–	(9,212,536)	–	–	(9,212,536)	–	–	–	(9,212,536)
Other comprehensive income (loss)	–	–	(32,304,170)	42,328	(32,261,842)	–	–	–	(32,261,842)
<b>Total comprehensive income (loss)</b>	<b>–</b>	<b>(9,212,536)</b>	<b>(32,304,170)</b>	<b>42,328</b>	<b>(41,474,378)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(41,474,378)</b>
Provision for inflation (Note 23)	–	(59,824,664)	–	–	(59,824,664)	–	59,824,664	59,824,664	–
<b>Balances at December 31, 2016</b>	<b>₱100,000</b>	<b>(₱45,248,662)</b>	<b>(₱4,649,527)</b>	<b>₱132,745</b>	<b>(₱49,665,444)</b>	<b>₱1,318,371,694</b>	<b>₱735,608,448</b>	<b>₱2,053,980,142</b>	<b>₱2,004,314,698</b>
Balances at January 1, 2015	₱100,000	₱14,064,892	₱219,254,056	₱–	₱233,418,948	₱1,318,371,694	₱617,701,586	₱1,936,073,280	₱2,169,492,228
Net income	–	67,805,844	–	–	67,805,844	–	–	–	67,805,844
Other comprehensive income (loss)	–	–	(191,599,413)	90,417	(191,508,996)	–	–	–	(191,508,996)
<b>Total comprehensive income (loss)</b>	<b>100,000</b>	<b>67,805,844</b>	<b>(191,599,413)</b>	<b>90,417</b>	<b>(123,703,152)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(123,703,152)</b>
Provision for inflation (Note 23)	–	(58,082,198)	–	–	(58,082,198)	–	58,082,198	58,082,198	–
<b>Balances at December 31, 2015</b>	<b>₱100,000</b>	<b>₱23,788,538</b>	<b>₱27,654,643</b>	<b>₱90,417</b>	<b>₱51,633,598</b>	<b>₱1,318,371,694</b>	<b>₱675,783,784</b>	<b>₱1,994,155,478</b>	<b>₱2,045,789,076</b>

See accompanying Notes to Parent Company Financial Statements.



**PEACE EQUITY ACCESS FOR COMMUNITY EMPOWERMENT  
(PEACE) FOUNDATION INC.**

**PARENT COMPANY STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (loss) before income tax	<b>(₱5,962,309)</b>	₱72,907,827
Adjustments for:		
Provision for impairment losses on AFS (Note 6)	<b>14,480,338</b>	18,992,215
Provision for impairment losses on receivables (Note 5)	<b>12,067,001</b>	18,552,874
Depreciation and amortization (Note 8)	<b>3,039,549</b>	3,151,261
Gain on sale of property and equipment (Note 5)	<b>(24,054)</b>	(477,334)
Interest income (Notes 4, 5, 7, and 17)	<b>(6,469,078)</b>	(9,004,988)
Unrealized foreign exchange loss (gain)	<b>(8,639,958)</b>	460,446
Investment income (Note 6)	<b>(104,559,460)</b>	(213,561,050)
Operating loss before working capital changes	<b>(96,067,971)</b>	(108,978,749)
Decrease (increase) in:		
Receivables	<b>(13,934,311)</b>	88,253,846
Other current assets	<b>1,359,742</b>	14,552,643
Increase (decrease) in:		
Accounts payable and accrued expenses	<b>(1,637,090)</b>	(10,811,201)
Grants payable	<b>2,869,332</b>	13,259,396
Funds held in trust	<b>78,423,505</b>	(51,191,195)
Net cash used in operations	<b>(28,986,793)</b>	(54,915,260)
Interest income received	<b>6,109,917</b>	10,066,732
Income taxes paid	<b>(3,250,227)</b>	(5,101,983)
Net cash flows used in operating activities	<b>(26,127,103)</b>	(49,950,511)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income received	<b>104,559,460</b>	213,561,050
Decrease (increase) in AFS financial assets	<b>11,817,628</b>	(173,758,235)
Proceeds from sale of property and equipment	<b>58,779</b>	504,120
Movement in net retirement asset	<b>(6,170)</b>	(9,500)
Additions to property and equipment (Note 8)	<b>(1,969,205)</b>	(3,778,598)
Additional investment in PEHI	<b>(93,750,000)</b>	-
Net cash flows provided by investing activities	<b>20,710,492</b>	36,518,837
<b>EFFECTS OF FOREIGN EXCHANGE RATE CHANGES ON CASH</b>		
	<b>8,639,958</b>	(460,446)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>3,223,347</b>	(13,892,120)
<b>CASH AT BEGINNING OF YEAR</b>	<b>27,620,262</b>	41,512,382
<b>CASH AT END OF YEAR (Note 4)</b>	<b>₱30,843,609</b>	₱27,620,262

*See accompanying Notes to Parent Company Financial Statements.*





**PEACE EQUITY ACCESS FOR COMMUNITY EMPOWERMENT  
(PEACE) FOUNDATION INC.**

**NOTES TO PARENT COMPANY FINANCIAL STATEMENTS**

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**1. Corporate Information**

Peace Equity Access for Community Empowerment (PEACE) Foundation Inc. (the Foundation; the Parent Company) was formed by the Caucus of Development NGO Networks (CODE-NGO) and incorporated on November 27, 2001. It is governed by a Board of Trustees (BOT) whose members do not receive any compensation.

The purpose of the Parent Company is to provide financial, managerial, technical and policy assistance to non-governmental organizations (NGOs), people's organizations, community associations, social entrepreneurs, educational and research institutions, cooperatives and other similar groups or corporations in their effort to reduce or totally eliminate poverty, by increasing the entitlements of the poor in a sustained manner, through the distribution of resources and provision of public goods and by raising the level and quality of social services, thereby empowering them to improve their socio-economic condition and to participate in community and civic affairs. The Parent Company's strategic direction is to enable Civil Society Organizations and other partner-intermediaries to develop and innovate on best practices and models using a social enterprise approach. The Parent Company engages other stakeholders (government, business and academe) in leveraging resources and technologies to replicate and scale up models that work for sustainable communities and enterprises.

On February 14, 2003, CODE-NGO executed a deed of donation in favor of the Parent Company, to transfer and convey an endowment fund in trust of ₱1.3 billion. The fund represents a portion of the net proceeds earned by CODE-NGO from the sale of Poverty Eradication and Alleviation Certificates in the capital market. As agreed between the Parent Company and CODE-NGO, only the earnings of the principal fund shall be utilized for poverty alleviation and development projects, general administrative expenses and acquisition of assets necessary for the furtherance of the Parent Company's objectives.

The Parent Company reports the revenues and expenses pertaining to the fund as unrestricted activities. Accordingly, the net loss amounting to ₱9.2 million and net income amounting to ₱67.8 million for the years then ended December 31, 2016 and 2015, respectively, were presented as part of the unrestricted fund balance.

The registered office address of the Parent Company is 69 Esteban Abada Street, Loyola Heights, Quezon City.

The Parent Company financial statements as at and for the years ended December 31, 2016 and 2015 were approved and authorized for issue by the BOT on March 20, 2017.

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**2. Summary of Significant Accounting Policies**

Basis of Preparation

The Parent Company financial statements have been prepared under the historical cost basis, except for AFS financial assets which are carried at fair value. The Parent Company financial statements are presented in Philippine Peso (₱), which is the Parent Company's functional currency.



The Parent Company also prepares and issues consolidated financial statements for the same period as the parent company financial statements, presented in accordance with Philippine Financial Reporting Standards (PFRSs). The consolidated financial statements may be obtained at the Parent Company's office at 69 Esteban Abada Street, Loyola Heights, Quezon City.

#### Statement of Compliance

The Parent Company financial statements have been prepared in accordance with PFRSs.

#### Changes in Accounting Policies and Disclosures

The Foundation applied for the first time certain amendments, which are effective for annual periods beginning January 1, 2016. The adoption of these amendments did not have any significant impact on the financial statements

##### *Effective January 1, 2016*

- Amendments to PFRS 10, PFRS 12 and PAS 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Amendments to PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)
- Amendments to PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*
- Amendments to PAS 1, *Presentation of Financial Statements - Disclosure Initiative*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants*
- Amendments to PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization*
- Annual Improvements to PFRSs (2012 - 2014 cycle)
  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
  - PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
  - PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - PAS 19, *Employee Benefits - regional market issue regarding discount rate*
  - PAS 34, *Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report'*

##### Standards Issued but not yet Effective

##### *Effective January 1, 2017*

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*



*Effective beginning on or after January 1, 2018*

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Parent Company is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

- PFRS 9, *Financial Instruments*  
PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Parent Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Parent Company's financial liabilities. The Parent Company is currently assessing the impact of adopting this standard.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

*Effective beginning on or after January 1, 2019*

- PFRS 16, *Leases*

*Deferred effectivity*

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*



## Summary of Significant Accounting Policies

### Current versus Non-current Classification

The Parent Company presents assets and liabilities in statements of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period or
- Cash and cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Parent Company classifies all other liabilities as non-current.

### Cash

Cash represents cash on hand and with banks.

### Financial Instruments

#### *Date of recognition*

The Parent Company recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

#### *Initial recognition and measurement*

All financial assets and financial liabilities are initially recognized at fair value. Except for securities at fair value through profit or loss (FVPL), the initial measurement of financial assets and financial liabilities includes transaction costs. The Parent Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, and loans and receivables. The Parent Company classifies its financial liabilities as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the financial assets were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

### Fair Value Measurement

The Parent Company measures financial instruments such as AFS financial assets at fair value at each financial reporting date.



Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Parent Company.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

This accounting policy applies primarily to the Parent Company's "AFS financial assets".

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

#### Financial Assets

The Parent Company's financial assets are of the nature of loans and receivables and AFS financial assets. As of December 31, 2016 and 2015, the Parent Company has no outstanding financial assets at FVPL and HTM investments.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or



short-term resale and are not classified as financial assets held for trading, designated as AFS financial assets or designated as at FVPL.

