

**Peace Equity Access for
Community Empowerment
(PEACE) Foundation, Inc.**
(A Nonstock, Not-for-profit Corporation)

Parent Company Financial Statements
December 31, 2018 and 2017

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees and Members
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. (a nonstock, not-for-profit corporation) (the Parent Company), which comprise the parent company statements of assets, liabilities and fund balances as at December 31, 2018 and 2017, 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 Parent Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (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 Parent Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the parent company financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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



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

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

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

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

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 28 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.

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March 20, 2019



**PEACE EQUITY ACCESS FOR COMMUNITY EMPOWERMENT
(PEACE) FOUNDATION, INC.
(A Nonstock, Not-for-profit Corporation)**

**PARENT COMPANY STATEMENTS OF ASSETS, LIABILITIES AND FUND
BALANCES**

	December 31		January 1
	2018	2017 (As restated, Notes 3, 11 and 12)	2017 (As restated, Notes 3, 11 and 12)
ASSETS			
Current Assets			
Cash and cash equivalents (Note 6)	₱75,556,135	₱137,211,585	₱33,634,157
Receivables (Note 7)	135,116,975	123,572,316	115,688,471
Financial assets at fair value through profit or loss (FVTPL; Note 8)	893,713,145	-	-
Available-for-sale (AFS) financial assets (Notes 8 and 10)	-	1,804,776,381	1,814,344,560
Other current assets (Note 9)	2,200,827	1,166,012	1,616,608
Total Current Assets	1,106,587,082	2,066,726,294	1,965,283,796
Noncurrent Assets			
Receivables - net of current portion (Note 7)	65,829,121	73,630,824	33,763,176
Investments (Note 10)	824,176,266	-	-
Property and equipment (Note 11)	83,578,425	92,258,579	104,656,420
Investment properties (Note 12)	37,014,706	26,515,108	4,911,814
Investment in a subsidiary (Note 13)	125,000,000	125,000,000	125,000,000
Other noncurrent assets	4,409,253	2,412,522	896,452
Total Noncurrent Assets	1,140,007,771	319,817,033	269,227,862
	₱2,246,594,853	₱2,386,543,327	₱2,234,511,658
LIABILITIES AND FUND BALANCES			
Current Liabilities			
Accounts payable and accrued expenses (Note 14)	₱25,023,691	₱25,745,730	₱8,809,142
Grants payable (Note 15)	11,055,113	22,300,544	35,202,989
Funds held in trust (Note 16)	100,048,490	118,226,154	110,634,049
Total Current Liabilities	136,127,294	166,272,428	154,646,180
Noncurrent Liability			
Deferred tax liability (Notes 11, 12 and 23)	19,773,886	21,410,559	22,665,234
Total Liabilities	155,901,180	187,682,987	177,311,414
Fund Balances			
Restricted			
Endowment fund (Note 1)	1,318,371,694	1,318,371,694	1,318,371,694
Provision for inflation (Note 3)	797,227,853	797,227,853	735,608,448
	2,115,599,547	2,115,599,547	2,053,980,142
Unrestricted	(24,905,874)	83,260,793	3,220,102
Total Fund Balances	2,090,693,673	2,198,860,340	2,057,200,244
	₱2,246,594,853	₱2,386,543,327	₱2,234,511,658

See accompanying Notes to Parent Company Financial Statements.



**PEACE EQUITY ACCESS FOR COMMUNITY EMPOWERMENT
(PEACE) FOUNDATION, INC.
(A Nonstock, Not-for-profit Corporation)**

PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017
REVENUE		
Dividends (Note 10)	₱33,422,637	₱36,577,409
Interest income (Notes 6, 7 and 10)	32,696,835	21,701,222
Foreign exchange gains	9,500,657	412,573
Recovery of doubtful accounts (Note 7)	4,703,467	–
Trading gains (Note 10)	2,858,494	37,160,822
Fair value gains on investment property (Note 12)	2,719,000	21,603,294
Other income (Note 20)	419,292	540,633
	86,320,382	117,995,953
EXPENSES		
Loss on investment at fair value through profit or loss (Note 8)	98,781,787	–
Project expenses (Note 17)	39,230,666	39,111,020
Grant expenses (Note 15)	20,021,027	29,533,792
General and administrative (Note 18)	18,496,368	19,846,946
Depreciation and amortization (Note 11)	10,278,966	13,204,847
Provision for impairment losses on AFS financial assets (Note 10)	–	10,155,690
Provision for impairment losses on receivables (Note 7)	–	1,126,460
Other expenses (Note 10)	5,687,326	5,680,747
	192,496,140	118,659,502
LOSS BEFORE FINAL TAX	(106,175,758)	(663,549)
PROVISION FOR FINAL TAX (Note 23)		
Final tax	4,104,528	2,866,744
Deferred tax	629,976	1,590,907
	4,734,504	4,457,651
NET LOSS	(110,910,262)	(5,121,200)
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>		
Net movement in revaluation increment on land and building and improvements (Note 11)	163,795	(9,485,275)
Tax effect	2,266,649	2,845,583
	2,430,444	(6,639,692)
Remeasurement gain on defined benefit plan (Note 21)	(44,249)	1,209,087
	2,386,195	(5,430,605)
<i>Items to be reclassified to profit or loss in subsequent periods:</i>		
Change in fair value of financial assets at FVOCI	(7,198,095)	–
Change in fair value of AFS financial assets	–	142,726,626
	(7,198,095)	142,726,626
TOTAL COMPREHENSIVE INCOME (LOSS)	(₱115,722,162)	₱132,174,821

See accompanying Notes to Parent Company Financial Statements.



PEACE EQUITY ACCESS FOR COMMUNITY EMPOWERMENT (PEACE) FOUNDATION INC.
(A Nonstock, Not-for-profit Corporation)

PARENT COMPANY STATEMENTS OF CHANGES IN FUND BALANCES

	Unrestricted Funds						Restricted Funds				Grand Total
	Members' Contribution	Cumulative Excess of Revenues over Expenses	Fair Value Reserve on Financial Assets at FVOCI	Other Comprehensive Income (Loss)			Total	Endowment Fund (Note 1)	Provision for Inflation (Note 25)	Total	
				Reserve for Fluctuation on AFS Financial Assets (Note 8)	Revaluation Increment on Land and Building and Improvements	Remeasurement Gain on Defined Benefit Plan (Note 20)					
At January 1, 2018, as previously reported	₱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
Effect of change in accounting policy on land and building and improvements (Note 11)	-	19,221,737	-	-	46,245,853	-	65,467,590	-	-	-	65,467,590
Effect of the adoption of PFRS 9, <i>Financial Instruments</i> (Note 3)	-	147,584,736	(9,507,637)	(138,077,099)	-	-	-	-	-	-	-
At January 1, 2018, as restated	100,000	45,080,745	(9,507,637)	-	46,245,853	1,341,832	83,260,793	1,318,371,694	797,227,853	2,115,599,547	2,198,860,340
Net loss	-	(110,910,262)	-	-	-	-	(110,910,262)	-	-	-	(110,910,262)
Amortization of revaluation increment	-	7,555,495	-	-	(7,555,495)	-	-	-	-	-	-
Tax effect of amortization of revaluation increment	-	-	-	-	2,266,649	-	2,266,649	-	-	-	2,266,649
Transfer of property and equipment to investment property	-	-	-	-	7,719,290	-	7,719,290	-	-	-	7,719,290
Remeasurement gain on defined benefit plan	-	-	-	-	-	(44,249)	(44,249)	-	-	-	(44,249)
Change in fair value of financial assets at FVOCI	-	-	(7,198,095)	-	-	-	(7,198,095)	-	-	-	(7,198,095)
At December 31, 2018	₱100,000	(₱58,274,022)	(₱16,705,732)	₱-	₱48,676,297	₱1,297,583	(₱24,905,874)	₱1,318,371,694	₱797,227,853	₱2,115,599,547	₱2,090,693,673
At January 1, 2017, as previously reported	₱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
Effect of change in accounting policy on land and building and improvements (Note 11)	-	-	-	-	52,885,545	-	52,885,545	-	-	-	52,885,545
At January 1, 2017, as restated	100,000	(45,248,661)	-	(4,649,527)	52,885,545	132,745	3,220,102	1,318,371,694	735,608,448	2,053,980,142	2,057,200,244
Net loss	-	(5,121,200)	-	-	-	-	(5,121,200)	-	-	-	(5,121,200)
Amortization of revaluation increment	-	9,485,275	-	-	(9,485,275)	-	-	-	-	-	-
Tax effect of amortization of revaluation increment	-	-	-	-	2,845,583	-	2,845,583	-	-	-	2,845,583
Remeasurement gain on defined benefit plan	-	-	-	-	-	1,209,087	1,209,087	-	-	-	1,209,087
Change in fair value of AFS financial assets	-	-	-	142,726,626	-	-	142,726,626	-	-	-	142,726,626
Provision for inflation (Note 3)	-	(61,619,405)	-	-	-	-	(61,619,405)	-	61,619,405	61,619,405	-
At December 31, 2017	₱100,000	(₱102,503,991)	₱-	₱138,077,099	₱46,245,853	₱1,341,832	₱83,260,793	₱1,318,371,694	₱797,227,853	₱2,115,599,547	₱2,198,860,340

