"STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS"

The management of **AHON SA HIRAP, INC. (A MICROFINANCE NGO)** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Trustees is responsible for overseeing the Organization's financial reporting process.

The Board of Trustees reviews and approves the financial statements including schedules attached therein, and submits the same to the members.

Reyes Tacandong & Co., the independent auditors appointed by the members, has audited the financial statements of the Organization as at and for the years ended December 31, 2019 and 2018 in accordance with Philippine Standards on Auditing, and in its report to the members, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signature: Mercedes R Abad
MERCEDES R. ABAD / President

Signature: ______________________
HENRY JOSEPH M. HERRERA / Chairman

Signature: ______________________
ESTRELLA S. ANDRES / TREASURER

Signed this 30 day of June 2020

"STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN"

The Management of **AHON SA HIRAP, INC. (A MICROFINANCE NGO)** is responsible for all information and representations contained in the Annual Income Tax Return as at December 31, 2019. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements as at and for the year ended December 31, 2019 and the accompanying Annual Income Tax Return are in accordance with the books and records of the Organization complete and correct in all material respects. Management likewise affirms that:

(a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

(b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards (i.e. those applicable to
Non-Publicly Accountable Entities) and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Organization's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances; and

(c) the Organization has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

Signature: ______________________
MERCEDES R. ABAD / President

Signature: ______________________
HENRY JOSEPH M. HERRERA / Chairman

Signature: ______________________
ESTRELLA S. ANDRES / TREASURER

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

BOA/PRC Accreditation No. 4782
October 4, 2018, valid until August 15, 2021
SEC Accreditation No. 0207-FR-3 (Group A)
August 29, 2019, valid until August 28, 2022

Citibank Tower
8741 Paseo de Roxas
Makati City 1226 Philippines
Phone: +632 8 982 9100
Fax +632 8 982 9111
Website: www.reyestacandong.com

INDEPENDENT AUDITORS' REPORT

The Members and the Board of Trustees
Ahon sa Hirap, Inc. (A Microfinance NGO)
No. 76, 8th Avenue
Brgy. Socorro, Cubao, 1109
Quezon City, Philippines

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Ahon sa Hirap, Inc. (A Microfinance NGO) (a non-stock, non-profit organization) (the Organization), which comprise the statements of assets, liabilities and fund balance as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in fund balance and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

Emphasis of a Matter - Events After the Reporting Date

As discussed in Note 25, the country is currently experiencing a pandemic virus crisis resulting to a slowdown in the Philippine economy because of mandated lockdowns all over the country. While the financial impact is considered a non-adjusting subsequent event as at December 31, 2019, the effect on the Organization's operations and financial performance, however, cannot be reasonably determined as at the report date. Nonetheless, the Organization strongly believes that it can continue as a going concern given its liquidity position and its access to short-term and long-term funding. Our opinion is not modified with respect to this matter.

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

Reyes Tacandong & Co. is a member of the RSM network. Each member of the RSM network is an independent accounting and consulting firm, and practices in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Organization to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes and licenses in Note 26 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of the Organization. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

REYES TACANDONG & CO.

KARL JOSEPH N. MALVAS
Partner
CPA Certificate No. 110926
Tax Identification No. 940-545-217-000
BOA Accreditation No. 4782; Valid until August 15, 2021
SEC Accreditation No. 1782-A
Valid until September 25, 2022
BIR Accreditation No. 08-005144-017-2019
Valid until July 17, 2022
PTR No. 8122729
Issued January 7, 2020, Makati City

April 23, 2020
Makati City, Metro Manila

AHON SA HIRAP, INC. (A MICROFINANCE NGO)
(A Non-stock, Non-profit Organization)

STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

	Note	December 31 2019	2018
ASSETS			
Current Assets			
Cash	4	**₱150,651,718**	₱63,080,438
Financial assets at fair value through profit or loss (FVPL)	5	**11,003,791**	9,523,240
Loans receivable - current portion	6	**1,059,397,709**	959,082,581
Other receivables - current portion	7	**7,311,773**	7,085,273
Other current assets	8	**11,494,875**	6,603,317
Total Current Assets		**1,239,859,866**	1,045,374,849
Noncurrent Assets			
Loans receivable - net of current portion	6	**218,612**	396,472
Other receivables - net of current portion	7	–	2,000,000
Property and equipment	9	**65,996,159**	48,366,897
Intangible asset	10	–	–
Other noncurrent assets	11	**13,403,421**	10,861,468
Total Noncurrent Assets		**79,618,192**	61,624,837
		₱1,319,478,058	₱1,106,999,686
LIABILITIES AND FUND BALANCE			
Current Liabilities			
Accounts payable and accrued expenses	12	**₱53,825,628**	₱50,209,178
Income tax payable		**2,142,306**	94,109
Capital build-up	13	**256,091,401**	195,047,051
Funds held in trust	14	**10,005,845**	7,492,968
Loans payable - current portion	15	**646,599,244**	503,254,993
Total Current Liabilities		**968,664,424**	756,098,299
Noncurrent Liabilities			
Loans payable - net of current portion	15	**43,788,927**	87,871,504
Net retirement benefit liability	20	**31,695,440**	21,153,221
Other noncurrent liabilities	16	**5,515,502**	4,524,700
Total Noncurrent Liabilities		**80,999,869**	113,549,425
Total Liabilities		**1,049,664,293**	869,647,724
Fund Balance			
General fund		**273,823,234**	234,838,781
Cumulative remeasurement gains (losses) on net retirement benefit liability		**(4,009,469)**	2,513,181
Total Fund Balance		**269,813,765**	237,351,962
		₱1,319,478,058	₱1,106,999,686

See accompanying Notes to Financial Statements.

AHON SA HIRAP, INC. (A MICROFINANCE NGO)

(A Non-stock, Non-profit Organization)

STATEMENTS OF COMPREHENSIVE INCOME

	Note	Years Ended December 31 2019	2018
REVENUES			
Interest income	6	**₱363,718,210**	₱322,155,819
Service income		**24,941,062**	12,693,411
Grants and donations		**3,246,406**	2,564,909
Unrealized gain (loss) on fair value changes of financial assets at FVPL	5	**1,480,551**	(946,474)
Other income		**3,134,792**	1,297,430
		396,521,021	337,765,095
EXPENSES			
Operating expenses	18	**211,344,501**	198,734,169
Administrative expenses	19	**83,704,811**	53,641,969
Finance costs	15	**46,227,898**	43,068,574
Impairment loss on receivables	6	**8,420,406**	18,526,606
		349,697,616	313,971,318
EXCESS OF REVENUES OVER EXPENSES BEFORE INCOME TAX		**46,823,405**	23,793,777
INCOME TAX EXPENSE	22	**7,838,952**	6,718,486
EXCESS OF REVENUES OVER EXPENSES		**38,984,453**	17,075,291
OTHER COMPREHENSIVE INCOME (LOSS)			
Not to be reclassified to profit or loss in subsequent periods			
Remeasurement gain (loss) on net retirement benefit liability	20	**(6,522,650)**	5,901,615
TOTAL COMPREHENSIVE INCOME		**₱32,461,803**	₱22,976,906

See accompanying Notes to Financial Statements.

AHON SA HIRAP, INC. (A MICROFINANCE NGO)
(A Non-stock, Non-profit Organization)

STATEMENTS OF CHANGES IN FUND BALANCE

		General Fund			
	Note	Initial Contribution	Cumulative Excess of Revenues Over Expenses	Cumulative Remeasurement Gains (Losses) on Net Retirement Benefit Liability	Total Fund Balance
Balances as at December 31, 2017		₱900	₱217,762,590	(₱3,388,434)	₱214,375,056
Excess of revenues over expenses		–	17,075,291	–	17,075,291
Remeasurement gain on net retirement benefit liability	20	–	–	5,901,615	5,901,615
Balances as at December 31, 2018		₱900	₱234,837,881	₱2,513,181	₱237,351,962
Balances as at December 31, 2018		**₱900**	**₱234,837,881**	**₱2,513,181**	**₱237,351,962**
Excess of revenues over expenses		–	**38,984,453**	–	**38,984,453**
Remeasurement loss on net retirement benefit liability	20	–	–	**(6,522,650)**	**(6,522,650)**
Balances as at December 31, 2019		**₱900**	**₱273,822,334**	**(₱4,009,469)**	**₱269,813,765**

See accompanying Notes to Financial Statements.