Loans and receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, receivables are measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization, if any, is recognized as "Interest income" in the Parent Company statements of comprehensive income. The losses arising from impairment of receivables are recognized in profit or loss. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectibility of accounts.

Loans and receivables are classified as current assets when these are expected to be realized within twelve months from the financial reporting date or within the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

This accounting policy relates to the Parent Company's "Cash", "Receivables", escrow deposit included under "Other current assets" and refundable deposit included under "Other noncurrent assets".

After initial measurement, loans and receivables are subsequently measured at amortized cost using the EIR method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization, if any, is recognized in profit or loss.

#### *AFS financial assets*

AFS financial assets are those non-derivative financial assets which are designated as such or do not qualify to be classified as financial assets at FVPL, HTM financial assets, or loans and receivables. AFS financial assets are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. These include various funds held in trust by various fund managers which were invested to different financial assets such as special deposit accounts, debt and equity securities, unit investment trust funds and mutual funds.

After initial measurement, AFS financial assets are measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, and are reported as part of the "Revaluation gains (losses) on AFS" account in the Parent Company statements of changes in fund balances. When the investment is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is recognized in profit or loss and is presented as a reclassification adjustment within other comprehensive income.

Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

All income and expenses, except impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of "Investment income" in the Parent Company statements of comprehensive income.

When the investment is disposed of, the cumulative gain or loss previously recognized in "Revaluation gains (losses) on AFS" is recognized as gain or loss in the Parent Company statements of comprehensive income. Interest earned on holding AFS financial assets are reported



as interest income using the EIR. Dividends earned on holding AFS equity are recognized in profit or loss when the right to the payment has been established.

AFS financial assets are classified as current if they are expected to be realized within twelve months after the financial reporting date. Otherwise, these are classified as noncurrent assets.

This category consists of debt and equity instruments presented as “AFS financial assets” in the Parent Company’s statements of financial position.

#### *Financial liabilities*

The Parent Company’s financial liabilities are of the nature of other financial liabilities. As of December 31, 2016 and 2015, the Parent Company has no outstanding financial liabilities at FVPL.

Issued financial instruments or their components, which are not designated as financial liabilities at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Parent Company having an obligation either to deliver cash or another financial asset to the holder, 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 entity’s own equity shares. The components of issued financial instruments that contain both liability and equity components are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR 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 EIR. The EIR amortization is recognized in profit or loss.

This accounting policy applies primarily to the Parent Company’s “Accounts payable and accrued expenses”, “Grants payable”, “Funds held in trust” and other obligations that meet the above definition (other than liabilities covered by other accounting standards).

Grants payable represents unreleased and committed grants of the Parent Company to project proponents.

Funds received by the Parent Company from donors for specific projects are initially recognized as liabilities forming part of the “Funds held in trust” account in the Parent Company’s statements of financial position at the time the funds are received. Revenue and expenses related to these projects are closed against this liability account.

Other financial liabilities are presented as current when these are expected to be settled within twelve months from the financial reporting date or the Parent Company does not have an unconditional right to defer settlement for at least twelve months from the financial reporting date. Otherwise, these are classified as noncurrent liabilities.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a currently enforceable legal right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Parent Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal



course of business, event of default, and event of insolvency or bankruptcy of the Parent Company and all of the counterparties.

#### Impairment of Financial Assets

The Parent Company assesses at each financial reporting date whether a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and when observable data indicate that there is a measurable decrease in the estimated future cash flow, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortized cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original EIR (i.e., the EIR computed at initial recognition). Time value is generally not considered when the effect of the discounting is not material. The carrying amount of the asset is reduced through the use of an allowance account. Interest income continues to be accrued on the reduced carrying amount based on the original EIR of the asset. The financial assets, together with the associated allowance accounts, is written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Parent Company. The amount of the impairment loss is recognized in profit or loss.

The Parent Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and collectively for financial assets that are not individually significant. Those objective evidences are relevant to the estimation of future cash flows of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognized in profit or loss. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

#### *AFS financial assets*

For AFS financial assets, the Parent Company assesses at each financial reporting date whether there is objective evidence that a financial asset or group of AFS financial assets is impaired.





In the case of quoted equity investments classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is ‘significant’ or ‘prolonged’ requires judgment. ‘Significant’ is evaluated against the original cost of the investment and ‘prolonged’ against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income - is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized in other comprehensive income.

#### Derecognition of Financial Instruments

##### *Financial asset*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Parent Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
- the Parent Company has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Parent Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Parent Company’s continuing involvement in the asset. In that case, the Parent Company also recognizes an associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Parent Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Parent Company could be required to repay.

##### *Financial liability*

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

#### Other Current Assets

##### *Escrow deposit*

Escrow deposit relates to fund set aside by the Parent Company as guarantor for various community organizations who joined the “Community Mortgage Program (CMP)” project.

Escrow deposits are classified as current assets under “Other current assets” when these are expected to be realized within twelve months after the financial reporting date or within the normal operating cycle, whichever is longer. Otherwise, escrow deposits are classified as noncurrent assets under the “Other noncurrent assets” account.



*Input value-added taxes (VAT)*

Input VAT represents VAT imposed on the Parent Company by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations. Input VAT is stated at its estimated net realizable value.

*Prepaid expenses*

Prepaid expenses are carried at cost and are amortized on a straight-line method over the period of expected usage, which is equal to or less than twelve months or within the normal operating cycle.

Property and Equipment

Property and equipment, excluding land, are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, nonrefundable purchase taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the item has been put into operation, such as repairs and maintenance, are charged to operations. In situations where it can be clearly demonstrated that the expenditures have improved the condition of the asset beyond the originally assessed standard of performance, significantly add service potential and extend the economic useful life of the existing asset, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization commence once the property and equipment are available for use and are computed using the straight-line method, net of an estimated residual value, over the estimated useful lives of the assets, as follows:

<u>Category</u>	<u>Number of Years</u>
Building and improvements	10
Office furniture, fixtures and equipment	3-5
Transportation equipment	5

The useful lives, residual values and depreciation and amortization method are reviewed periodically and adjusted if appropriate, at each financial year, to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized when assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization and any allowance for impairment losses are removed from the accounts, any gain or loss arising on derecognition of the asset (calculated as the difference between net disposals proceeds and the carrying amount of the asset) is recognized in profit or loss in the year the asset is derecognized.

Fully depreciated and amortized assets are retained in the accounts until these are no longer in use.

Investment Properties

Investment properties, accounted for under cost model, are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured initially at acquisition cost. The cost of the asset is comprised of its purchase price and directly attributable costs of making the asset ready for its intended use.



The carrying value of the investment properties is reviewed for impairment when changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the asset is written down to its recoverable amount and impairment losses are recognized in profit or loss.

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in profit or loss in the year of retirement or disposal.

#### Investment in Peace Equity Holdings Inc. (PEHI)

PEHI is a wholly-owned subsidiary of the Parent Company.

A subsidiary is an entity in which the Parent Company has control. Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Parent Company controls an investee if and only if the Parent Company has:

- Power over investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Investment in PEHI is accounted for under cost method less any impairment in value. Under the cost method of accounting, the Parent Company recognizes income when its right to receive the dividends is established.

#### Impairment of Nonfinancial Assets

*Input VAT, Prepaid expenses, Property and equipment and Investment properties*

The Parent Company assesses at each financial reporting date whether there is an indication that these nonfinancial assets may be impaired. If any such indication exists, the Parent Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Impairment losses from continuing operations are recognized in profit or loss.

An assessment is made at each financial 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 Parent Company makes an estimate of recoverable amount. Any 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. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.



*Investment in PEHI*

The Parent Company performs impairment review on its investment in PEHI whenever impairment indicator exists. This requires an estimation of the value in use of the investment. Estimating the value in use requires the Parent Company to make an estimate of the future cash flows of the investment and to use a suitable discount rate to calculate the present value of those future cash flows.

Retirement Benefit Costs

The Parent Company has a funded, noncontributory, defined benefit retirement plan.

The net plan asset is the aggregate of the fair value of the plan asset reduced by the defined benefit obligation adjusted for the effect of the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plan is actuarially determined by an independent qualified actuary using the projected unit credit method.

Defined benefit income comprise the following:

- Service cost
- Interest income on the net plan asset
- Remeasurements of net plan asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the Parent Company statement of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest income on the net plan asset is the change during the period in the net plan asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net plan asset. Net interest income on the net plan asset is recognized in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

As of December 31, 2016 and 2015, plan assets amounted to ₱850,852 and ₱802,354, respectively (Note 18). The retirement liability has been fully settled in 2014 when the employees entitled to the plan have resigned.

Provisions

Provisions are recognized when the Parent Company has a present obligation (legal or constructive) 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 assessment 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.



Where the Parent Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. The expense relating to any provision is recognized in profit or loss, net of any reimbursement.

#### Fund Balances

Fund balances represent contributions made by the members of the Parent Company, including endowment fund, upon incorporation. The member's contribution is not available for distribution.

Cumulative excess of revenues over expenses includes all current and prior period results as disclosed in the Parent Company statement of comprehensive income.

Revaluation gains (losses) on AFS comprise unrealized valuation gains and losses due to the revaluation of AFS financial assets.

Remeasurement gains (losses) on defined benefit plan comprise actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. These are included in the fund balances every reporting period.

#### *Restricted fund*

The fund account is used only in accordance with a donor's or grantor's specifications. Included in this account is the provision for inflation computed at 3% per year based on the beginning balance of the restricted fund balance.

#### *Unrestricted fund*

The fund account pertains to all resources of the Parent Company which are not subject to outside restrictions and is used for day-to-day operations.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Parent Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

#### *Investment income*

Investment income from AFS financial assets is recognized when earned.

#### *Interest income*

Interest income on loans and receivables and bank deposits are recognized as it accrues using the EIR method.