See accompanying Notes to Parent Company Financial Statements.



**PEACE EQUITY ACCESS FOR COMMUNITY EMPOWERMENT
(PEACE) FOUNDATION, INC.
(A Nonstock, Not-for-profit Corporation)**

PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before final tax	(₱106,175,758)	(₱663,548)
Adjustments for:		
Unrealized changes in prices - FVTPL (Note 8)	98,781,787	-
Depreciation and amortization (Note 11)	10,278,966	13,204,847
Provision for impairment losses on AFS financial assets	-	10,155,690
Loss on retirement of property and equipment (Notes 11 and 20)	-	12,277
Loss (gain) on sale of property and equipment (Notes 11 and 20)	(1,396)	24,317
Gain on sale of investment properties (Notes 12 and 20)	(30,000)	-
Reversal on impairment losses on investment property (Note 12)	(241,301)	-
Changes in fair value gains on investment property (Note 12)	(2,719,000)	(21,603,294)
Provision (recovery) for impairment losses on receivables (Note 7)	(4,703,467)	1,126,460
Interest income (Notes 6, 7 and 20)	(8,060,614)	(8,045,576)
Unrealized foreign exchange gain	(9,500,657)	(412,573)
Investment income (Note 8)	(55,230,027)	(81,713,130)
Operating loss before working capital changes	(77,601,467)	(87,914,530)
Decrease (increase) in:		
Receivables	650,009	(47,601,561)
Other current assets	(1,034,815)	450,596
Other noncurrent assets	(1,952,482)	(306,983)
Increase (decrease) in:		
Accounts payable and accrued expenses	(722,038)	16,936,588
Grants payable	(11,245,431)	(12,902,445)
Funds held in trust	(18,177,664)	7,597,015
Net cash used in operations	(110,083,888)	(123,741,320)
Interest income received	8,371,116	6,769,184
Final taxes paid	(4,104,528)	(2,866,744)
Net cash flows used in operating activities	(105,817,300)	(119,838,880)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net movement in AFS financial assets	43,767,906	223,852,245
Proceeds from sale of property and equipment	1,400	3,782
Additions to property and equipment (Note 11)	(1,598,816)	(852,292)
Increase in investment property (Notes 11 and 12)	(7,719,290)	-
Proceeds from sale of investment property	209,993	-
Net cash flows provided by investing activities	34,661,193	223,003,735
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES ON CASH		
	9,500,657	412,573
NET INCREASE (DECREASE) IN CASH	(61,655,450)	103,577,428
CASH AT BEGINNING OF YEAR	137,211,585	33,634,157
CASH AT END OF YEAR (Note 6)	₱75,556,135	₱137,211,585

See accompanying Notes to Parent Company Financial Statements.



**PEACE EQUITY ACCESS FOR COMMUNITY EMPOWERMENT
(PEACE) FOUNDATION, INC.
(A Nonstock, Not-for-profit Corporation)**

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 ₱110.91 million and ₱5.12 million for the years then ended December 31, 2018 and 2017, 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 or Republic Act (RA) No. 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.

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, 2018 and 2017 were approved and authorized for issuance by the BOT of the Parent Company on March 20, 2019.



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 financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI), available-for-sale (AFS) financial assets, investment properties and certain properties classified as property and equipment which have been measured at fair value. The financial statements are presented in Philippine Peso (₱), 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 (PFRSs). 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 accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new accounting pronouncements starting January 1, 2018. Unless otherwise indicated, the adoption did not have any significant impact on the parent company financial statements.

The Parent Company applied PFRS 9, *Financial Instruments*, and PFRS 15, *Revenue from Contracts with Customers*, effective January 1, 2018. The nature and effect of these changes are disclosed below.

- PFRS 9, *Financial Instruments*
PFRS 9, *Financial Instruments* replaces PAS 39, *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Parent Company applied PFRS 9 using modified retrospective approach, with an initial application date of January 1, 2018. The Parent Company has not restated the comparative information, which continues to be reported under PAS 39. Differences arising from the adoption of PFRS 9 have been recognized directly in unrestricted funds under 'fund balances'.



The effects of adopting PFRS 9 follows:

	January 1, 2018, As previously reported	Transition Adjustments	January 1, 2018, As restated
ASSETS			
AFS financial assets	₱1,804,776,381	(₱1,804,776,381)	₱-
Financial assets at FVTPL	-	957,923,911	957,923,911
Financial assets at FVOCI	-	314,349,507	314,349,507
Debt instruments at amortized cost	-	532,502,963	532,502,963
	₱1,804,776,381	₱-	₱1,804,776,381
LIABILITIES AND FUND BALANCES			
Unrestricted			
Reserve for fluctuation on AFS financial assets	₱138,077,099	(₱138,077,099)	₱-
Cumulative excess of revenues over expenses	-	147,584,736	147,584,736
Fair value reserve on financial assets at FVOCI	-	(9,507,637)	(9,507,637)
	₱138,077,099	₱-	₱138,077,099

(a) *Classification and measurement*

Under PFRS 9, debt instruments are subsequently measured at FVTPL, amortized cost, or FVOCI. The classification is based on two criteria: the Parent Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' (SPPI) on the principal amount outstanding.

The assessment of the Parent Company's business model was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The following are the changes in the classification of the Parent Company's financial assets:

- Cash and cash equivalents and receivables previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing SPPI. These are now classified and measured as debt instruments at amortized cost.
- Debt instruments previously classified as AFS financial assets are now classified and measured as financial assets at amortized cost and recognized as debt investments under "Investments" account in the statement of financial position. The Parent Company expects to hold the assets to collect contractual cash flows until maturity date. The Parent Company's debt investments consist of government securities and corporate bonds that passed the SPPI test.
- Investments in preferred stocks previously classified as AFS financial assets are now classified and measured as equity instruments designated at FVOCI. The Parent Company elected to classify irrevocably its listed equity investments under this category as it intends to hold these investments for the foreseeable future. There were no impairment losses recognized in profit or loss for these investments in prior periods.



- Listed equity investments and investments in funds classified as AFS financial assets as at December 31, 2017 are classified as financial assets at FVTPL beginning January 1, 2018.

As a result of the change in classification of the Parent Company's investments, the reserve for fluctuation on AFS financial assets amounting to ₱138.08 million related to those investments that were previously presented under accumulated other comprehensive income (OCI), was reclassified to cumulative excess of revenues over expenses as at January 1, 2018. The remaining amount of the reserve for fluctuation on AFS financial assets amounting to ₱9.51 million loss was reclassified to fair value reserve on financial assets at FVOCI.

The Parent Company has not designated any financial liabilities as at FVTPL. There are no changes in classification and measurement of the Parent Company's financial liabilities.

(b) *Impairment*

The adoption of PFRS 9 has fundamentally changed the Parent Company's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Parent Company to recognize an allowance for ECLs for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at the approximation on the asset's original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The adoption of PFRS 9 ECL approach did not materially impact the impairment on the Parent Company's financial assets at amortized cost.

