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

Parent Company Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report

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December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

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 Company), which comprise the parent company statements of financial position as at December 31, 2017 and 2016, and the parent company statements of comprehensive income, parent company statements of changes in fund balances and parent company statements of cash flows for the years then ended, and notes to the parent company 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 Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Parent Company Financial Statements* section of our report. We are independent of the 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 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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the 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 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 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 parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 27 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 parent company financial statements. 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.

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PTR No. 6621276, January 9, 2018, Makati City

March 7, 2018

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

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**₱18,612,475**	₱33,634,157
Receivables (Note 7)	**106,991,986**	115,688,471
Available-for-sale (AFS) financial assets (Note 8)	**1,927,489,228**	1,814,344,560
Other current assets (Note 9)	**1,166,011**	1,616,608
Total Current Assets	**2,054,259,700**	1,965,283,796
Noncurrent Assets		
Receivables - net of current portion (Note 7)	**73,630,824**	33,763,176
Property and equipment (Note 10)	**26,983,725**	29,105,641
Investment properties (Note 11)	**4,911,814**	4,911,814
Investment in subsidiary	**125,000,000**	125,000,000
Other noncurrent assets	**2,412,522**	896,452
Total Noncurrent Assets	**232,938,885**	193,677,083
	₱2,287,198,585	₱2,158,960,879
LIABILITIES AND FUND BALANCES		
Current Liabilities		
Accounts payable and accrued expenses (Note 13)	**₱13,279,137**	₱8,809,142
Grants payable (Note 14)	**22,300,544**	35,202,989
Funds held in trust (Note 15)	**118,226,154**	110,634,049
Total Liabilities	**153,805,835**	154,646,180
Fund Balances		
Restricted	**2,115,599,547**	2,053,980,142
Unrestricted	**17,793,203**	(49,665,443)
Total Fund Balances	**2,133,392,750**	2,004,314,699
	₱2,287,198,585	₱2,158,960,879

See accompanying Notes to Parent Company Financial Statements.

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

PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016
REVENUE		
Investment income (Note 8)	**₱81,713,130**	₱104,559,460
Interest income (Notes 6, 7, 9 and 19)	**8,045,576**	6,469,078
Foreign exchange gains	**412,573**	8,639,958
Other income (Note 19)	**540,633**	116,802
	90,711,912	119,785,298
EXPENSES		
Project expenses (Note 16)	**39,111,020**	41,903,945
Grant expenses (Note 14)	**29,533,792**	36,656,762
General and administrative (Note 17)	**19,846,946**	17,600,012
Provision for impairment losses on AFS financial assets (Note 8)	**10,155,690**	14,480,338
Provision for impairment losses on receivables (Note 7)	**1,126,460**	12,067,001
Depreciation and amortization (Note 10)	**2,928,922**	3,039,549
	102,702,830	125,747,607
LOSS BEFORE FINAL TAX	**(11,990,918)**	(5,962,309)
PROVISION FOR FINAL TAX (Note 22)	**2,866,744**	3,250,227
NET LOSS	**(14,857,662)**	(9,212,536)
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:		
Changes in fair value of AFS financial assets (Note 8)	**142,726,626**	(32,304,170)
Remeasurement gain on defined benefit plan (Note 20)	**1,209,087**	42,328
	143,935,713	(32,261,842)
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱129,078,051**	(₱41,474,378)

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, 2017 AND 2016

	Unrestricted Funds					Restricted Funds			
	Members' Contribution	**Cumulative Excess of Revenues over Expenses**	**Revaluation Gains (Losses) on AFS financial assets** (Note 8)	**Remeasurement Gain on Defined Benefit Plan** (Note 20)	**Total**	**Endowment Fund** (Note 1)	**Provision for Inflation** (Note 25)	**Total**	**Grand Total**
Balances at January 1, 2017	**₱100,000**	**(₱45,248,661)**	**(₱4,649,527)**	**₱132,745**	**(₱49,665,443)**	**₱1,318,371,694**	**₱735,608,448**	**₱2,053,980,142**	**₱2,004,314,699**
Total comprehensive income (loss)	**–**	**(14,857,662)**	**142,726,626**	**1,209,087**	**129,078,051**	**–**	**–**	**–**	**129,078,051**
Provision for inflation (Note 25)	**–**	**(61,619,405)**	**–**	**–**	**(61,619,405)**	**–**	**61,619,405**	**61,619,405**	**–**
Balances at December 31, 2017	**₱100,000**	**(₱121,725,728)**	**₱138,077,099**	**₱1,341,832**	**₱17,793,203**	**₱1,318,371,694**	**₱797,227,853**	**₱2,115,599,547**	**₱2,133,392,750**
Balances at January 1, 2016	₱100,000	₱23,788,539	₱27,654,643	₱90,417	₱51,633,599	₱1,318,371,694	₱675,783,784	₱1,994,155,478	₱2,045,789,077
Total comprehensive income (loss)	–	(9,212,536)	(32,304,170)	42,328	(41,474,378)	–	–	–	(41,474,378)
Provision for inflation (Note 25)	–	(59,824,664)	–	–	(59,824,664)	–	59,824,664	59,824,664	–
Balances at December 31, 2016	₱100,000	(₱45,248,661)	(₱4,649,527)	₱132,745	(₱49,665,443)	₱1,318,371,694	₱735,608,448	₱2,053,980,142	₱2,004,314,699

See accompanying Notes to Parent Company Financial Statements.