AHON SA HIRAP, INC. (A MICROFINANCE NGO)

(A Non-stock, Non-profit Organization)

STATEMENTS OF CASH FLOWS

	Note	Years Ended December 31 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over expenses before income tax		**₱46,823,405**	₱23,793,777
Adjustments for:			
Finance costs	15	**46,227,898**	43,068,574
Depreciation and amortization	10	**11,573,120**	7,623,769
Provisions for impairment losses on:			
Loans receivable	6	**8,420,406**	10,401,400
Other receivables	7	**–**	8,125,206
Retirement benefit costs	20	**4,019,569**	4,557,968
Unrealized loss (gain) on financial assets at fair value through profit or loss	5	**(1,480,551)**	946,474
Unrealized foreign exchange loss (gain)		**247,489**	(14,973)
Interest income from banks	4	**(93,978)**	(157,406)
Gains on:			
Reversal of provision for impairment losses on other receivables	7	**(21,000)**	–
Sale of property and equipment	9	**–**	(50,000)
Operating income before working capital changes		**115,716,358**	98,294,789
Decrease (increase) in:			
Loans receivable		**(108,536,674)**	(16,333,910)
Other current assets		**(5,095,558)**	(2,183,734)
Other receivables		**1,773,500**	2,662,541
Other noncurrent assets		**(2,541,953)**	389,504
Increase (decrease) in:			
Accounts payable and accrued expenses		**(1,840,823)**	3,026,066
Capital build-up		**59,099,999**	47,395,713
Funds held in trust		**2,512,877**	(389,504)
Other noncurrent liabilities		**(129,956)**	(1,447,618)
Net cash generated from operations		**60,957,770**	131,413,847
Income taxes paid		**(5,790,755)**	(12,723,591)
Interest received from banks		**93,978**	157,406
Net cash provided by operating activities		**55,260,993**	118,847,662
CASH FLOWS FROM INVESTING ACTIVITIES	9		
Acquisition of property and equipment		**(22,409,282)**	(11,113,693)
Proceeds from disposal of property and equipment		**5,423**	77,604
Net cash used in investing activities		**(22,403,859)**	(11,036,089)

(Forward)

	Note	Years Ended December 31 **2019**	2018
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loan availments	15	**₱829,000,000**	₱587,364,453
Payments of:			
Loans payable	15	**(729,738,326)**	(739,082,775)
Interest		**(41,743,650)**	(43,223,732)
Lease liability		**(2,556,389)**	–
Net cash provided by (used in) financing activities		**54,961,635**	(194,942,054)
NET INCREASE (DECREASE) IN CASH		**87,818,769**	(87,130,481)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH		**(247,489)**	14,973
CASH AT BEGINNING OF YEAR		**63,080,438**	150,195,946
CASH AT END OF YEAR		**₱150,651,718**	₱63,080,438

OPERATIONAL CASH FLOW FROM INTEREST			
Interest received from loans receivable		**₱363,624,232**	₱324,974,054

NONCASH INFORMATION			
Recognition of:	18		
Right-of-use assets		**₱2,707,760**	–
Lease liabilities		**2,503,760**	–

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Reporting Entity

Ahon sa Hirap, Inc. (A Microfinance NGO) (the Organization) is a non-stock, non-profit organization incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on July 24, 1991. Its primary purpose is to help alleviate extreme poverty, to promote the generation of employment and regular income generating activities among poor households, and to promote and contribute exclusively to social welfare through the upliftment of the basis or disadvantaged sectors of society by providing advocacy, training, community organizing, and other similar activities. The Organization obtains financial assistance from local and international agencies to finance its activities and projects in its 65 branches.

In accordance with Republic Act (R.A.) No. 10693, "The Microfinance NGOs Act," which was approved by the President of the Philippines on November 3, 2015, the Organization being a microfinance non-government organization (NGO), is subject to two percent (2%) tax on its gross receipts from microfinance operations in lieu of all national taxes. The Organization was granted the Certificate of Tax Exemption (CTE) on March 28, 2017 valid for three (3) years. This expired in March 2020. The Organization's application for the renewal of its CTE was approved on March 28, 2020 valid for three (3) years. Further, as required by R.A. No. 10693, the Board of Trustees (BOT) approved the amendments to the Organization's Articles of Incorporation and By-laws to include the word "Microfinance" in their corporate and trade names on April 22, 2017. The amendment to the Articles of Incorporation was approved by the SEC on June 22, 2018.

The Organization's registered office address is at No. 76, 8th Avenue, Brgy. Socorro, Cubao, 1109, Quezon City, Philippines.

The Organization's financial statements as at and for the years ended December 31, 2019 and 2018 were approved and authorized for issuance by the BOT on April 23, 2020.

2. Summary of Significant Accounting Policies

Basis of Preparation

The financial statements of the Organization have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS) issued by the Philippine Financial Reporting Standards Council and adopted by the SEC. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine interpretations from International Financial Reporting Interpretations Committee (IFRIC).

Measurement Bases

The financial statements are presented in Philippine Peso, the Organization's functional currency. All values are stated in absolute amounts, unless otherwise indicated.

The financial statements of the Organization have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL).

Historical cost is generally based on the fair value of the consideration given in exchange for an asset and fair value of the consideration received in exchange for incurring a liability.

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 Organization uses observable market data to the extent possible when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

Further information about the assumptions made in measuring fair values is included in the following notes to the financial statements:

- Note 5 - Financial Assets at FVPL
- Note 24 - Fair Value Measurement

Adoption of New and Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Organization adopted effective January 1, 2019:

- PFRS 16, *Leases* – This standard replaces PAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, Standard Interpretations Committee (SIC) - 15, *Operating Leases-Incentives,* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. PFRS 16 requires lessees to account for most leases under a single on-balance sheet model and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard provides two recognition exemptions for lessees from this PFRS – leases of low-value assets and short-term leases (i.e., leases with a lease term of 12 months or less).

  At the commencement date of a lease, the lessee shall recognize a lease liability to make lease payments and a right-of-use (ROU) asset representing the right to control the use of the underlying asset throughout the lease term. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the ROU asset.

The lease liability shall be remeasured when there are changes in the lease term and other events affecting the lease, such as adjustments to the future lease payments resulting from a change in the index or rate used to determine those payments. The remeasurement of the lease liability shall be recognized as an adjustment to the ROU asset.

Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. Lessors will continue to classify leases as either operating or finance leases using principles similar with PAS 17.

The Organization adopted PFRS 16 using the modified retrospective method which requires that the cumulative effect of initially applying the standard is recognized at the beginning of the year of initial application. Accordingly, the comparative information presented for 2018 has not been restated.

The Organization has also applied the following practical expedients:

- To apply PFRS 16 only to contracts that were previously identified as leases applying PAS 17 and IFRIC 4;
- Not to recognize a ROU asset and lease liability for a lease with remaining lease term of 12 months or less from January 1, 2019; and
- To exclude initial direct costs from the measurement of the ROU asset as at January 1, 2019.

As at January 1, 2019, the Organization recognized the ROU assets and lease liabilities for office spaces of its branches as follows:

Gross minimum lease payments	₱2,692,475
Effect of discounting	(188,715)
Lease liabilities due to initial recognition of PFRS 16 as at January 1, 2019	2,503,760
Prepaid rent	204,000
ROU assets due to initial recognition of PFRS 16 as at January 1, 2019	₱2,707,760

The Organization has applied its weighted average incremental borrowing rates (IBR) ranging from 3.88% to 6.97% for the computation of its lease liabilities and ROU assets.

For leases with remaining lease terms of less than 12 months from January 1, 2019, the Organization recognized rental expense amounting to ₱7,224,971 on a straight-line basis.

The adoption of PFRS 16 using the modified retrospective method did not result to any adjustment in the Organization's retained earnings as at January 1, 2019.

- Philippine Interpretation IFRIC 23, *Uncertainty Over Income Tax Treatments* – The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under PAS 12, *Income Taxes,* in particular (i) matters to be considered in accounting for uncertain tax treatments separately, (ii) assumptions for taxation authorities' examinations, (iii) determinants of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) effect of changes in facts and circumstances.

- Amendments to PFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation* – The amendments clarify that a financial asset passes the "solely payments of principal and interest" criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. Consequently, financial assets with termination provisions can now be measured at amortized cost (or, depending on the business model, at fair value through other comprehensive income).

- Amendments to PAS 19, *Employee Benefits - Plan Amendment, Curtailment or Settlement* – The amendments specify how companies remeasure a defined benefit plan when a change - an amendment, curtailment or settlement - to a plan takes place during a reporting period. It requires entities to use the updated assumptions from this remeasurement to determine current service cost and net interest cost for the remainder of the reporting period after the change to the plan.

- Annual Improvements to PFRS 2015 to 2017 Cycle -

    - Amendments to PAS 23, *Borrowing Costs - Borrowing Costs Eligible for Capitalization* – The amendments clarify that an entity treats as part of its general borrowings any specific borrowings made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for intended use or sale are complete.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS did not have any material effect on the financial statements of the Organization. Additional disclosures are included in the financial statements, as applicable.

Amended PFRS Issued But Not Yet Effective

Relevant amendments to PFRS, effective for annual periods beginning January 1, 2020, are summarized below:

- Amendments to References to the Conceptual Framework in PFRS – The amendments include a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance-in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurements uncertainty in financial reporting. The amendments should be applied retrospectively unless retrospective application would be impracticable or involve undue cost or effort.

- Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material* – The amendments clarify the definition of "material" and how it should be applied by companies in making materiality judgments. The amendments ensure that the new definition is consistent across all PFRS standards. Based on the new definition, an information is "material" if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Under prevailing circumstances, the adoption of the foregoing amended PFRS is not expected to have any material effect on the financial statements of the Organization. Additional disclosures will be included in the financial statements, as applicable.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity or a financial liability or equity instrument of another entity.

Date of Recognition. The Organization recognizes a financial asset or a financial liability in the statement of assets, liabilities and fund balance when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

"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 Organization recognizes the difference between the transaction price and the fair value (a "Day 1" difference) in profit or loss, unless it qualifies for recognition as some other type of asset. In cases where there is no observable data on inception, the Organization deems the transaction price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Organization determines the appropriate method of recognizing the "Day 1" difference.

Financial Assets

Initial Recognition and Measurement. Financial assets are recognized initially at fair value, which is the fair value of the consideration given. The initial measurement of financial assets, except for those designated at FVPL, includes transaction cost.