#### *Revenue from restricted support*

Revenue from restricted support is recognized upon fulfilment of the donor-imposed conditions attached to the support and/or to the extent that expenses are incurred. For presentation purposes, the related expenses are offset against the revenue. At project completion date, any excess funds are returned to the donors unless otherwise agreed by both parties that the excess be retained by the Parent Company and therefore credited to unrestricted support.

#### *Grants, donations and contributions*

Grants are recognized when the scope of work and the purpose of the grants stipulated in the agreements are performed and the donor's imposed conditions are substantially complied. Donations and contributions are recognized when actually received.



*Other income*

Other income is recognized when earned.

Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in fund balances. Expenses are generally recognized when the services are used or the expenses arise.

*Grant expenses*

Grant expenses pertain to the approved grants awarded to partners/proponents for institutional support, capability building and relief assistance during natural calamities.

*Project expenses*

Project expenses consist of the following accounts: project development, monitoring and evaluation, project compliance audit, technical assistance provided by the Parent Company to partners/proponents, product and market trade promotions, research and publications, and personnel and administrative cost of operations group, among others.

*General and administrative expenses*

Expenses incurred in the direction and general administration of day-to-day operations of the Parent Company and are generally recognized when the services are used or the expenses arise.

Foreign Currency Transactions

Transactions in foreign currencies are recorded in ₱ using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the closing rate of exchange prevailing as of financial reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing as of the dates of the initial transactions. Exchange gains or losses arising from foreign currency-denominated transactions are credited to or charged against current operations.

Income Taxes

*Current tax*

Current tax liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the financial reporting date.

*Deferred tax*

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and carry forward of unused net operating loss carryover (NOLCO) to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused NOLCO can be utilized.

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



reassessed at each financial reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

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

Deferred tax relating to items recognized in other comprehensive income is recognized in other comprehensive income.

#### Contingencies

Contingent liabilities are not recognized in the Parent Company financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the Parent Company financial statements but are disclosed when an inflow of economic benefits is probable.

#### Events after the Financial Reporting Date

Post year-end events up to the date of the auditors' report that provide additional information about the Parent Company's position at financial reporting date (adjusting event) are reflected in the financial statements. Any post year-end events that are non-adjusting events are disclosed on the financial statements when material.

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### 3. **Significant Accounting Judgment, Estimates and Assumptions**

The Parent Company financial statements prepared in accordance with PFRSs require management to make judgment, estimates and assumptions that affect the amounts reported in the Parent Company financial statements and related notes. The judgment, estimates and assumptions used in the Parent Company financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Parent Company financial statements. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Actual results could differ from such estimates.

Judgment, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following presents a summary of these significant accounting judgments and estimates:

#### Judgment

##### *Determining functional currency*

The functional currency of the Parent Company has been determined to be the ₱. The ₱ is the currency of the primary economic environment in which the Parent Company operates.

##### *Going concern*

The Parent Company's management has made an assessment of the Parent Company's ability to continue as a going concern and is satisfied that the Parent Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Parent Company's ability to continue as a going concern. Therefore, the Parent Company's financial statements continue to be prepared on a going concern basis.



### Estimates and Assumptions

#### *Determining fair values of financial instruments*

The Parent Company carries certain financial assets at fair value, which requires extensive use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., quoted prices, interest rates, foreign exchange rates, volatility), the amount of changes in fair value would differ if the Parent Company utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect income or loss and fund balances.

The fair values of the Parent Company's financial instruments are presented in Note 22 to the Parent Company financial statements.

#### *Estimating impairment losses on receivables*

The Parent Company maintains allowance on receivables at a level considered adequate to provide for potentially uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that may affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Parent Company's relationship with the proponents, the proponents' payment behavior and known market factors. The Parent Company reviews the age and status of its receivables and escrow and refundable deposit, and identifies accounts that are provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would therefore differ based on the judgment or estimate made.

Provision for and reversal of impairment losses recognized in the Parent Company statements of comprehensive income amounted to ₱21,479,084 and ₱32,339,420, respectively, in 2016 and ₱9,412,083 and ₱13,786,546, respectively, in 2015. The aggregate allowance for impairment losses on advances to proponents and accrued interest receivable from proponents amounted to ₱95,172,352 and ₱83,147,490 as of December 31, 2016 and 2015, respectively. The carrying value of the Parent Company's receivables amounted to ₱145,951,647 and ₱143,725,176 as of December 31, 2016 and 2015, respectively (Note 5).

#### *Estimating impairment of AFS financial assets*

The Parent Company treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or whether other objective evidence of impairment exists. The determination of what is 'significant' or when is 'prolonged' requires judgment. The Parent Company treats 'significant' generally as 30% or more of the cost of AFS financial assets and 'prolonged' if the decline in fair value has been continuing for more than twelve (12) months. In addition, the Parent Company evaluates other factors, including normal and/or unusual volatility in share price for quoted equities and the future cash flows. Impairment loss on AFS financial assets amounted to ₱14,480,338 and ₱18,992,215 in 2016 and 2015, respectively. The carrying values of AFS financial assets amounted to ₱1,820,635,108 and ₱1,879,237,244 as of December 31, 2016 and 2015, respectively.

#### *Estimating impairment of nonfinancial assets*

The Parent Company assesses impairment of input VAT, prepaid expenses, property and equipment and investment properties whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Parent Company considers important which could trigger an impairment review include the following:

- Significant underperformance relative to 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.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Parent Company is required to make estimates that can materially affect the Parent Company financial statements. The Parent Company has no provision for impairment loss in 2016 and 2015. The aggregate carrying values of these nonfinancial assets amounted to ₱35,634,062 and ₱36,535,467 (Notes 7, 8 and 9).

*Estimating impairment of investment in PEHI*

The Parent Company performs an impairment review on its investment in PEHI whenever an impairment indicator exists. This requires an estimation of the value in use of the investment. Estimating the value in use requires the Parent Company to make an estimate of the expected future cash flows of the investment and to make use of a suitable discount rate to calculate the present value of those future cash flows.

Management has determined that there are no events or circumstances that may indicate that the carrying amount of the investment is not recoverable, thus, no impairment review was performed in 2016 and 2015. The carrying value of investment in PEHI amounted to ₱125,000,000 and ₱31,250,000 as of December 31, 2016 and 2015, respectively (Note 10).

*Estimating realizability of deferred tax assets*

The Parent Company reviews the carrying amounts of deferred tax assets at financial reporting date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will be available in the future to allow all or part of the deferred income tax assets to be utilized.

The Parent Company's assessment on the recognition of deferred tax assets on deductible temporary differences is based on forecasted taxable income. This forecast is based on the Parent Company's past results and future expectations on revenues and expenses. However, there is no assurance that the Parent Company will generate sufficient taxable income to allow all or part of its deferred tax assets to be utilized in the future.

The Parent Company did not recognize deferred tax assets on carryforward benefit of unused NOLCO and other deductible temporary differences amounting to ₱212,681,204 and ₱255,767,507 as of December 31, 2016 and 2015, respectively, as the management believes that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized in the future (Note 20).

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#### 4. Cash

This account consists of:

	2016	2015
Cash on hand	₱55,000	₱71,683
Cash in banks	30,788,609	27,548,579
	<b>₱30,843,609</b>	<b>₱27,620,262</b>

Cash includes donor-restricted funds amounting to ₱20,829,735 and ₱7,698,845 as of December 31, 2016 and 2015, respectively. Cash with banks generally earn interest at rates based on daily bank deposit rates.



Interest income from cash in banks amounted to ₱27,112 and ₱117,622 in 2016 and 2015, respectively (Note 17).

## 5. Receivables

This account consists of:

	2016	2015
Current:		
Advances to project proponents	₱195,748,541	₱155,942,982
Accrued interest	3,801,779	3,442,618
Receivable from donor-funded projects	236,999	102,013
Receivable from PEHI (Note 19)	70,753	120,653
Others	2,968,572	775,628
	<b>202,826,644</b>	160,383,894
Less allowance for impairment losses	<b>90,638,173</b>	72,924,407
	<b>112,188,471</b>	87,459,487
Noncurrent advances to project proponents	<b>38,297,355</b>	66,488,772
Less allowance for impairment losses	<b>4,534,179</b>	10,223,083
	<b>33,763,176</b>	56,265,689
	<b>₱145,951,647</b>	₱143,725,176

Advances to project proponents represent cash released to project proponents subject to repayment for social enterprise, micro-finance, agricultural development, housing and proactive projects. These advances earn annual interest rates ranging from 6.00% to 12.00% to cover administrative costs of servicing the projects except for soft loans, which earn 3.00% interest annually. Financial advances extended to micro-enterprise, housing and other projects involving acquisition of assets are secured with real and chattel mortgages and/or joint security.

Interest income on advances to proponents amounted to ₱6,492,984 and ₱9,296,587 in 2016 and 2015, respectively (Note 17).

All of the Parent Company's receivables have been reviewed for indicators of impairment. Certain receivables were found to be impaired and provisions have been recorded accordingly. The impaired receivables are mostly due from partner organizations that experienced defaults of loan payments from their clients.

Movements in the allowance for impairment losses on receivables are as follows:

### December 31, 2016

	Current	Noncurrent	Total
Balances at beginning of year	₱72,924,407	₱10,223,083	₱83,147,490
Provisions	25,966,049	(5,688,904)	20,277,145
Reversals	(8,252,283)	-	(8,252,283)
Balances at end of year	<b>₱90,638,173</b>	<b>₱4,534,179</b>	<b>₱95,172,352</b>



December 31, 2015

	Current	Noncurrent	Total
Balances at beginning of year	₱65,705,108	₱43,000	₱65,748,108
Transfer	22,685,744	10,180,083	32,865,827
Reversals	(15,466,445)	–	(15,466,445)
Balances at end of year	₱72,924,407	₱10,223,083	₱83,147,490

The amount of impairment losses in the Parent Company statements of comprehensive income is determined as follows:

	2016	2015
Impairment losses	₱21,877,145	₱32,865,827
Less amounts closed to:		
CBRED*	398,061	526,407
	21,479,084	32,339,420
Reversals	(9,852,283)	(15,466,445)
Less amounts closed to:		
CBRED*	440,200	1,679,899
	(9,412,083)	(13,786,546)
	₱12,067,001	₱18,552,874

\* CBRED - Capacity Building to Remove Barriers to Renewable Energy Development in the Philippines

The reversal and impairment loss for CBRED is excluded from the determination of provision for and reversal of impairment losses in the Parent Company statements of comprehensive income since these are presented net of funds held in trust account (Note 13).