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

PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before final tax	**(₱11,990,918)**	(₱5,962,309)
Adjustments for:		
Provision for impairment losses on AFS financial assets (Note 8)	**10,155,690**	14,480,338
Depreciation and amortization (Note 10)	**2,928,922**	3,039,549
Provision for impairment losses on receivables (Note 7)	**1,126,460**	12,067,001
Loss (gain) on sale of property and equipment (Notes 10 and 19)	**24,317**	(24,054)
Loss on retirement of property and equipment (Notes 10 and 19)	**12,277**	–
Unrealized foreign exchange gain	**(412,573)**	(8,639,958)
Interest income (Notes 6, 7, 9 and 19)	**(8,045,576)**	(6,469,078)
Investment income (Note 8)	**(81,713,130)**	(104,559,460)
Operating loss before working capital changes	**(87,914,531)**	(96,067,971)
Decrease (increase) in:		
Receivables	**(31,021,231)**	(13,934,311)
Other current assets	**450,597**	1,359,742
Other noncurrent assets	**(51,987)**	(6,170)
Net retirement assets	**(254,996)**	–
Increase (decrease) in:		
Accounts payable and accrued expenses	**4,469,995**	(1,637,090)
Grants payable	**(12,902,445)**	2,869,332
Funds held in trust	**7,597,015**	78,423,505
Net cash used in operations	**(119,627,583)**	(28,992,963)
Interest income received	**6,769,184**	6,109,917
Final taxes paid	**(2,866,744)**	(3,250,227)
Net cash flows used in operating activities	**(115,725,143)**	(26,133,273)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in AFS financial assets	**101,139,398**	119,167,636
Proceeds from sale of property and equipment	**3,782**	58,779
Additions to property and equipment (Note 10)	**(852,292)**	(1,969,205)
Additional investment in PEHI	–	(93,750,000)
Net cash flows provided by investing activities	**100,290,888**	23,507,210
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES ON CASH	**412,573**	8,639,958
NET INCREASE (DECREASE) IN CASH	**(15,021,682)**	6,013,895
CASH AT BEGINNING OF YEAR	**33,634,157**	27,620,262
CASH AT END OF YEAR (Note 6)	**₱18,612,475**	₱33,634,157

See accompanying Notes to Parent Company Financial Statements.

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Corporate Information

Peace Equity Access for Community Empowerment (PEACE) Foundation, Inc. (the Foundation or 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 revenue and expenses pertaining to the fund as unrestricted activities. Accordingly, the net loss amounting to ₱14.86 million and ₱9.2 million for the years then ended December 31, 2017 and 2016, respectively, were presented as part of the unrestricted fund balance.

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 December 31, 2017, the Parent Company is still in the process of reapplying the tax exemption from 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 registered principal office address of the Parent Company is 69 Esteban Abada Street, Loyola Heights, Quezon City.

Approval for Issuance of the Parent Company Financial Statements
The parent company financial statements as at and for the years ended December 31, 2017 and 2016 were approved and authorized for issuance by the BOT of the Parent Company on March 7, 2018.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation
The financial statements of the Parent Company have been prepared under the historical cost basis, except for AFS financial assets which are carried at fair value. The financial statements are presented in Philippine Peso (₱), which is the Parent Company's functional and presentation currency. All values are rounded to the nearest Peso, except when otherwise indicated.

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

Statement of Compliance
The financial statements of the Parent Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

3. Changes in Accounting Policies and Disclosures

The Parent Company applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2017. The adoption of these pronouncements did not have significant impact on the Parent Company's financial position or performance, unless otherwise indicated.

- Amendments to PFRS 12*, Disclosure of Interests in Other Entities, 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*

Changes on Accounting Policies and Disclosures
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Parent Company does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements. The Parent Company intends to adopt the following pronouncements when they become effective:

Effective beginning on or after January 1, 2018

Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*
The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

The Parent Company is currently assessing the potential effect of the amendments on its financial statements.

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. 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 Parent Company is currently assessing the potential effect adopting PFRS 9.

Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the Parent Company since the company does not have activities that are predominantly connected with insurance or issue insurance contracts.

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 retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

The Parent Company is currently assessing the potential effect adopting PFRS 15.

Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively, with earlier application permitted.

The Parent Company is currently assessing the potential effect of the amendments on its financial statements.

Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

The Parent Company is currently assessing the potential effect of the amendments on its financial statements.

Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning on or after January 1, 2019

Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The Parent Company is currently assessing the potential effect of the amendments on its financial statements.

PFRS 16, *Leases*
PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

Deferred effectivity

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

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

4. **Summary of Significant Accounting Policies**

Current versus Noncurrent Classification
The Parent Company presents assets and liabilities in the statement of financial position based on current or noncurrent classification.

An asset is current when it is:

a. Expected to be realized or intended to be sold or consumed in normal operating cycle;
b. Held primarily for the purpose of trading;
c. Expected to be realized within 12 months after the reporting period; or
d. Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

a. It is expected to be settled in normal operating cycle;
b. It is held primarily for the purpose of trading;
c. It is due to be settled within 12 months after the reporting period; or
d. There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Parent Company classifies all other liabilities as noncurrent.

Cash and cash equivalents
Cash represents cash on hand and in banks. Cash equivalents are short-term, highly liquid placements or deposits that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and that are subject to an insignificant risk of changes in value

Financial Instruments - Initial Recognition and Subsequent Measurement
Classification of financial instruments
Financial instruments within the scope of PAS 39 are classified as:

a. Financial assets and financial liabilities at fair value through profit or loss (FVPL);
b. Loans and receivables;
c. Held-to-maturity (HTM) investments;
d. Available-for-sale (AFS) financial assets; and
e. Other financial liabilities.

The classification depends on the purpose for which the instruments were acquired and whether they are quoted in an active market. The Parent Company determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates at every reporting period.

The financial instruments of the Parent Company as of December 31, 2017 and 2016 consist of loans and receivables and other financial liabilities.

Date of recognition of financial instruments
Financial instruments are recognized in the statement of financial position when the Parent Company 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 using the settlement date accounting.

In cases where fair value is determined using date which is not observable, the difference between the transaction price and model value is only recognized in statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Parent Company determines the appropriate method of recognizing the 'Day 1' difference amount.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market.

Loans and receivables are recognized initially at fair value, plus transaction costs that are attributable to the acquisition of loans and receivables.

After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate (EIR) method, less allowance for doubtful accounts. Amortized cost is calculated by taking into account any discount or premium on acquisition, and fees or costs that are an integral part of the EIR. Gains and losses are recognized in statement of income, when loans and receivables are derecognized or impaired, as well as through the amortization process.

This accounting policy relates to the cash and cash equivalents (excluding cash on hand), receivables and refundable deposits classified as noncurrent asset.