(c) *Transition to PFRS 9*

In summary, upon the adoption of PFRS 9, the Parent Company had the following required or elected reclassifications as at January 1, 2018.

PAS 39 Measurement Category	Amount	PFRS 9 Measurement Category		
		Amortized Cost	Investments at FVTPL	Investments at FVOCI
<i>Loans and receivables</i>				
Cash and cash equivalents*	₱137,156,585	₱137,156,585	₱-	₱-
Receivables	123,572,316	123,572,316	-	-
Receivables - net of current portion	73,630,824	73,630,824	-	-
<i>AFS financial assets</i>				
Listed common stocks	766,828,580	-	766,828,580	-
Listed preferred stocks	285,074,436	-	-	285,074,436
Government securities	270,529,250	270,529,250	-	-
Corporate bonds	261,973,713	261,973,713	-	-
Unit investment trust funds	123,224,927	-	123,224,927	-
Mutual funds	67,870,404	-	67,870,404	-
Other equity investments	29,275,071	-	-	29,275,071

*Excluding cash on hand amounting to ₱55,000



- PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 supersedes PAS 18, *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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.

PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Parent Company adopted PFRS 15 using the modified retrospective method of adoption with January 1, 2018 as the date of initial application. The adoption of PFRS 15 has no impact on the Company's timing and measurement of revenue recognition since the Parent Company does not have existing revenue from contracts with customer.

- 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. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

Since the Parent Company's current practice is in line with the clarifications issued, the Parent Company does not expect any effect on its parent company financial statements upon adoption of these amendments.

The adoption of the following pronouncements did not have any significant impact on the Parent Company's financial statements:

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
- Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

Standards Issued But Not Yet Effective

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 will 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, 2019

- 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.

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.

The Parent Company is currently assessing the impact of adopting PFRS 16.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- *Annual Improvements to PFRSs 2015-2017 Cycle*
 - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
 - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
 - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

Deferred effectivity

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



4. Summary of Significant Accounting Policies

Current versus Noncurrent Classification

The Parent Company presents assets and liabilities in the statement of assets, liabilities and fund balances 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 (Beginning January 1, 2018)

Financial Assets

The Parent Company recognizes a financial asset in the statement of assets, liabilities and fund balances when it becomes a party to the contractual provisions of the instrument.

Initial recognition

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI, and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Parent Company's business model for managing them. The Parent Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. Receivables are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are SPPI on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.



The Parent Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Parent Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVTPL

The Parent Company's financial assets as of December 31, 2018 are of the nature of financial assets at amortized cost, financial assets at FVTPL and financial assets at FVOCI.

Financial assets at amortized cost (debt instruments)

This category is the most relevant to the Parent Company. The Parent Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in the statement of comprehensive income when the asset is derecognized, modified or impaired.

The Parent Company's financial assets at amortized cost include cash and cash equivalents, receivables, investments in government securities and corporate bonds.

Financial assets designated at FVOCI (equity instruments)

Upon initial recognition, the Parent Company can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation and Disclosure* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized under 'Investment income' in the statement of comprehensive income when the right of payment has been established, except when the Parent Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Parent Company elected to classify irrevocably its listed preferred stocks and unquoted equity investments under this category.



Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVTPL are carried in the statement of assets, liabilities and fund balances at fair value with net changes in fair value recognized in profit or loss in the statement of comprehensive income.

This category includes listed common stocks and investment in funds which the Parent Company had not irrevocably elected to classify at FVOCI. Dividends on listed common stocks are recognized as dividend income in the statement of comprehensive income when the right of payment has been established.

Impairment of financial assets

The Parent Company recognizes an allowance for ECLs for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Parent Company expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For receivables, the Parent Company applies a simplified approach in calculating ECLs. Therefore, the Parent Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Parent Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Parent Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Parent Company may also consider a financial asset to be in default when internal or external information indicates that the Parent Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Parent Company. A financial asset is written off or a provision is recognized when there is no reasonable expectation of recovering the contractual cash flows.

For other debt financial instruments e.g. cash and cash equivalents, government securities, and corporate bonds, the Parent Company applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Parent Company's policy to measure ECLs on such instruments on a 12-month



basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Parent Company uses the ratings from Standard & Poor's (S&P), Moody's and Fitch to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Parent Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Financial Instruments - Initial Recognition and Subsequent Measurement Prior to January 1, 2018

Financial Assets

Classification of financial instruments

Financial instruments within the scope of PAS 39 are classified as:

- a. Financial assets and financial liabilities at FVTPL;
- 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 consist of loans and receivables, AFS financial assets and other financial liabilities.

Date of recognition of financial instruments

Financial instruments are recognized in the parent company statement of assets, liabilities and fund balances 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 data which is not observable, the difference between the transaction price and model value is only recognized in 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.

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 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 profit or loss, 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) and receivables.

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 FVTPL.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in OCI. 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 parent company statement of assets, liabilities and fund balances and as part of OCI 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.

Financial Instruments – Initial Recognition and Subsequent Measurement Prior to and After January 1, 2018

Financial Liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL and other financial liabilities at amortized cost. The initial measurement of financial liabilities, except for designated at FVTPL, includes transaction costs.

As of December 31, 2018 and 2017, the financial liabilities of the Company are classified as other financial liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Other financial liabilities

This category pertains to financial liabilities that are not held for trading or not designated as at FVTPL 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 relates to the Company's accounts payable and accrued expenses and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

'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 income 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 assets, liabilities and fund balances 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 Parent 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 the asset’s carrying amount and the present value of estimated future cash flows (excluding future ECLs 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 comprehensive 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 comprehensive income - is removed from OCI and recognized in the statement of comprehensive income. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

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.



Fair Value Measurements

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.

Other Current Assets

Value-added Tax (VAT)

Revenues, expenses and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods or services exceeds VAT passed on from purchases of goods or services (Input VAT), the excess is recognized as payable in the parent company statement of financial position to the extent of the recoverable amount.

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.

Property and Equipment

Property and equipment, except land and building and improvements, are carried at cost less accumulated depreciation and any impairment in value. Land and building and improvements are stated at appraised value. The appraisal values were determined by qualified and independent professional appraisers. The revaluation increment resulting from revaluation is credited to 'Revaluation increment on land and building and improvements' under other comprehensive income in unrestricted funds, net of deferred tax liability.



The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any 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 comprehensive 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:

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

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 parent company statement of comprehensive 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 parent company statement of comprehensive income.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. Transaction costs represent nonrefundable taxes such as capital gains tax and documentary stamp tax (DST) that are for the account of the Parent Company. Subsequent to initial recognition, investment properties are stated at fair value, which reflects prevailing market conditions at the statement of assets, liabilities and fund balances date. Gains or losses from changes in the fair values of investment properties are recognized in the statement of comprehensive income under 'Fair value gain on investment properties' in the period in which they arise.

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

For a transfer from investment property carried at fair value to owner-occupied property, the asset's deemed cost for subsequent accounting is its fair value at the date of change in use. For transfers from owner-occupied property to investment property under the fair value model, the related properties are accounted for under property and equipment up to the time of change in use. At that date, any difference between carrying amount of the property and the fair value is to be treated the same way as a revaluation and be recognized in other comprehensive income and accumulated in unrestricted funds.



The revaluation increment included in unrestricted funds in respect of an item of investment property may be transferred directly to cumulative excess of revenues over expenses when the asset is derecognized. This may involve transferring the whole amount of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the increment transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

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 a 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.

Impairment of Nonfinancial Assets

The Parent Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Parent Company estimates the asset's recoverable amount. An asset's or cash-generating unit's (CGU) recoverable amount is the higher of the asset's or CGU's fair value less costs of disposal (FVLCD) and its value-in-use (VIU). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In determining FVLCD, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. In assuming VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Parent Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Parent Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.



An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine that asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount that does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income.

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 OCI 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.

Fund Balances

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

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

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

Remeasurement gains (losses) on defined benefit plan comprise actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) recognized immediately in OCI 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. However, the provision for inflation in 2018 was deferred until investments show considerably improved investment income.