Classification. The Organization classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL (b) financial assets at amortized cost and (c) financial assets at fair value through other comprehensive income (FVOCI). The classification of a financial asset at initial recognition largely depends on the Organization's business model for managing the asset and its contractual cash flow characteristics.

As at December 31, 2019 and 2018, the Organization does not have financial assets at FVOCI.

Financial Assets at FVPL. Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) 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.

This category includes debt instruments whose cash flows, based on the assessment at initial recognition of the assets, are not "solely for payment of principal and interest", and which are not held within a business model whose objective is either to collect contractual cash flows or to both collect contractual cash flows and sell. The Organization may, at initial recognition, designate a debt instrument meeting the criteria to be classified at amortized cost or at FVOCI, as a financial asset at FVPL, if doing so eliminates or significantly reduces accounting mismatch that would arise from measuring these assets.

This category also includes equity instruments which the Organization had not irrevocably elected to classify at FVOCI at initial recognition.

After initial recognition, financial assets at FVPL are subsequently measured at fair value. Gains or losses arising from the fair valuation of financial assets at FVPL are recognized in profit or loss.

As at December 31, 2019 and 2018, the Organization's participating interests in unit investment trust fund (UITF) are classified under this category (see Note 5).

Financial Assets at Amortized Cost. Financial assets shall be measured at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is 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.

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized or impaired or through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

As at December 31, 2019 and 2018, the Organization's cash, loans receivable, other receivables (excluding nonfinancial assets), refundable deposits and restricted cash are classified under this category (see Notes 4, 6, 7, 8 and 11).

Reclassification. The Organization reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income (OCI).

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at amortized cost or FVOCI, its fair value at the reclassification date becomes its new gross carrying amount.

Impairment of Financial Assets at Amortized Cost. The Organization recognizes an allowance for impairment losses for all debt instruments not held at FVPL using the expected credit loss (ECL) model. ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Organization expects to receive, discounted at an approximation to the asset's original effective interest rate.

For debt instruments measured at amortized cost, the ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Organization compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. The Organization also considers reasonable and supportable information, that is available without undue cost or effort, which is indicative of significant increases in credit risk since initial recognition.

The Organization considers a financial asset in default when contractual payments are past due (1-day past due for loans receivable and 30-days past due for other financial assets at amortized cost) unless it is demonstrated that the non-payment was an administrative oversight rather than resulting from financial difficulty of the borrower. However, in certain cases, the Organization may also consider a financial asset to be in default when internal or external information indicates that the Organization is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Organization. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

- The right to receive cash flows from the asset has expired;

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

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

When the Organization has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Organization's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Organization could be required to repay.

Financial Liabilities

Initial Recognition and Measurement. Financial liabilities are recognized initially at fair value, which is the fair value of the consideration received. In case of financial liabilities at amortized costs, the initial measurement is net of any directly attributable transaction costs.

Classification. The Organization classifies its financial liabilities at initial recognition as either financial liabilities at FVPL or financial liabilities at amortized cost.

As at December 31, 2019 and 2018, the Organization does not have financial liabilities at FVPL.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Organization having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

As at December 31, 2019 and 2018, the Organization's accounts payable and accrued expenses (excluding statutory payables), capital build-up, funds held in trust, loans payable and other noncurrent liabilities are classified under this category (see Notes 12, 13, 14, 15 and 16).

Capital build-up represents interest-bearing cash deposits collected from program members for purposes of maintaining the compensating balance which can be used to settle the members' outstanding loans receivable upon exit from the Organization.

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

Classification of Financial Instrument between Liability and Equity. A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Organization; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Organization does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

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

Prepayments

Prepayments, including supplies, are expenses paid in advance and recorded as assets before these are utilized. These are apportioned over the period covered by the payment, or to be consumed in operations, and included in profit or loss when incurred. Prepayments that are expected to be realized within 12 months after the financial reporting period are classified as current assets. Otherwise, these are classified as noncurrent assets.

Property and Equipment

Property and equipment, except land, are carried at cost less accumulated depreciation, amortization and any impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property and equipment comprises its purchase price, after deducting trade discounts, and any directly attributable costs of bringing the asset to its working condition and location for its intended use. The cost of self-constructed assets includes the cost of materials and direct labor, costs of dismantling and removing the items and restoring the site on which they are located, capitalized borrowing costs and any other costs directly attributable to bringing the assets to a working condition for their intended use.

Expenditures incurred after the property and equipment have been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized in profit or loss in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment. The cost of replacing a component of an item of property and equipment is recognized if it is probable that the future economic benefits embodied within the component will flow to the Organization, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized.

When significant parts of an item of property and equipment have different useful lives, these are accounted for as separate items (major components) of property and equipment.

Depreciation and amortization are calculated on a straight-line basis over the following estimated useful lives of property and equipment:

	Number of Years
Furniture, fixture and office equipment	2 to 5
Building and building improvements	10 to 20
Transportation equipment	5 to 10

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until these are no longer in use and no further charge for depreciation is made in respect of those assets.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation, amortization, and any impairment in value are removed from the accounts. Any resulting gain or loss is recognized in profit or loss.

Intangible Asset

Computer software classified as intangible asset are stated at cost less accumulated amortization and any impairment in value. The initial cost of intangible asset consists of its purchase price and any directly attributable costs of preparing the asset for its intended use. Intangible asset is determined to have a finite life and amortized over its useful life on a straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for intangible assets with finite useful lives are reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The useful lives of intangible assets arising from contractual or other legal rights should not exceed the period of those rights, but may be shorter depending on the period over which the intangible asset is expected to be used by the Organization. Intangible asset is generally amortized on a straight-line basis over three (3) or five (5) years.

When intangible asset is retired or otherwise disposed of, the cost and the related accumulated amortization and any impairment in value are removed from the accounts. Any resulting gain or loss is recognized in profit or loss.

Impairment of Nonfinancial Assets

The carrying amounts of property and equipment, intangible asset, and other nonfinancial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. If any such indication exists and when the carrying amounts exceed the estimated recoverable amounts, the assets or cash-generating units (CGU) are written down to their recoverable amounts. The recoverable amount of the asset is the greater of the fair value less cost to sell or value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In such instance, the carrying amount of the asset is increased to its recoverable amount. However, that increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization for property and equipment and intangible asset, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such reversal, the depreciation and amortization charges are adjusted in future years to allocate the asset's revised carrying amount, on a systematic basis over its remaining useful life.

Fund Balance

Fund balance represents the cumulative balance of the Organization's contributions, excess of revenues over expenses, and cumulative remeasurement gains or losses on net retirement benefit liability.

Revenue Recognition
Revenue from contract with members and other third parties is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Organization perform its obligations; (b) the Organization's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Organization's performance does not create an asset with an alternative use to the Organization and the Organization has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

The Organization also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Organization has assessed that it acts as a principal in its revenue arrangements.

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

Interest Income from Loans Receivable. Income related to loans receivable granted to program members, calculated on an effective interest rate basis.

Service Income. Income related to the administration and servicing of a loan is recognized as income when services are rendered at the point in time.

Grants and Donations. Income from grants and donations is recognized when the right to receive an asset is established.

Other Income. Income from other sources is recognized when earned during the period.

Interest Income from Cash in Banks
Interest income is recognized as it accrues, taking into account the effective yield on the asset.

Expense Recognition
Expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Operating Expenses. Operating expenses are recognized as expense when the services are rendered.

Administrative Expenses. Administrative expenses pertain to cost of administering the business. These are expensed as incurred.

Finance Costs. Finance costs include interest charges and other costs incurred in connection with the borrowing of funds. Finance costs also include any interest expense resulting from adjusting the amortized cost of financial liabilities based on the effective interest method. All finance costs are recognized in profit or loss in the period they are incurred.

Employee Benefits

Short-term Benefits. The Organization recognizes short-term employee benefits based on contractual arrangements with employees. Unpaid portion of the short-term employee benefits are measured on an undiscounted basis and is included as part of "Accounts payable and accrued expenses" account in the statements of assets, liabilities and fund balance.

Retirement Benefits. Retirement benefit costs are actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. The calculation of defined benefit obligations is performed annually by a qualified actuary. When the calculation results in a potential asset for the Organization, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in the future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

The Organization recognizes service costs, comprising of current service costs and interest expense in profit or loss.

The Organization determines the net interest expense by applying the discount rate to the net defined benefit liability at the beginning of the year, taking into account any changes in the net defined benefit liability during the period as a result of benefit payments.

Remeasurements of the net retirement benefit liability, which comprise actuarial gains and losses, are recognized immediately in OCI and are not reclassified to profit or loss in subsequent periods.

The net retirement benefit liability recognized by the Organization is the aggregate of the present value of the defined benefit obligation reduced by the fair value of plan assets out of which the obligations are to be settled directly. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating the terms of the related retirement benefit liability.

<u>Leases</u>

a. Accounting Policies prior to January 1, 2019

   The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at commencement date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets, or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

   i. There is a change in contractual terms, other than a renewal or extension of the arrangement;
   ii. A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
   iii. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
   iv. There is a substantial change to the asset.

   Where reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (i), (iii) or (iv) and at the date of renewal or extension period for scenario (ii).

Organization as a Lessee. Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

b. Accounting Policies beginning January 1, 2019

The Organization assesses whether the contracts are, or contain, a lease. To assess whether a contract conveys the right to control the use of an identified assets for a period of time, the Organization assesses whether, throughout the period of use, it has both of the following:

i. The right to obtain substantially all of the economic benefits from use of the identified asset; and,
ii. The right to direct the use of the identified asset.

