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Hi ARDCI MICROFINANCE, INCORPORATED,

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Transaction Code: **AFS-0-B5LKHCFB0MQXYVWXWMQYPSZPZ08HL6BLA8**Submission Date/Time: **May 31, 2022 09:00 PM**Company TIN: **402-793-859**

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

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The management of ARDCI Microfinance, Incorporated (the "Organization") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2021 and 2020, 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 the schedules attached therein, and submits the same to the members.

Roxas Cruz Tagle and Co., the independent auditor appointed by the members for the years ended December 31, 2021 and 2020, has audited the financial statements of the Organization 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.

  
\_\_\_\_\_  
**ROGELIO S. BITOME**  
BOT President

  
\_\_\_\_\_  
**VICTOR T. BERNAL**  
Executive Director

  
\_\_\_\_\_  
**EVELYN T. TEVES**  
Finance Director

Signed this 27 day of May, 2022

**ARDCI MICROFINANCE, INCORPORATED**  
*(A Non-stock, Non-profit Organization)*

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SUPPLEMENTARY SCHEDULES  
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## INDEPENDENT AUDITOR'S REPORT

The Members and the Board of Trustees  
ARDCI Microfinance, Incorporated  
(A Non-stock, Non-profit Organization)  
ARDCI Corporate Building  
San Roque, Virac, Catanduanes

### Report on the Audit of the Separate Financial Statements

#### *Opinion*

We have audited the separate financial statements of ARDCI Microfinance, Incorporated (the "Organization"), which comprise the separate statements of financial position as at December 31, 2021 and 2020, and the separate statements of comprehensive income (loss), separate statements of changes in fund balance and separate statements of cash flows for the years then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2021 and 2020, 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 *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Organization in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the separate financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the separate 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.

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

- Identify and assess the risks of material misstatement of the separate 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 auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate 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 by the Bureau of Internal Revenue (BIR)**

Our audit was conducted for the purpose of forming an opinion on the basic separate financial statements taken as a whole. The supplementary information as disclosed in Note 29 to the separate financial statements is presented for purposes of filing with the BIR and is not a required part of the basic separate financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic separate financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic separate financial statements taken as a whole.

**ROXAS CRUZ TAGLE AND CO.**



Jarred D. Pereña  
Partner

CPA Certificate No. 0109297

Tax Identification No. 243-146-342

SEC Accreditation No. 109297-SEC, Group A, issued on February 27, 2020,

effective for the audit of 2019 to 2023 financial statements of SEC covered institutions

BIR Accreditation No. 08-001682-015-2019, issued on October 22, 2019,

effective until October 21, 2022

PTR No. 8876905, issued on January 24, 2022, Makati City

May 27, 2022  
Makati City



**ARDCI MICROFINANCE, INCORPORATED**  
(A Non-stock, Non-profit Organization)

**SEPARATE STATEMENTS OF FINANCIAL POSITION**  
DECEMBER 31, 2021 AND 2020

	Note	2021	2020
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5	₱474,557,254	₱722,714,043
Loans and other receivables, net	6	1,194,485,226	893,229,973
Short term investments	7	80,332,489	67,705,278
Prepayments and other current assets	8	44,422,890	25,644,004
<b>Total Current Assets</b>		<b>1,793,797,859</b>	<b>1,709,293,298</b>
<b>Noncurrent Assets</b>			
Financial assets at fair value through other comprehensive income (FVOCI)	9	57,044,276	26,635,212
Investment in subsidiaries	10	105,399,800	81,649,800
Long term investments	11	35,000,000	40,307,201
Property and equipment, net	12	342,635,602	281,769,665
Investment property, net	13	60,999,507	64,641,269
Retirement benefit asset, net	23	6,364,226	49,150,749
Refundable deposits	14	107,075	725,350
Deferred tax assets	22	1,667,930	3,404,350
<b>Total Noncurrent Assets</b>		<b>609,218,416</b>	<b>548,283,596</b>
		<b>₱2,403,016,275</b>	<b>₱2,257,576,894</b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Members' deposits	15	₱763,105,579	₱676,672,067
Accounts and other payables	16	95,514,510	113,564,475
Deferred income from grants	17	2,546,390	363,770
Loans payable	18	104,583,333	104,156,522
Income tax payable	22	5,667,309	1,271,193
<b>Total Current Liabilities</b>		<b>971,417,121</b>	<b>896,028,027</b>
<b>Noncurrent Liabilities</b>			
Deferred income from grants, net of current portion	17	-	2,546,390
Loans payable, net of current portion	18	42,916,667	-
<b>Total Noncurrent Liabilities</b>		<b>42,916,667</b>	<b>2,546,390</b>
<b>Total Liabilities</b>		<b>1,014,333,788</b>	<b>898,574,417</b>
<b>Fund Balance</b>			
Accumulated income		1,523,375,854	1,492,570,890
Accumulated other comprehensive loss	9,23	(134,693,367)	(133,568,413)
<b>Total Fund Balance</b>		<b>1,388,682,487</b>	<b>1,359,002,477</b>
		<b>₱2,403,016,275</b>	<b>₱2,257,576,894</b>

See Notes to the Separate Financial Statements.



**ARDCI MICROFINANCE, INCORPORATED**  
(A Non-stock, Non-profit Organization)

**SEPARATE STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<i>Notes</i>	2021	2020
Interest income	6	P521,339,725	P456,361,320
Interest expense	15,18	(24,420,800)	(27,340,558)
Net interest income		496,918,925	429,020,762
Reversal of (provision for) impairment losses	6	22,051,993	(108,564,764)
Net interest income after provision for impairment losses		518,970,918	320,455,998
Other operating income	19	43,191,884	38,038,106
Operating expenses	20	(394,082,287)	(315,275,453)
Income from operations		168,080,515	43,218,651
General and administrative expenses	21	(124,777,818)	(96,204,667)
Income (loss) before income tax		43,302,697	(52,986,016)
Benefit from (provision for) income tax	22		
Current		(11,029,653)	(9,700,264)
Deferred		(1,736,420)	1,371,990
		(12,766,073)	(8,328,274)
<b>Net Income (Loss)</b>		<b>30,536,624</b>	<b>(61,314,290)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<b>Item that may subsequently be reclassified to profit or loss</b>			
Net unrealized gain on financial assets at FVOCI	9	284,064	1,722,457
<b>Item that will not be reclassified to profit or loss</b>			
Remeasurement loss on retirement liability	23	(1,409,018)	(36,142,787)
		<b>P29,411,670</b>	<b>(P95,734,620)</b>

*See Notes to the Separate Financial Statements.*



**ARDCI MICROFINANCE, INCORPORATED**  
(A Non-stock, Non-profit Organization)

**SEPARATE STATEMENTS OF CHANGES IN FUND BALANCE**  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	Note	2021	2020
<b>ACCUMULATED INCOME</b>			
At January 1		1,492,570,890	1,553,794,570
Additional revolving fund	26	268,340	90,610
Net income (loss) for the year		30,536,624	(61,314,290)
At December 31		1,523,375,854	1,492,570,890
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS, NET</b>			
<b>Unrealized Gain on Financial Assets at FVOCI</b>			
At January 1		1,635,212	(87,245)
Unrealized gain on financial assets at FVOCI	9	284,064	1,722,457
At December 31		1,919,276	1,635,212
<b>Actuarial Loss on Retirement Liability</b>			
At January 1		(135,203,625)	(99,060,838)
Actuarial loss on retirement liability	23	(1,409,018)	(36,142,787)
At December 31		(136,612,643)	(135,203,625)
		(134,693,367)	(133,568,413)
<b>TOTAL FUND BALANCE</b>		<b>₱1,388,682,487</b>	<b>₱1,359,002,477</b>

See Notes to the Separate Financial Statements.



**ARDCI MICROFINANCE, INCORPORATED**  
(A Non-stock, Non-profit Organization)

**SEPARATE STATEMENTS OF CASH FLOWS**  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	Notes	2021	2020
<b>Cash flows from operating activities</b>			
Income (loss) before income tax		₱43,302,697	(₱52,986,016)
Adjustments for:			
Retirement expense	23	70,571,401	1,635,413
Depreciation	12, 13, 20, 21	26,419,540	26,351,386
Amortization of deferred income from grants	17, 19	(363,770)	(363,770)
Gain on disposal and insurance settlement of property and equipment	12	(532,299)	-
Interest income from bank deposits	19	(5,472,988)	(5,665,938)
Provision for (reversal of) impairment losses	6	(22,051,993)	108,564,764
Operating income before working capital changes		111,872,588	77,535,839
Decrease (increase) in:			
Loans and other receivables		(279,203,260)	485,527,401
Prepayments and other current assets		(18,778,886)	8,067,502
Refundable deposits		618,275	-
Increase (decrease) in:			
Members' deposits		86,433,512	(91,970,920)
Accounts and other payables		(18,049,965)	30,861,209
Cash generated (used in) from operations		(117,107,736)	510,021,031
Income taxes paid	22	(6,633,537)	(12,441,103)
Interest income received	19	5,472,988	5,665,938
Contributions to retirement fund	23	(29,193,896)	(62,978,187)
Net cash flows provided by (used in) operating activities		(147,462,181)	440,267,679
<b>Cash flows from investing activities</b>			
Proceeds from insurance settlement	12	1,195,000	-
Proceeds from sale of property and equipment	12	719,132	-
Additions to short/long term investments		(7,320,010)	(108,012,479)
Additions to investment in subsidiaries	10	(23,750,000)	(12,500,000)
Additional investment in financial assets at FVOCI	9	(30,125,000)	-
Acquisition of property and equipment	12	(85,025,548)	(44,779,317)
Net cash flows used in investing activities		(144,306,426)	(165,291,796)
<b>Cash flows from financing activities</b>			
Proceeds from loan availments	18	148,046,848	115,713,694
Payment of loans	18	(104,703,370)	(164,876,517)
Additional revolving fund	26	268,340	90,610
Net cash flows provided by (used in) financing activities		43,611,818	(49,072,213)
<b>Net increase (decrease) in cash and cash equivalents</b>		(248,156,789)	225,903,670
<b>Cash and cash equivalents</b>			
At January 1		722,714,043	496,810,373
At December 31	5	₱474,557,254	₱722,714,043
<b>Operational cash flows from interest:</b>			
Interest received		₱537,531,841	₱458,139,045
Interest paid		21,272,254	27,718,078

See Notes to the Separate Financial Statements.



**ARDCI MICROFINANCE, INCORPORATED**  
(A Non-stock, Non-profit Organization)

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**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**

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**1. Reporting Entity**

ARDCI Microfinance, Incorporated (the “Organization”) is a non-stock, non-profit organization incorporated under the laws of the Republic of the Philippines. It was registered with the Securities and Exchange Commission (SEC) on September 11, 1998 per SEC Registration No. I199800277. It started its operations on January 1, 2000.

The Organization’s registered address is located at Sta. Elena, Virac, Catanduanes. On October 8, 2013, the Organization transferred its office to the ARDCI Corporate Bldg. located at San Roque, Virac, Catanduanes. The amended Articles of Incorporation of the Organization for the change in address was approved by SEC on June 22, 2015.

On April 18, 2017, upon majority vote of the Board of Trustees (BOT) and by the vote of more than two-thirds of the members of the Organization, the motion to change the name of the Organization from ARDCI NGO Group, Inc. to ARDCI Microfinance, Incorporated was approved in compliance with the Republic Act (R.A.) 10693, otherwise known as Microfinance NGOs Act. Accordingly, the Articles of Incorporation and By-laws were amended and approved by SEC on August 23, 2017.

The Organization was created under the Catanduanes Agricultural Support Programme (CatAg) to implement the microfinance component of the Programme. CatAg terminated its operations in April 2003. The Organization’s incorporators and members are farmers and fisherfolks who formed the Organization primarily to promote members/subsidiaries/affiliates’ participation in socio-economic activities leading to their development and transformation into self-reliant and self-fulfilling communities through financial services, specifically, microfinance operations. The purpose of the Organization also includes the establishment, development and strengthening of the Savings and Loans System (SLS) at the barangay level, thus, encouraging members to develop the value of saving for their future providential and/or emergency needs.

The Organization has 94 branches as at December 31, 2021 and 2020 in Catanduanes and in the provinces of Albay, Sorsogon, Camarines Sur, Camarines Norte, Quezon, Laguna, Batangas, Mindoro, Marinduque, Bataan, Zambales, Pampanga, Pangasinan, Bulacan, Tarlac, Samar, Leyte, Negros, Iloilo and Palawan. The Organization has a membership of 160,413 and 147,568 in 2021 and 2020, respectively.