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 Effective and Prior to January 1, 2018

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services.

The following specific recognition criteria must also be met before revenue is recognized:

Investment income

Investment income from financial assets at FVTPL, financial assets at FVOCI and at amortized cost 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 or 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 peso 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 OCI is recognized in OCI.

The tax expense shown in the parent company statements of comprehensive income in 2018 and 2017 pertains to final taxes withheld from investment and interest income on the Parent Company's bank accounts, short-term placements, AFS debt financial assets and debt instruments at amortized cost.

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 comprehensive income.

Contingent liabilities are not recognized in the statement of assets, liabilities and fund balances 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 Parent 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:

Judgments

In the process of applying the Parent Company's accounting policies, management has made the following judgment, apart from those involving estimations, which has the most significant effect on the amounts recognized in the financial statements:

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (Note 3). The Parent Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Parent Company monitors financial assets measured at amortized cost that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Parent Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Change in use of nonfinancial assets

PAS 40, *Investment Property*, requires management to use its judgment to determine whether a property qualifies as an investment property. The Parent Company has developed criteria so it can exercise its judgment consistently. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other held by the Parent Company is accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a stand-alone asset are accounted for as property and equipment. The Parent Company assesses on an annual basis the accounting classification of its properties taking into consideration the current use of such properties.

Reclassification from property and equipment to investment properties are discussed in Note 12.

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimating expected credit losses of financial assets at amortized cost (Effective January 1, 2018)

The Parent Company uses a provision matrix to calculate ECLs for receivables. The provision rates are based on days past due for groupings of tenants. The provision matrix is initially based on the Parent Company's historical observed default rates. The Parent Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking credit impaired estimates are analyzed.

The Parent Company applies low credit risk simplification for cash and cash equivalents and other debt securities. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Parent Company's policy to measure ECLs on



such instruments on a 12-month basis. However, when there has been a significant increase in credit risk (SICR) since origination, the allowance will be based on the lifetime ECL.

The Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

The balances of receivables and allowance for expected credit losses as of December 31, 2018 are disclosed in Note 7.

Estimating impairment losses on receivables (Applicable prior to January 1, 2018)

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 collectability 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 are disclosed in Note 7.

Impairment of AFS financial assets (Applicable prior to January 1, 2018)

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 in 2017. As of December 31, 2017, the carrying values of AFS financial assets amounted to ₱1.81 billion.

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 tax assets to be utilized.

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

The Parent Company did not recognize deferred tax assets on carryforward benefit of unused NOLCO and other deductible temporary differences amounting to ₱325.90 million and ₱277.83 million as of December 31, 2018 and 2017, 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 23).



6. Cash and Cash Equivalents

This account consists of:

	2018	2017	2016
Cash on hand	₱77,162	₱55,000	₱55,000
Undeposited collections	1,957,178	2,196,172	1,466,286
Cash equivalents	2,982,091	3,385,426	2,790,548
Cash in banks and fund managers	70,539,704	131,574,987	29,322,323
	₱75,556,135	₱137,211,585	₱33,634,157

Cash on hand pertains to revolving fund and petty cash fund.

Cash includes donor-restricted funds amounting to ₱11.08 million and ₱13.16 million as of December 31, 2018 and 2017, respectively.

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. Cash in banks and fund managers generally earn interest at rates ranging from 6% to 6.90% and 0.875% to 4.25% in 2018 and 2017, respectively.

Interest income from cash in banks and fund managers amounted to ₱0.62 million and ₱0.56 million in 2018 and 2017, respectively.

7. Receivables

This account consists of:

	2018	2017	2016
Current:			
Advances to project proponents	₱162,704,647	₱152,205,522	₱195,748,541
Accrued interest from advances to proponents	4,767,669	5,078,171	3,801,779
Receivable from proponents	5,144,000	5,144,000	5,144,000
Receivables under fund managers	4,964,285	4,959,350	-
Dividend receivable	1,247,758	966,563	-
Due from PEHI	173,231	32,601	70,753
Due from brokers	-	10,327,592	-
Receivable from donor-funded projects	-	-	236,999
Others	8,515,466	3,201,435	2,968,572
	187,517,056	181,915,234	207,970,644
Less allowance for credit losses	52,400,081	58,342,918	92,282,173
	135,116,975	123,572,316	115,688,471
Noncurrent advances to project proponents	70,995,990	77,285,823	38,297,355
Less allowance for credit losses	5,166,869	3,654,999	4,534,179
	65,829,121	73,630,824	33,763,176
	₱200,946,096	₱197,203,140	₱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% to 10% for both 2018 and 2017 to cover administrative costs of servicing the projects except for soft loans, which earn 3% 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 pertain to receivable from service contractors and advances to officers and staff.

Interest income on advances to proponents amounted to ₱7.44 million and ₱7.49 million in 2018 and 2017, respectively.

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 expected credit losses on receivables are as follows:

	2018		
	Current	Noncurrent	Total
Balances at beginning of the year	₱58,342,919	₱3,654,999	₱61,997,918
Provisions	3,736,331	1,511,870	5,248,201
Reversals	(9,679,169)	-	(9,679,169)
Balances at end of year	₱52,400,081	₱5,166,869	₱57,566,950

	2017		
	Current	Noncurrent	Total
Balances at beginning of the 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)	(17,186,168)
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 expected credit losses on receivables in the parent company statements of comprehensive income is determined as follows:

	2018	2017	2016
Provisions	₱5,248,201	₱17,338,698	₱21,877,145
Less amounts closed to CBRED	362,499	-	398,061
	4,885,702	17,338,698	21,479,084
Reversals	(9,679,169)	(16,306,988)	(9,852,283)
Less amounts closed to CBRED	90,000	94,750	440,200
	(9,589,169)	(16,212,238)	(9,412,083)
Provision for ECLs (recovery of doubtful accounts) on receivables	(₱4,703,467)	₱1,126,460	₱12,067,001

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

The reversal and expected credit 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 16).

8. Financial Assets at Fair Value Through Profit or Loss (FVTPL)

This account consists of:

Listed common stocks	₱767,141,206
Investment in funds	
Mutual funds	57,095,209
Unit investment trust fund (UITF)	69,476,730
	₱893,713,145

Equity securities consist of investment in companies listed in the Philippine Stock Exchange (PSE).

In 2018, the Company recognized changes in fair value of financial assets at FVTPL in the statements of comprehensive income amounting to ₱98.78 million loss.

Adoption of PFRS 9

In 2018, the Company adopted PFRS 9 resulting to adjustments recognized in the opening balance of cumulative excess of revenues over expenses as of January 1, 2018.

The impact of the adoption of PFRS 9 in relation to financial assets at FVTPL as of January 1, 2018 resulted to reclassification of net unrealized gain on AFS financial assets amounting to ₱147.58 million to cumulative excess of revenues over expenses and reclassification from AFS financial assets to financial assets at FVTPL amounting to ₱957.92 million (Note 3).



9. Other Current Assets

This account consists of:

	2018	2017	2016
Prepaid expenses	₱1,018,226	₱808,771	₱920,591
Input VAT	1,160,099	334,740	696,017
Others	22,502	22,501	–
	₱2,200,827	₱1,166,012	₱1,616,608

Input VAT pertains to input tax from supplier of goods and services. As of December 31, 2018, 2017 and 2016, the output VAT has been fully offset against input VAT which resulted to net input VAT position amounting to ₱1.16 million, ₱0.33 million and ₱0.70 million, respectively. Input VAT is recoverable in future periods.

10. Investments

This account consists of:

	2018	2017	2016
Investments in debt instruments	₱518,238,380	₱–	₱–
Financial assets at FVOCI	305,937,886	–	–
AFS financial assets	–	1,804,776,381	1,814,344,560
	₱824,176,266	₱1,804,776,381	₱1,814,344,560

These investments are managed by various financial institutions primarily investment grade banks.

a. Debt investments (as of December 31, 2018)

Corporate bonds	₱305,108,791
Government securities	213,129,589
	₱518,238,380

Corporate bonds include those issued by holding companies, property, utilities and telecommunication companies. These bonds earn annual interest rates ranging from 3.87% to 6.94 % and 3.41% to 5.55% in 2018 and 2017, respectively.