If the Organization has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that portion of the term.

The Organization also assesses whether a contract contains a lease for each potential separate lease component.

Organization as a Lessee. At the commencement date, the Organization recognizes ROU asset and lease liability for all leases, except for leases with lease terms of 12 months or less (short-term leases) and leases for which the underlying asset is of low value, in which case the lease payments associated with those leases are recognized in profit or loss on a straight-line basis throughout the lease term.

ROU Assets. ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of the related lease liabilities. The cost of ROU assets include:

i. the amount of the initial measurement of lease liabilities;
ii. any lease payments made at or before the commencement date less any lease incentives received;
iii. any initial direct costs; and
iv. an estimation of costs to be incurred by the Organization in dismantling and removing the underlying asset, when applicable.

After the commencement date, the ROU assets are carried at cost less any accumulated amortization and any accumulated impairment losses, and adjusted for any remeasurement of the related lease liabilities. The ROU assets are amortized over their related lease terms ranging from more than one (1) to five (5) years, or the remaining useful lives of the underlying assets at the commencement date, whichever is shorter.

Lease Liabilities. At commencement date, the Organization measures a lease liability at the present value of future lease payments using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, the Organization uses its incremental borrowing rate.

Lease payments included in the measurement of a lease liability comprise the following:

i. fixed payments, including in-substance fixed payments;
ii. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
iii. amounts expected to be payable by the lessee under residual value guarantees; and
iv. the exercise price under a purchase option that the Organization is reasonably certain to exercise, lease payments in an optional renewal period if the Organization is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Organization is reasonable certain not to terminate early.

A lease liability is subsequently measured at amortized cost. Interest on the lease liability and any variable lease payments not included in the measurement of lease liability are recognized in profit or loss unless these are capitalized as costs of another asset. Variable lease payments not included in the measurement of the lease liability are recognized in profit or loss when the event or condition that triggers those payments occurs.

If there is a change in the lease term or if there is a change in the assessment of an option to purchase the underlying asset, the lease liability is remeasured using a revised discount rate considering the revised lease payments on the basis of the revised lease term or reflecting the change in amounts payable under the purchase option. The lease liability is also remeasured using the revised lease payments if there is a change in the amounts expected to be payable under a residual value guarantee or a change in future lease payments resulting from a change in an index or a rate used to determine those payments.

Foreign Currency-Denominated Transactions

Transactions denominated in foreign currencies are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate at reporting date. Differences arising on settlement or translation of monetary assets and liabilities are recognized in profit or loss.

Income Taxes

Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the taxation authorities. The tax rate and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control 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. Related parties may be individual or corporate entities. Transactions between related parties are accounted for at arm's-length prices or on terms similar to those offered to non-related parties in an economically comparable market.

Provisions and Contingencies

Provisions. Provisions are recognized when the Organization has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Organization expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects current market assessment of time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

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

Events After the Reporting Date

Post year-end events that provide additional information about the Organization's statements of assets, liabilities and fund balance at reporting date (adjusting events) 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.

3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the financial statements in compliance with PFRS requires management to exercise judgments, and make accounting estimates and assumptions that affect the amounts reported in the financial statements and related notes. The judgments, accounting estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as at the reporting date.

While the Organization believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

The accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions in accounting estimates and assumptions are recognized in the period in which the estimate and assumptions are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the significant judgments, accounting estimates and assumptions made by the Organization:

Judgments

Classification of Financial Assets. Classification and measurement of financial assets depends on the results of the contractual cash flow and the business model tests. The Organization 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, the risks that affect the performance of the assets, and how these risks are managed.

At initial recognition, the Organization classified its UITF as financial assets at FVPL (see Note 5).

Cash, loans receivable, other receivables (excluding nonfinancial assets), refundable deposits and restricted cash were classified as financial assets at amortized cost since the Organization's primary business model in relation to these assets is to hold the financial assets to collect contractual cash flows solely for principal and interest (see Notes 4, 6, 7, 8 and 11).

Fair Value Measurement of Financial Instruments. The fair values of UITF are determined by reference to unadjusted quoted market prices at the close of business on the reporting date.

In accordance with the amendments to PFRS 7, disclosures about the level in the fair value hierarchy are required in which the fair value measurements are categorized for assets and liabilities measured in the statements of assets, liabilities and fund balance.

Assumptions and methods of determining the fair values of financial instruments are presented in Note 24 to the financial statements.

Determination of Operating Lease prior to January 1, 2019 - Organization as Lessee. The Organization has lease agreements for its office spaces. The Organization has determined that the risks and rewards incidental to ownership on the leased properties are retained by the lessors.

Rental expense recognized in the statements of comprehensive income amounted to ₱7,598,199 in 2018 (see Note 21).

Accounting Estimates and Assumptions

Assessment for Impairment Losses on Financial Assets at Amortized Cost. The Organization determines the allowance for impairment losses in accordance with the ECL model, under general approach, based on the probability-weighted estimate of the present value of all cash shortfalls over the expected life of financial assets at amortized cost. Impairment loss is provided for credit losses that result from possible default events within the next 12-months unless there has been a significant increase in credit risk since initial recognition in which case impairment loss is provided based on lifetime ECL.

When determining if there has been a significant increase in credit risk, the Organization considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- Actual or expected external and internal credit rating downgrade;
- Existing or forecasted adverse changes in business, financial or economic conditions; and
- Actual or expected significant adverse changes in the operating results of the borrower.

The Organization also considers financial assets that are past due (1-day past due for loans receivable and 30-days past due for other financial assets at amortized cost) to be the latest point at which lifetime ECL should be recognized unless it can demonstrate that this does not represent a significant risk in credit risk such as when non-payment was an administrative oversight rather than resulting from financial difficulty of the borrower.

The Organization recognized impairment losses on the following financial assets:

	Note	**2019**	2018
Loans receivable	6	**₱8,420,406**	₱10,401,400
Other receivables	7	**–**	8,125,206

The Organization has written off allowance for impairment losses on loans receivable amounting to ₱1,471,744 and ₱22,781,591 in 2019 and 2018, respectively (see Note 6). Reversal of allowance for impairment losses on other receivables amounted to ₱21,000 in 2019 (see Note 7).

The Organization has assessed that the impairment loss on other financial assets at amortized cost is not material because the transactions with respect to these financial assets were entered into by the Organization only with reputable banks and counterparties with good credit standing and relatively low risk of defaults. Accordingly, no provision for impairment loss on other financial assets at amortized cost was recognized in 2019 and 2018.

The carrying amounts of financial assets at amortized cost are as follows:

	Note	**2019**	2018
Cash	4	**₱150,651,718**	₱63,080,438
Loans receivable	6	**1,059,616,321**	959,479,053
Other receivables*	7	**7,193,530**	9,061,950
Refundable deposits**	8	**1,268,097**	1,082,800
Restricted cash***	11	**10,005,845**	7,492,968

**Excluding nonfinancial assets amounting to ₱118,243 and ₱23,323 as at December 31, 2019 and 2018, respectively.*

***Presented under "Other current assets" account in the statements of assets, liabilities and fund balance.*

****Presented under "Other noncurrent assets" account in the statements of assets, liabilities and fund balance.*

Estimation of Useful Lives of Property and Equipment and Intangible Asset. The Organization reviews annually the estimated useful lives of property and equipment and intangible asset based on the period over which the assets are expected to be available for use and are updated if expectations differ from previous estimates and assumptions due to physical wear and tear, and technical or commercial obsolescence. It is possible that future results of operations could be materially affected by changes in these estimates and assumptions brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property and equipment and intangible asset would increase the recorded depreciation and amortization expenses and decrease noncurrent assets.

There is no change in the estimated useful lives of property and equipment and intangible asset in 2019 and 2018.

Assessment for Impairment of Nonfinancial Assets. The Organization assesses impairment on nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

The relevant factors that the Organization considers in deciding whether to perform an asset impairment review include, among others, the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; or
- Significant negative industry or economic trends.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

The recoverable amount of the asset is the greater of the fair value less cost to sell or value in use. The estimated cash flows are projected using growth rates based on historical experience and business plans and are discounted using pretax discount rates that reflect the current assessment of the time value of money and the risks specific to the asset.

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

No impairment loss on nonfinancial assets was recognized in 2019 and 2018. As at December 31, 2019 and 2018, the carrying amounts of nonfinancial assets are summarized below:

	Note	2019	2018
Receivables from officers and employees*	7	**₱118,243**	₱23,323
Property and equipment	9	**65,996,159**	48,366,897
Intangible asset	10	**–**	–
Other noncurrent assets**	11	**3,397,576**	3,368,500

**Excluding financial assets amounting to ₱522,751 and ₱699,899 as at December 31, 2019 and 2018, respectively.*

***Excluding restricted cash amounting to ₱10,005,845 and ₱7,492,968 as at December 31, 2019 and 2018, respectively.*

Leases – Determination of the Incremental Borrowing Rate. The Organization uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Organization would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. The Organization estimates the IBR using available observable inputs, such as the prevailing Bloomberg Valuation (BVAL) interest rates, adjusted for entity-specific estimates, to reflect the terms and conditions of the lease.

The Organization has applied weighted average IBR ranging from 3.88% to 6.97% for the computation of lease liabilities and ROU assets. ROU assets and lease liabilities amounted to ₱4,289,596 and ₱4,038,134, respectively, as at December 31, 2019 (see Note 21).