The Organization currently holds interest in seven (7) subsidiaries as follows:

Subsidiaries	Line of Business	Effective Percentage of Controlling Interest	
		2021	2020
ARDCIBank, Inc. - A Rural Bank (ABI)	Rural banking	79.66%	79.66%
ARDCI Corporate Inn, Inc. (ACI)	Hotel and restaurant	99.15%	98.55%
ARDCI Prime Security Services (APSS), Inc.	Security agency	99.98%	99.98%
ARDCI Abaca Trading Corporation (ATC)	Retail	99.89%	99.89%
ARDCI Credit Corporation (ACC)	Financing	99.94%	99.94%
ARDCI Mart Inc. (AMI)	Retailing	99.95%	-
ARDCI Business Development Corporation (ABDC)	Leasing	99.88%	-



ARDCIBank, Inc. - A Rural Bank

ABI was incorporated in the Philippines pursuant to RA No. 7353 and to Monetary Board Resolution No. 355 dated March 7, 2002. ABI was granted authority on October 3, 2002 to operate as a microfinance-oriented rural bank subject to the rules and regulations of the Bangko Sentral ng Pilipinas (BSP) and other applicable laws.

The principal office of ABI is at Ground Floor ARDCI Corporate Building, San Roque, Virac, Catanduanes.

ARDCI Corporate Inn, Inc.

ACI was registered with the SEC on July 26, 2013 with the primary purpose of providing travelers to Virac, Catanduanes with affordable lodging or shelter, food and refreshment, entertainment, fitness and recreation, and amenities that are customarily furnished within households but unavailable to travelers. It started its operations in October 2013.

The principal office of ACI is at ARDCI Corporate Building, San Roque, Virac, Catanduanes.

ARDCI Prime Security Services, Inc.

APSS is a stock corporation under the laws of the Republic of the Philippines. It was registered with the SEC on February 15, 2017. APSS' principal activity is to engage in the provision of private security services. It started its operations on August 2017.

The principal office of APSS is at 2nd Floor, ARDCI Corporate Building, San Roque, Virac, Catanduanes.

ARDCI Abaca Trading Corporation

ATC was registered in SEC on July 26, 2019 with primary purpose to engage in Abaca trading activities. As at December 31, 2021, it has not yet started its operation.

The principal office of ATC is at ARDCI Corporate Building, San Roque, Virac, Catanduanes.

ARDCI Credit Corporation

ACC was registered in SEC on October 22, 2019 with primary purpose to engage in business of financing company. It started its operations on January 2020.

The principal office of ACC is at ARDCI Corporate Building, San Roque, Virac, Catanduanes.

ARDCI Mart Inc.

AMI was registered with the SEC on December 22, 2021 to primarily engage in, conduct, and carry on the business of buying, selling, distributing, franchising, marketing at wholesale/ retail, in so far as may be permitted by law, all kinds of goods, commodities, wares and merchandise of every kind and description such as but not limited to consumer goods, in traditional selling or various online platforms; to enter into all kinds of contracts for the export, import, purchase, acquisition, sale at wholesale or retail and other disposition for its own account as principal or in representative capacity and manufacturer's representative, merchandise or products whether natural or artificial, food or non-food except as broker/dealer of securities. As at December 31, 2021, it has not yet started its operation.

Its principal place of business is located at G/F ARDCI Business Center, Moonwalk Road, Calatagan Proper, Virac, Catanduanes



#### ARDCI Business Development Corporation

ABDC was registered with the SEC on December 21, 2021 to primarily engage, invest in and purchase or otherwise acquire and own land, hold, use, sell, assign, transfer, lease, except financial leasing, pledge, exchange, develop or otherwise, dispose or real and personal property of every kind and description, including shares of stocks, bonds, debentures, notes, evidence of indebtedness and other securities or obligation of any corporation or corporations, associations, domestic or foreign. As at December 31, 2021, it has not yet started its operation.

Its principal place of business is located at ARDCI Business Center, Moonwalk Road, Calatagan Proper, Virac, Catanduanes.

#### Approval of the Separate Financial Statements

The separate financial statements were approved and authorized for issuance in accordance with a resolution by the BOT on May 27, 2022.

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## 2. Basis of Preparation

#### Statement of Compliance

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

#### Basis of Measurement

The separate financial statements of the Organization have been prepared on the historical cost basis, except as disclosed in the accounting policies that follow.

The Organization also prepares, and issues consolidated financial statements for the same period in which it consolidates its investments in subsidiaries. Such consolidated financial statements provide information about the economic activities of the Organization and its subsidiaries.

#### Functional and Presentation Currency

The separate financial statements are presented in Philippine peso (₱), which is the functional currency of the Organization. All values are rounded off to the nearest peso.

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## 3. Significant Accounting Policies

#### Adoption of 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 for annual periods beginning on or after January 1, 2021:

- Amendments to PFRS 16, *Leases - COVID-19-Related Concessions beyond June 30, 2021*. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under PFRS 16, if the change were not a lease modification.

Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022, provided the other conditions for applying the practical expedient are met.



This amendment is effective for annual periods beginning on or after April 1, 2021.

These amendments had no impact on the separate financial statements of the Organization.

#### New and Amended PFRS Issued but Not Yet Effective

Relevant new and amended PFRS which are not yet effective for the year ended December 31, 2021 and have not been applied in preparing the separate financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2022:

- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds before Intended Use*. The amendments prohibit the entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by the Management. Instead, the entity recognizes such sales proceeds and any related costs in the profit or loss.
- Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Costs of Fulfilling a Contract*. The amendments specify the costs a Organization includes when assessing whether a contract will be loss-making and is therefore recognized as an onerous contract. The amendments apply a “directly related approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities.
- Annual Improvements to PFRS Standards 2018 - 2020 Cycle
  - Amendments to PFRS 9, *Financial Instruments - Fees in the '10 Per Cent' Test for Derecognition of Financial Liabilities*. The amendment clarifies which fees an entity includes when it applies the '10 percent' test in paragraph B3.3.6 of PFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
  - Amendments to PFRS 16, *Leases - Lease Incentives*. The amendment to Illustrative Example 13 accompanying PFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

Effective for annual periods beginning on or after January 1, 2023:

- Amendments to PAS 12, *Income Taxes - Deferred Tax Related to Assets and Liabilities from a Single Transaction*. The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments will typically apply to transactions such as leases for the lessee and decommissioning obligations. According to the amended guidance, a temporary difference that arises on initial recognition of an asset or liability is not subject to the initial recognition exemption if that transaction gave rise to equal amounts of taxable and deductible temporary differences.
- Amendments to PAS 1, *Presentation of Financial Statements - Classification of Liabilities as Current or Non-current*. The amendments to PAS 1 specify the requirements for classifying current and noncurrent liabilities. The amendments will clarify that a right to defer must exist at the end of reporting period and the classification is unaffected by the likelihood that an entity will exercise its deferral right. The issuance of amendments was deferred until January 1, 2023, as a result of COVID-19 pandemic.



- Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates*. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amended standard also clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. The previous definition of a change in accounting estimate specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors.
- Amendments to PAS 1, *Presentation of Financial Statements* and PFRS Practice Statement 2, *Making Materiality Judgements - Disclosure Initiative - Accounting Policies*. The amendments aim to help entities provide accounting policy disclosures that are more useful by (a) replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies, and (b) Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the separate financial statements of the Organization.

#### Current versus Noncurrent Classification

The Organization presents assets and liabilities in the separate statements of financial position based on current and noncurrent classification. An asset is current when it is: (a) expected to be realized or intended to be sold or consumed in the normal operating cycle; (b) held primarily for the purpose of trading; (c) expected to be realized within 12 months after the reporting period; or (d) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

A liability is current when it is: (a) expected to be settled in the normal operating cycle; (b) held primarily for trading; (c) due to be settled within 12 months after the reporting period; or (d) there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Organization classifies all other assets and liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent.

#### Financial Assets and Financial Liabilities

***Date of Recognition.*** The Organization recognizes a financial asset or a financial liability in the separate statements of financial position 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.

***Initial Recognition and Measurement.*** Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction costs.

***“Day 1” Difference.*** Where the transaction 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 the observable market, the Organization recognizes the difference between the transaction price and fair value (a “Day 1” difference) in profit or loss. 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.



**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). Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or financial liabilities at amortized cost. The classification of a financial instrument largely depends on the Organization's business model and its contractual cash flow characteristics.

**Financial Assets and Liabilities at FVPL.** Financial assets and liabilities at FVPL are either classified as held for trading or designated at FVPL. A financial instrument is classified as held for trading if it meets either of the following conditions:

- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

This category includes equity instruments which the Organization had not irrevocably elected to classify at FVOCI at initial recognition. This category includes debt instruments whose cash flows are not "solely for payment of principal and interest" assessed at initial recognition of the assets, or 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 financial asset or financial liability meeting the criteria to be classified at amortized cost or at FVOCI, as a financial asset or financial liability at FVPL, if doing so eliminates or significantly reduces accounting mismatch that would arise from measuring these assets or liabilities.

After initial recognition, financial assets at FVPL and held for trading financial liabilities are subsequently measured at fair value. Unrealized gains or losses arising from the fair valuation of financial assets at FVPL and held for trading financial liabilities are recognized in profit or loss.

For financial liabilities designated at FVPL under the fair value option, the amount of change in fair value that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

As at December 31, 2021 and 2020, the Organization does not have financial assets and liabilities at FVPL.

**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 and through the 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, 2021 and 2020, the Organization's cash and cash equivalents, loans and other receivables, short term investments, long term investments and refundable deposits are included under this category (see Notes 5, 6, 7, 11 and 14).

*Financial Assets at FVOCI.* For debt instruments that meet the contractual cash flow characteristic and are not designated at FVPL under the fair value option, the financial assets shall be measured at FVOCI 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 selling the financial assets; 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.

For equity instruments, the Organization may irrevocably designate the financial asset to be measured at FVOCI in case the above conditions are not met.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss as a reclassification adjustment.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established unless the dividend clearly represents a recovery of part of the cost of the investment. Foreign currency gains or losses and unrealized gains or losses from equity instruments are recognized in OCI and presented in the equity section of the separate statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods.

The Organization's investments in unquoted shares, Peso Diversified Value Fund and Peso Asia Pacific Property Income Fund included under "Financial Assets at FVOCI" account are classified under this category (see Note 9).

*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.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. 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, 2021 and 2020, the Organization's liabilities arising from its members' deposits, accounts and other payables (excluding government liabilities) and loans payable are included under this category (see Notes 15, 16, and 18).

**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 OCI.

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

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, any gain or loss previously recognized in OCI, and any difference between the new amortized cost and maturity amount, are amortized to profit or loss over the remaining life of the investment using the effective interest method. If the financial asset is subsequently impaired, any gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at FVOCI, its fair value at the reclassification date becomes its new gross carrying amount. Meanwhile, for a financial asset reclassified out of the financial assets at FVOCI category to financial assets at FVPL, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

### ***Impairment of Financial Assets***

#### ***Overview of the expected credit loss (ECL) principles***

The ECL allowance is based on the credit losses expected to arise on a 12-month duration if there has been no significant increase in credit risk of the financial asset since origination. Otherwise, if a significant increase in credit risk is observed, then the ECL estimation is extended until the end of the life of the financial asset.

The 12-month ECL represents the losses that result from default events on a financial asset which may happen within 12 months after the reporting date. The Lifetime ECL on the other hand represents the losses that result from default events on a financial asset which may happen over its life. Both Lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.



The major portfolios of financial assets identified upon initial analysis of the Organization's credit exposure are loans and accounts receivables and refundable deposits. Loan and other receivables may be availed by specific individuals. Financial assets are grouped into Stage 1, Stage 2, and Stage 3 as described below.

#### *Definition of "default" and "cure"*

The Organization defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower delays on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Organization also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Organization carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria and has exhibited a satisfactory track record.

#### *Significant increase in credit risk*

In order to determine whether an instrument is subject to 12-month or Lifetime ECL, the Organization assesses whether there has been a significant increase in credit risk since initial recognition. The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Organization's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. These may include adverse trends or developments of financial, managerial, economic or political nature, or a significant weakness in collateral. Credit weakness may be manifested by unfavorable record or unsatisfactory characteristics or may only be potential that deserves management's close attention and may lead to significant losses or may result in collection or liquidation of the outstanding loan amount to be highly improbable. For exposures without internal credit grades, if contractual payments are more than a specified day past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial asset improves such that there is no longer a significant increase in credit risks since initial recognition, the Organization shall revert to recognizing a 12-month ECL.