Government securities include Republic of the Philippines (ROP) bonds and fixed-rate treasury notes earn annual interest rates ranging from 3.25% to 8.13% and 1.78% to 5.82% in 2018 and 2017, respectively.

Interest income earned from investment in debt instruments amounted to ₱24.64 million and ₱13.66 million in 2018 and 2017, respectively.

b. Financial assets at FVOCI (as of December 31, 2018)

Preferred shares	₱281,116,056
Unquoted equity shares	24,821,830
	₱305,937,886



As of December 31, 2018, the Company has investment in preferred shares of publicly listed companies and common shares of nonlisted entities totaling to ₱305.94 million. These investments were irrevocably elected to be classified and measured as equity instruments designated at FVOCI.

c. Available-for-sale (AFS) financial assets (as of December 31, 2017)

The Parent Company's AFS financial assets consist of:

Listed common stocks	₱766,828,580
Preferred shares	285,074,436
ROP bonds and treasury notes	270,529,250
Corporate bonds	261,973,713
Investment in funds	191,095,331
Unquoted equity securities - at cost	29,275,071
	₱1,804,776,381

Adoption of PFRS 9

In 2018, the Company adopted PFRS 9 resulting to adjustments recognized in the opening balance of cumulative excess of revenues over expenses as of January 1, 2018.

The impact of the adoption of PFRS 9 in relation to the above investments, including financial assets at FVTPL, as of January 1, 2018 resulted to reclassification of net revaluation on AFS financial assets amounting to ₱0.81 million and ₱0.62 million to OCI and deficit, respectively (Note 3).

The movement in net revaluation on AFS financial assets as of January 1, 2018 follows:

Balance at January 1, 2017	(₱4,649,527)
Changes in fair value of AFS financial assets during the year	142,726,626
Balance at December 31, 2017	₱138,077,099
Less transfers:	
To cumulative excess of revenues over expenses	147,584,736
To fair value reserve on financial assets at FVOCI	(9,507,637)
Balance at January 1, 2018	₱-

d. Available-for-sale (AFS) financial assets (as of December 31, 2016)

The Parent Company's AFS financial assets consist of:

Equity securities	₱1,115,401,900
Republic of the Philippines (ROP) bonds and treasury notes	143,843,840
Corporate bonds	167,339,097
Special savings account	197,677,426
Investment in funds	125,347,655
Unquoted equity securities - at cost	64,734,642
	₱1,814,344,560



Rollforward on the investment accounts, including financial assets at FVTPL (Note 8) follows:

	2018	2017	2016
Balances at beginning of year	₱1,804,776,381	₱1,814,344,104	₱1,871,996,037
Unrealized valuation losses - net	305,937,886	141,308,950	(31,659,292)
Contributions/deposits	235,121,836	131,475,405	601,981,192
Realized investments gains - net	(382,669,435)	79,548,303	99,641,648
Foreign exchange gains	(4,540,457)	392,682	9,415,085
Provision for impairment losses on AFS financial assets	-	(10,155,690)	(14,480,338)
Disposals/withdrawals	(240,736,800)	(352,137,373)	(722,549,772)
	₱1,717,889,411	₱1,804,776,381	₱1,814,344,560

Details of the income earned from the investments, gross of final taxes and expenses, follow:

	2018	2017
Dividends	₱33,422,637	₱36,577,409
Interest	24,636,221	13,655,645
Trading gains	2,858,494	37,160,822
	₱60,917,352	₱87,393,876

Investment related expenses pertain to the payment to fund managers for an annual service fee of 0.25% for discretionary account and 0.13% for discretionary account based on the average market value of the fund, and other transaction costs. Total investment related expense recognized under 'Others' in the statements of comprehensive income amounted to ₱5.69 million and ₱5.68 million in 2018 and 2017, respectively.

11. Property and Equipment

The composition of and movements in property and equipment of the Parent Company carried at cost follow:

	2018		
	Office Furniture Fixtures and Equipment	Transportation Equipment	Total
Cost:			
Balances at beginning of year	₱5,581,605	₱2,738,100	₱8,319,705
Additions	748,750	803,571	1,552,321
Disposals	(91,074)	-	(91,074)
Balances at end of year	6,239,281	3,541,671	9,780,952
Accumulated depreciation and amortization:			
Balances at beginning of year	4,135,480	1,949,149	6,084,629
Depreciation and amortization	1,001,559	457,544	1,459,103
Disposals	(91,070)	-	(91,070)
Balances at end of year	5,045,969	2,406,693	7,452,662
Net book values	₱1,193,312	₱1,134,978	₱2,328,290



	2017		
	Office Furniture Fixtures and Equipment	Transportation Equipment	Total
Cost:			
Balances at beginning of year	₱11,272,953	₱2,738,100	₱14,011,053
Additions	612,099	-	612,099
Disposals	(779,437)	-	(779,437)
Write off	(5,524,010)	-	(5,524,010)
Balances at end of year	5,581,605	2,738,100	8,319,705
Accumulated depreciation and amortization:			
Balances at beginning of year	9,472,332	1,401,529	10,873,861
Depreciation and amortization	926,219	547,620	1,473,839
Disposals	(751,338)	-	(751,338)
Write off	(5,511,733)	-	(5,511,733)
Balances at end of year	4,135,480	1,949,149	6,084,629
Net book values	₱1,446,125	₱788,951	₱2,235,076

On January 1, 2018, the Parent Company applied the revaluation model in accounting for land and building and improvements. 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. Land and building and improvements were appraised in 2018.

A deferred tax liability equal to 30% corporate income tax was provided based on the fair value adjustments of land and building. The deferred tax liability amounted to ₱17.55 million and ₱19.82 million in 2018 and 2017, respectively.

As of December 31, 2018 and 2017, details of the land and building and improvements carried at appraised value follow:

	2018		
	Land	Building and Improvements	Total
Cost:			
Balances at beginning of year	₱70,830,000	₱102,034,049	₱172,864,049
Additions	-	46,495	46,495
Transfers (Note 13)	-	(7,719,290)	(7,719,290)
Balances at end of year	70,830,000	94,361,254	165,191,254
Accumulated depreciation:			
Balances at beginning of year	-	82,840,546	82,840,546
Depreciation	-	8,819,863	8,819,863
Transfers	-	(7,719,290)	(7,719,290)
Balances at end of year	-	83,941,119	83,941,119
Net book values	₱70,830,000	₱10,420,135	₱81,250,135



	2017		
	Land	Building and Improvements	Total
Cost:			
Balances at beginning of year, as previously reported	₱22,124,434	₱21,064,544	₱43,188,978
Revaluation increment	48,705,566	80,734,222	129,439,788
Balances at beginning of year, as restated	70,830,000	101,798,766	172,628,766
Additions	–	240,193	240,193
Balances at end of year	70,830,000	102,038,959	172,868,959
Accumulated depreciation:			
Balances at beginning of year, as previously reported	–	17,220,529	17,220,529
Revaluation increment	–	53,889,009	53,889,009
Balances at beginning of year, as restated	–	71,109,538	71,109,538
Depreciation	–	11,735,918	11,735,918
Balances at end of year	–	82,845,456	82,845,456
Net book values	₱70,830,000	₱19,193,503	₱90,023,503

Had the land and building and improvements been accounted using the cost model, the carrying amounts would be as follows:

	Land	Building and Improvements	Total
Cost	₱22,124,434	₱17,059,705	₱39,184,139
Accumulated depreciation	–	15,497,901	15,497,901
Net book value	₱22,124,434	₱1,561,804	₱23,686,238

In 2018, the Parent Company sold for total proceeds of ₱1,400, a property and equipment with net book value amounting to ₱4 which resulted to a gain on sale amounting to ₱1,396. 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 (Note 20).

Total depreciation expense above includes depreciation charges of property and equipment acquired through funds held in trust which amounted to nil and ₱4,910 in 2018 and 2017, respectively. Such amounts were excluded from the determination of depreciation expense in the parent company statements of comprehensive income since these are presented net of funds held in trust account in the parent company statements of financial position.