Determination of Retirement Benefits. The determination of the liability and cost of retirement benefit is dependent on the assumptions used in calculating such amounts. These assumptions are described in Note 20 to the financial statements and include, among others, discount rates and salary increase rates. Actual results that differ from the Organization's assumptions are recognized in OCI and therefore, generally affect the recognized expense and recorded liability in such future periods. While the Organization believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the net retirement benefit liability.

The net retirement benefit liability amounted to ₱31,695,440 and ₱21,153,221 as at December 31, 2019 and 2018, respectively (see Note 20).

4. Cash

Cash includes cash on hand and in banks amounting to ₱150,651,718 and ₱63,080,438 as at December 31, 2019 and 2018, respectively. Cash in banks earn interest at prevailing bank deposit rates and are immediately available for use in the current operations.

Interest income earned on cash in banks amounted to ₱93,978 and ₱157,406 in 2019 and 2018, respectively (see Note 6).

5. Financial Assets at FVPL

This account consists of investments in UITF measured at fair value amounting to ₱11,003,791 and ₱9,523,240 as at December 31, 2019 and 2018, respectively. Unrealized gain on fair value changes of financial assets at FVPL amounted to ₱1,480,551 in 2019. In 2018, unrealized loss on fair value changes of financial assets at FVPL amounted to ₱946,474.

The Organization's financial assets at FVPL as at December 31, 2019 and 2018 is carried at fair value based on sources classified under the Level 1 category. The fair value of financial assets at FVPL is based on quoted market prices or bidding dealer price quotations from active markets as at reporting date (see Note 24).

6. Loans Receivable

This account consists of:

	2019	2018
Loans receivable	**₱1,089,454,285**	₱980,188,161
Less allowance for impairment losses	**29,837,964**	20,709,108
	₱1,059,616,321	₱959,479,053

Loans receivable pertain to loans granted to qualified program members from the different communities where the Organization operates. Loans receivable are collected every week and earn a monthly interest of 1.50% to 3.80% in 2019 and 2018 based on outstanding balance.

Moreover, the Organization collects capital build-up from its program members for purposes of maintaining the compensating balances in relation to the loans receivable. This can be used to settle the program members' outstanding balance in case of default. Capital build-up amounted to ₱256,091,401 and ₱195,047,051 as at December 31, 2019 and 2018, respectively (see Note 13).

Loans receivable are presented in the statements of assets, liabilities and fund balance as follows:

	2019	2018
Current	**₱1,059,397,709**	₱959,082,581
Noncurrent	**218,612**	396,472
	₱1,059,616,321	₱959,479,053

The noncurrent portion of loans receivable pertains to loans granted to victims of calamity that earn annual interest of 20% and payable within seven (7) years.

The aging analysis of the gross loan portfolio is as follows:

	2019	Percentage to Total	2018	Percentage to Total
Current	**₱1,062,573,964**	**97.53%**	₱964,258,773	98.37%
1-30 days	**4,796,487**	**0.44%**	2,518,113	0.26%
31-60 days	**2,354,689**	**0.22%**	1,815,567	0.19%
61-90 days	**2,167,575**	**0.20%**	1,885,325	0.19%
More than 90 days	**17,561,570**	**1.61%**	9,710,383	0.99%
	₱1,089,454,285	**100.00%**	₱980,188,161	100.00%

The balance and movements of allowance for impairment losses on loans receivable are as follows:

	2019	2018
Balance at beginning of year	**₱20,709,108**	₱33,089,299
Provision	**8,420,406**	10,401,400
Recoveries	**2,180,194**	–
Write-off	**(1,471,744)**	(22,781,591)
Balance at end of year	**₱29,837,964**	₱20,709,108

Impairment loss presented in the statements of comprehensive income consists of:

	Note	2019	2018
Loans receivable		**₱8,420,406**	₱10,401,400
Other receivables	7	**–**	8,125,206
		₱8,420,406	₱18,526,606

Details of interest income are as follows:

	Note	2019	2018
Loans receivable		**₱363,624,232**	₱321,998,413
Cash in banks	4	**93,978**	157,406
		₱363,718,210	₱322,155,819

Loans receivable amounting to ₱1,089,454,285 and ₱980,188,161 serve as collateral for loans payable as at December 31, 2019 and 2018, respectively (see Note 15).

7. Other Receivables

This account consists of:

	2019	2018
Accounts receivable	**₱14,774,604**	₱16,415,690
Receivables from officers and employees	**640,994**	723,222
Others	**381**	71,567
	15,415,979	17,210,479
Less allowance for impairment losses	**8,104,206**	8,125,206
	₱7,311,773	₱9,085,273

Accounts and other receivables are generally unsecured, noninterest-bearing and collectible within one (1) year.

Receivable from officers and employees pertains to cash advances subject to liquidation within five (5) days from the activity, and loans to officers and employees payable through salary deduction within one (1) year, based on the agreed terms with the management.

Other receivables are presented in the statements of assets, liabilities and fund balance as at December 31 as follows:

	2019	2018
Current	**₱7,311,773**	₱7,085,273
Noncurrent	**–**	2,000,000
	₱7,311,773	₱9,085,273

The balance and movements of allowance for impairment losses on other receivables are as follows:

	2019	2018
Balance at beginning of year	**₱8,125,206**	₱–
Provision	**–**	8,125,206
Reversal	**(21,000)**	–
Balance at end of year	**₱8,104,206**	₱8,125,206

8. Other Current Assets

This account consists of:

	Note	**2019**	2018
Supplies		**₱7,989,528**	₱4,564,581
Prepayments for:			
Taxes		**1,446,579**	–
Rent	21	**757,921**	953,186
Others		**32,750**	2,750
Refundable deposits	21	**1,268,097**	1,082,800
		₱11,494,875	₱6,603,317

9. Property and Equipment

The balances and movements in this account are as follows:

	2019						
	Land	Furniture, Fixtures and Office Equipment	Building and Building Improvements	Righ-of-use Assets	Transportation Equipment	Construction in Progress	Total
Costs							
Balances as at December 31, 2018	₱31,536,624	₱28,566,697	₱13,836,149	₱–	₱596,952	₱–	₱74,536,422
Effect of PFRS 16	–	–	–	2,707,760	–	–	2,707,760
Balances at beginning of year	31,536,624	28,566,697	13,836,149	2,707,760	596,952	–	77,244,182
Additions	4,958,625	5,890,653	351,171	4,090,763	136,360	11,072,473	26,500,045
Disposal	–	(6,850)	–	–	–	–	(6,850)
Balances at end of year	36,495,249	34,450,500	14,187,320	6,798,523	733,312	11,072,473	103,737,377
Accumulated Depreciation and Amortization							
Balances at beginning of year	–	15,536,996	10,173,625	–	458,904	–	26,169,525
Depreciation and amortization	–	7,853,778	1,091,990	2,508,927	118,425	–	11,573,120
Disposal	–	(1,427)	–	–	–	–	(1,427)
Balances at end of year	–	23,389,347	11,265,615	2,508,927	577,329	–	37,741,218
Carrying Amounts	₱36,495,249	₱11,061,153	₱2,921,705	₱4,289,596	₱155,983	₱11,072,473	₱65,996,159

	2018				
	Land	Furniture, Fixtures and Office Equipment	Building and Building Improvements	Transportation Equipment	Total
Costs					
Balances at beginning of year	₱31,536,624	₱17,768,414	₱13,687,239	₱596,952	₱63,589,229
Additions	–	10,964,783	148,910	–	11,113,693
Disposal	–	(166,500)	–	–	(166,500)
Balances at end of year	31,536,624	28,566,697	13,836,149	596,952	74,536,422
Accumulated Depreciation and Amortization					
Balances at beginning of year	–	9,658,512	8,788,913	348,338	18,795,763
Depreciation and amortization	–	6,017,380	1,384,712	110,566	7,512,658
Disposal	–	(138,896)	–	–	(138,896)
Balances at end of year	–	15,536,996	10,173,625	458,904	26,169,525
Carrying Amounts	₱31,536,624	₱13,029,701	₱3,662,524	₱138,048	₱48,366,897

Included in "Building and building improvements" account in 2019 are the ROU assets aggregating ₱2,707,760 recognized on January 1, 2019 as a result of the adoption of PFRS 16 (Note 21). These are considered as non-cash transactions in the statements of cash flows.

The Organization sold property and equipment at its carrying amount for ₱5,423 in 2019. In 2018, gain on sale of property and equipment with carrying amount of ₱27,604 amounted to ₱50,000. The gain on sale of property and equipment is included in "Other income" account in the statements of comprehensive income.

Construction in progress mainly represents the construction of the Company's new office building with an estimated cost of ₱26,850,000, of which ₱11,072,473 was incurred as at December 31, 2019.