#### *Staging assessment*

For non-credit-impaired financial assets:

- Stage 1 is comprised of all non-impaired financial assets which have not experienced a significant increase in credit risk since initial recognition. The Organization recognizes a 12-month ECL for Stage 1 financial assets.
- Stage 2 is comprised of all non-impaired financial assets which have experienced a significant increase in credit risk since initial recognition. The Organization recognizes a lifetime ECL for Stage 2 financial assets.

For credit-impaired financial assets:

Financial assets are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a financial asset or a portfolio of financial assets. The ECL model requires a lifetime ECL for impaired financial assets.



Financial assets that are credit-impaired on initial recognition are classified as purchased or originated credit-impaired assets. These are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit adjusted effective interest rate (EIR). ECL is only recognized or released to the extent that there is a subsequent change in the ECLs.

#### *Assessment of ECL on a collective basis*

The Organization calculates ECL either on an individual or a collective basis. The Organization performs collective impairment by grouping exposures into smaller homogenous portfolios based on a combination of borrower and account characteristics. Accounts with similar risk attributes (i.e. facility, security, credit rating, and collateral type, etc.) are pooled together for calculating provisions based on the ECL models.

#### *ECL parameters and methodologies*

ECL is a function of the probability of default (PD), exposure-at-default (EAD), and loss-given default (LGD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgement.

The PD represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual financial asset is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Organization segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

EAD consists of the amortized cost and any accrued interest receivable. For off-balance sheet and undrawn committed amounts, EAD includes a credit conversion factor which is an estimate of any further amount to be drawn at the time of default.

LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held. The Organization applies a simplified ECL approach for its loans and accounts receivables wherein the Organization uses a provisioning matrix that considers historical changes in the behavior of the portfolio to predict conditions over the span of a given observation period.

#### *Forward-looking information*

The Organization incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs, such as growth of the gross domestic product, inflation rates, unemployment rates, interest rates and BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the separate financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.



### *Debt investment securities measured at FVOCI*

The ECL for debt securities at FVOCI does not reduce the carrying amount of these financial assets in the separate statements of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to profit or loss upon derecognition of these financial assets.

### *Derecognition of Financial Assets and Liabilities*

*Financial Assets.* 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.* 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 separate statements of comprehensive income (loss).

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Organization could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in the separate statements of comprehensive income (loss).

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.



**Offsetting of Financial Assets and Liabilities.** Financial assets and financial liabilities are offset and the net amount reported in the separate statements of financial position 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 separate statements of financial position.

### ***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.

### **Cash and Cash Equivalents**

Cash includes cash on hand and in banks which are subject to insignificant risks of changes in value. Cash in banks earn interest at prevailing bank deposit rates.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and are subject to an insignificant risk of change in value.

### **Prepayments and Other Current Assets**

Prepayments represent expenses not yet incurred but already paid in cash. Subsequently, these are charged against profit or loss as they are consumed in the operations or expire with the passage of time.

Other current assets are recognized when the Organization expects to receive future economic benefit from the other current assets and the amount can be measured reliably.

### **Investment in Subsidiaries**

The Organization's investments in subsidiaries are accounted for under the cost method as provided for under PAS 27, *Separate Financial Statements*. The investments are carried in the separate statements of financial position at cost less any impairment in value. The Organization recognizes dividend from a subsidiary in the separate statements of comprehensive income (loss) when its right to receive the dividend is established.

A subsidiary is an entity controlled by the Organization. The Organization controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

### **Property and Equipment**

Property and equipment, except for land, are stated at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.



The initial cost of property and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the items will flow to the Organization and the cost of the items can be measured reliably.

Depreciation, which commences when the assets are available for their intended use, is computed using the straight-line method over the following estimated useful lives of the assets:

<u>Property classification</u>	<u>Estimated useful life</u>
Building	25 years
Land improvements	5 years
Furniture, fixtures and equipment	3 - 5 years

The remaining useful lives and depreciation method are reviewed and adjusted periodically, if appropriate, to ensure that such periods and method of depreciation are consistent with the expected pattern of economic benefits from the items of property and equipment.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the separate statements of comprehensive income in the period of retirement and disposal.

#### Construction in Progress

Construction in progress represents capitalized expenses incurred in setting up or constructing new facilities or other assets. Depreciation starts when construction of these assets is completed and the asset is transferred to the respective category of property and equipment i.e., when the asset is put to commercial use.

#### Investment Property

Investment property consists of property held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost including transaction costs less accumulated depreciation and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property.

Depreciation of depreciable investment property is calculated on a straight-line basis over the estimated useful life of the property of twenty-five (25) years from the date of acquisition. The accumulated impairment in value is established through impairment loss charged to current operations.

The useful lives and depreciation method are reviewed and adjusted, if appropriate, at each reporting date.



Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement and disposal of investment property is recognized in the separate statements of comprehensive income (loss) in the period of retirement and disposal.

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

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Organization as an owner-occupied property becomes an investment property, the Organization accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

#### Impairment of Non-Financial Assets

The carrying amounts of non-financial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the separate statements of comprehensive income (loss) in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the separate statements of comprehensive income (loss). After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### Fair Value Measurements

The Organization measures a number of financial and non-financial assets and liabilities at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Organization.



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

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

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

- Level 1: quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the separate financial statements on a recurring basis, the Organization determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

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

#### Deferred Income from Grants

Grants, including non-monetary grants at fair value, are recognized only when there is reasonable assurance that the Organization will comply with any conditions attached to the grant and the grant will be received.

Grants are recognized as income over the period necessary to match them with the related cost, for which they are intended to compensate, on a systematic basis and should not be credited directly to members' equity.

#### Loans Payable

Loans payable is recognized initially at the transaction price (that is, the present value of cash payable to the creditors, including transaction costs). Loans payable is subsequently stated at amortized cost. Interest expense is recognized using the effective interest method.

Loans payable is classified as current liabilities unless the Organization has an unconditional right to defer settlement of the liability for at least twelve months after the financial reporting date.

All costs directly attributable to loans are recognized in profit or loss in the period in which they are incurred.

#### Provisions

Provisions are recognized when: (a) the Organization has a present obligation (legal or constructive) as a result of past events; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate of the amount of the obligation can be made. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.



If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

#### Contingencies

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

#### Fund Balance

Fund balance includes one-time-payment of non-refundable membership fee and all current and prior period results of operation.

#### Other Comprehensive Loss

Other comprehensive loss comprises items of income and expense, including items previously presented under the separate statements of changes in fund balance, that are not recognized in profit or loss for the year. Other comprehensive loss of the Organization pertains to actuarial loss on retirement liability and net unrealized gain on financial assets at FVOCI.

Unrealized gain (loss) on financial assets at FVOCI is recognized when there is an increase or decrease in the fair value of financial assets during the year.

Actuarial loss arise from experience adjustments and changes in actuarial assumptions are charged to OCI in the period in which they arise.

#### Revenue Recognition

Revenue from contract with customers 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 all of its revenue sources.

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

*Interest Income on Loans and Other Receivables.* Interest income on loans and other receivables is recognized in profit or loss for all financial instruments measured at amortized cost using the EIR method. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. When calculating the EIR, the Organization estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the EIR, transaction costs, and all other premiums or discounts.



*Interest Income on Deposits and Placements.* Interest income on deposits and placements is recognized as the interest accrues usually on a time proportion basis taking into account the effective yield on the asset or EIR. Interest income earned from deposits and placements in Organizations is presented net of applicable tax withheld by Organizations.

*Service Charges.* Service charges are related to the administration and servicing of loans and are recognized when the service has been provided.

*Rental Income.* Revenue from operating lease is recognized on a straight-line basis over the related lease terms.

*Other Income.* Other income is recognized when earned.

#### Interest Expense

Interest expense on members' deposits is recognized in profit or loss when incurred. It is calculated using the effective interest method based on the average daily balance and is credited to the members' accounts regularly.

Interest incurred on loans payable is recognized in profit or loss when incurred.

#### Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are recognized when incurred.

#### Employee Benefits

*Short-term Benefits.* The Organization recognizes a liability, net of amounts already paid and an expense for services rendered by employees during the period. Unpaid benefits at the end of the financial reporting period are recognized as accrued expense while benefits paid in advance are recognized as prepayment to the extent that these will lead to a reduction in future payments. Short-term benefits given by the Organization to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses and non-monetary benefits.

*Retirement Benefits.* The Organization has a funded, non-contributory defined benefit plan covering all its regular officers and employees. Benefits are based on the employee's years of service and final plan salary. The actuarial present value of the retirement benefit obligation under the plan is measured in terms of actuarial assumptions of mortality, investment yield and salary increase rates. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur.

The retirement asset recognized in the separate statements of financial position is the present value of the Organization's fair value of plan assets at the end of the financial reporting period less the defined benefit obligation (DBO). The retirement asset is adjusted for any effect of limiting it to the asset ceiling, which is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The DBO is calculated by an independent actuary using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current year. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rate on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related retirement obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in OCI in the period in which they arise.

Past service costs are recognized immediately in profit or loss.



## Leases

At the inception of a contract, the Organization assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Organization assesses whether:

- the contract involves an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Organization has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Organization has the right to direct the use of the asset. The Organization when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. The Organization has the right to direct the use of the asset of either:
  - the Organization has the right to operate the asset; or
  - the Organization designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

*Organization as Lessee.* The Organization applies the short-term lease recognition exemption to its short-term leases of office spaces and staff houses (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

*Organization as Lessor.* Leases where the Organization does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

## Taxes

*Current Tax.* Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Current tax relating to items recognized directly in equity is recognized in equity and not in the separate statements of comprehensive income (loss). The Organization periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

*Deferred Tax.* Deferred tax is recognized using the liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized using the liability method for all taxable temporary differences.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized.



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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Organization expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Current tax and deferred tax are recognized in the separate statements of comprehensive income (loss), except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### Related Parties

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 and significant influence. Related parties may be individuals or corporate entities.

#### Events After the Financial Reporting Date

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

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#### **4. Use of Judgments, Estimates and Assumptions**

The preparation of the separate financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the separate financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.



### Judgments

In the process of applying the accounting policies, the Organization has made the following judgments, apart from those involving estimations, which have an effect on the amounts recognized in the separate financial statements:

*Determination of Control over the Investee.* The determination of control over the investee, other than the rebuttable presumption of ownership over fifty percent (50%), requires significant judgment. In making judgment, the Organization evaluates whether the investor controls an investee and identified the following factors:

- a. power over the investee;
- b. exposure, or rights, to variable returns from its involvement with the investee;
- c. the ability to use its power over the investee to affect the amount of the investor's returns.

*Determining Whether an Arrangement Contains a Lease.* The Organization assesses whether an arrangement contains a lease based on PFRS 16, as disclosed in Note 3. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Organization reassesses whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

The details of these lease agreements are disclosed in Note 25.

*Organization as Lessee.* The Organization has determined that the lessor retains all significant risks and rewards of ownership of the properties which are on an operating lease agreement.

Rental expense amounted to ₱20,625,165 and ₱19,810,838 in 2021 and 2020, respectively (see Notes 20, 21 and 25).

*Organization as Lessor.* The Organization has entered into lease agreements as a lessor. The Organization has determined that it retains all the significant risks and rewards of ownership of the property leased out on operating leases.

Rental income amounted to ₱795,000 and ₱1,026,000 in 2021 and 2020, respectively (see Notes 13, 19 and 25).

*Determining the Lease Term of Contracts with Renewal and Termination Options - Organization as Lessee.* The Organization determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Organization has a lease contract that includes a renewal option subject to the mutual agreement of both lessee and lessor. The Organization applies judgement in evaluating whether it is reasonably certain whether the lease contract will be renewed or terminated. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Organization reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

Based on Organization's judgment, lease contract shall be treated as a short-term lease since renewal option of the lease is not yet enforceable and consent of both parties is needed for it to be exercised.



*Evaluating Deferred Tax.* In determining the amount of current and deferred tax, the Organization takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Organization believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Organization to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

*Classifying Financial Instruments.* The Organization exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the separate statements of financial position.

*Contingencies.* Judgment is exercised by management to distinguish between provision and contingencies. The Organization's policy on provisions and contingencies is discussed in Note 3. The Organization is a defendant in legal actions arising from normal business activities (see Note 25).

#### Estimates and Assumptions

The key estimates and assumptions used in the separate financial statements are based upon the Organization's evaluation of relevant facts and circumstances as at the date of the separate financial statements. Actual results could differ from such estimates.