In 2018, the management has decided to lease out one of the Company's condominium office space located in Cebu City which has resulted to transfer from property and equipment to investment property. Upon transfer, the fair value and the new carrying amount of the property at the date of transfer amounting to ₱7.72 million was recognized as revaluation increment, net of tax (Note 12).

There are no property and equipment items that are pledged as security to liabilities as of December 31, 2018 and 2017.



12. Investment Properties

The investment properties include parcels of land foreclosed by the Parent Company in the event the borrower was unable to settle their loans. The properties are part of the real estate investment portfolio of the Parent Company. The fair value model in accounting is applied for investment properties.

The following are the Parent Company's investment properties fair values as of December 31, 2018 and 2017:

	2018		
	Land	Buildings	Total
Balances at beginning of year	₱26,515,108	₱-	₱26,515,108
Changes in market value recognized in profit of loss	2,719,000	-	2,719,000
Transfers (Note 12)	-	7,719,290	7,719,290
Disposal	(179,993)	-	(179,993)
Reversal	241,301	-	241,301
Balances at end of year	₱29,295,416	₱7,719,290	₱37,014,706

	2017		
	Land	Buildings	Total
Balances at beginning of year	₱4,911,814	₱-	₱4,911,814
Changes in market value recognized in profit or loss	21,603,294	-	21,603,294
Balances at end of year	₱26,515,108	₱-	₱26,515,108

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. Land and buildings were last appraised on February 2019.

In 2018, a condominium office space was transferred from property and equipment (Note 12) to investment properties. This property will form part of the real estate investment portfolio of the Parent Company. In the same year, a parcel of land located in Sultan Kudarat was sold. The sale has resulted to gain amounting to ₱30,000 (Note 20).

Had the investment properties been accounted using the cost model, the Parent Company's investment properties as of December 31, 2018 and 2017 would have been ₱12.54 million and ₱4.91 million. Parent company net income in 2018 and 2017 would have decreased by ₱2.56 million and ₱20.31 million.

A deferred tax liability equal to 6% capital gains tax was provided based on the fair values of the investment properties. The deferred tax liability amounted to ₱2.22 million and ₱1.59 million in 2018 and 2017, respectively.



13. Investment in a Subsidiary

PEHI is a wholly owned subsidiary of the Parent Company and was incorporated in 2013 with an investment of ₱125.00 million. 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.

Financial information of the Parent Company's subsidiary in 2018 and 2017 are as follows:

	2018	2017	2016
Total assets	₱113,298,836	₱126,599,751	₱121,811,954
Total liabilities	433,196	423,976	652,754
Net income (loss)	(12,745,365)	(603,257)	1,940,589

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

14. Accounts Payable and Accrued Expenses

This account consists of:

	2018	2017	2016
Accounts payable	₱12,858,982	₱18,216,177	₱5,355,509
Accrued expenses	6,273,786	3,927,672	3,453,633
Unearned income from advances to proponents	5,890,923	3,601,881	—
	₱25,023,691	₱25,745,730	₱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.

15. 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 parent company statements in comprehensive income amounted to ₱20.02 million and ₱29.53 million in 2018 and 2017, respectively.



Details of the rollforward of grants payable follow:

	2018	2017	2016
Beginning	₱22,300,544	₱35,202,989	₱32,333,657
Accruals	11,832,415	9,411,268	18,419,859
Reversals	(9,969,257)	(6,252,543)	(347,727)
Final release	(13,108,589)	(16,061,170)	(15,202,800)
	₱11,055,113	₱22,300,544	₱35,202,989

16. Funds Held in Trust

This account consists of funds from the following trustors:

	2018	2017	2016
CODE - NGO	₱56,014,618	₱68,573,521	₱61,566,257
Department of Energy (DOE) and United Nation Development Program (UNDP) - CBRED Project	35,555,188	34,451,304	33,059,254
Stitching Rabobank Foundation	6,219,495	8,162,327	–
Philips Electronics & Lightning Inc.	1,250,000	1,600,000	1,600,000
BPI Foundation - Sinag Project	444,013	444,013	2,600,000
Coca-Cola Foundation	278,863	4,708,676	10,901,382
BPI Foundation	194,668	194,668	744,668
Catholic Organization for Relief and Development Agency for International Development (CORDAID) - Cutflower Project	91,645	91,645	91,645
CORDAID - Shariah Project	–	–	(684,384)
CORDAID - Climate Change Project	–	–	279,153
CORDAID - Emergency Response for Typhoon Sendong	–	–	233,963
CORDAID - Knowledge Management Project	–	–	242,111
	₱100,048,490	₱118,226,154	₱110,634,049

The details of the funds follow:

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 follows:

	2018	2017	2016
Balances at beginning of year	₱68,573,521	₱61,566,257	₱–
Amount received	–	–	61,566,257
Withdrawals	(10,000,000)	–	–
Share in investment income unrealized changes in market	(2,558,903)	7,007,264	–
	₱56,014,618	₱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 financial assets account under BPI.

The rollforward analysis of this fund as follows:

	2018	2017	2016
Balances at beginning of year	₱34,451,304	₱33,059,254	₱31,460,942
Net profit	1,103,884	1,392,050	1,598,312
	₱35,555,188	₱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 extended to a Social Enterprise organization in the sugarcane sector. In 2017, the Parent Company received funds amounting to ₱8.16 million. In the following year ₱1.94 million was returned to Stitching Rabobank Foundation.

The rollforward analysis of this fund as follows:

	2018	2017	2016
Balances at beginning of year	₱8,162,327	₱-	₱-
Amount received	-	8,162,327	-
Return of funds	(1,942,832)	-	-
	₱6,219,495	₱8,162,327	₱-

Philips Electronic & Lightning Inc.

The Parent Company collaborated with Philips Electronic & Lightning Inc. 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 ₱5.00 million in 2016.

The rollforward analysis of this fund follows:

	2018	2017	2016
Balances at beginning of year	₱1,600,000	₱1,600,000	₱-
Amount received	-	-	5,000,000
Expenses	(350,000)	-	(3,400,000)
	₱1,250,000	₱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 ₱10.00 million or ₱5.00 million each from the Parent Company and BPI Foundation.



The rollforward analysis of this fund follows:

	2018	2017	2016
Balances at beginning of year	₱444,013	₱2,600,000	₱-
Amount received	-	-	4,050,000
Expenses	-	(2,155,987)	(1,450,000)
	₱444,013	₱444,013	₱2,600,000

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:

	2018	2017	2016
Balances at beginning of year	₱4,708,676	₱10,901,382	₱44,490
Amount received	-	-	10,856,892
Expenses	(4,429,813)	(6,442,168)	-
Forex gain	-	249,462	-
	₱278,863	₱4,708,676	₱10,901,382

BPI Foundation

The Parent Company was awarded a total grant amounting to ₱2.00 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 analysis of this fund follow:

	2018	2017	2016
Balances at beginning of year	₱194,668	₱744,668	₱194,668
Amount received	-	200,000	800,000
Expenses	-	(750,000)	(250,000)
	₱194,668	₱194,668	₱744,668

CORDAID - Cut Flower Project

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:

	2018	2017	2016
Balances at beginning of year	₱91,645	₱91,645	₱815,725
Amount received	-	-	-
Expenses	-	-	(724,080)
	₱91,645	₱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:

	2018	2017	2016
Balances at beginning of year	P-	(P684,384)	P1,152,586
Reimbursements (expenses)	-	684,384	(1,836,970)
	P-	P-	(P684,384)

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:

	2018	2017	2016
Balances at beginning of year	P-	P279,153	P279,153
Expenses	-	(279,153)	-
	P-	P-	P279,153

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:

	2018	2017	2016
Balances at beginning of year	P-	P233,963	(P2,244,384)
Amount received	-	-	2,710,447
Expenses	-	(233,963)	(232,100)
	P-	P-	P233,963



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:

	2018	2017	2016
Balances at beginning of year	P-	P242,111	P513,912
Amount received	-	-	-
Expenses	-	(242,111)	(271,801)
	P-	P-	P242,111

17. Project Expenses

This account consists of:

	2018	2017
Project development, monitoring and evaluation (PDME)	P30,640,397	P27,188,857
Project support	4,256,949	5,249,893
Institutional support	2,357,778	3,287,889
Advocacy and communications	1,078,689	1,239,011
Knowledge management	896,853	2,145,370
	P39,230,666	P39,111,020

PDME, CORDAID and CBRED related expenses are summarized below:

	2018	2017
Personnel expenses (Note 19)	P22,876,041	P19,692,625
Project monitoring	3,672,108	3,630,555
Supplies, services and other operating costs	1,537,620	1,045,097
Project audit	1,309,631	1,916,553
Project appraisals	630,261	294,530
Pre and post project meetings and workshops	497,544	188,846
Outside services	61,555	341,891
Project evaluation and documentation	26,810	49,703
Others	28,827	29,057
	P30,640,397	P27,188,857

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.