AFS Financial Assets
AFS financial assets include quoted and unquoted equity investments. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported under 'Unrestricted funds" in the fund balances section of the statement of financial position and as part of other comprehensive income in the statement of comprehensive income. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date.

AFS financial assets whose fair value cannot be reliably established are carried at cost less an allowance for any possible impairment. This normally applies to equity investments that are unquoted and whose cash flows cannot be forecasted reasonably.

When the investment is disposed of, the cumulative gains or losses previously recognized in unrestricted fund is recognized as income in the statement of comprehensive income. Dividends earned on holding AFS financial assets are recognized when the right of payment has been established. The losses arising from impairment of such investments are recognized as provision for impairment losses on AFS financial assets in the statement of comprehensive income.

The Parent Company's investments under fund managers and unquoted equity shares are designated as AFS financial assets.

Other financial liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations.

Other financial liabilities are initially recognized at the fair value of the consideration received, less directly attributable transaction costs.

After initial measurement, other financial liabilities are 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.

This accounting policy applies primarily to the Parent Company's "Accounts payable and accrued expenses" and other obligations that meet the above definition.

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

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

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

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

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 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.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Day 1' Difference
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Parent Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statements of comprehensive loss unless it qualifies for recognition as some other type of asset or in equity. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Parent Company determines the appropriate method of recognizing the 'Day 1' difference amount.

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.

Derecognition of Financial Instruments
Financial asset
A financial asset (or, when applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Parent Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangements and either:

  a. The Parent Company has transferred substantially all the risks and rewards of the asset; or
  b. The Parent Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Parent Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Parent Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Parent Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a 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 original carrying amount of the asset and the maximum amount of consideration that the Parent Company could be required to repay.

Impairment of Financial Assets
The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) 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 borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
For financial assets carried at amortized cost, the Parent Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Parent Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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 or impairment.

The amount of any impairment loss identified is measured as the difference between asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statement of income. Receivables, together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment is recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited in the statement of comprehensive income.

AFS financial assets carried at fair value
For AFS financial assets, the Parent Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments 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 investment below its cost. '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. When 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 investment previously recognized in the statement of income - is removed from other comprehensive income and recognized in the statement of income. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in other comprehensive income.

The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Parent Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Other Current Assets

Prepaid expenses

Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepayments that are expected to be realized for not more than twelve months after the balance sheet date are classified as current assets; otherwise these are classified as other noncurrent assets.

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.

The input VAT is recognized as an asset and will be used to offset the Parent Company's current output VAT liabilities and any excess will be claimed as tax credits. Input taxes are stated at their estimated net realizable value.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization and accumulated impairment loss, if any. The initial cost of property and equipment comprises its purchase price, any related capitalizable borrowing costs attributed to progress payments incurred on account of aircraft acquisition under construction and other directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are capitalized as part of 'Property and equipment' account only when it is probable that future economic benefits associated with the item will flow to the Parent Company and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged against to the statement of income as incurred.

Depreciation of property and equipment commence once the property and equipment are available for use and are computed using the straight-line method over the estimated useful lives (EULs) of the assets, regardless of utilization. The categories of property and equipment and related EUL are as follows:

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

Leasehold improvements are amortized over the shorter of their EULs or the corresponding lease terms.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the statement of income, when the asset is derecognized.

The methods of depreciation and amortization, EULs and residual values of property and equipment are reviewed annually and adjusted prospectively, if appropriate.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged to the statement of income.

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 Subsidiary
Peace Equity Holdings, Inc. (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.

Retirement Benefits
The Parent Company has a defined retirement benefit plan which requires contributions to be made to a separately administered fund.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, if any, adjusted for any effect of limiting a net defined benefit asset to 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 costs comprise the following:

- Service costs
- Net interest on the net defined benefit liability or asset; and
- Remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment occurs.

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

Remeasurements comprising 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) 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.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Parent Company, nor can they be paid directly to the Parent Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Parent Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when, and only when, reimbursement is virtually certain.

As of December 31, 2017 and 2016, plan assets amounted to ₱2.11 million and ₱0.85 million, respectively (Note 20). The retirement liability has been fully settled in 2014 when the employees entitled to the plan have resigned.

<u>Fund Balances</u>
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.

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.

Expense Recognition
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.

The tax expense shown in the parent company statements of comprehensive income in 2017 and 2016 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.

Provisions and Contingencies
Provisions are recognized when the parent company has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) 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. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the Parent Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the

liability. When discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense in statement of income.

Contingent liabilities are not recognized in the statement of financial position but are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but disclosed in the notes to financial statements when an inflow of economic benefits is probable. If it is virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements.

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

5. Significant Accounting Judgment and Estimates

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

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

Judgment
In the process of applying the Parent Company's accounting policies, the management has no significant judgement for years ended December 31, 2017and 2016.

Estimates
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 other 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.

The balances of receivables and allowance for impairment losses as of December 31, 2017 and 2016 are disclosed in Note 7.

Impairment of AFS financial assets
The Parent Company determines that 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 20% decline or more relative to the cost of AFS financial assets and 'prolonged' if the decline in fair value has been continuing for more than six (6) months. In addition, the Parent Company evaluates other factors, the normal volatility in share price and the future cash flows.

Provision for impairment losses on AFS financial assets amounted to ₱10.16 million and ₱14.48 million in 2017 and 2016, respectively. As of December 31, 2017 and 2016, the carrying values of AFS financial assets amounted to ₱1,927.49 million and ₱1,814.34 million, respectively.

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 carry forward benefit of unused NOLCO and other deductible temporary differences amounting to ₱277.83 million and ₱298.18 million as of December 31, 2017 and 2016, 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 22).

6. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	**₱55,000**	₱55,000
Undeposited receipts	**2,196,172**	1,466,286
Cash equivalents	**3,385,426**	2,790,548
Cash in banks	**12,975,877**	29,322,323
	₱18,612,475	₱33,634,157

Cash on hand pertains to revolving fund of ₱55,000 as of December 31, 2017 and 2016.

Cash includes donor-restricted funds amounting to ₱13.16 million and ₱20.83 million as of December 31, 2017 and 2016 respectively.