*Fair Value Measurements.* A number of the Organization's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The Organization uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques (see Note 27).

If the inputs used to measure the fair value of an asset or a liability can 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 based on 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.

*Allowance for ECL on Loans and Other Receivables.* The Organization reviews its debt financial assets subject to ECL on a regular basis with updating provisions made during the intervals as necessary based on the continuing analysis and monitoring of individual accounts by credit officers. The measurement of credit losses across all categories of such financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining credit losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.



The Organization's ECL calculation is based on the guidelines issued by the Microfinance Council of the Philippines, Inc., which is based on the age of the loans and other factors affecting the collectability of accounts. These factors include, but are not limited to, the length of the Organization's relationship with the counterparties, the current credit status based on third party credit reports and known market forces, average age of accounts, collection experience, historical loss experience and forward-looking adjustments. The Organization calibrates the calculation to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e. increase in inflation rate) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Organization's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The amount and timing of the recorded expenses for any period would differ if the Organization made different judgments or utilized different methodologies. An increase in the allowance for impairment losses would increase the recorded costs and expenses and decrease current assets.

The allowance for impairment losses on loans and other receivables amounted to ₱73,808,424 and ₱159,316,146 as at December 31, 2021 and 2020, respectively (see Note 6).

The carrying amounts of loans and other receivables amounted to ₱1,194,485,226 and ₱893,229,973 as at December 31, 2021 and 2020, respectively (see Note 6).

*Impairment on Debt Investment Securities measured at FVOCI.* The Organization reviews its debt financial assets subject to credit losses periodically with updating provisions made during the intervals as necessary based on the continuing analysis and monitoring. The Organization's measurement of credit losses reflects (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (b) the time value of money; and (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For debt instruments measured at FVOCI, the ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECLs 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 and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

No impairment loss was recognized in 2021 and 2020.

The carrying amount of financial assets at FVOCI amounted to ₱57,044,276 and ₱26,635,212 as at December 31, 2021 and 2020, respectively (see Note 9).



*Estimated Useful Lives of Property and Equipment and Investment Property.* The Organization estimates the useful lives of property and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property and equipment and investment property is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment and investment property would increase the recorded costs and expenses and decrease noncurrent assets.

The useful lives of the Organization's property and equipment and investment property are presented in Note 3.

*Impairment of Non-Financial Assets.* PFRS requires that an impairment review be performed on non-financial assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the separate financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

Non-financial assets are not impaired based on Organization's assessment as at December 31, 2021 and 2020.

*Present Value of Retirement Liability.* The present value of the DBO depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for retirement include among others, the discount rate and salary increase rate. Any changes in the assumptions will impact the carrying amount of the retirement obligation.

The Organization determines the appropriate discount rate at the end of each financial reporting period. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligation. In determining the appropriate discount rate, the Organization considers the interest rate on government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related retirement obligation.

Other key assumptions for retirement obligation are based in part on current market conditions. Additional information is disclosed in Note 23.

While the Organization believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of retirement benefits and related obligations.

Retirement expense recognized in profit or loss in 2021 and 2020 amounted to ₱70,571,401 and ₱1,635,413, respectively (see Note 23).

As at December 31, 2021 and 2020, the present value of DBO of the Organization amounted to ₱107,732,521 and ₱37,778,200, respectively (see Note 23).



*Realizability of Deferred Tax Assets.* The Organization reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Organization's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Estimates of future taxable income indicate that the temporary differences will be realized in the future. The Organization recognized deferred tax assets of ₱1,667,930 and ₱3,404,350 as at December 31, 2021 and 2020, respectively (see Note 22).

## 5. Cash and Cash Equivalents

This account consists of:

	2021	2020
Cash on hand	₱571,501	₱372,619
Cash in banks	422,824,329	643,633,958
Cash equivalents	51,161,424	78,707,466
	<b>₱474,557,254</b>	<b>₱722,714,043</b>

Cash in banks earns interest at the prevailing bank deposit rates.

Cash equivalents pertain to the time deposits with varying periods of up to three (3) months and earn interest ranging from 1.75% to 4.50% in 2021 and 0.75% to 4.75% in 2020 per annum.

Interest earned in 2021 and 2020 amounted to ₱2,907,855 and ₱4,726,375, respectively (see Note 19).

## 6. Loans and Other Receivables, Net

This account consists of:

	<i>Note</i>	2021	2020
Loans			
Micro-business loans (MBLs)		₱892,758,822	₱767,118,718
Multi-purpose loans (MPLs)		190,773,122	141,142,333
Staff loans		26,263,770	22,889,496
Wash loans		13,769,226	11,500,906
Finance lease receivable		4,591,516	6,831,103
Employee loans		2,961,730	4,270,536
Individual loans		672,643	1,261,401
		<b>1,131,790,829</b>	<b>955,014,493</b>
Due from related parties	24	50,983,878	40,579,397
Interest receivable		24,241,797	34,960,918
Other receivables		61,277,146	21,991,311
		<b>1,268,293,650</b>	<b>1,052,546,119</b>
Allowance for impairment		<b>(73,808,424)</b>	<b>(159,316,146)</b>
		<b>₱1,194,485,226</b>	<b>₱893,229,973</b>



Loans receivable represents loans to members who are administered through the SLS that have been established through each of the 94 branches both in 2021 and 2020, respectively. Each branch has 40 to 50 SLS under its supervision and each SLS may consist of a minimum of three (3) Guarantee Groups (GG) for new SLS, and six (6) GGs for old SLS with five members each.

Generally, loan products offered by the Organization has credit terms ranging from three (3) months to a maximum of twelve (12) months.

Through Organization's technical and financial assistance, the SLS groups identify, determine and implement financially viable micro-business to enable the farmers and fisher folks to save and manage their own resources efficiently, thus, growing into self-sustaining agri-entrepreneurs in Catanduanes.

MBLs are intended to increase the income-generating projects of the members with an interest rate of 24% and 34% per annum on the principal amount in Catanduanes and branches operating outside the province, respectively.

MPLs are intended for any emergency needs, house acquisition and/or improvements, acquisition of assets, hospitalization, etc. of SLS members, with interest at 24% and 34% per annum on the principal amount in Catanduanes and branches operating outside the province, respectively.

Staff loans are intended for the regular employees of the Organization with an interest rate of 10% per annum.

In October 2018, with partnership with Water.org, BOT approved and offered new loan product to members, wash loans. Wash loans are intended to address major barriers to safe water and sanitation with an interest rate of 18% per annum and maximum loanable amount of ₱25,000.

Finance lease receivable represents car and motorcycle loans granted to the Organization's employees particularly to Community Development Officers (CDOs) with an interest rate of 10% per annum. These loans are executed under a loan agreement with Organization's employees. Car loan was offered to managerial and supervisory employees of the Organization. The motorcycles are initially registered under the Organization's name and upon full payment of the loan, the Certificate of Registration is transferred to the employees.

Employee loans are intended to extend viable credit to employees to reduce employee stress caused by financial obligations, to improve an employee's financial fitness through access to short term and affordable loans and to help those employees fill up the gap in their needs for additional capital to finance for existing business enterprise. These loans are subject to 16% - 17% interest annually in 2021 and 2020.

Individual loans are intended to make affordable credit facility to help micro entrepreneurs develop and expand their businesses and self-employment opportunities. These loans are with an interest rate of 24% and 34% per annum for branches located at Catanduanes and for those outside the province, respectively.

Loans receivable amounting to ₱147,500,000 and ₱104,156,522 as at December 31, 2021 and 2020, respectively, has been pledged as collateral for loans from financial institutions (see Note 18). Loans receivable pledged as collateral are mainly MBLs.

Other receivables include unliquidated cash advances, receivable from the insurance unit, receivable from Social Security System (SSS) for advances for maternity benefits and receivable from Philippine Life Financial Assurance Corp. (PhilLife) and Country Bankers Life Insurance Corporation (CBLIC).



The Organization collected accounts previously written-off from its members amounting to ₱4,315,232 and ₱3,098,356 for the years ended December 31, 2021 and 2020, respectively (see Note 19).

Interest earned from loans and other receivables for the years ended December 31, 2021 and 2020 amounted to ₱521,339,725 and ₱456,361,320, respectively.

The movements in allowance for impairment are as follows:

	2021	2020
At January 1	₱159,316,146	₱50,751,382
Provision (Reversal)	(22,051,993)	108,564,764
Write-off	(63,455,729)	-
<b>At December 31</b>	<b>₱73,808,424</b>	<b>₱159,316,146</b>

## 7. Short Term Investments

This account consists of time deposits in local banks amounting to ₱80,332,489 and ₱67,705,278 as at December 31, 2021 and 2020, respectively with interest rate ranging from 0.075% to 4.75% in 2021 and 1.10% to 2.50% in 2020. These short-term investments have original maturity of twelve months from the date of placement. Interest earned in 2021 and 2020 amounted to ₱1,935,582 and ₱735,140, respectively (see Note 19).

## 8. Prepayments and Other Current Assets

This account consists of:

	2021	2020
Prepaid insurance	₱7,739,423	₱6,728,528
Stationery and supplies on hand	34,056,540	16,302,143
Advances to service provider	2,613,333	2,613,333
Others	13,594	-
	<b>₱44,422,890</b>	<b>₱25,644,004</b>

Prepaid insurance pertains to the unexpired portion of fidelity and health insurance of employees.

Stationery and supplies on hand include unused passbooks, office and medicine supplies and promotional T-shirts, calendars and unused construction materials.

Advances to service provider pertain advance payment for a contract entered into by the Organization for the implementation of an application system.



## 9. Financial Assets at FVOCI

This account consists of:

	2021	2020
Peso Asia Pacific Property Income Fund	<b>₱30,391,957</b>	₱-
Peso Diversified Value Fund	<b>16,406,033</b>	16,388,926
Investment in unquoted shares	<b>10,246,286</b>	10,246,286
	<b>₱57,044,276</b>	<b>₱26,635,212</b>

In March 2021, the Organization acquired 11,531,891 units of participation in a Peso Asia Pacific Property Income Fund at NAVPU of ₱0.88 amounting to ₱10,125,000 including the start bonus received upon investment. The fund is an open-end unit trust fund that gives access to a diversified portfolio of exchange-listed Real Estate Investment Trusts (REITs) in Asia Pacific region.

In May and July 2021, the Organization acquired a total of 21,431,186 additional units with an offer price of ₱0.91 to ₱0.97 amounting ₱20,000,000. NAVPU of the investment amounted to ₱0.922 in 2021. An unrealized gain of ₱266,958 and nil in 2021 and 2020, respectively are recognized in other comprehensive income (loss).

In August 2018, the Organization acquired 2,891,205 units of participation in a Peso Diversified Value Fund at net asset value per unit (NAVPU) of ₱1.751 amounting to ₱5,000,000. The fund is an open-ended pooled trust fund denominated in Peso which is operated and administered by a trust-entity and made available by participation. In February 2019, the Organization acquired 5,662,514 additional units of ₱1.77 amounting to ₱10,000,000. The units of participation represent the investor's appropriate beneficial share in the total value of the fund. NAVPU of the investment amounted to ₱1.92 and ₱1.88 in 2021 and 2020, respectively. An unrealized gain of ₱17,106 and ₱307,934 in 2021 and 2020, respectively are recognized in other comprehensive income (loss).

In September 2018, the Organization subscribed and paid 10,000 shares of the 100,000 authorized common shares of a hospital with a par value of ₱1,000 per share for ₱10,000,000. This represents 10.92% ownership in the issued and outstanding shares of the said hospital. The unrealized gain in 2021 and 2020 amounted to nil and ₱1,414,523, respectively, was recognized in other comprehensive income (loss).

The movements in unrealized gain (loss) on financial assets at FVOCI are as follows:

	2021	2020
Balance at January 1	<b>₱1,635,212</b>	(₱87,245)
Unrealized gain recognized in OCI	<b>284,064</b>	1,722,457
Balance at December 31	<b>₱1,919,276</b>	<b>₱1,635,212</b>



## 10. Investment in Subsidiaries

This account consists of:

	2021	2020
Investment in shares of stock of:		
ARDCI Credit Corporation (ACC)	₱37,500,000	₱37,500,000
ARDCIBank, Inc. - A Rural Bank (ABI)	20,250,000	20,250,000
ARDCI Mart Inc. (AMI)	12,500,000	-
ARDCI Corporate Inn, Inc. (ACI)	11,900,000	6,900,000
ARDCI Abaca Trading Corporation (ATC)	10,000,000	10,000,000
ARDCI Prime Security Services, Inc. (APSS)	6,999,800	6,999,800
ARDCI Business Development Corporation (ABDC)	6,250,000	-
	<b>₱105,399,800</b>	<b>₱81,649,800</b>

In 2015, the Organization subscribed to 50,000 common shares of the 200,000 authorized common shares of ACI with a par value of ₱100 per share for ₱5,000,000. An additional 19,000 common shares with a par value of ₱100 per share for ₱1,900,000 was subscribed to in 2016. This represents the Organization's 98.55% ownership in the issued and outstanding shares of stocks of ACI. In 2021, the Organization subscribed additional 50,000 common shares with a par value of ₱100 per share for ₱5,000,000. As at December 31, 2021, the Organization owns 99.15% of the issued and outstanding shares of stocks of ACI.