18. General and Administrative Expenses

This account consists of:

	2018	2017
Personnel expense (Note 19)	₱11,327,339	₱11,417,769
Outside services	2,187,586	1,748,745
Meetings	1,747,800	2,499,196
Utilities	587,327	505,551
Legal fee	574,320	625,681
Repairs and maintenance	482,319	428,198
Office supplies	468,573	545,924
Taxes and licenses	419,793	65,641
Transportation and travel	196,738	249,773
Communications	157,375	1,170,097
Association dues and membership fees	60,433	90,591
Recruitment and advertising	43,269	164,206
Representation	7,174	38,190
Others	236,322	297,384
	₱18,496,368	₱19,846,946

19. Personnel Expenses

This account consists of:

	2018	2017
Salaries and wages	₱23,766,173	₱21,994,656
De minimis benefits	3,813,101	3,260,650
Social security costs	2,337,815	2,004,806
Completion pay	2,057,350	1,538,218
Bonuses	2,043,463	2,232,373
Compensated absences	185,478	79,691
	₱34,203,380	₱31,110,394

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

	2018	2017
Project expenses (Note 17)	₱22,876,041	₱19,692,625
General and administrative expenses (Note 18)	11,327,339	11,417,769
	₱34,203,380	₱31,110,394

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

	2018	2017
Salaries and wages	₱9,271,106	₱9,488,612
Employee benefits	1,691,197	1,543,194
	₱10,962,303	₱11,031,806



20. Other Income

This account consists of other income from the following sources:

	2018	2017
Service fee from advances to proponents	₱35,252	₱25,384
Gain on sale of investment property (Note 12)	30,000	-
Gain (loss) on sale of property and equipment (Note 12)	1,396	(24,317)
Income from guarantee (Note 24)	-	10,646
Loss on retirement of property of equipment (Note 11)	-	(12,277)
Retirement benefit income (Note 21)	-	51,987
Others	352,644	489,210
	₱419,292	₱540,633

Others pertain to rental income and interest income from loans of employees being managed by NEC Multi-Purpose Cooperative.

21. 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, 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 arise 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 nil and ₱0.52 million in 2018 and 2017, respectively (Note 20).

Remeasurement on net retirement benefit asset to be recognized in OCI amounted to ₱0.04 million loss in 2018 and ₱1.21 million gain in 2017.



Net retirement benefit asset shown under 'Other noncurrent assets' is as follows:

	2018	2017
Fair value of plan asset	₱2,111,926	₱2,111,926
Effect of asset ceiling	-	-
	₱2,111,926	₱2,111,926

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

	2018	2017
Balances at beginning of year	₱2,111,926	₱850,852
Interest income included in net interest cost	-	51,987
Total amount recognized in OCI	(44,249)	1,209,087
Balances at end of year	₱2,067,677	₱2,111,926

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

	2018	2017
Cash and cash equivalents	₱1,769	₱1,010
Equity instruments - financial institution	2,065,908	2,110,916
	₱2,067,677	₱2,111,926

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

22. 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 primarily represent reimbursable expenses made by PEHI. In 2018, the Parent Company entered into a 3-year term management agreement with PEHI which involves management of the loans extended by the Parent Company to identified social enterprises.

Category	2018		Terms	Conditions
	Amount	Due from (to)		
Subsidiary:				
Peace and Equity Holdings, Inc.(PEHI)				
a. Utilities, meeting ang various expenses	₱173,231	₱173,231	On demand, noninterest bearing	Unsecured, not impaired
b. Management fee expense	578,763	(648,214)	On demand, noninterest bearing	Unsecured, not impaired
Category	2017		Terms	Conditions
	Amount	Due from		
Subsidiary:				
Peace and Equity Holdings, Inc.(PEHI)				
a. Meeting costs	₱32,601	₱32,601	On demand, noninterest bearing	Unsecured not impaired



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 Parent Company has not recognized any ECLs or impairment losses on amounts receivables from related parties for the years ended December 31, 2018 and 2017. 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.

23. 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 or RA No. 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 No. 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 No. 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, 2018, 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 2018 and 2017 pertains to final taxes withheld from investment and interest income on the Parent Company's bank accounts, short-term placements and debt financial assets.

There are no current provisions for regular corporate income tax in 2018 and 2017 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 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:

	2018	2017
NOLCO	₱165,092,986	₱216,245,292
Allowance for expected credit losses on receivables	57,566,950	61,997,917
Unrealized foreign exchange gains - net	(9,500,657)	(412,573)
	₱213,159,279	₱277,830,636

As of December 31, 2018, 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
2018	₱38,076,953	₱-	₱38,076,953	2021
2017	59,057,995	-	59,057,995	2020
2016	67,958,038	-	67,958,038	2019
2015	89,229,259	89,229,259	-	2018
	₱254,322,245	₱89,229,259	₱165,092,986	

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

	2018	2017
Provision for income tax at statutory tax rate of 30%	(₱31,852,727)	(₱3,597,275)
Additions to (reductions in) resulting from:		
Movements in unrecognized deferred income tax assets	11,423,087	17,717,397
Nondeductible grant expenses	37,026,773	10,485,535
Nontaxable income	-	(15,596)
Interest income subject to final tax - others	(9,404)	(26,117)
Interest income on investment subject to final tax	(2,054,712)	(1,712,676)
Nontaxable dividend income and valuation gains	(10,428,489)	(19,984,524)
	₱4,104,528	₱2,866,744

Republic Act (RA) No. 10963

On December 19, 2017, the RA No. 10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions



that generally affect businesses on a prospective basis, the management assessed that the same did not have any significant impact on the financial statement balances as of the reporting date.

24. 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.

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 ₱0.01 million in 2017, presented as part of "Other income" in the parent company statements of comprehensive income (Note 20).

The guarantee ended March 31, 2015. No guarantee of new loans shall be undertaken thereafter.

Community Mortgage Program

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

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.

25. 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 in banks, receivables, accounts payable and accrued expenses* - carrying amounts approximate fair values due to short-term nature of these accounts.



- *AFS financial assets (prior to January 1, 2018)* - fair values were determined using quoted market prices at reporting date. The investments are included within the level 1 of the hierarchy. The fair value of AFS financial assets in unquoted shares of stock are based on cost since there is no reliable basis for fair value.

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 is 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 table below shows the Company's financial instruments carried at fair value hierarchy classification:

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
2018	₱1,717,889,411	₱-	₱-	₱1,717,889,411
2017	1,775,501,310	29,275,071	-	1,804,776,381
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 in December 31, 2018 and 2017, respectively.

26. 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 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 financial assets.



The analysis below is performed for reasonably possible movements in the Philippine Stock Exchange (PSE) index as of December 31, 2018 and 2017 with all other variables held constant showing the impact on equity that reflects adjustments on changes in fair value of financial assets.