## 6. Available-for-sale (AFS) Financial Assets

The Parent Company's AFS financial assets consist of:

	2016	2015
AFS financial assets	₱1,749,609,918	₱1,807,261,395
Investment in equity	67,878,642	69,091,142
Short-term investments	3,146,548	2,884,707
	₱1,820,635,108	₱1,879,237,244

The assets included in each of the categories above are detailed below:

### a) AFS financial assets

This account is detailed as follows:

	2016	2015
Equity securities	₱1,115,401,900	₱1,142,175,376
Special savings account	197,677,426	135,857,901
Corporate bonds	167,339,097	96,645,177
Republic of the Philippines (ROP) bonds and treasury notes	143,843,840	300,304,929
Unit investment trust fund (UITF)	125,347,655	132,278,012
	₱1,749,609,918	₱1,807,261,395



b) *Short-term investments*

This account consists of:

	2016	2015
Special deposit (CARD Bank Inc.)	<b>₱2,790,548</b>	₱2,528,707
Time deposit (Siargao Bank Inc.)	<b>2,000,000</b>	2,000,000
Allowance for impairment (Siargao Bank Inc.)	<b>(1,644,000)</b>	(1,644,000)
	<b>₱3,146,548</b>	₱2,884,707

c) *Investment in equity*

This account consists of:

	2016	2015
National Cooperative Mutual Fund of the Philippines, Inc.	<b>₱44,487,494</b>	₱44,699,994
MASS-SPECC Cooperative Development Center	<b>5,000,000</b>	5,000,000
Hybrid Social Solutions, Inc.	<b>5,000,000</b>	5,000,000
Cooperative Health Management Federation	<b>5,000,000</b>	5,000,000
Cooperative Insurance System of the Philippines	<b>4,891,481</b>	4,891,481
Center for Agriculture and Rural Development, Inc.	<b>3,000,000</b>	3,000,000
Islas Ecology Development Advocacy (ISDA) Foundation	<b>144,000</b>	144,000
Barangay Alapang Multi-purpose Cooperative	<b>135,000</b>	135,000
Dancalan Ilog Waterworks	<b>120,000</b>	120,000
Kauswagan Water and Sanitation Service	<b>100,667</b>	100,667
Metro South Cooperative Bank	-	1,000,000
	<b>₱67,878,642</b>	₱69,091,142

The Parent Company pays its fund managers an annual service fee of 0.25% based on the average market value of the fund.

The reconciliation of the carrying amounts of AFS financial assets as of December 31, 2016 and 2015 are as follows:

	2016	2015
Balances at beginning of year	<b>₱1,879,237,244</b>	₱1,916,070,636
Contributions/deposits	<b>601,981,192</b>	691,243,932
Realized investments gains - net	<b>101,557,635</b>	208,475,773
Foreign exchange gains	<b>9,415,085</b>	673,911
Impairment loss	<b>(14,480,338)</b>	(18,992,215)
Unrealized valuation losses - net	<b>(31,871,792)</b>	(191,637,188)
Disposals/withdrawals	<b>(725,203,918)</b>	(726,597,605)
	<b>₱1,820,635,108</b>	₱1,879,237,244



The balance of investment income recognized in profit or loss follows:

	2016	2015
Total realized investment gains*	<b>₱102,880,964</b>	₱212,265,932
Income from investment in equity	<b>1,654,146</b>	1,271,264
Realized investment loss - CBRED**	<b>24,350</b>	23,854
	<b>₱104,559,460</b>	₱213,561,050

\*Gross of final tax expense.

\*\* Closed to funds held in trust account (CBRED)

The net unrealized valuation gain (loss) recognized in other comprehensive income is as follows:

	2016	2015
Unrealized valuation loss - net	<b>(₱31,871,792)</b>	(₱191,637,188)
Less/Add unrealized valuation gain (loss) closed to funds held in trust account (CBRED)	<b>(432,378)</b>	(347,093)
	<b>(₱32,304,170)</b>	(₱191,984,281)

Special savings accounts have annual interest rates ranging from 0.38% to 1.25% and 0.38% to 2.0% in 2016 and 2015, respectively. Equity securities mainly consist of investment in companies listed in the Philippine Stock Exchange (PSE).

Corporate bonds include those issued by holding companies, property, utilities and telecommunication companies. These bonds earn annual interest rates ranging from 3.87% to 6.80% and 2.99 % to 6.94% in 2016 and 2015, respectively.

ROPs and treasury notes (Fixed Rate Treasury Notes) earn annual interest rates ranging from 2.13% to 8.13% to 2.13% to 8.00% in 2016 and 2015, respectively. UITFs include placements in AUB, BDO Unibank and BPI's own funds.

Net realized investment gains, gross of tax, are detailed as follows:

	2016	2015
Trading gain	<b>₱60,028,651</b>	₱161,870,343
Dividends	<b>38,030,625</b>	37,257,027
Interest	<b>16,261,722</b>	25,307,117
Expenses	<b>(9,785,888)</b>	(10,897,291)
Closed to funds held in trust account (CBRED)	<b>24,350</b>	23,854
	<b>₱104,559,460</b>	₱213,561,050

As of December 31, 2016 and 2015, the allowance for impairment loss recognized for short-term investments amounted to ₱1.64 million.

As of December 31, 2016 and 2015, the revaluation gains (losses) on AFS financial assets amounted to (₱4.65 million) and ₱27.65 million, respectively.



The rollforward analysis of the revaluation gains (losses) on AFS financial assets follow:

	<b>2016</b>	2015
Balance at beginning of year	<b>₱27,654,643</b>	₱219,254,056
Fair value losses charged against equity	<b>(32,304,170)</b>	(191,599,413)
Balance at end of year	<b>(₱4,649,527)</b>	₱27,654,643

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#### 7. Other Current Assets

This account consists of:

	<b>2016</b>	2015
Prepaid expenses and others	<b>₱920,590</b>	₱652,820
Input VAT	<b>696,017</b>	753,575
Escrow deposit (Notes 13 and 20)	–	1,569,954
	<b>₱1,616,607</b>	₱2,976,349

Prepaid expenses include prepayments on health insurance amounting to ₱0.46 million.

Input VAT represents taxes imposed to the Parent Company by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations. This will be used against future output VAT liabilities or will be claimed as tax credits. Management has estimated that all input VAT are recoverable at its full amount.

Escrow deposit relates to fund set aside by the Parent Company as guarantor for various community organizations who joined the Community Mortgage Program (CMP) project. The deposit is made at 25% of total loan application amount for one year upon fulfillment of conditions. In 2016, the conditions have been met and the account has been closed.

Loss from escrow deposit amounted to ₱51,018 and ₱409,221 in 2016 and 2015, respectively (Note 17). Net unrealized valuation gain (loss) recognized in other comprehensive income amounted to nil and ₱384,868 in 2016 and 2015, respectively.



## 8. Property and Equipment

The rollforward analyses of this account follows:

### 2016

	Land	Building and Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Total
<b>Cost:</b>					
Balances at beginning of year	₱22,124,434	₱20,413,999	₱10,304,174	₱2,738,100	₱55,580,707
Additions	–	650,545	1,318,660	–	1,969,205
Disposals	–	–	(349,881)	–	(349,881)
<b>Balances at end of year</b>	<b>22,124,434</b>	<b>21,064,544</b>	<b>11,272,953</b>	<b>2,738,100</b>	<b>57,200,031</b>
<b>Accumulated depreciation and amortization:</b>					
Balances at beginning of year	–	15,642,266	8,867,274	853,909	25,363,449
Depreciation and amortization	–	1,578,263	920,214	547,620	3,046,097
Disposals	–	–	(315,156)	–	(315,156)
<b>Balances at end of year</b>	<b>–</b>	<b>17,220,529</b>	<b>9,472,332</b>	<b>1,401,529</b>	<b>28,094,390</b>
<b>Net book values</b>	<b>₱22,124,434</b>	<b>₱3,844,015</b>	<b>₱1,800,621</b>	<b>₱1,336,571</b>	<b>₱29,105,641</b>

### 2015

	Land	Building and Improvements	Office, Furniture Fixtures and Equipment	Transportation Equipment	Total
<b>Cost:</b>					
Balances at beginning of year	₱22,124,434	₱19,381,534	₱9,364,325	₱2,243,220	₱53,113,513
Additions	–	1,032,465	1,010,712	1,735,421	3,778,598
Disposals	–	–	(70,863)	(1,240,541)	(1,311,404)
<b>Balances at end of year</b>	<b>22,124,434</b>	<b>20,413,999</b>	<b>10,304,174</b>	<b>2,738,100</b>	<b>55,580,707</b>
<b>Accumulated depreciation and amortization:</b>					
Balances at beginning of year	–	14,101,749	7,839,586	1,570,911	23,512,246
Depreciation and amortization	–	1,540,517	1,098,551	523,539	3,162,607
Disposals	–	–	(70,863)	(1,240,541)	(1,311,404)
<b>Balances at end of year</b>	<b>–</b>	<b>15,642,266</b>	<b>8,867,274</b>	<b>853,909</b>	<b>25,363,449</b>
<b>Net book values</b>	<b>₱22,124,434</b>	<b>₱4,771,733</b>	<b>₱1,436,900</b>	<b>₱1,884,191</b>	<b>₱30,217,258</b>

Depreciation and amortization expense above includes depreciation and amortization charges of property and equipment acquired through funds held in trust amounting to ₱6,548 and ₱11,346 in 2016 and 2015, respectively. Such amounts were excluded from the determination of depreciation and amortization expense in the statements of comprehensive income since these are presented net of funds held in trust account in the parent company statements of financial position.