The investment in ABI represents the Organization's 79.66% ownership in the issued and outstanding shares of stocks of ABI as at December 31, 2021 and 2020. On April 11, 2017, ABI declared 100% stock dividends distributed to its common shareholders. The Organization received 202,500 shares accordingly and maintained its 79.66% ownership in ABI.

In 2017, the Organization subscribed to 35,000 common shares of APSS with a par value of ₱200 per share for ₱7,000,000. This represents 99.98% ownership in the issued and outstanding shares of APSS as at December 31, 2021 and 2020.

On July 26, 2019, the Organization subscribed to 100,000 common shares of the 400,000 authorized common shares of ATC with a par value of ₱100 per share for ₱10,000,000. The said subscription represents the Organization's 99.89% ownership in the issued and outstanding shares of stock of ATC as at December 31, 2021 and 2020.

On October 22, 2019, the Organization subscribed to 500,000 common shares of the 1,000,000 authorized common shares of ACC with a par value of ₱100 per share. As at December 31, 2019, the Organization has paid ₱25,000,000 from the subscribed shares of stocks. This represents the Organization's 99.88% ownership in the issued and outstanding shares of stocks of ACC. In 2020, the Organization paid ₱12,500,000 from the subscribed shares of stocks of ACC. The said subscriptions represent the Organization's 99.94% ownership in the issued and outstanding shares of stock of ACC as at December 31, 2021 and 2020.

In 2021, the Organization subscribed to 250,000 common shares of the 1,000,000 authorized common shares of ABDC with a par value of ₱100 per share. As at December 31, 2021, the Organization has paid ₱6,250,000 from the subscribed shares of stocks. The said subscriptions represent the Organization's 99.88% ownership in the issued and outstanding shares of stock of ABDC as at December 31, 2021.

In 2021, the Organization subscribed to 500,000 common shares of the 750,000 authorized common shares of AMI with a par value of ₱100 per share. As at December 31, 2021, the Organization has paid ₱12,500,000 from the subscribed shares of stocks. The said subscriptions represent the Organization's 99.95% ownership in the issued and outstanding shares of stock of AMI as at December 31, 2021.



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## 11. Long Term Investments

This account consists of time deposits in local banks amounting to ₱35,000,000 and ₱40,307,201 as at December 31, 2021 and 2020, respectively with interest rate ranging from 1.75% to 5.25% in 2021 and 2020. These long-term investments have maturity of more than twelve months from the date of placement. Interest earned in 2021 and 2020 amounted to ₱629,551 and ₱204,423, respectively (see Note 19).



## 12. Property and Equipment, Net

This account consists of the following as at December 31, 2021 and 2020:

	Building	Land	Land Improvements	Furniture, Fixtures and Equipment	Construction in Progress	Total
<b>Cost</b>						
At January 1, 2020	₱52,410,393	₱63,922,309	₱9,626,209	₱146,309,080	₱85,711,320	₱357,979,311
Additions	-	6,800,000	-	4,924,146	33,055,171	44,779,317
Retirement	-	-	-	(22,635,701)	-	(22,635,701)
At December 31, 2020	52,410,393	70,722,309	9,626,209	128,597,525	118,766,491	380,122,927
Additions	-	22,775,000	2,015,936	15,284,041	44,950,571	85,025,548
Retirement/Disposal	-	-	-	(2,252,676)	-	(2,252,676)
<b>At December 31, 2021</b>	<b>52,410,393</b>	<b>93,497,309</b>	<b>11,642,145</b>	<b>141,628,890</b>	<b>163,717,062</b>	<b>462,895,799</b>
<b>Accumulated depreciation</b>						
At January 1, 2020	17,356,752	-	1,906,833	79,015,754	-	98,279,339
Depreciation	2,161,301	-	449,835	20,098,488	-	22,709,624
Retirement	-	-	-	(22,635,701)	-	(22,635,701)
At December 31, 2020	19,518,053	-	2,356,668	76,478,541	-	98,353,262
Depreciation	2,225,940	-	465,140	20,086,698	-	22,777,778
Retirement/Disposal	-	-	-	(870,843)	-	(870,843)
<b>At December 31, 2021</b>	<b>21,743,993</b>	<b>-</b>	<b>2,821,808</b>	<b>95,694,396</b>	<b>-</b>	<b>120,260,197</b>
<b>Net book value</b>						
<b>At December 31, 2021</b>	<b>₱30,666,400</b>	<b>₱93,497,309</b>	<b>₱8,820,337</b>	<b>₱45,934,494</b>	<b>₱163,717,062</b>	<b>₱342,635,602</b>
At December 31, 2020	₱32,892,340	₱70,722,309	₱7,269,541	₱52,118,984	₱118,766,491	₱281,769,665



There is no residual contractual commitment on construction in progress since the construction is already completed in 2022.

Depreciation is allocated as follows:

	<i>Note</i>	2021	2020
Operating expense	20	₱7,578,247	₱9,256,793
General and administrative expense	21	15,199,531	13,452,831
		<b>₱22,777,778</b>	<b>₱22,709,624</b>

In 2021, vehicles with net book value of ₱915,450 were destroyed by typhoon. The Organization received a claim from the insurance company amounting to ₱1,195,000 resulting to a gain of ₱279,550.

On February 3, 2021, the Organization sold a vehicle with net book value of ₱466,383 for a selling price of ₱719,132 resulting to a gain of ₱252,749.

There are no items of property and equipment used as security for any liabilities of the Organization as at December 31, 2021 and 2020.

Management believes that there is no indication of impairment on the Organization's property and equipment as the net carrying amount is higher than its recoverable amount.

### 13. Investment Property, Net

The investment property of the Organization consists of building held to earn rentals. The movements in investment property are as follows:

	2021	2020
<b>Cost</b>		
December 31	₱88,318,009	₱88,318,009
<b>Accumulated depreciation</b>		
At January 1	23,676,740	20,034,978
Depreciation	3,641,762	3,641,762
At December 31	27,318,502	23,676,740
<b>Net book value</b>	<b>₱60,999,507</b>	<b>₱64,641,269</b>

Depreciation is allocated as follows:

	<i>Note</i>	2021	2020
Operating expense	20	₱1,663,241	₱1,663,241
General and administrative expense	21	1,978,521	1,978,521
		<b>₱3,641,762</b>	<b>₱3,641,762</b>

The fair value of the building cannot be readily determined based on observable market data because there are no comparable properties in its location. No valuation by an independent appraiser was made for the investment property in 2021 and 2020.

The rental income from investment property amounted to ₱795,000 and ₱1,026,000 for the years ended December 31, 2021 and 2020, respectively (see Notes 19 and 25).



The details of the operating expenses arising from the investment property are as follows:

	2021	2020
<i>Expenses that generated rental income during the year</i>		
Depreciation	P3,641,762	P3,641,762
Security and janitorial services	2,792,123	2,679,459
Repairs and maintenance	910,327	1,813,801
Building insurance	167,885	120,407
	<b>7,512,097</b>	<b>8,255,429</b>
<i>Expenses that did not generate rental income during the year</i>		
Security and janitorial services	1,116,849	1,071,783
Repairs and maintenance	364,131	-
Building insurance	67,154	51,603
	<b>1,548,134</b>	<b>1,123,386</b>
	<b>P9,060,231</b>	<b>P9,378,815</b>

#### 14. Refundable Deposits

Refundable deposits pertain to deposits made with Electronic Network Cash Tellers, Inc. (ENCASH) for the Automated Teller Machine installed at branches in Caramoran, San Andres, Irosin, Caramoan, Viga and Tagkawayan. The contract is for five (5) years starting 2010 and shall be renewed for another five (5) years. The contract requires the Organization to pay a one-time license fee for each ATM amounting to US\$1,500, together with the corresponding US\$300 annual license fees, and refundable deposits amounting to P725,350. These deposits will be refunded upon contract termination.

In 2015, the Organization did not renew the contract for the ATM installed in Viga and, thus, the refund was collected from ENCASH in 2016.

In 2017, the Organization opted not to renew the contract for the ATM installed in San Andres. The deposit pertaining to the contract was not yet collected as at December 31, 2021.

In 2020, the Organization did not renew the contract for the ATM in Caramoan, Tagkawayan, Baras and Irosin. The refund was collected from ENCASH amounting to P618,275 in 2021.

As at December 31, 2021 and 2020 the balance of refundable deposit amounted to P107,075 and P725,350, respectively.

#### 15. Members' Deposits

This account pertains to members' contributions in the form of compulsory and voluntary savings, each earning annual interest ranging from 3% to 5% for the years ended December 31, 2021 and 2020, computed based on the average daily balance. Compulsory savings are withdrawable upon termination of membership from the Organization and can be used to offset up to 90% of the members' outstanding loan balance. Voluntary deposits pertain to optional savings account of the members and are withdrawable anytime.

This account consists of:

	2021	2020
Compulsory	P587,383,463	P532,026,956
Voluntary	175,722,116	144,645,111
	<b>P763,105,579</b>	<b>P676,672,067</b>

Interest expense in 2021 and 2020 amounted to P20,869,723 and P21,812,867, respectively.



## 16. Accounts and Other Payables

This account consists of:

	<i>Note</i>	2021	2020
Accounts payable		<b>₱84,944,469</b>	₱103,567,843
Accrued expenses		<b>5,284,676</b>	5,082,761
Government liabilities		<b>3,806,261</b>	3,268,000
Due to related parties	24	<b>1,136,538</b>	900,774
Accrued interest payable		<b>342,566</b>	745,097
		<b>₱95,514,510</b>	₱113,564,475

Accounts payable includes the following: (a) liabilities to contractors, (b) liabilities to suppliers, (c) claims and (d) premiums and membership fees collected by the Organization from members, net of claims and administrative expenses to be remitted to PhilLife.

Due to related parties include the outstanding loan balances of deceased ABI members and former ABI employees already collected by the Organization but not yet remitted to ABI, unpaid hotel services to ACI, unpaid security services to APSS and unpaid motorcycle loan to ACC (see Note 24).

## 17. Deferred Income from Grants

In 2003, Catanduanes Agricultural Support Programme (CatAg) transferred its assets to the Organization through grant for the purpose of continuing support to CatAg's target group in Catanduanes. The transfer was credited as deferred income from grants and is to be amortized as income for a period of 25 years.

The details of and movements in this account are as follows:

	<i>Note</i>	2021	2020
<b>Cost</b>		<b>₱9,676,639</b>	₱9,676,639
<b>Accumulated amortization</b>			
At January 1		<b>6,766,479</b>	6,402,709
Amortization	19	<b>363,770</b>	363,770
At December 31		<b>7,130,249</b>	6,766,479
<b>Net book value</b>		<b>2,546,390</b>	2,910,160
Less: Current portion		<b>2,546,390</b>	363,770
Noncurrent portion		<b>₱-</b>	₱2,546,390

On January 17, 2022, the Organization received a notice from the Office of the Sangguniang Bayan notifying them to vacate the lot within ninety (90) days from the date of the notice due to the departure of the Organization from the main purpose for which the lot was intended. The Sanggunian has adopted a resolution requesting an amendment and renegotiation on the initial contract, but the Organization failed to concur. The Organization agreed to vacate the lot as instructed by the Sanggunian through its Resolution No. 014-2022. Consequently, the Organization derecognized the balance of deferred income from grants in 2022.



## 18. Loans Payable

This account consists of:

	2021	2020
Banking institutions	₱50,000,000	₱63,998,000
Other financial institutions	97,500,000	40,158,522
	<b>₱147,500,000</b>	<b>₱104,156,522</b>

The movements in the account are as follows:

	2021	2020
Balance at January 1	₱104,156,522	₱153,319,345
Availments	148,046,848	115,713,694
Payments	(104,703,370)	(164,876,517)
Balance at December 31	<b>₱147,500,000</b>	<b>₱104,156,522</b>

Loans payable represents loan rediscounting facility availed from financial institutions with annual interest rates of 2% to 5.50% and 4.25% to 7% in 2021 and 2020, respectively.