Cash with banks generally earn interest at rates based on daily bank deposit rates. Cash equivalents are highly liquid investments that are made for varying periods up to three (3) months depending on the immediate cash requirements of the Parent Company and earn interest ranging from 3.75% to 4.25% in 2017 and 2016.

Interest income from cash in banks amounted to ₱0.25 million and ₱0.03 million in 2017 and 2016, respectively (Note 19).

7. Receivables

This account consists of:

	2017	2016
Current:		
Advances to project proponents	**₱152,205,522**	₱195,748,541
Accrued interest	**5,078,171**	3,801,779
Receivable from proponents	**5,144,000**	5,144,000
Receivable from donor-funded projects	–	236,999
Receivable from PEHI (Note 21)	**32,601**	70,753
Others	**2,874,611**	2,968,572
	165,334,905	207,970,644
Less allowance for impairment losses	**58,342,919**	92,282,173
	106,991,986	115,688,471
Noncurrent advances to project proponents	**77,285,823**	38,297,355
Less allowance for impairment losses	**3,654,999**	4,534,179
	73,630,824	33,763,176
	₱180,622,810	₱149,451,647

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% for both 2017 and 2016 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.

Receivable from proponents pertains to receivable from CARD NGO and Siargao Bank, Inc.

Others pertains to receivable from service contractors and advances to officers and staffs.

Interest income on advances to proponents amounted to ₱7.80 million and ₱6.49 million in 2017 and 2016, respectively (Note 19).

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:

2017

	Current	Noncurrent	Total
Balances at beginning of year	**₱92,282,173**	**₱4,534,179**	**₱96,816,352**
Provisions	**18,217,878**	**–**	**18,217,878**
Write-off	**(35,850,144)**	**–**	**(35,850,144)**
Reversals	**(16,306,988)**	**(879,180)**	**(16,306,988)**
Balances at end of year	**₱58,342,919**	**₱3,654,999**	**₱61,997,918**

2016

	Current	Noncurrent	Total
Balances at beginning of year	₱74,568,407	₱10,223,083	₱84,791,490
Provisions	25,966,049	(5,688,904)	20,277,145
Reversals	(8,252,283)	–	(8,252,283)
Balances at end of year	₱92,282,173	₱4,534,179	₱96,816,352

The amount of impairment losses in the parent company statements of comprehensive income is determined as follows:

	2017	2016
Impairment losses	**₱17,338,698**	₱21,877,145
Less amounts closed to:		
CBRED*	–	398,061
	17,338,698	21,479,084
Reversals	**(16,306,988)**	(9,852,283)
Less amounts closed to:		
CBRED*	**94,750**	440,200
	(16,212,238)	(9,412,083)
	₱1,126,460	₱12,067,001

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

The reversal and impairment losses closed to CBRED are 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 15).

8. Available-for-sale (AFS) Financial Assets

The Parent Company's AFS financial assets consist of:

	2017	2016
Investment under fund managers	**₱1,848,524,163**	₱1,749,609,918
Unquoted equity securities	**78,965,065**	64,734,642
	₱1,927,489,228	₱1,814,344,560

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

a) Investment under fund managers

This account consist of:

	2017	2016
Equity securities	**₱1,067,107,198**	₱1,115,401,900
Republic of the Philippines (ROP) bonds and treasury notes	**271,223,185**	143,843,840
Corporate bonds	**262,038,069**	167,339,097
Special savings account	**139,219,335**	197,677,426
Unit investment trust fund (UITF)	**108,936,376**	125,347,655
	₱1,848,524,163	₱1,749,609,918

Special savings accounts have annual interest rates ranging from 0.38% to 3.50% and 0.38% to 1.25% in 2017 and 2016, 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 3.41% to 5.55% and 3.87% to 6.80%in 2017 and 2016, respectively.

ROPs and treasury notes (Fixed Rate Treasury Notes) earn annual interest rates ranging from 1.78% to 8.13% to 2.13% to 8.13%in 2017 and 2016, respectively. UITFs include placements in AUB, BDO Unibank and BPI's own funds.

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 investment in fund managers as of December 31, 2017 and 2016 are as follows:

	2017	2016
Balances at beginning of year	**₱1,749,609,918**	₱1,807,261,395
Unrealized valuation losses - net	**141,308,950**	(31,659,292)
Contributions/deposits	**131,475,405**	601,981,192
Realized investments gains - net	**79,548,303**	99,641,192
Foreign exchange gains	**392,682**	9,415,085
Provision for impairment losses on AFS financial assets	**(10,155,690)**	(14,480,338)
Disposals/withdrawals	**(243,655,405)**	(722,549,772)
	₱1,848,524,163	₱1,749,609,918

In 2017, the Parent Company recognized unrealized valuation gain amounting to ₱142.73 million in other comprehensive income.

In 2016, the Parent Company recognized unrealized valuation loss amounting to ₱32.30 million in other comprehensive income.

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

	2017	2016
Balance at beginning of year	**(₱4,649,527)**	₱27,654,643
Fair value losses charged against equity	**142,726,626**	(32,304,170)
Balance at end of year	**₱138,077,099**	(₱4,649,527)

b) *Unquoted equity securities*

This account consists of:

	2017	2016
National Cooperative Mutual Fund of the Philippines, Inc.	**₱49,689,994**	₱44,487,494
Cooperative Insurance System of the Philippines	**13,741,874**	4,891,481
Cooperative Health Management Federation	**5,177,530**	5,000,000

(Forward)

	2017	2016
MASS-SPECC Cooperative Development Center	**₱5,000,000**	₱5,000,000
Hybrid Social Solutions, Inc.	**5,000,000**	5,000,000
Barangay Alapang Multi-purpose Cooperative	**135,000**	135,000
Dancalan Ilog Waterworks	**120,000**	120,000
Kauswagan Water and Sanitation Service	**100,667**	100,667
	₱78,965,065	₱64,734,642

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

	2017	2016
Total realized investment gains*	**₱77,248,668**	₱102,880,965
Income from investment in equity	**4,455,301**	1,654,146
Realized investment loss - CBRED**	**9,161**	24,349
	₱81,713,130	₱104,559,460

**Gross of final tax expense.*
*** Closed to funds held in trust account (CBRED)*

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

	2017	2016
Trading gain	**₱37,190,932**	₱60,028,651
Dividends	**36,577,409**	38,030,625
Interest	**17,249,821**	16,261,723
Expenses	**(9,314,193)**	(9,785,888)
Closed to funds held in trust account (CBRED)	**9,161**	24,349
	₱81,713,130	₱104,559,460

9. Other Current Assets

This account consists of:

	2017	2016
Prepaid expenses	**₱808,771**	₱920,591
Input VAT	**334,740**	696,017
Others	**22,500**	–
	₱1,166,011	₱1,616,608

Input vat is applied against output VAT. The remaining balance is recoverable in future periods.