As of December 31 2016 and 2015, the Company sold property and equipment with net book value amounting ₱34,725 and nil, respectively. Proceeds from sale amounted to ₱24,054 and ₱477,334 as of December 31, 2016 and 2015, respectively.

There are no property and equipment items that are pledged as security to liabilities as of December 31, 2016 and 2015.



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## 9. Investment Properties

The investment properties include parcels of land foreclosed by the Parent Company from borrowers that were not able to settle their obligations to the Parent Company.

The cost of investment properties amounted to ₱4,911,814 as of December 31, 2016 and 2015. The fair value of the Parent Company's investment properties approximates its carrying value based on the latest appraisal report issued by an independent valuer.

In determining the appropriate class of investment properties, the Parent Company has considered the nature, characteristics and risks of its properties as well as the level of the fair value hierarchy within which the fair value measurements are categorized.

The Parent Company has no restrictions on the realizability of its investment properties and no contractual obligations to either purchase, construct or develop its investment properties.

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## 10. Investment in PEHI

PEHI is a wholly-owned subsidiary of the Parent Company. PEHI was registered with the Philippine Securities and Exchange Commission (SEC) on September 23, 2013 primarily to invest, purchase, own, hold in financially viable, primarily development-oriented social enterprises that have proven and/or offer innovative and high impact solutions to problems of poverty reduction such as enterprises on climate smart and sustainable agriculture, sustainable forestry, coastal resource management, eco-tourism, small and medium industries, alternative and renewable energy, information and communication technology and basic services and other similar endeavors, without engaging in business as an investment company, financing company or lending investor, broker and dealer of securities.

On January 18, 2016, the Foundation made additional capital infusion to PEHI amounting to ₱93,750,000 in the form of AFS financial assets (Note 6).

The carrying amount of the investment in PEHI amounted to ₱125,000,000 and ₱31,250,000 as of December 31, 2016 and 2015.

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## 11. Accounts Payable and Accrued Expenses

This account consists of:

	2016	2015
Accounts payable	₱5,355,509	₱4,650,055
Accrued expenses	3,453,633	5,796,177
	<b>₱8,809,142</b>	<b>₱10,446,232</b>

Accounts payable are noninterest-bearing and are generally on 30 to 90-days term.

Accrued expenses include utility billings, audit and other professional fees.





## 12. Grants Payable

Grants payable represents unreleased and committed grants to project proponents and will be released upon compliance with the conditions set forth in the project agreement. Grants payable amounted to ₱35,202,989 and ₱32,333,657 as of December 31, 2016 and 2015, respectively. Grant expenses amounted to ₱36,656,762 and ₱44,896,270 in 2016 and 2015, respectively.

## 13. Funds Held in Trust

This account includes the following:

	2016	2015
<b>Department of Energy (DOE) and United Nation</b>		
<b>Development Program (UNDP) - CBRED Project</b>		
Balances at beginning of year	₱31,460,942	₱29,005,295
Net profit (loss)	1,598,312	2,455,647
	<b>33,059,254</b>	<b>31,460,942</b>
<b>Catholic Organization for Relief and Development</b>		
<b>Agency for International Development</b>		
<b>(CORDAID) - Ondoy-Pepeng Rehabilitation</b>		
<b>Project</b>		
Balances at beginning of year	–	50,036,512
Return of funds	–	(50,036,512)
	–	–
<b>CORDAID - Shariah Project</b>		
Balances at beginning of year	1,152,586	3,803,730
Expenses	(1,836,970)	(2,651,144)
	<b>(684,384)</b>	<b>1,152,586</b>
<b>CORDAID - Climate Change Project</b>		
Balances at beginning of year	279,153	279,153
<b>CORDAID - Emergency Response for Typhoon Sendong</b>		
Balances at beginning of year	(2,244,384)	(485,236)
Amount received	2,710,447	1,234,070
Expenses	(232,100)	(2,993,218)
	<b>233,963</b>	<b>(2,244,384)</b>
<b>CORDAID - Knowledge Management Project</b>		
Balances at beginning of year	513,912	(246,999)
Amount received	–	760,911
Expenses	(271,801)	–
	<b>242,111</b>	<b>513,912</b>
<b>CORDAID - Cutflower Project</b>		
Balances at beginning of year	815,725	–
Amount received	–	1,061,620
Expenses	(724,080)	(245,895)
	<b>91,645</b>	<b>815,725</b>
<b>Coca-Cola Foundation</b>		
Balances at beginning of year	44,490	44,490
Amount received	10,856,892	–
	<b>10,901,382</b>	<b>44,490</b>
<b>BPI Foundation</b>		
Balances at beginning of year	194,668	982,688
Amount received	800,000	200,000
Expenses	(250,000)	(988,020)
	<b>744,668</b>	<b>194,668</b>



	2016	2015
<b>BPI Foundation - Sinag Project</b>		
Amount received	₱4,050,000	₱-
Expenses	(1,450,000)	-
	<u>2,600,000</u>	<u>-</u>
<b>Philips Electronics &amp; Lightning Inc.</b>		
Amount received	5,000,000	-
Expenses	(3,400,000)	-
	<u>1,600,000</u>	<u>-</u>
<b>CODE-NGO</b>		
Investment managed	61,566,257	
	<u>₱110,634,049</u>	<u>₱32,217,092</u>

The details of the funds are fully discussed as follows:

*DOE and UNDP - CBRED Project*

In October 2006, the Parent Company was awarded a grant amounting to \$535,500 by the Global Environment Facility through UNDP and DOE for the CBRED project. Such grant shall be used to fund micro-finance intermediaries for re-lending to small-scale projects focusing on expanding renewable energy. The proceeds have been invested as part of the AFS financial assets account under BPI (Note 6).

*CORDAID - Ondoy-Pepeng Rehabilitation Project*

In 2010, the Parent Company partnered with CORDAID for a 5-year €1.5 million loan fund and was awarded a grant amounting to €8,007. The project Ondoy-Pepeng Rehabilitation fund seeks to provide a meaningful contribution to the rebuilding of livelihoods of families affected by the Ondoy and Pepeng typhoons. It is also expected that the project will document best practices in providing financing and development assistance to partners and households who are victims of calamities.

The project was completed on December 31, 2014. Full settlement to CORDAID was made on June 11, 2015.

*CORDAID - Shariah Project*

On November 10, 2014, the Parent Company was awarded a grant amounting to €75,571. The project aims to build competitive social enterprises in Mindanao. The project involves promotion of Shariah based financing through learning exchanges, staff immersion, forum among investors and partner organizations.

Another component of the project is the certification of four identified products that are produced in Mindanao. Expenses involve field validation and product documentation.

*CORDAID - Climate Change Project*

In 2011, the Parent Company received a grant amounting to €30,500 for capacity building and technical assistance program to introduce “climate smart” capacities and technologies to communities facing varying degrees of climate induced risks and vulnerabilities and whose existing agri-enterprises are at various stages of growth.

*CORDAID - Emergency Response for Typhoon Sendong*

In 2012, the Parent Company received a grant from CORDAID amounting to €83,845 for relief and rehabilitation support for communities in Cagayan de Oro (CDO), Mindanao who are affected



by typhoon Sendong. The program is to set up a performance guarantee for housing of more than 2,000 families in partnership with three (3) organizations based in CDO namely - Technology Outreach and Community Help Foundation, Foundation for Growth, Organizational Upliftment of People and The Social Action Center of the Archdiocese of Cagayan De Oro. Through Socialized housing Finance Corporation's (SHFC) CMP, the Parent Company will provide the guarantee - serving as security for the immediate release of financing - that the housing associations will comply with all required documents. In July 2012, the BOT approved the Memorandum of Understanding with SHFC for the performance guarantee for the immediate release of the CMP loan. Further, on October 3, 2012, the BOT approved to open the escrow account in favor of SHFC with AUB, as escrow agent, equivalent to 25% of total approved loan stipulated in guarantee agreement (Note 7).

*CORDAID - Knowledge Management Project*

In August 2013, the Parent Company received a grant from CORDAID amounting to €14,231 for knowledge management project in support of the Climate Change Fund program. Major activities include industry studies to be able to identify different technologies being used in the production of goods and services and how these affect the business, the beneficiaries and environment; technology assessments to determine the CO2 impact of technologies being used by selected social enterprises and provide interventions for reducing their carbon footprints; and partners mentoring program on climate change mitigation and adaptation.

*CORDAID - Cut Flower Industry*

In 2015, the Parent Company received a grant from CORDAID amounting to €20,000. The project aims to support the cut flower industry at Benguet, Philippines.

*Coca-cola Foundation*

The Parent Company and Coca-cola Foundation agreed to cooperate and undertake a joint project on scaling up program for Social Enterprises for water services (Agos-Scale Up Water) that would lead to the development and expansion of potable water services. The Coca-cola Foundation funding support is in the amount of \$218,817 which shall be used for development of source of potable water, construction and repair of water tanks and reservoirs, laying of new pipelines and repair of leaks of selected communities in the Philippines and shall not be used for any other purpose.

*BPI Foundation*

The Parent Company was awarded a total grant amounting to ₱2.0 million by the Bank of the Philippine Islands Foundation, Inc. Such grant shall be used to develop partnerships among indigenous communities via a social enterprise approach. Releases of the funds are in tranches subject to the submission of accomplishment reports.

*BPI Foundation - Sinag Project*

In 2016, the Parent Company and BPI Foundation entered into a partnership, the Sinag Project. The project aims to support enterprises that seek to contribute social and economic solution particularly in the agricultural sector. The project will capacitate and grow 30 enterprises in 3 years to become viable businesses and achieve financial sustainability. To support the implementation of this project, both parties will establish a sustainable management and financing facility amounting to ₱10.0 million or ₱5.0 million each from the Parent Company and BPI Foundation.