The following table shows the breakdown of loans payable by contractual maturity dates:

	2021	2020
Due within one year	₱104,583,333	₱104,156,522
Due beyond 1 year but not more than 5 years	42,916,667	-
	<b>₱147,500,000</b>	<b>₱104,156,522</b>

Loans receivable amounting to ₱147,500,000 and ₱104,156,522 as at December 31, 2021 and 2020, respectively, has been pledged as collateral for said obligations (see Note 6).

Interest expense on loans payable for the years ended December 31, 2021 and 2020 amounted to ₱3,551,077 and ₱5,527,691, respectively.



## 19. Other Operating Income

The details of the account are as follows:

	<i>Notes</i>	<b>2021</b>	<b>2020</b>
Share in Group Life Insurance Coverage (GLIC)		<b>₱14,456,372</b>	<b>₱17,646,518</b>
Share in Credit Group Life Insurance (CGLI)		<b>5,917,862</b>	<b>3,581,266</b>
Recovery of previously written-off accounts	<i>6</i>	<b>4,315,232</b>	<b>3,098,356</b>
Share in Loan Protect Plus (LPP)		<b>4,304,243</b>	<b>2,559,070</b>
Service charges		<b>1,135,112</b>	<b>1,570,524</b>
Amortization of deferred income from grants	<i>17</i>	<b>363,770</b>	<b>363,770</b>
ID/Passbook		<b>301,389</b>	<b>196,166</b>
Miscellaneous income from operations		<b>4,570,238</b>	<b>1,964,226</b>
Other income from microfinance operations		<b>35,364,218</b>	<b>30,979,896</b>
Interest from deposits in banks	<i>5,7,11</i>	<b>5,472,988</b>	<b>5,665,938</b>
Rental income	<i>13,25</i>	<b>795,000</b>	<b>1,026,000</b>
Convenience charge		<b>-</b>	<b>41,508</b>
Miscellaneous income from non-microfinance operations		<b>1,559,678</b>	<b>324,764</b>
Other income from non-microfinance operations		<b>7,827,666</b>	<b>7,058,210</b>
		<b>₱43,191,884</b>	<b>₱38,038,106</b>

The share in GLIC pertains to the 10% collection fee earned by the Organization.

The share in CGLI pertains to the Organization's 30% share in the CGLI premiums on loan releases.

The share in LPP of the Organization refers to the 10% share of the Organization in the said premium during loan release.

Miscellaneous income from operations pertains to overages and reversal of long outstanding member deposits and insurance liabilities.

Miscellaneous income from non-microfinance operations pertains to gain on disposal and insurance settlement of property and equipment, and other non-microfinance income.



## 20. Operating Expenses

The details of the account are as follows:

	<i>Notes</i>	<b>2021</b>	<b>2020</b>
Salaries, wages and employee benefits		<b>₱243,113,943</b>	<b>₱208,833,884</b>
Retirement	23	<b>49,399,981</b>	<b>1,144,789</b>
Rental	25	<b>19,668,408</b>	<b>18,844,806</b>
Transportation, fuel and oil		<b>13,774,385</b>	<b>11,481,519</b>
Stationeries and office supplies		<b>12,500,821</b>	<b>8,349,040</b>
Depreciation	12,13	<b>9,241,488</b>	<b>10,920,034</b>
Communication, light and water		<b>8,254,866</b>	<b>7,153,739</b>
Taxes and licenses		<b>6,280,559</b>	<b>6,733,226</b>
Client community services		<b>5,728,998</b>	<b>10,971,890</b>
Information technology		<b>3,169,545</b>	<b>3,299,238</b>
General support services		<b>3,010,919</b>	<b>7,655,148</b>
Trainings, seminars and conferences		<b>2,399,154</b>	<b>2,360,114</b>
Consultancy and professional fee		<b>1,975,066</b>	<b>1,131,272</b>
Supervision and monitoring fees		<b>1,558,583</b>	<b>1,204,175</b>
Repairs and maintenance		<b>1,184,801</b>	<b>797,505</b>
Advertising		<b>1,170,317</b>	<b>1,584,805</b>
Documentary stamp tax		<b>1,130,458</b>	<b>1,342,956</b>
Finance charges		<b>336,132</b>	<b>271,240</b>
Research and development costs		<b>213,860</b>	<b>3,974</b>
Representation		<b>240,105</b>	<b>320,729</b>
Fines, penalties and dues		<b>142,181</b>	<b>132,922</b>
Organization charges		<b>70,000</b>	<b>127,865</b>
Insurance		<b>-</b>	<b>194,727</b>
Miscellaneous		<b>9,517,717</b>	<b>10,415,856</b>
		<b>₱394,082,287</b>	<b>₱315,275,453</b>



## 21. General and Administrative Expenses

The details of the account are as follows:

	Notes	2021	2020
Salaries, wages and employee benefits		<b>₱57,552,077</b>	₱44,196,866
Retirement	23	21,171,420	490,624
Depreciation	12,13	17,178,052	15,431,352
Charitable contributions		5,211,339	342,440
Insurance		5,055,891	14,685,572
Repairs and maintenance		4,155,166	4,351,231
General support services		3,987,020	4,030,816
Transportation, fuel and oil		1,725,587	1,552,335
Communication, light and water		1,579,664	1,567,906
Stationeries and office supplies		1,492,324	3,803,308
Information technology		1,358,377	1,413,959
Rental	25	956,757	966,032
Consultancy and professional fee		846,457	484,831
Advertising		501,565	679,202
Trainings, seminars and conferences		335,031	223,752
Finance charges		286,816	145,202
Representation		102,902	137,455
Fines, penalties and dues		41,649	392,052
Miscellaneous		1,239,724	1,309,732
		<b>₱124,777,818</b>	<b>₱96,204,667</b>

## 22. Income Taxes

In 2018, the Bureau of Internal Revenue (BIR) issued Revenue Memorandum Circular (RMC) 92-2018 which states that accredited Microfinance Non-Government Organizations (MF-NGOs) shall be liable to 2% special rate of income tax based on gross receipts for its revenues generated from purely microfinance operations and 30% regular rate of income tax or 2% MCIT for those revenues not generated from microfinance operations.

### Corporate Recovery and Tax Incentives for Enterprises or “CREATE” Act

On March 26, 2021, the President signed into law Republic Act No. 11534 or the CREATE Act. The law, which became effective on April 11, 2021, introduces reforms to corporate income taxes and incentive systems in the country by implementing certain changes to the current tax regulations.

The CREATE Act resulted to the reduction of the Organization’s tax rate from 30% to 25% and if the Organization is subject to MCIT, from 2% to 1% of gross income for 3 years effective July 1, 2020.

The Philippine Financial Reporting Standards Council, in its Philippine Interpretations Committee Q&A No. 2020-07, clarified that the CREATE Act was not considered substantively enacted as of December 31, 2020, despite that some of its provisions have retroactive effect. Accordingly, for financial reporting purposes, the effect of changes in the income tax rates will only be recognized in the 2021 separate financial statements.



The reconciliation between the provision for income tax computed at special tax rate of 2% and the actual provision for income tax recognized in profit or loss follows:

	2021	2020
Income (loss) before tax	<b>₱37,801,532</b>	<b>(₱54,078,655)</b>
Income tax expense at special rate at 2%	<b>₱756,031</b>	<b>(₱1,081,573)</b>
Tax effect of non-deductible expenses	<b>10,714,381</b>	<b>10,781,837</b>
Non-taxable reversal of impairment loss	<b>(441,040)</b>	<b>-</b>
	<b>₱11,029,372</b>	<b>₱9,700,264</b>

The reconciliation between provision for income tax computed at regular tax rate and the actual provision for (benefit from) income tax recognized in profit or loss follows:

	2021	2020
Income before tax	<b>₱5,501,165</b>	<b>₱1,092,639</b>
Income tax at statutory income tax rate of 25% in 2021 and 30% in 2020	<b>₱1,375,291</b>	<b>₱327,792</b>
Deduct tax effect of:		
Income subject to final tax	<b>(1,368,247)</b>	<b>(1,699,782)</b>
Expired NOLCO	<b>1,080,670</b>	<b>-</b>
Expired MCIT	<b>119,199</b>	<b>-</b>
Effect of CREATE on deferred tax	<b>529,789</b>	<b>-</b>
	<b>₱1,736,702</b>	<b>(₱1,371,990)</b>

The components of the Organization's deferred tax assets are as follows:

	2021	2020
NOLCO	<b>₱1,561,231</b>	<b>₱3,178,734</b>
MCIT	<b>106,699</b>	<b>225,616</b>
	<b>₱1,667,930</b>	<b>₱3,404,350</b>

The details of the Organization's NOLCO which can be claimed as a deduction from regular taxable income are as follows:

Year incurred	Valid until	Beginning	Incurred	Used/Expired	End
2018	2021	₱4,350,856	₱-	₱4,350,856	₱-
2019	2022	1,671,626	-	-	1,671,626
2020	2025	4,573,299	-	-	4,573,299
		<b>₱10,595,781</b>	<b>₱-</b>	<b>₱4,350,856</b>	<b>₱6,244,925</b>

Net operating loss carry over (NOLCO) refers to the excess of deductible expenses over gross income resulting to a loss position at a given taxable year. Ordinarily, NOLCO shall be carried over as a special deduction from taxable income for the next three (3) consecutive taxable years, immediately following the year of incurrance of such loss. However, pursuant to Section 4 of Bayanihan to Recover as One Act as implemented under Revenue Regulations (RR) No. 25-2020, any net operating loss incurred by the Organization for the taxable years 2020 and 2021, can be carried over as a special deduction from gross income for the next five (5) consecutive taxable years following the year of incurrance such loss.



The details of the Organization's MCIT which can be claimed as a deduction from regular taxable income are as follows:

Year incurred	Valid until	Beginning	Incurred	Expired	End
2018	2021	₱119,199	₱-	₱119,199	₱-
2019	2022	106,417	-	-	106,417
2021	2024	-	282	-	282
		<b>₱225,616</b>	<b>₱282</b>	<b>₱119,199</b>	<b>₱106,699</b>

Movements in income tax payable follow:

	2021	2020
At January 1	₱1,271,193	₱4,012,032
Charged to profit or loss	11,029,653	9,700,264
Income tax paid	(6,633,537)	(12,441,103)
At December 31	<b>₱5,667,309</b>	<b>₱1,271,193</b>

### 23. Retirement Benefits

The Organization has a funded, non-contributory defined benefit plan covering all of its regular officers and employees. The plan provides for optional and normal retirement benefits, and death and disability benefits to its members. The normal retirement benefit is equivalent to 125% of plan salary for every year of credited service.

The plan typically exposes the Organization to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk.

#### *Investment risk*

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. As of valuation date, the retirement plan is 100% funded.

#### *Interest rate risk*

A decrease in the government bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan asset.

#### *Longevity risk*

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

#### *Salary risk*

The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The risk relating to benefits to be paid to the dependents of the plan members (widow and orphan benefits) is re-insured by an external insurance Organization.



No other post-retirement benefits are provided to these employees.

The Organization has engaged the services of an independent actuarial consulting firm to perform the actuarial valuation of the Organization's retirement liability as at December 31, 2021 and 2020. The valuation results were computed using the projected unit credit method as prescribed by the accounting standards. The latest actuarial valuation is as at December 31, 2021.

The retirement benefit asset recognized in the separate statements of financial position as at December 31 is as follows:

	2021	2020
Present value of DBO at December 31	P107,732,521	P37,778,200
Fair value of plan asset at December 31	(114,096,747)	(86,928,949)
<b>Net retirement benefit asset at December 31</b>	<b>(P6,364,226)</b>	<b>(P49,150,749)</b>

The movements in the net retirement benefit asset recognized in the separate statements of financial position are as follows:

	<i>Notes</i>	2021	2020
Retirement benefit asset at January 1		P49,150,749	P23,950,762
Amount recognized in profit or loss	20,21	(70,571,401)	(1,635,413)
Amount recognized in OCI - actuarial loss		(1,409,018)	(36,142,787)
Contributions		29,193,896	62,978,187
<b>Retirement benefit asset at December 31</b>		<b>P6,364,226</b>	<b>P49,150,749</b>

The changes in the present value of the DBO are as follows:

	2021	2020
Present value of DBO at January 1	P37,778,200	P28,888,397
Interest cost	1,511,128	1,496,419
Current service cost	3,153,820	2,876,062
Past service cost	69,383,611	-
Defined benefit cost recognized in profit or loss	74,048,559	4,372,481
Actuarial (gain) loss from:		
Changes in financial assumptions	(4,094,238)	6,060,128
Experience	-	(1,542,806)
Defined benefit cost (benefit) recognized in OCI	(4,094,238)	4,517,322
<b>Present value of DBO at December 31</b>	<b>P107,732,521</b>	<b>P37,778,200</b>

The changes in the fair value of plan assets are as follows:

	2021	2020
Fair value of plan assets at January 1	P86,928,949	P52,839,159
Interest income	3,477,158	2,737,068
Contributions	29,193,896	62,978,187
Remeasurement - plan assets recognized in OCI	(5,503,256)	(31,625,465)
<b>Fair value of plan assets at December 31</b>	<b>P114,096,747</b>	<b>P86,928,949</b>

In 2021, the Organization amended its retirement policy resulting to the recognition of past service cost amounting to P69,383,611.