10. **Property and Equipment**

The rollforward analyses of this account follows:

2017

	Land	**Building and Improvements**	**Office Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Total**
Cost:					
Balances at beginning of year	**₱22,124,434**	**₱21,064,544**	**₱11,272,953**	**₱2,738,100**	**₱57,200,031**
Additions	**–**	**240,193**	**612,099**	**–**	**852,292**
Disposals	**–**	**–**	**(779,437)**	**–**	**(779,437)**
Write off	**–**	**–**	**(5,524,010)**	**–**	**(5,524,010)**
Balances at end of year	**22,124,434**	**21,304,737**	**5,581,605**	**2,738,100**	**51,748,876**
Accumulated depreciation and amortization:					
Balances at beginning of year	**–**	**17,220,529**	**9,472,332**	**1,401,529**	**28,094,390**
Depreciation and amortization	**–**	**1,459,993**	**926,219**	**547,620**	**2,928,922**
Depreciation allocated to funds held in trust - CBRED	**–**	**–**	**4,910**	**–**	**4,910**
Disposals	**–**	**–**	**(751,338)**	**–**	**(751,338)**
Write off	**–**	**–**	**(5,511,733)**	**–**	**(5,511,733)**
Balances at end of year	**–**	**18,680,522**	**4,135,480**	**1,949,149**	**24,765,151**
Net book values	**₱22,124,434**	**₱2,624,215**	**₱1,446,125**	**₱788,951**	**₱26,983,725**

2016

Cost:	Land	Building and Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Total
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)
Balances at end of year	22,124,434	21,064,544	11,272,953	2,738,100	57,200,031
Accumulated depreciation and amortization:					
Balances at beginning of year	–	15,642,266	8,867,274	853,909	25,363,449
Depreciation and amortization	–	1,578,263	913,666	547,620	3,039,549
Depreciation allocated to funds held in trust - CBRED	–	–	6,548		6,548
Disposals	–	–	(315,156)	–	(315,156)
Balances at end of year	–	17,220,529	9,472,332	1,401,529	28,094,390
Net book values	₱22,124,434	₱3,844,015	₱1,800,621	₱1,336,571	₱29,105,641

In 2017, the Parent Company sold property and equipment with net book value amounting to ₱28,099 which resulted to a loss on sale amounting to ₱24,317. In the same year, the Parent Company written off property and equipment that resulted to a loss of ₱12,277.

In 2016, the Parent Company sold property and equipment with net book value amounting to ₱34,725. Gain from sale of property and equipment was recognized in the statement of comprehensive income amounting to ₱24,054.

There are no property and equipment items that are pledged as security to liabilities as of December 31, 2017 and 2016.

11. Investment Properties

The investment properties include parcels of land foreclosed by the Parent Company in the event the borrower were unable to settle their loans. The Parent Company applies the cost model in accounting for investment properties.

The following are the Parent Company's investment properties carrying amounts and fair values as of December 31, 2017 and 2016:

Location	Area (In square meters)	Carrying Value	Fair Value
Daraga, Albay	50,482	₱2,782,657	₱23,222,000
Esperanza, Sultan Kudarat	5,100.	1,771,302	3,060,000
Barobo, Surigao Del Sur	49,477	357,855	357,855
		₱4,911,814	₱26,639,855

The fair value was determined by an independent real estate appraiser by using the Market Approach. In this approach, the value of the land is based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires the establishing of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject property

12. Investment in Subsidiary

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 Parent Company made additional capital infusion to PEHI amounting to ₱93.75 million in the form of AFS financial assets (Note 8).
Financial information of the Parent Company's subsidiary in 2017 and 2016 are as follows:

	2017	2016
Total assets	**₱126,522,373**	₱121,811,954
Total liabilities	**346,598**	652,754
Net income	**(603,257)**	1,940,589

Investment in PEHI is accounted for under the cost method of accounting.

13. **Accounts Payable and Accrued Expenses**

This account consists of:

	2017	2016
Accounts payable	**₱5,749,584**	₱5,355,509
Accrued expenses	**3,927,672**	3,453,633
Unearned income from advances to proponents	**3,601,881**	–
	₱13,279,137	₱8,809,142

Accounts payable are noninterest-bearing and are normally settled within 30 to 90 days.

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

Unearned income from advances to proponents pertains to a portion of interest earned from advances to proponents that will be earned upon collection.

14. **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. Grant expenses recognized in the statements in comprehensive income amounted to ₱29.53 million and ₱36.66 million in 2017 and 2016, respectively.

Details of the rollforward of grants payable follow:

	2017	2016
Beginning	**₱35,202,989**	₱32,333,657
Accruals	**9,411,268**	18,419,859
Reversals	**(6,252,543)**	(347,727)
Final release	**(16,061,170)**	(15,202,800)
	₱22,300,544	₱35,202,9891

15. **Funds Held in Trust**

This account consist of funds from the following trustors:

	2017	2016
CODE - NGO	**₱68,573,521**	₱61,566,257
Department of Energy (DOE) and United Nation Development Program (UNDP) - CBRED Project	**34,451,304**	33,059,254
Stitching Rabobank Foundation	**8,162,327**	–
Coca-Cola Foundation	**4,708,676**	10,901,382
Philips Electronics & Lightning Inc.	**1,600,000**	1,600,000
BPI - Foundation - Sinag Project	**444,013**	2,600,000

(Forward)

	2017	2016
BPI Foundation	**₱194,668**	₱744,668
CORDAID - Cutflower Project	**91,645**	91,645
Catholic Organization for Relief and Development Agency for International Development (CORDAID) - Shariah Project	–	(684,384)
CORDAID - Climate Change Project	–	279,153
CORDAID - Emergency Response for Typhoon Sendoing	–	233,963
CORDAID - Knowledge Management Project	–	242,111
	₱118,226,154	₱110,634,049

The details of the funds are as follows:

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. The rollforward analysis of this fund as follows:

	2017	2016
Balances at beginning of year	**₱61,566,257**	₱–
Investment received	–	61,566,257
Share in investment income / unrealized changes in Market	**7,007,264**	–
	₱68,573,521	₱61,566,257

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 8).