10. Intangible Asset

This account pertains to the cost of computer software. The balance and movements in this account as at December 31 are as follows:

	2019	2018
Cost		
Balance at beginning of year	**₱1,355,607**	₱1,355,607
Retirement	**(1,355,607)**	–
Balance at end of year	–	1,355,607
Accumulated Amortization		
Balance at beginning of year	**1,355,607**	1,244,496
Retirement	**(1,355,607)**	–
Amortization	–	111,111
Balance at end of year	–	1,355,607
Carrying Amount	**₱–**	₱–

Depreciation and amortization consists of:

	Note	**2019**	2018
Property and equipment (excluding ROU assets)	9	**₱9,064,193**	₱7,512,658
ROU assets	21	**2,508,927**	–
Intangible asset		–	111,111
		₱11,573,120	₱7,623,769

Depreciation and amortization are classified in the statements of comprehensive income as follows:

	Note	**2019**	2018
Operating expenses	18	**₱7,347,556**	₱4,481,097
Administrative expenses	19	**4,225,564**	3,142,672
		₱11,573,120	₱7,623,769

11. Other Noncurrent Assets

This account consists of:

	2019	2018
Restricted cash	**₱10,005,845**	₱7,492,968
Others	**3,397,576**	3,368,500
	₱13,403,421	₱10,861,468

Restricted cash represent noninterest-bearing cash deposits from members of the Organization that are restricted as to withdrawal subject to approval of the members of the Organization (see Note 14).

12. Accounts Payable and Accrued Expenses

This account consists of:

	Note	2019	2018
Accounts payable		**₱32,367,565**	₱22,867,606
Accruals for:			
Interest		**5,800,193**	3,260,296
Rebates		**–**	10,141,465
Others		**2,906,741**	3,003,331
Micro-insurance payable		**7,288,514**	8,843,786
Current portion of lease liability	21	**2,917,376**	–
Statutory payables		**2,545,239**	2,092,694
		₱53,825,628	₱50,209,178

Accounts payable and accrued expenses are generally settled in varying periods, within one (1) year, depending on arrangements with creditors.

Micro-insurance payable pertains to the unremitted amount of insurance contribution by the members of the Organization to the insurance underwriter.

13. Capital Build-Up

Capital build-up represents interest-bearing micro-savings deposits of program members required by the Organization and will be refunded to members once they withdraw their membership from the Organization or upon reaching the age of 65. Capital build-up is also considered a compensating balance that can be used to settle the program member's outstanding loans receivable upon exit from the Organization.

The balance and movements in this account as at December 31 are as follows:

	Note	2019	2018
Balance at beginning of year		**₱195,047,051**	₱146,255,972
Contribution		**218,898,966**	198,082,625
Interest	15	**1,944,351**	1,395,366
Withdrawal/application		**(159,798,967)**	(150,686,912)
Balance at end of year		**₱256,091,401**	₱195,047,051

Capital build-up earns annual interest rates of 4.0% per annum in 2019 and 2018.

14. Funds Held in Trust

Funds held in trust amounting to ₱10,005,845 and ₱7,492,968 as at December 31, 2019 and 2018, respectively, represent noninterest-bearing cash deposits from members of the Organization and are restricted as to withdrawals subject to approval of the members of the Organization. These funds will be used for recreational activities of the members of the Organization (see Note 11).

15. Loans Payable

This account is presented in the statements of assets, liabilities and fund balance as follows:

	2019	2018
Current	**₱646,599,244**	₱503,254,993
Noncurrent	**43,788,927**	87,871,504
	₱690,388,171	₱591,126,497

The Organization has outstanding loans from various financial institutions with interest rates ranging from 6.1% to 10.0% per annum and 4.5% to 8.0% per annum in 2019 and 2018, respectively, payable within one (1) year to three (3) years.

Details of finance costs recognized in the statements of comprehensive income are as follows:

	Note	2019	2018
Loans payable		**₱43,964,022**	₱41,559,298
Capital build-up	13	**1,944,351**	1,395,366
Lease liabilities	21	**236,586**	–
Bank charges		**82,939**	113,910
		₱46,227,898	₱43,068,574

Assignment of Receivables

Loans payable to various local banks and financial institutions are secured by the Organization's loans receivable amounting to ₱1,089,454,285 and ₱980,188,161 as at December 31, 2019 and 2018, respectively (see Note 6).

Debt Covenants

The Organization's loans payable contain restrictive covenants as follows:

- Portfolio at risk (PAR) > 30 days (including restructured loans) not exceeding 5%;
- Operational self-sufficiency ratio not lower than 100% at all times;
- Debt-to-equity ratio not higher than 4; and
- Submission of annual Poverty Probability Index (PPI) report.

As at December 31, 2019, the Organization is in compliance with all the requirements of its debt covenants.

The schedule of maturities of loans payable as at December 31, 2019 is as follows:

Year	Amount
2020	₱646,599,244
2021	43,788,927
	₱690,388,171

Reconciliation of Liability Arising from a Financing Activity

The table below details changes in the Organization's liability arising from a financing activity:

	Loans Payable*		Lease liability
	2019	2018	**2019**
Balance at beginning of year	**₱594,386,793**	₱747,655,639	**₱2,503,760**
Cash changes:			
Availment of loans	**829,000,000**	587,364,453	**–**
Payments of:			
Loans	**(729,738,326)**	(739,082,775)	**–**
Interest	**(41,507,064)**	(43,223,732)	**(236,586)**
Lease liability	**–**	–	**(2,556,389)**
Noncash changes:			
Interest expense	**44,046,961**	41,673,208	**236,586**
Additions to lease liability	**–**	–	**4,090,763**
	₱696,188,364	₱594,386,793	**₱4,038,134**

**Inclusive of accrued interest amounting to ₱5,800,193 and ₱3,260,296, as at December 31, 2019 and 2018, respectively (see Note 12).*

16. Other Noncurrent Liabilities

This account consists of:

	Note	2019	2018
Lease liabilities - net of current portion	21	**₱1,120,758**	₱–
Others		**4,394,744**	4,524,700
		₱5,515,502	₱4,524,700

17. Related Party Transactions

The details of the Organization's transactions with its related parties as at and for the years ended December 31, 2019 and 2018 are as follows:

Related Party	Nature of Transaction	Amount of Transaction 2019	Amount of Transaction 2018	Outstanding Balance 2019	Outstanding Balance 2018	Terms and Conditions
Personnel costs						
Key management personnel	Short-term employee benefits	**₱1,620,000**	₱1,620,000	**₱–**	₱–	Noninterest-bearing; unsecured; generally settled in cash within 30 days
	Retirement benefit costs	**56,232**	72,238	**482,732**	335,251	Noninterest-bearing; unsecured; payable upon retirement
				₱482,732	₱335,251	

Compensation of the Board of Trustees

There was no compensation provided to the BOT in 2019 and 2018.

18. Operating Expenses

This account consists of:

	Note	2019	2018
Personnel costs	20	**₱133,722,683**	₱131,831,583
Transportation and travel		**25,169,435**	20,856,482
Program		**12,360,391**	13,032,261
Supplies		**7,428,254**	10,228,774
Depreciation and amortization	10	**7,347,556**	4,481,097
Rentals	21	**7,224,971**	7,598,199
Utilities		**6,635,004**	5,340,847
Taxes and licenses		**6,357,727**	1,090,533
Meetings and representation		**5,098,480**	4,274,393
		₱211,344,501	₱198,734,169

Program expenses consist of:

		2019	2018
Personnel costs	20	**₱5,595,083**	₱7,737,709
Trainings and seminars		**3,387,999**	2,858,673
Medical services		**1,702,380**	1,096,525
Transportation and travel		**625,815**	514,964
Meetings and representation		**355,795**	291,318
Utilities		**133,242**	110,905
Professional fees		**115,500**	17,840
Supplies		**12,552**	12,859
Others		**432,025**	391,468
		₱12,360,391	₱13,032,261

19. **Administrative Expenses**

This account consists of:

	Note	2019	2018
Personnel costs	20	**₱39,884,650**	₱22,832,349
Utilities		**9,766,124**	4,911,312
Taxes and licenses		**6,413,511**	5,960,366
Transportation and travel		**4,521,231**	3,575,072
Depreciation and amortization	10	**4,225,564**	3,142,672
Repairs and maintenance		**3,564,572**	3,975,692
Supplies		**3,030,244**	4,664,799
Trainings and seminars		**1,353,575**	802,068
Meetings and representation		**1,058,414**	949,707
Professional fees		**901,090**	1,349,859
Insurance		**161,993**	161,993
Others		**8,823,843**	1,316,080
		₱83,704,811	₱53,641,969

20. **Personnel Costs**

This account consists of:

	2019	2018
Salaries and wages	**₱115,800,659**	₱102,216,711
Other employee benefits	**59,382,188**	55,626,962
Retirement benefit costs	**4,019,569**	4,557,968
	₱179,202,416	₱162,401,641

Personnel costs are classified in the statements of comprehensive income as follows:

	Note	2019	2018
Operating expenses	18	**₱133,722,683**	₱131,831,583
Administrative expenses	19	**39,884,650**	22,832,349
Program expenses	18	**5,595,083**	7,737,709
		₱179,202,416	₱162,401,641

Retirement Benefits

The Organization has a funded, noncontributory defined benefit retirement plan covering all its qualified regular employees. The retirement benefits are based on a certain percentage of the final monthly basic salary for every year of credited service of the employees. The funded benefit obligation under the defined benefit retirement plan is determined using the projected unit credit method. The latest valuation report was dated December 23, 2019. The benefits to be received by the employees under the defined benefit retirement plan shall not be less than the minimum mandated benefit under R.A. No. 7641.