*Philips Electronic & Lightning Inc.*

The Parent Company collaborated with Philips Electronic & Lightning Inc. (Philips) in the setting-up, management, and operation of five healthcare clinics. The objective of the joint project is to



be able to reach out to communities and settlements without, or with limited, access to basic and effective medical care and provide them such care at affordable and reasonable cost. For this purpose, Philips donated ₱5.0 million in 2016.

*CODE-NGO*

In 2016, the Parent Company acted as fund manager of CODE-NGO. The fund entrusted to the Parent Company is invested in financial securities under a discretionary mandate. The fund is valued at its fair value at the end of financial reporting period after consideration of contributions and withdrawals from the fund.

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**14. Project Expenses**

This account consists of:

	2016	2015
Project development, monitoring and evaluation (PDME)	<b>₱25,690,478</b>	₱27,079,333
Project support	<b>8,353,346</b>	4,949,002
Knowledge management	<b>4,369,996</b>	9,079,415
Institutional support	<b>2,411,031</b>	3,260,005
Advocacy and communications	<b>1,079,094</b>	895,056
CBRED related expenses	–	144,584
CORDAID related expenses	–	62,073
	<b>₱41,903,945</b>	<b>₱45,469,468</b>

PDME, CORDAID and CBRED related expenses are summarized below:

	2016	2015
Salaries and benefits (Note 16)	<b>₱17,194,596</b>	₱14,971,324
Project monitoring	<b>4,408,269</b>	6,154,004
Project audit	<b>1,631,906</b>	3,032,786
Supplies, services and other operating costs	<b>1,255,705</b>	822,003
Outside services	<b>402,750</b>	543,993
Due dilligence	<b>215,942</b>	–
Pre and post project meetings and workshops	<b>210,874</b>	294,474
Project appraisals	<b>187,104</b>	442,130
Project evaluation and documentation	<b>173,026</b>	999,758
Others	<b>10,306</b>	25,518
	<b>₱25,690,478</b>	<b>₱27,285,990</b>

Knowledge management includes baseline survey and social enterprise conference. Institutional support includes staff learning and development and organizational development costs. Project support expenses include expenses for projects capability building. Advocacy and communications include media coverage, press briefing and publicity promotions.



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## 15. General and Administrative Expenses

This account consists of:

	2016	2015
Salaries and benefits (Note 16)	<b>₱9,930,952</b>	₱10,669,806
Meetings	<b>2,290,541</b>	2,540,586
Outside services	<b>1,655,170</b>	1,452,221
Legal fee	<b>672,090</b>	609,425
Utilities	<b>543,641</b>	671,780
Repairs and maintenance	<b>533,111</b>	487,482
Office supplies	<b>509,962</b>	520,595
Communications	<b>433,889</b>	498,444
Transportation and travel	<b>324,149</b>	298,598
Recruitment and advertising	<b>197,337</b>	402,753
Association dues and membership fees	<b>114,236</b>	101,777
Taxes and licenses	<b>59,496</b>	280,032
Representation	<b>19,439</b>	10,703
Share of project losses (Note 13)	-	281,939
Others	<b>315,999</b>	173,034
	<b>₱17,600,012</b>	₱18,999,175

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## 16. Personnel Expenses

This account consists of:

	2016	2015
Salaries and wages	<b>₱20,708,287</b>	₱17,228,129
De minimis benefits	<b>3,071,448</b>	2,542,911
Social security costs	<b>1,901,757</b>	1,616,360
Bonuses	<b>1,196,122</b>	2,261,759
Completion pay	<b>176,803</b>	1,314,345
Compensated absences	<b>71,131</b>	677,626
	<b>₱27,125,548</b>	₱25,641,130

Allocation of personnel expenses to project expenses and general and administrative follow:

	2016	2015
Project expenses (Note 14)	<b>17,194,596</b>	₱14,971,324
General and administrative expenses (Note 15)	<b>9,930,952</b>	10,669,806
	<b>₱27,125,548</b>	₱25,641,130

Compensation of identified key management personnel of the Parent Company are as follows:

	2016	2015
Salaries and wages	<b>₱8,964,362</b>	₱7,148,300
Employee benefits	<b>1,531,081</b>	2,045,686
	<b>₱10,495,443</b>	₱9,193,986



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## 17. Interest Income and Other Income

This account consists of interest income (expense) from the following sources:

	2016	2015
Cash in bank (Note 4)	<b>₱27,112</b>	₱117,622
Advances to project proponents (Note 5)	<b>6,492,984</b>	9,296,587
Escrow deposits (Note 7)	<b>(51,018)</b>	(409,221)
	<b>₱6,469,078</b>	₱9,004,988

Other income consists of the following:

	2016	2015
Income from guarantee (Note 21)	<b>₱72,645</b>	₱283,294
Gain on sale of property and equipment	<b>24,054</b>	477,334
Retirement benefit income (Note 18)	<b>6,170</b>	9,500
Others	<b>13,933</b>	93,370
	<b>₱116,802</b>	₱863,498

Other income under “Others” above pertains to interest income from loans of employees being managed by NEC Multi-Purpose Cooperative. It also include sale of old newspapers and scrap materials.

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## 18. Retirement Benefit Costs

Retirement benefits are based on the employee’s year of service and compensation level during their employment period. The funds are administered by a Retirement Plan Trustee. The Retirement Plan Trustee is responsible for the investing decisions of the Plan and defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants.

Under the existing regulatory framework, Republic Act (RA) No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee’s retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the Plan.

The following tables summarize the components of net retirement benefit income recognized in the Parent Company statements of comprehensive income and the funded status and amounts recognized in the Parent Company’s statements of financial position.

Net retirement benefit income to be recognized in profit or loss amounted to ₱6,170 and ₱9,500 in 2016 and 2015, respectively.

Remeasurement gains (losses) on defined benefit plan to be recognized in other comprehensive income amounted to ₱42,328 and ₱90,417 in 2016 and 2015, respectively.



Net retirement benefit asset is as follows:

	2016	2015
Fair value of plan asset	₱2,080,620	₱2,032,122
Effect of asset ceiling	(1,229,768)	(1,229,768)
	<b>₱850,852</b>	<b>₱802,354</b>

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

	2016	2015
Balances at beginning of year	₱2,032,122	₱1,932,205
Interest income included in net interest cost	6,170	9,500
Total amount recognized in OCI	42,328	90,417
Balances at end of year	<b>₱2,080,620</b>	<b>₱2,032,122</b>

The fair value of plan asset by each class are as follows:

	2016	2015
Cash and cash equivalents	₱1,509	₱1,552
Equity instruments - financial institution	2,079,111	2,030,570
Fair value of plan asset	<b>₱2,080,620</b>	<b>₱2,032,122</b>

All equity instruments held have quoted prices in active market. The plan assets have diverse investments and do not have any concentration risk.

The Parent Company's defined benefit pension plan is funded by the Parent Company. The Parent Company is not required to pre-fund the future defined benefits payable under the Plan before they become due. For this reason, the amount and timing of contributions to the Plan are at the Parent Company's discretion. However, in the event a benefit claim arises and the Plan is insufficient to pay the claim, the shortfall will then be due and payable from the Parent Company to the Plan.

## 19. Related Party Transactions

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The Parent Company's related party transactions represent reimbursable expenses made by PEHI.

	2016		2015		Terms	Conditions
	Volume/Amount	Outstanding Balance	Volume/Amount	Outstanding Balance		
Receivable from PEHI	₱70,753	₱70,753	₱120,653	₱120,653	Due and demandable; noninterest-bearing; to be received in cash	Unsecured; unimpaired

Financial and administrative functions of PEHI are being handled by the employees of the Parent Company.



*Terms and conditions of transactions with related parties*

Outstanding balances at year-end are unsecured, interest-free if paid when due, otherwise, interest bearing, and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. The Company has not recognized any impairment losses on amounts due from related parties for the years ended December 31, 2016 and 2015.

The Parent Company has not recognized any impairment losses on amounts receivables from related parties for the years ended December 31, 2016 and 2015. This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.

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## 20. Income Taxes

The Parent Company is a non-stock, nonprofit private foundation, organized and operated exclusively for providing financial, managerial, technical assistance to proponents of poverty alleviation and development projects. It is exempt from income tax pursuant to Section 30 of the Tax Reform Act of 1997 (RA 8424). However, income derived from its properties, real or personal, or from any of its activities conducted for profit regardless of the disposition made of such income, is subject to tax.

On December 23, 2004, the Bureau of Internal Revenue (BIR) issued to the Parent Company a five-year certificate of registration in accordance with Revenue Regulations (RR) 13-98. This certification allows the Parent Company certain incentives such as: (a) full or limited deduction by the donors of their donation, grants, and contributions pursuant to Section 34(H) of the Tax Code; and, (b) exemption from donor's tax pursuant to Section 101 of RA 8424. The certification issued by the BIR is subject to the representation and commitments set forth in the accreditation issued to the Parent Company by the Philippine Council for NGO Certification (PCNC) on October 27, 2004.

On January 22, 2008, BIR issued Revenue Memorandum Circular (RMC) No. 14-2008 which states that the above-mentioned Certificate of Accreditation issued by PCNC prior to November 15, 2007 will be valid only until March 31, 2008. Accordingly, holders of the said certificates are directed to renew their accreditation with the proper accrediting government entity on or before the said date. This circular was issued pursuant to Executive Order (EO) No. 671, as circularized under RMC No. 88-2007 which lists in detail the government agencies designated as accrediting entities that will certify and accredit charitable organizations as donee-institutions relative to the deductibility and exemption from donor's tax of contributions or gifts received by them pursuant to the Sections 34 and 101, respectively, of the Tax Code, as amended.

This order was repealed by EO No. 720, where PCNC has the function of accrediting donee institutions. Further, no corporations, associations, or NGO shall be processed by the PCNC unless it has secured a valid registration with the government agency that exercises regulatory functions over such corporation, association or NGO. On May 31, 2013, the PCNC issued to the Parent Company a five-year certification for donee institution status.