The rollforward analysis of this fund as follows:

	2017	2016
Balances at beginning of year	**₱33,059,254**	₱31,460,942
Net profit	**1,392,050**	1,598,312
	₱34,451,304	₱33,059,254

Stitching Rabobank Foundation
The Parent Company arranged a co-financing facility with Stitching Rabobank Foundation in the amount ₱20.00 million. The funds will be released in four tranches and will be extended to a Social Enterprise organization in the sugarcane sector. During the year, the Parent Company received funds amounting to ₱8.16 million.

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. The rollforward analysis of this fund as follows:

	2017	2016
Balances at beginning of year	**₱10,901,382**	₱44,490
Amount received	–	10,856,892
Expenses	**(6,442,168)**	–
Forex gain	**249,462**	–
	₱4,708,676	₱10,901,382

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. The rollforward analysis of this fund follows:

	2017	2016
Balances at beginning of year	**₱1,600,000**	₱–
Amount received	–	5,000,000
Expenses	–	(3,400,000)
	₱1,600,000	₱1,600,000

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.

The rollforward analysis of this fund follows:

	2017	2016
Balances at beginning of year	**₱2,600,000**	₱–
Amount received	–	4,050,000
Expenses	**(2,155,987)**	(1,450,000)
	₱444,013	₱2,600,000

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. The rollforward analyses of this fund follow:

	2017	2016
Balances at beginning of year	**₱744,668**	₱194,668
Amount received	**200,000**	800,000
Expenses	**(750,000)**	(250,000)
	₱194,668	₱744,668

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. The rollforward analysis of this fund as follows:

	2017	2016
Balances at beginning of year	**₱91,645**	₱815,725
Amount received	**–**	–
Expenses	**–**	(724,080)
	₱91,645	₱91,645

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. The rollforward analysis of this fund as follows:

	2017	2016
Balances at beginning of year	**(₱684,384)**	₱1,152,586
Expenses	**684,384**	(1,836,970)
	₱–	(₱684,384)

Another component of the project is the certification of four identified products that are produced in Mindanao. Expenses involve field validation and product documentation. The project was completed in 2017.

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. The project was completed in 2017.

The rollforward analysis of this fund follows:

	2017	2016
Balances at beginning of year	**₱279,153**	₱279,153
Expenses	**(279,153)**	–
	₱–	₱279,153

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. The project was completed in 2017.

The rollforward analysis of this fund follows:

	2017	2016
Balances at beginning of year	**₱233,963**	(₱2,244,384)
Amount received	**–**	2,710,447
Expenses	**(233,963)**	(232,100)
	₱–	₱233,963

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. The project was completed in 2017. The rollforward analysis of this fund as follows:

	2017	2016
Balances at beginning of year	**₱242,111**	₱513,912
Amount received	**–**	–
Expenses	**(242,111)**	(271,801)
	₱–	₱242,111

16. **Project Expenses**

This account consists of:

	2017	2016
Project development, monitoring and evaluation (PDME)	**₱27,188,857**	₱25,690,478
Project support	**5,249,893**	8,353,346
Knowledge management	**2,145,370**	4,369,996
Institutional support	**3,287,889**	2,411,031
Advocacy and communications	**1,239,011**	1,079,094
	₱39,111,020	₱41,903,945

PDME, CORDAID and CBRED related expenses are summarized below:

	2017	2016
Personnel expenses (Note 18)	**₱19,692,625**	₱17,194,596
Project monitoring	**3,630,555**	4,408,269
Project audit	**1,916,553**	1,631,906
Supplies, services and other operating costs	**1,045,097**	1,255,705
Outside services	**341,891**	402,750
Due diligence	–	215,942
Pre and post project meetings and workshops	**188,846**	210,874
Project appraisals	**294,530**	187,104
Project evaluation and documentation	**49,703**	173,026
Others	**29,057**	10,306
	₱27,188,857	₱25,690,478

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.

17. **General and Administrative Expenses**

This account consists of:

	2017	2016
Personnel expense (Note 18)	**₱11,417,769**	₱9,930,952
Meetings	**2,499,196**	2,290,541
Outside services	**1,748,745**	1,655,170
Legal fee	**625,681**	672,090
Utilities	**505,551**	543,641
Repairs and maintenance	**428,198**	533,111
Office supplies	**545,924**	509,962
Communications	**1,170,097**	433,889
Transportation and travel	**249,773**	324,149
Recruitment and advertising	**164,206**	197,337
Association dues and membership fees	**90,591**	114,236
Taxes and licenses	**65,641**	59,496
Representation	**38,190**	19,439
Others	**297,384**	315,999
	₱19,846,946	₱17,600,012

18. Personnel Expenses

This account consists of:

	2017	2016
Salaries and wages	**₱21,994,656**	₱20,708,287
De minimis benefits	**3,260,650**	3,071,448
Social security costs	**2,004,806**	1,901,757
Bonuses	**2,232,373**	1,196,122
Completion pay	**1,538,218**	176,803
Compensated absences	**79,691**	71,131
	₱31,110,394	₱27,125,548

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

	2017	2016
Project expenses (Note 16)	**₱19,692,625**	₱17,194,596
General and administrative expenses (Note 17)	**11,417,769**	9,930,952
	₱31,110,394	₱27,125,548