The components of retirement benefit costs are as follows:

	2019	2018
Current service cost	**₱2,426,731**	₱3,275,647
Net interest cost	**1,592,838**	1,282,321
	₱4,019,569	₱4,557,968

The components of net retirement benefit liability recognized in the statements of assets, liabilities and fund balance are as follows:

	2019	2018
Balance at beginning of year	**₱21,153,221**	₱22,496,868
Retirement benefit costs	**4,019,569**	4,557,968
Remeasurement loss (gain)	**6,522,650**	(5,901,615)
Balance at end of year	**₱31,695,440**	₱21,153,221

The funded status of the retirement plan as at December 31 is as follows:

	2019	2018
Present value of the retirement liability	**₱37,265,205**	₱26,368,711
Fair value of plan assets	**5,569,765**	5,215,490
Net retirement benefit liability	**₱31,695,440**	₱21,153,221

The following tables present the changes in the present value of the retirement liability and fair value of the plan assets:

Present Value of the Retirement Liability

	2019	2018
Balance at beginning of year	**₱26,368,711**	₱27,745,563
Current service cost	**2,426,731**	3,275,647
Interest cost	**1,985,564**	1,581,497
Remeasurement loss (gain) recognized in OCI:		
Change in financial assumptions	**11,303,491**	(8,346,671)
Experience adjustments	**(4,819,292)**	3,939,044
Change in demographic assumptions	**–**	(1,826,369)
Balance at end of year	**₱37,265,205**	₱26,368,711

Fair Value of Plan Assets

	2019	2018
Balance at beginning of year	**₱5,215,490**	₱5,248,695
Interest income	**392,726**	299,176
Remeasurement loss on changes in financial assumptions	**(38,451)**	(332,381)
Balance at end of year	**₱5,569,765**	₱5,215,490
Actual return (loss) on plan assets	**₱354,275**	(₱33,205)

The principal assumptions used in determining the net retirement benefit liability of the Organization are shown below:

	2019	2018
Discount rate	**5.14%**	7.53%
Salary increase rate	**3.00%**	3.00%

Sensitivity analysis on the defined benefit liability as at December 31 is as follows:

	Change in Assumption	2019	2018
Discount rate	+1.00%	**(₱5,400,840)**	(₱3,445,906)
	-1.00%	**6,670,107**	4,181,153
Salary increase rate	+1.00%	**₱6,751,500**	₱4,338,132
	-1.00%	**(5,550,108)**	(3,614,791)

The sensitivity analysis above has been determined based in a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring as at the end of the reporting period.

The cumulative gain (loss) on remeasurement of retirement benefit recognized in the statements of assets, liabilities and fund balance are as follows:

	2019	2018
Balance at beginning of year	**₱2,513,181**	(₱3,388,434)
Remeasurement gain (loss)	**(6,522,650)**	5,901,615
Balance at end of year	**(₱4,009,469)**	₱2,513,181

As at December 31, 2019, the maturity analysis of the undiscounted net retirement benefit liability is as follows:

Year	Amount
More than one year to five years	₱3,069,500
More than five years	14,146,755
	₱17,216,255

As at December 31, 2019, the average duration of the net retirement benefit liability at the end of the reporting period is 16.2 years.

21. Leases

The Organization has various lease agreements for the office spaces of its branches. The terms of lease agreements range from one (1) to five (5) years. Refundable deposits on lease agreements amounted to ₱1,268,097 and ₱1,082,800 as at December 31, 2019 and 2018, respectively (see Note 8).

The balance and movements of ROU asset arising from lease agreements for the office spaces of its branches as at December 31, 2019 are as follows:

	Note	
Cost		
Balance at beginning of year		₱2,707,760
Additions		4,090,763
Balance at end of year		6,798,523
Accumulated Depreciation		
Balance at beginning of year		–
Depreciation	10	2,508,927
Balance at end of year		2,508,927
Carrying Amount		₱4,289,596

This is included under "Property and equipment" account in the statements of assets, liabilities and fund balance (see Note 9).

The balance and movements in the Organization's lease liabilities as at and for the year ended December 31, 2019 are as follows:

	Note	
Balance at beginning of year		₱2,503,760
Additions		4,090,763
Interest expense	15	236,586
Payments		(2,792,975)
Balance at end of year		₱4,038,134

The lease liabilities are presented in the statements of assets, liabilities and fund balance as at December 31, 2019 as follows:

	Note	
Current	12	₱2,917,376
Noncurrent	16	1,120,758
		₱4,038,134

For leases with remaining lease terms of less than 12 months from January 1, 2019, the Organization recognized the related lease commitments as rental expense on a straight-line basis. Consequently, the Organization recognized prepaid rent on short-term leases amounting to ₱757,921 as at December 31, 2019 (see Note 8) and rental expense amounting to ₱7,224,971 in 2019 (see Note 18).

The Organization's lease-related expenses are presented in the statements of comprehensive income as follows:

	Note	**2019**	2018
Rental expense on short-term leases	18	**₱7,224,971**	₱–
Depreciation	10	**2,508,927**	–
Interest expense on lease liabilities	15	**236,586**	–
Rental expense - PAS 17	18	**–**	7,598,199
		₱9,970,484	₱7,598,199

Future minimum lease payments over the remaining term of the lease as at December 31, 2019 are as follows:

Within one (1) year	₱4,783,488
More than one (1) year but less than five (5) years	2,775,988
	₱7,559,476

22. Income Taxes

The Organization's income tax expense amounted to ₱7,838,952 and ₱6,718,486 in 2019 and 2018, respectively.

Based on R.A. No. 10693, gross receipts from microfinance operations of the Organization are subject to 2% preferential tax rate in lieu of all national taxes. Total gross receipts from microfinance operations amounted to ₱391,947,575 and ₱335,924,331 in 2019 and 2018, respectively.

The reconciliation between income tax at statutory income tax rate and income tax expense in the statements of comprehensive income is as follows:

	2019	2018
Income tax expense at statutory rate	**₱14,047,022**	₱7,138,133
Tax effects of:		
Nontaxable income	**(111,163,408)**	(94,847,763)
Nondeductible expenses	**104,983,531**	94,475,338
Interest income subject to final tax	**(28,193)**	(47,222)
	₱7,838,952	₱6,718,486

23. Financial Risk and Capital Management Objectives and Policies

Risk Management Framework

The BOT has overall responsibility for the establishment and oversight of the Organization's risk management framework. The BOT has delegated to the senior management the responsibility for developing and monitoring the Organization's financial risk in line with the strategies, policies and limits set by the BOT.

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

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

The main financial risks arising from the Organization's use of financial instruments include market risk, credit risk and liquidity risk. The BOT regularly reviews and approves the appropriate policies for managing these financial risks, as summarized below.

Market Risk

The Organization is exposed to market risks, primarily those related to foreign currency and interest rate. The Organization's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plan, limits on investments in each sector and market.

Management actively monitors these exposures as follows:

Foreign Currency Risk. Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Organization's foreign exchange risk results primarily from movements of the Philippine Peso against the US Dollar with respect to foreign currency-denominated cash in banks.

For purposes of restating the outstanding balances of the Organization's foreign currency denominated cash in banks as at December 31, 2019 and 2018, the exchange rate applied was ₱50.63 and ₱52.58 per $1, respectively.

The Organization periodically reviews the trend of the foreign exchange rates to address its exposure in foreign currency risk. The Organization believes that its profile of foreign currency exposure on its assets is within conservative limits for a financial institution engaged in the type of business in which the Organization is engaged.

As at December 31, 2019 and 2018, the Organization has minimal exposure to foreign currency risk.

Interest Rate Risk. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Organization follows a prudent policy on managing its financial assets and liabilities so as to ensure that exposures to fluctuations in interest rate are kept within acceptable limits.

The Organization has minimal interest rate risk because loans receivable and loans payable are set at fixed nominal interest rates.

Credit Risk

The Organization's exposure to credit risk arises from the failure of its counterparty in fulfilling its financial commitments to the Organization under the prevailing contractual terms. Financial instruments that potentially subject the Organization to credit risk consist primarily of cash, loans receivable, other receivables, refundable deposits and restricted cash.

Loans Receivable

The Organization limits its exposure to credit risk by transacting mainly with recognized and creditworthy members that have undergone its credit evaluation and approval process. The Organization avoids over-indebtedness of members by preventing multiple memberships and limiting the maximum amount of loans by ₱300,000.

Other Financial Assets at Amortized Cost

The Organization limits its exposure to credit risk by investing its cash only with banks that have good credit standing and reputation in the local and international banking industry. These instruments are graded in the top category by an acceptable credit rating agency and, therefore, are considered to be low credit risk investments.

In addition, other financial assets are entered into with counterparties with good credit standing and relatively low risk of defaults. Further, these are monitored on an on-going basis to ensure timely collections.

It is the Organization's policy to measure ECL on the above 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.

When determining if there has been a significant increase in credit risk, the Organization considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- Actual or expected external and internal credit rating downgrade;
- Existing or forecasted adverse changes in business, financial or economic conditions; and
- Actual or expected significant adverse changes in the operating results of the borrower.

The Organization also considers financial assets that are past due (1-day past due for loans receivable and more than 30-days past due for other financial assets at amortized cost) to be the latest point at which lifetime ECL should be recognized unless it can demonstrate that this does not represent significant credit risk such as when non-payment arising from administrative oversight rather than resulting from financial difficulty of the borrower.