Market Index	2018		2017		2016	
	Change in variable	Effect on equity	Change in variable	Effect on equity	Change in variable	Effect on equity
PSE	+3.14%	₱24,088,234	+2.84%	19,303,820	+1.62%	15,696,146
	-3.14%	(24,088,234)	-2.84%	(19,303,820)	-1.62%	(15,696,146)

Price interest risk

The Parent Company is exposed to the risks of changes in the value or future cash flows of its financial instruments due to its market risk exposures. The Parent Company's exposure to interest rate risk relates primarily to the Parent Company's financial assets at amortized cost and AFS financial assets.

Reasonably Possible Changes in Interest Rates	Change in Income Before Income Tax		
	2018	2017	2016
+100 basis points (bps)	₱4,982,555	₱2,915,461	₱500,495
- 100 bps	(4,982,555)	(2,915,461)	(500,495)

Liquidity Risk

Liquidity risk is defined as the risk that the Parent Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Parent 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.

	2018				Total
	On demand	< 1 year	> 1 year	No term	
Financial assets:					
Cash	₱75,556,135	₱-	₱-	₱-	₱75,556,135
Receivables	-	135,116,975	65,829,121	-	200,946,096
Other financial assets	-	-	-	1,717,889,411	1,717,889,411
Refundable deposit	-	-	45,600	-	45,600
	₱75,556,135	₱135,116,975	₱65,874,721	₱1,717,889,411	₱1,994,437,242

Financial liabilities:					
Accounts payable and accrued expenses	₱-	₱25,023,691	₱-	₱-	₱25,023,691
Grants payable	-	11,055,113	-	-	11,055,113
Funds held in trust	-	100,048,489	-	-	100,048,489
	₱-	₱136,127,293	₱-	₱-	₱136,127,293

	2017				Total
	On demand	< 1 year	> 1 year	No term	
Financial assets:					
Cash	₱137,211,585	₱-	₱-	₱-	₱137,211,585
Receivables	-	123,572,316	73,630,824	-	197,203,140
Other financial assets	-	-	-	1,804,776,381	1,804,776,381
Refundable deposit	-	254,996	45,600	-	300,596
	₱137,211,585	₱123,827,312	₱73,676,424	₱1,804,776,381	₱2,139,491,702

(Forward)



	2017				Total
	On demand	< 1 year	> 1 year	No term	
<i>Financial liabilities:</i>					
Accounts payable and accrued expenses	P-	₱25,745,730	P-	P-	₱25,745,730
Grants payable	-	22,300,544	-	-	22,300,544
Funds held in trust	-	₱118,226,154	-	-	₱118,226,154
	P-	₱166,272,428	P-	P-	₱166,272,428

	2016				Total
	On demand	< 1 year	> 1 year	No term	
<i>Financial assets:</i>					
Cash	₱33,634,157	P-	P-	P-	₱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

<i>Financial liabilities:</i>					
Accounts payable and accrued expenses	P-	₱8,809,142	P-	P-	₱8,809,142
Grants payable	-	35,202,989	-	-	35,202,989
Funds held in trust	-	110,634,049	-	-	110,634,049
	P-	₱154,646,180	P-	P-	₱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 peso (₱).

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:

	2018		2017		2016	
	Currencies	Peso Equivalent	Currencies	Peso Equivalent	Currencies	Peso Equivalent
In USD:						
Cash in bank	\$6,681	₱351,285	\$4,275	₱213,497	\$219,896	₱10,933,239
Financial assets	3,932,853	206,789,434	3,932,853	196,367,373	3,129,529	155,600,170
In EUR:						
Cash in bank	€1,502	90,567	€1,502	89,519	€6,267	324,901
Financial assets	756	45,623	3,845	229,206	-	-
		₱207,276,909		₱196,899,595		₱166,858,310

The exchange rates used are as follows:

	1 USD: Peso	1 EUR: Peso
December 31, 2018	₱52.580	₱60.311
December 31, 2017	₱49.930	₱59.613
December 31, 2016	₱49.720	₱51.840



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).

	2018	
	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	(₱10,357,036)	₱10,357,036
Change in PHP/EUR exchange rate	(₱6,810)	₱6,810
	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.

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:

	2018				
	Neither Past Due nor Impaired	Past due but not impaired		Impaired Financial Assets	Total
		<1 year	>1 year		
Financial assets at amortized cost:					
Cash	₱75,556,135	₱-	₱-	₱-	₱75,556,135
Receivables	200,946,096	-	-	61,997,918	262,944,014
Other financial assets	1,717,889,411	-	-	-	1,717,889,411
	₱1,994,391,642	₱-	₱-	₱61,997,918	₱2,056,389,560

	2017				
	Neither Past Due nor Impaired	Past due but not impaired		Impaired Financial Assets	Total
		<1 year	>1 year		
Loans and receivables:					
Cash	₱137,211,585	₱-	₱-	₱-	₱137,211,585
Receivables	197,203,140	-	-	57,566,950	254,770,090
AFS financial assets	1,804,776,381	-	-	-	1,804,776,381
	₱2,139,191,106	₱-	₱-	₱57,566,950	₱2,196,758,056

	2016				
	Neither Past Due nor Impaired	Past due but not impaired		Impaired Financial Assets	Total
		<1 year	>1 year		
Loans and receivables:					
Cash	₱33,634,157	₱-	₱-	₱-	₱33,634,157
Receivables	149,451,647	-	-	96,816,352	246,267,999
AFS financial assets	1,814,344,560	-	-	-	1,814,344,560
	₱1,997,430,364	₱-	₱-	₱96,816,352	₱2,094,246,716



Credit quality

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

	2018		
	High Grade	Standard Grade	Total
Cash	₱75,556,135	₱–	₱75,556,135
Receivables	–	200,946,096	200,946,096
Other financial assets	1,717,889,411	–	1,717,889,411
	₱1,793,445,546	₱200,946,096	₱1,994,391,642

	2017		
	High Grade	Standard Grade	Total
Cash	₱137,211,585	₱–	₱137,211,585
Receivables	–	197,203,140	197,203,140
Other financial assets	1,804,776,381	–	1,804,776,381
	₱1,941,987,966	₱197,203,140	₱2,139,191,106

	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
	₱1,847,978,717	₱149,451,647	₱1,997,430,364

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 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.

Impairment of financial assets effective January 1, 2018

The Parent Company has three types of financial assets that are subject to the ECL model under PFRS 9:

- Cash and cash equivalents;
- Receivables; and
- Financial assets at amortized cost

Cash and cash equivalents. Credit risk from balances with banks and financial institutions is managed by the Parent Company’s Investments and Finance Committee in accordance with the Parent Company’s policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The Parent Company did not recognize provision for ECLs during the year.

Receivables. The Parent Company applies the PFRS 9 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The



ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Parent Company did not recognize provision for ECLs during the year.

Financial assets at amortized cost. For government securities and corporate bonds ECL, the Company applies the general approach of which it tracks changes in credit risk at every reporting date. These are also subject to impairment requirements of PFRS 9, the identified impairment losses were immaterial.

Impairment of financial assets prior to January 1, 2018

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

27. 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 2018 and 2017 amounted to nil and ₱61.62 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:

	2018	2017	2016
Total liabilities	₱136,127,293	₱166,272,428	₱154,646,180
Fund balance	2,115,599,547	2,198,860,341	2,004,314,698
Liability to fund balance ratio	0.064:1	0.076:1	0.08:1

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 2018, 2017 and 2016.

28. 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, 2018.

a. The Parent Company is VAT-registered with output VAT declaration of ₱1,086,063 for the year ended December 31, 2018 based on the amount of ₱9,050,525.

b. Input VAT

Balance at January 1, 2018	₱334,740
Current year's domestic purchases/payments for:	
Services lodged under other accounts	1,782,829
Capital goods not subject to amortization	128,593
Input claimed against output VAT	(1,086,063)
<u>Balance at December 31, 2018</u>	<u>₱1,160,099</u>

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

Documentary stamp tax	₱345,137
Property tax	35,126
Business permit and fees	39,030
BIR annual registration fee	500
<u></u>	<u>₱419,793</u>

d. The amount of withholding taxes paid in 2018 are as follows:

Withholding tax on compensation	₱3,827,954
Expanded withholding tax	480,683
Final withholding tax	110,930
<u></u>	<u>₱4,419,567</u>