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

	2017	2016
Salaries and wages	**₱9,488,612**	₱8,964,362
Employee benefits	**1,543,194**	1,531,081
	₱11,031,806	₱10,495,443

19. Interest Income and Other Income

This account consists of interest income from the following sources:

	2017	2016
Cash in bank (Note 6)	**₱253,740**	₱27,111
Advances to project proponents (Note 7)	**7,791,836**	6,492,984
Escrow deposits (Note 9)	**–**	(51,018)
	₱8,045,576	₱6,469,077

Other income consists of the following:

	2017	2016
Income from guarantee (Note 23)	**₱10,646**	₱72,645
Gain (loss) on sale of property and equipment	**(24,317)**	24,054
Loss on retirement of property of equipment	**(12,277)**	–
Retirement benefit income (Note 20)	**51,987**	6,170
Service fee from advances to proponents	**25,384**	–
Others	**489,210**	13,933
	₱540,633	₱116,802

Others pertain to interest income from loans of employees being managed by NEC Multi-Purpose Cooperative. During the year, the Parent Company sold collateral in the form of land and building located in Oslob, Cebu. The sale has resulted to gain amounting to ₱0.21 million.

20. 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 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.

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 recognized in profit or loss amounted to ₱51,987 and ₱6,170 in 2017 and 2016, respectively.

Remeasurement gains (losses) on net retirement benefit asset to be recognized in other comprehensive income amounted to ₱1.3 million and ₱42,328 in 2017 and 2016, respectively. Net retirement benefit asset shown under 'Other noncurrent assets' is as follows:

	2017	2016
Fair value of plan asset	**₱2,111,926**	₱2,080,620
Effect of asset ceiling	–	(1,229,768)
	₱2,111,926	₱850,852

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

	2017	2016
Balances at beginning of year	**₱850,852**	₱802,354
Interest income included in net interest cost	**51,987**	6,170
Total amount recognized in OCI	**1,209,087**	42,328
Balances at end of year	**₱2,111,926**	₱850,852

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

	2017	2016
Cash and cash equivalents	**₱1,010**	₱1,509
Equity instruments - financial institution	**2,110,916**	2,079,111
	₱2,111,926	₱2,080,620

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

21. 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.

Category	Year	Amount/Volume	Outstanding Balance	Terms	Conditions
Subsidiary:					
Peace and Equity Holdings, Inc.(PEHI)					
Utilities, Meeting and various Meeting costs	**2017**	**₱32,601**	**₱32,601**	On demand, noninterest-bearing	Unsecured, no impairment
	2016	₱70,753	₱70,753		

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, 2017 and 2016.

The Parent Company has not recognized any impairment losses on amounts receivables from related parties for the years ended December 31, 2017 and 2016. 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.

22. 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 December 31, 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 2017 and 2016 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 2017 and 2016 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:

	2017	2016
NOLCO	**₱216,245,292**	₱211,653,091
Allowance for impairment losses on receivables	**61,997,917**	95,172,352
Unrealized foreign exchange gains - net	**(412,573)**	(8,639,958)
	₱277,830,636	₱298,185,485

As of December 31, 2017, 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
2017	₱59,057,995	₱–	₱59,057,995	2020
2016	67,958,038	–	67,958,038	2019
2015	89,229,259	–	89,229,259	2018
2014	54,465,794	54,465,794	–	2017
	₱270,711,086	₱54,465,794	₱216,245,292	

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

	2017	**2016**
Provision for income tax at statutory tax rate of 30%	**(₱3,597,275)**	**(₱1,788,693)**
Additions to (reductions in) resulting from:		
Movements in unrecognized deferred income tax assets	**17,717,397**	**20,387,411**
Nondeductible grant expenses	**10,485,535**	**12,787,914**
Nontaxable income	**(15,596)**	**(1,851)**
Interest income subject to final tax - others	**(26,117)**	**(6,032)**
Interest income on investment subject to final tax	**(1,712,676)**	**(1,623,540)**
Nontaxable dividend income and valuation gains	**(19,984,524)**	**(26,504,982)**
	₱2,866,744	**₱3,250,227**

23. **Commitments and Contingencies**

Guarantee Agreement

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 ₱100.00 million. 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 ₱40.00 million. The Parent Company guarantees, without the benefit of excussion, the payment of the principal amount availed by Pinoy ME Foundation, Inc., amounting to ₱40.00 million.
The outstanding payable of Pinoy ME Foundation, Inc. to DBP and LBP amounted to nil and ₱2.67 million as of December 31, 2017 and 2016, 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 ₱10,646 and ₱72,645 in 2017 and 2016, respectively, presented as part of "Other income" in the parent company statements of comprehensive income (Note 19).

The guarantee ended March 31, 2015. No guarantee of new loans shall be undertaken thereafter. There is no outstanding portfolio as of December 31, 2017.

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 Rosarion 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 9).

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.

24. Fair value and Categories of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and cash equivalents - 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 Company uses the following hierarchy for determining and disclosing the fair value of financial assets by valuation technique:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows the fair value hierarchy of the Parent Company's AFS financial assets as at December 31, 2017 and 2016:

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
2017	**₱1,848,524,163**	**₱78,965,065**	**₱–**	**₱1,927,489,228**
2016	₱1,749,609,918	₱64,734,642	₱–	₱1,814,344,560

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, 2017 and 2016.

25. Financial Risk Management Objectives and Policies

The Company's principal financial assets comprise of cash and cash equivalents, short-term investments, loans and receivables and AFS financial assets.

The normal course of the Company's business exposes it to a variety of financial risks such as credit risk, liquidity risk and equity price risk. The main objectives of the Company's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

Equity Price Risk

Equity price risk is the risk of unfavorable changes in the fair values of equities as the result of changes in the levels of equity indices and the value of individual shares. The Company's equity price risk exposure at year-end relates principally to AFS financial assets.

The analysis below is performed for reasonably possible movements in the Philippine Stock Exchange (PSE) index as of December 31, 2017 and 2016 with all other variables held constant showing the impact on equity that reflects adjustments on changes in fair value of AFS financial assets.