Credit Quality Analysis of Other Financial Assets

	2019			
	12-month ECL	**Lifetime ECL - Not Credit Impaired**	**Lifetime ECL - Credit Impaired**	**Total**
Financial assets at amortized cost:				
Cash	**₱150,651,718**	**₱–**	**₱–**	**₱150,651,718**
Loans receivable	**1,059,616,321**	**–**	**29,837,964**	**1,089,454,285**
Other receivables*	**7,193,530**	**–**	**8,104,206**	**15,297,736**
Refundable deposits**	**–**	**1,268,097**	**–**	**1,268,097**
Restricted cash***	**10,005,845**	**–**	**–**	**10,005,845**
	₱1,227,467,414	**₱1,268,097**	**₱37,942,170**	**₱1,266,677,681**

**Excluding nonfinancial assets amounting to ₱118,243.*
***Presented under "Other current assets" in the statements of assets, liabilities and fund balance.*
****Presented under "Other noncurrent assets" in the statements of assets, liabilities and fund balance.*

	2018			
	12-month ECL	Lifetime ECL - Not Credit Impaired	Lifetime ECL - Credit Impaired	Total
Financial assets at amortized cost:				
Cash	₱63,080,438	₱–	₱–	₱63,080,438
Loans receivable	954,616,186	4,862,867	20,709,108	980,188,161
Other receivables*	9,061,950	–	8,125,206	17,187,156
Refundable deposits**	–	1,082,800	–	1,082,800
Restricted cash***	7,492,968	–	–	7,492,968
	₱1,034,251,542	₱5,945,667	₱28,834,314	₱1,069,031,523

**Excluding nonfinancial assets amounting to ₱23,323.*
***Presented under "Other current assets" in the statements of assets, liabilities and fund balance.*
****Presented under "Other noncurrent assets" in the statements of assets, liabilities and fund balance.*

The Organization has no significant concentration of credit risks with any single counterparty or group of counterparties having similar characteristics.

Capital build-up amounting to ₱256,091,401 and ₱195,047,051 as at December 31, 2019 and 2018, respectively, is considered a compensating balance that can be used to settle the program member's outstanding loans receivable upon exit from the Organization (see Note 13).

Liquidity Risk
Liquidity risk arises from the possibility that the Organization may encounter difficulties in raising adequate funds to meet its financial commitments at a reasonable cost. The Organization's objectives in effectively managing its liquidity are: (a) to ensure that adequate funding is available at all times; (b) to meet the commitments as they arise without incurring unnecessary costs; and (c) to be able to access funding when needed at the least possible cost.

The following tables present the maturity profile of the Organization's financial liabilities as at December 31, 2019 and 2018 based on contractual undiscounted payments:

		2019	
	Within 1 Year	**More than 1 Year**	**Total**
Financial liabilities at amortized cost:			
Accounts payable and accrued expenses*	**₱48,363,013**	**₱–**	**₱48,363,013**
Lease liabilities	**3,055,656**	**1,142,496**	**4,198,152**
Capital build-up	**256,091,401**	**–**	**256,091,401**
Funds held in trust	**10,005,845**	**–**	**10,005,845**
Loans payable	**646,599,244**	**43,788,927**	**690,388,171**
	₱964,115,159	**₱44,931,423**	**₱1,009,046,582**

**Excluding statutory payables and current portion of lease liabilities amounting to ₱2,545,239 and ₱2,917,376.*

		2018	
	Within 1 Year	More than 1 Year	Total
Financial liabilities at amortized cost:			
Accounts payable and accrued expenses*	₱48,116,484	₱–	₱48,116,484
Capital build-up	195,047,051	–	195,047,051
Funds held in trust	7,492,968	–	7,492,968
Loans payable	503,254,993	87,871,504	591,126,497
	₱753,911,496	₱87,871,504	₱841,783,000

**Excluding statutory payables amounting to ₱2,092,694.*

Capital Management
The primary objective of the Organization's capital management is to secure ongoing financial needs of the Organization to continue as a going concern as well as to maintain a strong credit standing and healthy capital ratio in order to support the business and maximize shareholder value.

The Organization manages its capital structure and makes adjustments, if necessary, whenever there are changes in economic conditions and business activities. In order to manage the capital structure, the Organization may adjust its borrowings or raise equity.

In compliance with MNRC Memorandum Circular No. 1, series of 2017, *Rules of Capital Contribution and Corporate and Trade Names of Microfinance Non-Government Organization,* all Microfinance NGOs are required to maintain a minimum fund balance of ₱1.0 million. As at December 31, 2019 and 2018, the Organization is compliant with the requirement.

No changes were made in the objectives, policies or processes during the years ended December 31, 2019 and 2018.

24. Fair Value Measurement

The following tables present the carrying amount and fair value of the financial asset and liability of the Organization as at December 31, 2019 and 2018:

		2019			
			Fair Value		
	Note	Carrying Amount	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Measured at Fair Value					
Financial assets at FVPL	5	**₱11,003,791**	**₱11,003,791**	**₱–**	**₱–**
Liability for which Fair Value is Disclosed					
Financial liability at amortized cost - Loans payable	15	**₱690,388,171**	**₱–**	**₱657,430,516**	**₱–**

		2018			
			Fair Value		
	Note	Carrying Amount	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Measured at Fair Value					
Financial assets at FVPL	5	₱9,523,240	₱9,523,240	₱–	₱–
Liability for which Fair Value is Disclosed					
Financial liability at amortized cost - Loans payable	15	₱591,126,497	₱–	₱590,673,043	₱–

The Organization used the following techniques to determine fair value measurements:

- *Financial assets at FVPL.* The Organization's investments in UITF as at December 31, 2019 and 2018 are carried at fair values based on quoted market prices from active markets classified under the Level 1 category.

- *Loans Payable.* The fair value of loans payable is estimated as the sum of all the future cash flows, discounted using the prevailing market rates of interest for instruments with similar maturities. The discount rates used range from 5.2% to 6.9% and 4.5% to 8.0% as at December 31, 2019 and 2018, respectively. The fair valuation is classified under Level 2 category.

The financial assets and liabilities of the Organization whose carrying amounts approximate their fair values or their fair value cannot be reliably determined are as follows:

	2019	2018
Financial assets at amortized cost:		
Cash	**₱150,651,718**	₱63,080,438
Loans receivable	**1,059,616,321**	959,479,053
Other receivables*	**7,193,530**	9,061,950
Refundable deposits	**1,268,097**	1,082,800
Restricted cash	**10,005,845**	7,492,968
	₱1,228,735,511	₱1,040,197,209
Financial liabilities at amortized cost:		
Accounts payable and accrued expenses**	**₱48,363,013**	₱48,116,484
Lease liabilities	**4,038,134**	–
Capital build-up	**256,091,401**	195,047,051
Funds held in trust	**10,005,845**	7,492,968
Loans payable	**690,388,171**	591,126,497
	₱1,008,886,564	₱841,783,000

**Excluding nonfinancial assets amounting to ₱118,243 and ₱23,323 as at December 31, 2019 and 2018, respectively.*

***Excluding statutory payables amounting to ₱2,545,239 and ₱2,092,694 as at December 31, 2019 and 2018, respectively and current portion of lease liabilities amounting to ₱2,917,376 as at December 31, 2019.*

25. Events After the Reporting Date

The Philippines is currently experiencing a pandemic crisis caused by a virus resulting in a slowdown in the economy because of mandated lockdowns all over the country. Based on Sec. 4 (aa) of R. A. No. 11469, *Bayanihan to Heal as One Act,* the Organization, as a microfinance institution, is mandated to implement a minimum of a 30-day grace period for the payment of principal and interest on all loans falling due within the period of Enhanced Community Quarantine without imposition of interests, penalties and other charges. As at report date, the management of the Organization is diligently examining the potential impact of the virus outbreak in its operations and financial performance.

The virus outbreak caused disruption in the Organization's operations due to the *Bayanihan to Heal as One Act* and the Philippine government's restrictive measures to control the spread of the virus such as community lockdowns. Though such a disruption may likely be temporary, the Organization anticipates that this may have an adverse effect in its financial performance due to potential defaults in collections.

While the financial impact is considered a non-adjusting event as at December 31, 2019, the effect on the Organization's operations and financial performance, however, cannot be reasonably determined as of April 23, 2020.

Nonetheless, the Organization strongly believes that it can remain a going concern given its liquidity position and its access to short-term and long-term funding.

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

The information for 2019 required by the above regulations is presented below.

Value-Added Tax (VAT)
The Organization, being a non-stock, non-profit Organization engaged in microfinance operations, is exempt from VAT and is subject to 2% tax based on gross receipts from microfinance operations in lieu of all national taxes in accordance with R.A. No. 10693, *"The Microfinance NGOs Act"*. The Act was approved by the President of the Philippines on November 3, 2015.

Documentary Stamp Taxes (DST)
DST paid for the year ended December 31, 2019 amounted to ₱12,351,321 related to the availment of loans from various financial institutions and disbursement of loans to program members.

All Other Local and National Taxes
Other local and national taxes paid by the Organization for the year ended December 31, 2019 consist of:

License and permit fees	₱1,311,051
Penalties	489,549
Real property taxes	65,896
	₱1,866,496

This is included as part of "Taxes and licenses" under "Operating expenses" and "Administrative expenses" accounts in the statement of comprehensive income. Prepaid DST and other taxes amounting to ₱1,446,579 is presented under "Other current assets" account in the statement of assets, liabilities and fund balance as at December 31, 2019.

Withholding Taxes
Withholding taxes paid for by the Organization for the year ended December 31, 2019 consist of:

Tax on compensation and benefits	₱1,218,869
Final withholding taxes	1,089,673
Expanded withholding taxes	530,525
	₱2,839,067

Tax Assessments
The Organization has no outstanding tax assessment as at December 31, 2019.

Tax Cases
The Organization has no outstanding tax cases as at December 31, 2019.