The retirement plan has no specific matching strategy between the plan assets and the defined benefit obligation under the plan.



The fair value of plan assets mainly consists of cash and cash equivalents, and investments in 2021 and 2020.

The amount recognized in profit or loss is as follows:

	2021	2020
Past service cost	P69,383,611	P-
Current service cost	3,153,820	2,876,062
Net interest cost	(1,966,030)	(1,240,649)
	<b>P70,571,401</b>	<b>P1,635,413</b>

Retirement expenses is allocated as follows:

	<i>Note</i>	2021	2020
Operating expense	20	P49,399,981	P1,144,789
General and administrative expense	21	21,171,420	490,624
		<b>P70,571,401</b>	<b>P1,635,413</b>

The amount recognized in OCI is as follows:

	2021	2020
Actuarial loss - DBO	P4,094,238	(P4,517,322)
Remeasurement - plan assets	(5,503,256)	(31,625,465)
	<b>(P1,409,018)</b>	<b>(P36,142,787)</b>

The accumulated actuarial losses in OCI amounted to P136,612,643 and P135,203,625 in 2021 and 2020, respectively.

The principal actuarial assumptions used to determine the present value of the DBO of the Organization as at December 31 are as follows:

	2021	2020
Discount rate	5.10%	4.00%
Salary increase rate	5.00%	5.00%

The sensitivity of the DBO to changes in the principal actuarial assumptions as at December 31, 2021 and 2020 follows:

Principal Assumptions	Increase (decrease) in Assumption	Effect on Retirement Liability	
		2021	2020
Discount rate	+1%	P96,125,937	P32,554,264
	-1%	121,674,527	44,165,389
Salary increase rate	+1%	120,694,922	43,763,896
	-1%	96,715,769	32,760,045

The maturity analysis of the undiscounted benefit payments as at December 31 follows:

	2021	2020
1 year and less	P-	P-
More than 1 year to 5 years	46,838,182	6,269,762
More than 5 years to 10 years	47,506,216	16,198,825
More than 10 years to 15 years	52,674,720	15,292,534
More than 15 years	412,149,267	173,141,170



## 24. Related Party Disclosures

Transactions with related parties consist mainly of non-interest-bearing cash advances to affiliates.

The following are the transactions with related parties and the outstanding balances as at December 31:

Name of related party	Relationship	Year	Transactions During the Year	Outstanding Balance
<b><i>Due from related parties (Note 6)</i></b>				
ARDCI MBA, Inc.	Affiliate	2021	<b>₱5,637,568</b>	<b>₱40,077,313</b>
		2020	31,290	34,439,745
ARDCIBank, Inc. - A Rural Bank	Subsidiary	2021	<b>77,661</b>	<b>2,266,827</b>
		2020	(92,596)	2,189,166
ARDCI Credit Corporation	Subsidiary	2021	<b>5,724</b>	<b>171,747</b>
		2020	(946,274)	166,023
ARDCI Prime Security Services, Inc.	Subsidiary	2021	<b>6,111,109</b>	<b>7,536,225</b>
		2020	581,876	1,425,116
ARDCI Abaca Trading Corporation	Subsidiary	2021	<b>(237,713)</b>	<b>600</b>
		2020	600	238,313
ARDCI Corporate Inn, Inc.	Subsidiary	2021	<b>(1,632,543)</b>	<b>488,491</b>
		2020	2,121,034	2,121,034
ARDCI Mart Inc.	Subsidiary	2021	<b>188,110</b>	<b>188,110</b>
		2020	-	-
ARDCI Business Development Corp.	Subsidiary	2021	<b>204,510</b>	<b>204,510</b>
		2020	-	-
ARDCI Foundation Inc.	Under common control	2021	<b>50,055</b>	<b>50,055</b>
		2020	-	-
		2021		<b>₱50,983,878</b>
		2020		<b>₱40,579,397</b>

Name of related party	Relationship	Year	Transactions During the Year	Outstanding Balance
<b><i>Due to related parties (Note 16)</i></b>				
ARDCI Corporate Inn, Inc.	Subsidiary	2021	<b>₱426,498</b>	<b>₱535,085</b>
		2020	(167,061)	108,587
ARDCIBank, Inc - A Rural Bank	Subsidiary	2021	<b>(32,246)</b>	<b>-</b>
		2020	1,398	32,246
ARDCI Credit Corporation	Subsidiary	2021	<b>(15,365)</b>	<b>7,875</b>
		2020	23,240	23,240
ARDCI Prime Security Services, Inc.	Subsidiary	2021	<b>(143,123)</b>	<b>593,578</b>
		2020	735,983	736,701
		2021		<b>₱1,136,538</b>
		2020		<b>₱900,774</b>



Due from related parties consist mainly of cash advances to affiliates and expenses paid by the Organization on behalf of its related parties.

Due to related parties consist mainly of unremitted membership fees, premiums and contributions, unpaid hotel, unpaid security services and unpaid motorcycle loan of the Organization.

As at December 31, 2021 and 2020, the Organization's allowance for impairment relating to amounts owed by related parties amounted to ₱24,186,624.

Related party balances are non-interest bearing, unsecured and are payable on demand. The Organization has neither given nor received any guarantees in 2021 and 2020 for the related party balances. These are also expected to be settled in cash.

Key management personnel

Key management is defined as those with position of area manager and above who are involved in the decision-making process of the Organization.

Details of key management compensation follow:

	2021	2020
Short-term employee benefits	₱8,233,152	₱4,607,680

The total staff loans receivable from key management amounted to ₱7,006,212 and ₱4,648,854 as at December 31, 2021 and 2020, respectively.

## 25. Contingencies and Commitments

Legal cases

The Organization is involved in cases that arise in the normal course of business. Management believes that the outcome of the cases will not materially affect the financial condition and performance of the Organization.

Leases

*As a lessee*

The Organization leases most of its program and field offices for a period ranging from 1 to 5 years, renewable upon mutual agreement of the parties.

The future minimum lease payments as at December 31 are as follows:

Period	Amount	
	2021	2020
Not later than one year	₱15,383,330	₱12,022,299
Later than one year but not later than five years	5,163,473	2,345,874
	<b>₱20,546,803</b>	<b>₱14,368,173</b>

Total rent expense recognized in profit or loss for the years ended December 31, 2021 and 2020 amounted to ₱20,625,165 and ₱19,810,838, respectively.



Rent expense is allocated as follows:

	<i>Note</i>	2021	2020
Operating expense	20	₱19,668,408	₱18,844,806
General and administrative expense	21	956,757	966,032
		<b>₱20,625,165</b>	<b>₱19,810,838</b>

*As a lessor*

Certain floors of the Organization's corporate building are being leased out to its subsidiaries under operating lease. Details are as follows:

In 2013, ABI leased its office space from the Organization at a rate of ₱30,000 per month for a period of ten (10) years which commenced in December 2013 and will end in November 2023.

In 2013, ACI occupied fourth (4th) floor to seventh (7th) floor of the Organization's building at a total rate of ₱60,000 per month for a period of ten (10) years, which commenced in November 2013 and will end in October 2023. In 2020, the Organization granted a form of rent concession to the lessee since the latter was not able to operate for a significant period due to the effects of COVID-19 pandemic. On October 15, 2020, the Organization agreed to reduce the amount of rental from ₱60,000 to ₱20,000 that will be applied retroactively from April 2020 to December 2020. In 2021, another rent reduction was granted by the Organization from ₱20,000 to 10,000, still due to the continuing effects of pandemic.

In 2017, APSS leased its office space from the Organization at a rate of ₱10,000 per month for a period of ten (10) years, which commenced in April 2017 and will end in May 2027.

In 2021, ACC leased its office space from the Organization at a rate of ₱15,000 per month renewable every year.

In 2021, ARDCI Foundation Inc. leased its office space from the Organization at a rate of ₱3,000 per month for a period of one (1) year commencing on August 1, 2021.

The future minimum lease commitment as at December 31 are as follows:

<b>Period</b>	<b>Amount</b>	
	2021	2020
Not later than one year	₱1,200,000	₱1,200,000
Later than one year but not later than five years	1,650,000	2,730,000
Later than five years	50,000	170,000
	<b>₱2,900,000</b>	<b>₱4,100,000</b>

Rental income recognized for the years ended December 31, 2021 and 2020 amounted to ₱795,000 and ₱1,026,000, respectively (see Notes 13 and 19).



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## 26. Financial Risk and Capital Management Objectives and Policies

The Organization is exposed to a variety of financial risks arising from its operating, investing and financing activities. The BOT is mainly responsible for the Organization's overall financial risk management, which includes establishment and approval of risk strategies, policies and limits. The main objective of the financial risk management is to minimize the adverse impact of financial risks on the Organization's financial performance and financial position due to the unpredictability of financial markets.

The Organization's principal financial instruments comprise mainly of cash and cash equivalents, loans and other receivables, short term investments, financial assets at FVOCI, long term investments, refundable deposits, members' deposits, accounts and other payables, and loans payable. The main purpose of these financial instruments is to generate income and finance the Organization's operations.

The main risks arising from the Organization's financial instruments are credit risk, market risk and liquidity risk. The BOT reviews and approves the policies for managing these risks and they are summarized as follows:

a. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

To mitigate credit risk, the Organization adopted and implemented the poverty assessment tool and the cash flow assessment tool as part of its selection process to identify the member's business and/or other sources of income for loan repayment, the purpose of loan and measure the member's borrowing capacity.

Implementation of loan tracking mechanism to monitor loan status, Portfolio-at-Risk (PAR), portfolio quality, repayment performance and history is made to mitigate risk. Furthermore, strict adherence to credit discipline is observed.

The Organization recognizes the need to mitigate member's risk exposure in the form of introducing insurance as a form of protection against threat or possibility of loss.

The Organization adopts a strong Internal Audit Unit with clear audit plans and procedures to anticipate, detect and correct deviations from the system and ensure proper compliance with approved policies and procedures. Assurance that cash collection and disbursements are in place to minimize transaction costs and eliminate unnecessary costs. Regular spot audit of both branches and SLS is done by the Internal Audit Unit to eliminate irregularities that lead to fraud and losses. The Organization consistently reviews its delinquency management and loan recovery policies to support high repayment rates and operational viability.