	2017		2016	
Market Index	**Change in variable**	**Effect on equity**	Change in variable	Effect on equity
PSE	**+2.84%**	**19,303,820**	+1.62%	15,696,146
	-2.84%	**(19,303,820)**	−1.62%	(15,696,146)

Liquidity Risk

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company monitors its cash flow position and overall liquidity position in assessing its exposure to liquidity risk. The Company maintains a level of cash deemed sufficient to finance operations and to mitigate the effects of fluctuation in cash flows.

The table below analyzes financial assets and liabilities of the Company into their relevant maturity groups based on the remaining period at the reporting dates to their expected repayment dates.

2017

	On demand	**< 1 year**	**> 1 year**	**Total**
Financial assets:				
Cash	**₱18,612,475**	**₱–**	**₱–**	**₱18,612,475**
Receivables	**–**	**106,991,986**	**73,630,824**	**180,622,810**
Refundable deposit	**–**	**254,996**	**45,600**	**300,596**
	₱18,612,475	**₱107,246,982**	**₱73,676,424**	**₱199,535,881**
Financial liabilities:				
Accounts payable and accrued expenses	**₱–**	**₱13,279,137**	**₱–**	**₱13,279,137**
Grants payable	**–**	**22,300,544**	**–**	**22,300,544**
Funds held in trust	**–**	**₱118,226,154**	**–**	**₱118,226,154**
	₱–	**₱153,805,835**	**₱–**	**₱153,805,835**

2016

	On demand	< 1 year	> 1 year	Total
Financial assets:				
Cash	₱33,634,157	₱–	₱–	₱33,634,157
Receivables	–	115,688,471	33,763,176	149,451,647
Refundable deposit	–	–	45,600	45,600
	₱33,634,157	₱115,688,471	₱33,808,776	₱183,131,404
Financial liabilities:				
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

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:

	2017		2016	
	Currencies	**Peso Equivalent**	Currencies	Peso Equivalent
In USD:				
Cash in bank	**$4,275**	**₱213,497**	$219,896	₱10,933,239
AFS financial assets	**3,932,853**	**196,367,373**	3,129,529	155,600,170
In EUR:				
Cash in bank	**€1,502**	**89,519**	€6,267	324,901
AFS financial assets	**3,845**	**229,206**	–	–
		₱196,899,595		₱166,858,310

The exchange rates used are as follows:

	1 USD: Peso	1 EUR: Peso
December 31, 2017	**₱49.930**	**₱59.6131**
December 31, 2016	₱49.720	₱51.8404

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).

2017

	Increase (decrease) in income before income tax	
	₱ strengthens by 5%	**₱ weakens by 5%**
Effect in income before income tax:		
Change in PHP/USD exchange rate	**(₱9,829,044)**	**₱9,829,044**
Change in PHP/EUR exchange rate	**(₱15,936)**	**₱15,936**

2016

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

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.

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:

2017

		Past due but not impaired			
	Neither Past Due nor Impaired	**<1 year**	**>1 year**	**Impaired Financial Assets**	**Total**
Loans and receivables:					
Cash	**₱18,612,475**	**₱–**	**₱–**	**₱–**	**₱18,612,475**
Receivables	**180,622,810**	**–**	**–**	**61,997,918**	**242,620,728**
Refundable deposit	**300,596**	**–**	**–**	**–**	**300,596**
AFS financial assets	**1,927,489,228**	**–**	**–**	**–**	**1,927,489,228**
	₱2,127,025,109	**₱–**	**₱–**	**61,997,918**	**₱2,189,023,027**

2016

		Past due but not impaired			
	Neither Past Due nor Impaired	<1 year	>1 year	Impaired Financial Assets	Total
Loans and receivables:					
Cash	₱33,634,157	₱–	₱–	₱–	₱33,634,157
Receivables	149,451,647	–	–	96,816,352	246,267,999
Refundable deposit	45,600	–	–	–	45,600
AFS financial assets	1,814,344,560	–	–	–	1,814,344,560
	₱1,997,475,964	₱–	₱–	₱96,816,352	₱2,094,292,316

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

2017

	High Grade	**Standard Grade**	**Total**
Cash	**₱18,612,475**	**–**	**₱18,612,475**
Receivables	**–**	**180,622,810**	**180,622,810**
AFS financial assets	**1,927,489,228**	**–**	**1,927,489,228**
Refundable deposit	**–**	**300,596**	**300,596**
	₱1,946,101,703	**₱180,923,406**	**₱2,127,025,109**

2016

	High Grade	Standard Grade	Total
Cash	₱33,634,157	₱–	₱33,634,157
Receivables	–	149,451,647	149,451,647
AFS financial assets	1,814,344,560	–	1,814,344,560
Refundable deposit	–	45,600	45,600
	₱1,847,978,717	₱149,497,247	₱1,997,475,964

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.

26. 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 2017 and 2016 amounted to ₱61.62 million and ₱59.8 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:

	2017	**2016**
Total liabilities	**₱153,805,835**	**₱154,646,180**
Fund balance	**2,133,392,750**	**2,004,314,698**
Liability to fund balance ratio	**7.21:1**	**7.72:1**

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 2017 and 2016.

27. **Supplementary Information Required Under Revenue Regulations No. 15-2010**

In compliance with the requirements set forth by Revenue Regulations No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued for the year ended December 31, 2017.

a. The Parent Company is VAT-registered with output VAT declaration of ₱839,151 for the year ended December 31, 2017 based on the amount of ₱6,992,928.

b. Input VAT

Balance at January 1, 2017	₱696,017
Current year's domestic purchases/payments for:	
Services lodged under other accounts	457,657
Services rendered by non-residents	–
Goods other than for resale or manufacture	14,937
Capital goods not subject to amortization	5,280
Input claimed against output VAT	(839,151)
Balance at December 31, 2017	₱334,740

c. No documentary stamp tax paid/accrued for the year.

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

Local:	
Property tax	₱16,187
Business permit and fees	48,954
National:	
Bureau of Internal Revenue annual registration fee	500
	₱65,641

e. The amount of withholding taxes paid in 2017 are as follows:

Withholding tax on compensation	₱5,415,852
Expanded withholding tax	588,493
	₱6,004,345