As of March 20, 2017, the Parent Company is waiting for the confirmation of certification from the BIR.

Furthermore, pursuant to Revenue Memorandum Order No. 20-2013 dated July 22, 2013, which prescribes the policies and guidelines in the issuance of tax exemption rulings to qualified nonstock, nonprofit corporations and associations under Section 30 of the National Internal





Revenue Code of 1997, as amended, the Parent Company is currently in the process of revalidating its tax exemption certification with the BIR.

The tax expense shown in the Parent Company statements of comprehensive income in 2016 and 2015 pertains to final taxes withheld from investment and interest income on the Parent Company's bank accounts, short-term placements and AFS debt financial assets.

There are no current provisions for regular corporate income tax in 2016 and 2015 due to the Parent Company's net taxable loss position.

The Parent Company has the following temporary differences and unused NOLCO, on which no deferred income tax assets were recognized as the management believes that it is not probable that sufficient taxable income will be available in the future against which the benefit of these deferred tax assets can be utilized:

	2016	2015
NOLCO	<b>₱211,653,091</b>	₱172,159,571
Allowance for impairment losses on receivables	<b>3,620,100</b>	83,147,490
Unrealized foreign exchange (gains) losses - net	<b>(2,591,987)</b>	460,446
	<b>₱212,681,204</b>	₱255,767,507

As of December 31, 2016, the amount of NOLCO still available for offset against future tax payable over a period of three (3) years from the year of inception are as follows:

Inception Year	Amount	Applied	Expired	Balance	Expiry Year
2016	₱67,958,038	₱-	₱-	₱67,958,038	2019
2015	89,229,259	-	-	89,229,259	2018
2014	54,465,794	-	-	54,465,794	2017
2013	28,464,518	-	28,464,518	-	2016
	<b>₱240,117,609</b>	<b>₱-</b>	<b>₱28,464,518</b>	<b>₱211,653,091</b>	

The reconciliation of income before income tax computed at the statutory tax rate is as follows:

	2016	2015
Provision for income tax at statutory tax rate of 30%	<b>(₱1,788,693)</b>	₱21,872,348
Additions to (reductions in) resulting from:		
Movements in unrecognized deferred income tax assets	<b>20,387,411</b>	26,768,778
Nondeductible grant expenses	<b>12,787,914</b>	15,490,879
Nontaxable income	<b>(1,851)</b>	(2,850)
Interest income subject to final tax - others	<b>(6,032)</b>	(20,281)
Interest income on investment subject to final tax	<b>(1,623,540)</b>	(2,530,712)
Nontaxable dividend income and valuation gains	<b>(26,504,982)</b>	(56,476,179)
	<b>₱3,250,227</b>	₱5,101,983



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## 21. Commitments and Contingencies

### Guarantee Agreement

#### *Community Mortgage Program*

In September and October 2012, the Parent Company entered into guarantee agreements where the Parent Company is the guarantor for the account of Consolacion Homeowners Association, Inc. (HOAI), Medella Milgrosa HOAI Phase 1 and Phase 2, Villeview Lumbia HOAI, Bermundo HOAI, Mergeville HOAI, Greenfield HOAI, Virgen Del Rosario HOAI, Grandville HOAI, Monsanto Village HOAI and Blessed Ville HOAI, the borrowers with SHFC under the “CMP Express Lane for Victims of Demolition and Disasters Projects” for one year. The program is to assist the above mentioned legally organized associations underprivileged and homeless citizens to purchase and develop a tract of land or resettlement site (Note 7).

The borrowers need only to submit specific documentations required under CMP project to the Parent Company and maintain a collection efficiency rating of 80% within one year from release of loan. As of December 31, 2016, the conditions have been met and the account has been closed.

#### *Pinoy ME Foundation, Inc.*

On October 21, 2008, the Parent Company entered into a guarantee agreement where the Parent Company is the guarantor for the account of Pinoy ME Foundation, Inc., the borrower, with Development Bank of the Philippines (DBP) as the lender up to ₱100,000,000. The Parent Company guarantees, without the benefit of excussion, the payment of up to 80% of the outstanding loans availed by Pinoy ME Foundation, Inc.

On March 4, 2013, the Parent Company entered into a surety agreement where the Parent Company is the surety for the account of Pinoy ME Foundation, Inc., the borrower, with Land Bank of the Philippines (LBP) as the lender up to ₱40,000,000. The Parent Company guarantees, without the benefit of excussion, the payment of the principal amount availed by Pinoy ME Foundation, Inc., amounting to ₱40,000,000.

The outstanding payable of Pinoy ME Foundation, Inc. to DBP and LBP amounted to ₱2,666,666 and ₱17,343,116 as of December 31, 2016 and 2015, respectively.

Pinoy ME Foundation, Inc. pays the Parent Company a guarantee fee of one and a half percent (1.5%) per annum, based on the outstanding balance of the loan guaranteed computed quarterly and on a pro-rata basis. The Parent Company earned income from guarantee fee, net of output VAT, amounting to ₱72,645 and ₱283,295 in 2016 and 2015, respectively, presented as part of “Other income” in the Parent Company statements of comprehensive income (Note 17).

The guarantee ended March 31, 2015. No guarantee of new loans shall be undertaken thereafter. The outstanding portfolio as of December 31, 2016 will still be covered under the guarantee agreement until their loans mature.



## 22. Financial Risk Management Objectives and Policies

In October 2012, the Parent Company implemented an enterprise-wide risk management that manages the risks across the organization in a structured and an integrated way.

The main purpose of the Parent Company's financial instruments is to fund the Parent Company's operations. The main risks arising from the use of financial instruments are liquidity risk, foreign currency risk, interest rate risk, equity price risk, investment evaluation risk and credit risk. The Parent Company's BOT reviews and agrees with policies for managing each of these risks. These are summarized below:

### Liquidity risk

Liquidity risk is the risk that the Parent Company will not be able to meet its financial obligations as they fall due. It aims to maintain flexibility in funding its operations by realizing income from its investments, collecting efficiently from its project proponents and maintaining sufficient and available cash. The Parent Company manages its liquidity profile to meet the following objectives: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; (c) to be able to access funding when needed at the least possible cost; and (d) to maintain an adequate time spread of refinancing maturities.

The table below shows the maturity profile of the Parent Company's financial assets used for liquidity purposes based on contractual undiscounted cash flows, and the Parent Company's financial liabilities based on contractual undiscounted payments:

### 2016

	On demand	< 1 year	> 1 year	Total
<i>Financial assets:</i>				
Cash	₱30,843,609	₱-	₱-	₱30,843,609
Receivables	-	112,188,471	33,763,176	145,951,647
Refundable deposit	-	-	45,600	45,600
	₱30,843,609	₱112,188,471	₱33,808,776	₱176,840,856
<i>Financial liabilities:</i>				
Accounts payable and accrued expenses	₱-	₱8,809,142	₱-	₱8,809,142
Grants payable	-	35,202,989	-	35,202,989
Funds held in trust	-	110,634,049	-	110,634,049
	₱-	₱154,646,180	₱-	₱154,646,180

### 2015

	On demand	< 1 year	> 1 year	Total
<i>Financial assets:</i>				
Cash	₱27,620,262	₱-	₱-	₱27,620,262
Receivables	-	87,459,487	56,265,689	143,725,176
Escrow deposit	1,569,954	-	-	1,569,954
Refundable deposit	-	-	45,600	45,600
	₱29,190,216	₱87,459,487	₱56,311,289	₱172,960,992
<i>Financial liabilities:</i>				
Accounts payable and accrued expenses	₱-	₱10,446,232	₱-	₱10,446,232
Grants payable	-	32,333,657	-	32,333,657
Funds held in trust	-	32,217,092	-	32,217,092
	₱-	₱74,996,981	₱-	₱74,996,981



Foreign Currency Risk

The Parent Company has transactional currency exposures. The exposure arises from cash with banks denominated in currencies other than reporting currency which is the ₱.

The Parent Company closely monitors the movement in the exchange rate and makes a regular assessment of future foreign exchange movements. The Parent Company then manages the balance of its foreign currency-denominated assets and liabilities based on this assessment.

The balance of foreign currency-denominated financial are as follows:

	2016		2015	
	Currencies	Peso Equivalent	Currencies	Peso Equivalent
In USD:				
Cash in bank	\$219,896	₱10,933,239	\$1821	₱85,696
AFS financial assets	3,129,529	155,600,170	297,608	14,005,432
In EUR:				
Cash in bank	€6,267	324,901	€41,582	2,151,498
In IDR:				
Cash on hand	Rp-	-	Rp7,848,000	26,683
		<b>₱166,858,310</b>		<b>₱16,269,309</b>

The exchange rates used are as follows:

	1 USD: Peso	1 EUR: Peso	1 IDR: Peso
<b>December 31, 2016</b>	<b>₱49.720</b>	<b>₱51.8404</b>	<b>₱-</b>
December 31, 2015	47.060	51.7411	0.0034

The following table presents the impact on income before income tax due to change in the fair value of its monetary assets, brought about by a change in the USD and EUR exchange rates (holding all other variables constant).

**2016**

	Increase (decrease) in income before income tax	
	₱ strengthens by 5%	₱ weakens by 5%
<b>Effect in income before income tax:</b>		
<b>Change in PHP/USD exchange rate</b>	<b>(₱8,326,670)</b>	<b>₱8,326,670</b>
<b>Change in PHP/EUR exchange rate</b>	<b>(16,245)</b>	<b>16,245</b>

**2015**

	Increase (decrease) in income before income tax	
	₱ strengthens by 5%	₱ weakens by 5%
<b>Effect in income before income tax:</b>		
Change in PHP/USD exchange rate	(₱704,557)	₱704,557
Change in PHP/EUR exchange rate	(107,575)	107,575
Change in PHP/IDR exchange rate	(1,334)	1,334

There is no other impact on the Parent Company's fund balances other than those already affecting income (loss) before income tax.



Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Parent Company derives majority of its revenue from short-term deposits and AFS financial assets. Accordingly, the Parent Company is subject to financial risk arising from changes in interest rates. The Parent Company manages interest rate risk by investing mainly on fixed coupon interest bonds and other investments. By doing so, the Parent Company is assured of future interest revenues from such investments.

Since the Parent Company invests on fixed coupon interest bonds and other investments, the Parent Company is not exposed to cash flow interest rate risk.

Equity Price Risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of the equity indices and the values of individual stocks. The equity price risk exposure arises from the Parent Company's financial assets in AFS equity instruments. For investments in Philippine equities, all funds are invested in equities listed in the Philippine Stock Exchange (PSE).

Quoted AFS securities assets are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market. The Parent Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; and limits on investment in each industry or sector.

The following table demonstrates the sensitivity to a reasonably possible change in the equity price based on past price performance and macroeconomic forecast for 2016 and 2015, with all other variables held constant, of the Parent Company's fund balances:

Market Index	2016		2015	
	Change in variable	Effect on equity	Change in variable	Effect on equity
PSE	+1.62%	15,696,146	+8.92%	₱78,471,368
	-1.62%	(15,696,146)	-8.92%	(78,471,368)

The percentage of increase and decrease in market price is based on the movement in the Philippine Stock Exchange Index (PSEI) from beginning to end of the year. The sensitivity analyses shown above are based on the assumption that the movement in PSE composite index will be most likely be limited to an upward or downward fluctuation of 1.62% and 9.91% and in 2016 and 2015, respectively.

The impact of sensitivity of equity prices on the Company's equity already excludes the impact on transactions affecting the statements of income.

Investment Evaluation Risk

Investment evaluation risk is defined as the lack of relevant and or reliable information supporting investment decisions and linking the risks undertaken to the capital at risk may result in poor investment decisions.

The Parent Company put in place the policy on trust investments to ensure that the Parent Company is not exposed to unnecessary risk. The policy includes portfolio mix, currency mix,



monitoring and reporting, criteria in selecting fund managers and social responsible investing policy.

Credit Risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligation.

The Parent Company is exposed to credit risk primarily because of its investing activities. The Parent Company is exposed to credit risk arising from the counterparties to its financial assets (i.e., debt instruments, short-term investments, fixed income deposits and receivables).

*Credit risk management*

In managing credit risk on these investments, capital preservation is paramount. The Parent Company transacts only with recognized and creditworthy third parties. For investments in bonds, funds are invested in highly recommended, creditworthy debt instruments that provides satisfactory interest yield and capital appreciation. Investments in equity securities represent investments in companies with good dividend track record as well as capital appreciation. The investment portfolio mix between debt and equity is reviewed regularly by the Parent Company's Finance and Investments Committee.

With respect to credit risk arising from the other financial assets of the Parent Company, which consist of cash and cash equivalents, receivables, escrow deposit and refundable deposit, the Parent Company's Finance and Investments Committee monitors these financial assets on an ongoing basis with the result that the Parent Company's exposure to impairment losses is not significant.

*Credit risk exposures*

At financial reporting date, the Parent Company's maximum exposure to credit risk is equal to the carrying amount of each class of financial assets recognized in the Parent Company's statements of financial position less the amount of advances to proponents covered by collaterals.

*Credit risk concentration profile*

The Parent Company has no significant concentrations of credit risk.

*Aging analysis*

Aging analysis per class of financial assets are as follows:

**2016**

	Neither Past Due nor Impaired	Past due but not impaired		Impaired Financial Assets	Total
		<1 year	>1 year		
<b>Loans and receivables:</b>					
Cash	₱30,843,609	₱-	₱-	₱-	₱30,843,609
Receivables	145,951,647	-	-	95,172,352	241,123,999
Refundable deposit	45,600	-	-	-	45,600
<b>AFS financial assets</b>	<b>1,820,635,108</b>	-	-	-	<b>1,820,635,108</b>
	<b>₱1,997,475,964</b>	<b>₱-</b>	<b>₱-</b>	<b>₱95,172,352</b>	<b>₱2,092,648,316</b>



2015

	Neither Past Due nor Impaired	Past due but not impaired		Impaired Financial Assets	Total
		<1 year	>1 year		
Loans and receivables:					
Cash	₱27,620,262	₱-	₱-	₱-	₱27,620,262
Receivables	143,725,176	-	-	83,147,490	226,872,666
Escrow deposit	1,569,954	-	-	-	1,569,954
Refundable deposit	45,600	-	-	-	45,600
AFS financial assets	1,879,237,244	-	-	-	1,879,237,244
	<b>₱2,052,198,236</b>	<b>₱-</b>	<b>₱-</b>	<b>₱83,147,490</b>	<b>₱2,135,345,726</b>

*Credit Quality*

The table below presents information about the credit quality per class of financial assets:

2016

	High Grade	Standard Grade	Total
<b>Cash</b>	<b>₱30,843,609</b>	<b>₱-</b>	<b>₱30,843,609</b>
<b>Receivables</b>	<b>-</b>	<b>145,951,647</b>	<b>145,951,647</b>
<b>AFS financial assets</b>	<b>1,820,635,108</b>	<b>-</b>	<b>1,820,635,108</b>
<b>Refundable deposit</b>	<b>-</b>	<b>45,600</b>	<b>45,600</b>
	<b>₱1,851,478,717</b>	<b>₱145,997,247</b>	<b>₱1,997,475,964</b>

2015

	High Grade	Standard Grade	Total
Cash	₱27,620,262	₱-	₱27,620,262
Receivables	-	143,725,176	143,725,176
AFS financial assets	1,879,237,244	-	1,879,237,244
Escrow deposit	1,569,954	-	1,569,954
Refundable deposit	-	45,600	45,600
	<b>₱1,908,427,460</b>	<b>₱143,770,776</b>	<b>₱2,052,198,236</b>

Cash and escrow deposit included under “Other current assets” are considered high grade since the counterparties are reputable banks with high quality external credit ratings. High grade also include AFS financial assets related to special deposit accounts, debt and equity instruments, unit investment trust funds and mutual funds entered into by the Parent Company with various fund managers, most of which are top banks in their respective locations. Standard grade pertains to receivables and refundable deposit which would require some reminder follow-ups to obtain settlement from the counterparty.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

*Cash*

The carrying amount of cash approximates the fair value of the financial instruments due to the short-term nature of these instruments.



*Receivables, accounts payable and accrued expenses, grants payable and funds held in trust*

Similarly, the historical cost carrying amounts of receivables, accounts payable and accrued expenses, grants payable and funds held in trust approximate their fair values due to the short-term maturities of these financial instruments.

*Escrow deposit and refundable deposit*

These deposits are presented at cost since management has no reliable basis to estimate the timing of cash flows from these deposits and the lack of discount rate necessary to calculate the fair value of these deposits.

*AFS financial assets*

The carrying values of quoted AFS financial assets are equal to its fair values because the instruments were revalued based on the quoted market prices at the close of business at financial reporting date.

Fair Value Hierarchy

The following table shows the fair value hierarchy of the Parent Company's AFS financial assets as at December 31, 2016 and 2015:

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
2016	₱1,749,609,918	₱71,025,190	₱-	₱1,820,635,108
2015	1,807,261,395	71,975,849	-	1,879,237,244

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement during the years ended December 31, 2016 and 2015.

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**23. Fund Management Objectives, Policies and Procedures**

The Parent Company's fund management objective is to maintain the real value of the endowment fund and to work towards its growth. The Parent Company manages the fund structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to preserve the value of the fund, the Parent Company allocates a certain percentage of its net earnings to cover for the cost of inflation.

The Parent Company's total provision for inflation for 2016 and 2015 amounted to ₱59.8 million and ₱58.1 million, respectively.

The Parent Company's goal in fund management is to ensure the long-term continuity of the fund and its services through the following undertakings:

- Investing the principal of the endowment fund;
- Limiting disbursements for Parent Company operations and assistance to partners to the amount of the investment and interest income earned by the endowment fund; and
- Limiting operating costs to 15% of total income earned on an annual basis.





Fund balances for the reporting periods under review are summarized as follows:

	2016	2015
Total liabilities	<b>₱154,646,180</b>	₱74,996,981
Fund balance	<b>2,004,314,698</b>	2,045,789,076
Liability to fund balance ratio	<b>7.72%</b>	3.67%

The Parent Company sets the amount of Fund in proportion to its overall financing structure. The Parent Company manages the fund structure and makes adjustments to it in light of the changes economic conditions and the risk characteristics of the underlying assets. No changes were made in the objectives, policies or processes in 2016 and 2015.

#### 24. Supplementary Information Required Under Revenue Regulations 15-2010

In compliance with the requirements set forth by Revenue Regulations 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued for the year ended December 31, 2016.

- a. The Parent Company is VAT-registered with output VAT declaration of ₱1,040,740 for the year ended December 31, 2016 based on the amount of ₱8,672,833.

- b. Input VAT

Balance at January 1, 2016	₱753,575
Current year's domestic purchases/payments for:	
Services lodged under other accounts	731,606
Services rendered by non-residents	172,800
Goods other than for resale or manufacture	7,809
Capital goods not subject to amortization	70,967
Input claimed against output VAT	(1,040,740)
<b>Balance at December 31, 2016</b>	<b>₱696,017</b>

- c. The documentary stamp tax paid/accrued for the year amounted to ₱3,375.

- d. Other taxes and licenses under general and administrative expenses are as follows:

Local:

Property tax	₱34,562
Business permit and fees	32,848

National:

Bureau of Internal Revenue annual registration fee	500
	<b>₱67,910</b>

- e. The amount of withholding taxes paid in 2016 are as follows:

Withholding tax on compensation	₱5,008,813
Expanded withholding tax	1,043,038
	<b>₱6,051,851</b>