The Organization's maximum exposure to credit risk before collateral held or other credit enhancements as at December 31 follows (gross of allowance for impairment):

	2021				2020			
	Maximum Exposure to Credit Risk	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Net Exposure	Maximum Exposure to Credit Risk	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Net Exposure
Cash and cash equivalents*	₱473,985,753	₱-	₱-	₱473,985,753	₱722,341,424	₱-	₱-	₱722,341,424
Loans and other receivables	1,268,293,650	4,594,689	4,594,689	1,263,698,961	1,052,546,119	12,595,330	₱12,595,330	1,039,950,789
Short term investments	80,332,489	-	-	80,332,489	67,705,278	-	-	67,705,278
Financial assets at FVOCI	57,044,276	-	-	57,044,276	26,635,212	-	-	26,635,212
Long term investments	35,000,000	-	-	35,000,000	40,307,201	-	-	40,307,201
Refundable deposits	107,075	-	-	107,075	725,350	-	-	725,350
	<b>₱1,914,763,243</b>	<b>₱4,594,689</b>	<b>₱4,594,689</b>	<b>₱1,910,168,554</b>	<b>₱1,910,260,584</b>	<b>₱12,595,330</b>	<b>₱12,595,330</b>	<b>₱1,897,665,254</b>

\*Excluding cash on hand

The credit risk for cash in banks and equivalents are considered negligible, since the counterparties are reputable entities with high quality external credit ratings. The aging analyses as at December 31 of financial assets are as follows (gross of allowance for impairment):

	Note	2021						
		Total	Neither impaired nor past due	Past due but not impaired				Impaired
				1 - 30 days	31-60 days	61-90 days	> 90 days	
Cash in banks and equivalents*	5	₱473,985,753	₱473,985,753	₱-	₱-	₱-	₱-	₱-
Loans and other receivables	6	1,268,293,650	1,199,048,606	214,276	365,121	274,653	34,281,559	34,109,435
Short term investments	7	80,332,489	80,332,489	-	-	-	-	-
Financial assets at FVOCI	8	57,044,276	57,044,276	-	-	-	-	-
Long term investments	11	35,000,000	35,000,000	-	-	-	-	-
Refundable deposits	14	107,075	107,075	-	-	-	-	-
		<b>₱1,914,763,243</b>	<b>₱1,845,518,199</b>	<b>₱214,276</b>	<b>₱365,121</b>	<b>₱274,653</b>	<b>₱34,281,559</b>	<b>₱34,109,435</b>

\*Excluding cash on hand



	Note	2020							Impaired
		Total	Neither impaired nor past due	Past due but not impaired					
				1 - 30 days	31-60 days	61-90 days	> 90 days		
Cash in banks and equivalents*	5	₱722,341,424	₱722,341,424	₱-	₱-	₱-	₱-	₱-	
Loans and other receivables	6	1,052,546,119	737,026,128	152,083,256	28,125,624	35,450,114	-	99,860,997	
Short term investments	7	67,705,278	67,705,278	-	-	-	-	-	
Financial assets at FVOCI	8	26,635,212	26,635,212	-	-	-	-	-	
Long term investments	11	40,307,201	40,307,201	-	-	-	-	-	
Refundable deposits	14	725,350	725,350	-	-	-	-	-	
		₱1,910,260,584	₱1,594,740,593	₱152,083,256	₱28,125,624	₱35,450,114	₱-	₱99,860,997	

\*Excluding cash on hand



### *Credit quality per class of financial assets*

The credit quality of financial assets is determined based on the Organization's historical experience with the corresponding parties.

The bases in grading the Organization's financial assets are as follows:

*High grade.* These are financial assets which have a high probability of collection. The counterparty has the apparent ability to satisfy its obligation and the security is readily enforceable.

*Standard grade.* These are financial assets where collections are probable due to the reputation and the financial ability of the counterparty to pay but with the experience of default.

*Substandard grade.* These are financial assets where the counterpart has the experience of default and probability of turning past due in the near future and/or are already past due.

Cash and cash equivalents, short term investments and long-term investments - based on the nature of the counterparty and the Organization's internal rating system, the counterparty has the apparent ability to satisfy its obligation, thus, there is a high probability of collection.

Loans and other receivables - high grade and low risk accounts are neither past due nor impaired accounts which are fully secured by collateral and with good loan collection status. Standard grade and medium risk accounts are neither past due nor impaired accounts and are partially secured. Substandard grade pertains to either secured or clean loans with history of default payments.

Financial assets at FVOCI - standard and medium risk accounts are neither past due nor impaired accounts and the counterparty has the experience of default.

Refundable deposits - the counterparty has the apparent ability to satisfy its obligation with least likelihood of default.

The tables below show the credit quality by class of financial assets as at December 31:

	2021					Total
	High Grade	Standard Grade	Substandard Grade	Past due but Not Impaired	Past due and Impaired	
Cash and cash equivalent*	₱473,985,753	₱-	₱-	₱-	₱-	₱473,985,753
Loans and other receivables	1,199,048,606	-	-	35,135,609	34,109,435	1,268,293,650
Short term investments	80,332,489	-	-	-	-	80,332,489
Financial assets at FVOCI	-	57,044,276	-	-	-	57,044,276
Long term investments	35,000,000	-	-	-	-	35,000,000
Refundable deposits	107,075	-	-	-	-	107,075
	<b>₱1,788,473,923</b>	<b>₱57,044,276</b>	<b>₱-</b>	<b>₱35,135,609</b>	<b>₱34,109,435</b>	<b>₱1,914,763,243</b>

\*Excluding cash on hand



	2020					Total
	High Grade	Standard Grade	Substandard Grade	Past due but Not Impaired	Past due and Impaired	
Cash and cash equivalent*	₱722,341,424	₱-	₱-	₱-	₱-	₱722,341,424
Loans and other receivables	737,026,128	-	-	215,658,994	99,860,997	1,052,546,119
Short term investments	67,705,278	-	-	-	-	67,705,278
Financial assets at FVOCI	-	26,635,212	-	-	-	26,635,212
Long term investments	40,307,201	-	-	-	-	40,307,201
Refundable deposits	725,350	-	-	-	-	725,350
	₱1,568,105,381	₱26,635,212	₱-	₱215,658,994	₱99,860,997	₱1,910,260,584

\*Excluding cash on hand

#### b. Market risk

Market risk is the risk of loss of future earnings or future cash flows arising from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchanges rates, equity prices and other market changes. The Organization's market risk is manageable within conservative bounds. As at December 31, 2021 and 2020, the Organization has not engaged in trading financial instruments.

#### *Interest rate risk*

Interest rate risk is the risk to earnings or capital resulting from adverse movements in interest rates. The economic perspective of interest rate risk focuses on the value of a financial instrument in the current interest rate environment and the sensitivity of that value to changes in interest rates.

The Organization has no significant exposure to interest rate risk because its financial instruments bears fixed interest rates and are measured at amortized cost.

#### *Foreign exchange risk*

The Organization has no significant exposure to foreign currency risks as most transactions are denominated in Philippine Peso, its functional currency. However, the Organization pays US\$300 to Electronic Network Cash Tellers, Inc. (ENCASH) for the annual license fee on the use of ATMs.

#### *Price risk*

The Organization's market price risk arises from its financial assets at FVOCI. The Organization manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

#### c. Liquidity risk

Liquidity risk is the risk from an entity's inability to meet obligations when they become due because of its inability to liquidate assets or obtain adequate funding. The Organization ensures that sufficient liquid assets are available to meet short-term funding and regulatory requirements.

The Organization's liquidity and cash positions are monitored on a daily basis. The Organization maintains sufficient liquidity reserves in the form of high-yielding deposits with Organizations. The Organization has also obtained sufficient liquidity lines from other Organizations and non-Organization lending institutions that can relieve financial pressures in the event of an extraordinary demand for liquidity. Further, the Organization actively rediscounts loans with entities that have given the Organization more than sufficient rediscounting lines.



The following tables summarize the maturity profile of financial instruments that is used by the Organization to manage its liquidity risk based on contractual undiscounted cash flows (including interest):

	Note	2021				Total
		On Demand	Less Than 3 Months	3 to 12 Months	1 to 5 Years	
<i>Financial liabilities</i>						
Members' deposit	15	₱763,105,579	₱-	₱-	₱-	₱763,105,579
Accounts and other payables*	16	31,334,419	42,481,680	-	17,892,150	91,708,249
Loans payable	18	-	-	104,583,333	42,916,667	147,500,000
		<b>₱854,813,828</b>	<b>₱-</b>	<b>₱104,583,333</b>	<b>₱42,916,667</b>	<b>₱1,002,313,828</b>

	Note	2020				Total
		On Demand	Less Than 3 Months	3 to 12 Months	1 to 5 Years	
<i>Financial liabilities</i>						
Members' deposit	15	₱676,672,067	₱-	₱-	₱-	₱676,672,067
Accounts and other payables*	16	55,178,237	55,058,238	60,000	-	110,296,475
Loans payable	18	-	6,682,241	97,474,281	-	104,156,522
		<b>₱731,850,304</b>	<b>₱61,740,479</b>	<b>₱97,534,281</b>	<b>₱-</b>	<b>₱891,125,064</b>

\*Excluding government liabilities

The maturity grouping of financial instruments is based on the remaining period from the end of the financial reporting period to the contractual maturity date. For financial liabilities, when the counterparty has a choice of when the amount is to be paid, the liability is allocated to the earliest period in which the Organization can be required to pay.

#### Fund management

The primary objective of the Organization's capital management is to ensure the ability of the Organization to have sufficient capital to underpin the Organization's risk-taking activities and continue as a going concern and maintain a strong credit rating.

The BOT has the overall responsibility for monitoring the Organization's capital structure and making the necessary adjustments to address the risks and adapt to changes in economic conditions and regulatory requirements.

The Organization regards the following item as the fund it manages as at December 31:

	2021	2020
Accumulated income	<b>₱1,523,375,853</b>	<b>₱1,492,570,890</b>

The movements in the accumulated income portion of fund balance are as follows:

	2021	2020
Balance as at January 1	<b>₱1,492,570,890</b>	₱1,553,794,570
Additional revolving fund	268,340	90,610
Net income (loss) for the year	<b>30,536,624</b>	(61,314,290)
Balance as at December 31	<b>₱1,523,375,854</b>	<b>₱1,492,570,890</b>

Revolving fund pertains to non-refundable membership fees collected from the new members.



## 27. Financial Assets and Financial Liabilities

The following table summarizes the carrying values of the Organization's financial assets and financial liabilities at December 31:

	Note	2021	2020
<b>Financial assets at amortized cost</b>			
Cash and cash equivalents	5	₱474,557,254	₱722,714,043
Loans and other receivables, net	6	1,194,485,226	893,229,973
Short term investments	7	80,332,489	67,705,278
Long term investments	11	35,000,000	40,307,201
Refundable deposits	14	107,075	725,350
<b>Financial assets at FVOCI</b>	9	<b>57,044,276</b>	<b>26,635,212</b>
		<b>₱1,841,526,320</b>	<b>₱1,751,317,057</b>
<b>Financial liabilities at amortized cost</b>			
Members' deposit	15	₱763,105,579	₱676,672,067
Accounts and other payables*	16	91,708,249	110,296,475
Loans payable	18	147,500,000	104,156,522
		<b>₱1,002,313,828</b>	<b>₱891,125,064</b>

\*Excluding government liabilities

The carrying values of financial assets and financial liabilities, except for refundable deposits and loans payable, net of current portion, carried at amortized cost, approximate their fair values due to the relatively short-term nature of the financial instruments. As discussed in Note 3, the disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value.

The fair value of refundable deposits and loans payable, net of current portion are as follows:

	2021	2020
<b>Financial asset</b>		
Refundable deposits	₱87,181	₱641,010
<b>Financial liability</b>		
Loans payable, net of current portion	₱34,942,844	₱-

The carrying value of investment in shares of stocks presented under "Financial assets at FVOCI" approximates its fair value as at December 31, 2020 and is classified under Level 3 of the fair value hierarchy.

The carrying value of Peso Diversified Value Fund and Peso Asia Pacific Property Income Fund presented under "Financial assets at FVOCI" approximates its fair value as at December 31, 2021 and is classified under Level 1 of the fair value hierarchy.



*Income, expense, gains or losses on financial instruments*

Items of income, expense, gains or losses with respect to financial assets and financial liabilities in the separate statements of comprehensive income (loss) are as follows:

	Notes	2021	2020
Interest income from:			
Loans and other receivables	6	₱521,339,725	₱456,361,320
Bank deposits	5	2,907,855	4,726,375
Short term investments	7	1,935,582	735,140
Long term investments	11	629,551	204,423
		<b>₱526,812,713</b>	<b>₱462,027,258</b>
Interest expense on:			
Members' deposits	15	₱20,869,723	₱21,812,867
Loans payable	18	3,551,077	5,527,691
		<b>₱24,420,800</b>	<b>₱27,340,558</b>
Loans and other receivables:			
Reversal of (provision for) impairment losses	6	₱22,051,993	(₱108,564,764)
Recovery of previously written-off accounts	6,19	4,315,232	3,098,356
		<b>₱26,367,225</b>	<b>(₱105,466,408)</b>

**28. Other Matter**

Continuing Effects of COVID-19 Pandemic

On March 11, 2020, the World Health Organization assessed that the novel coronavirus of 2019 (COVID-19) has become a pandemic. In an effort to contain the spread of COVID-19 in the Philippines, community quarantines and alert levels of varying strictness were imposed in numerous parts of the country. Furthermore, the Government implemented COVID-19 vaccine deployment and vaccination program to mitigate the spread of the virus.

These measures affected economic activities and business operations of the Organization. The scale and duration of these developments remain uncertain as of the report date. Considering the evolving nature of the pandemic, the Organization will continue to monitor the situation.



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## 29. Supplementary Information Required by Bureau of Internal Revenue

Presented below is the supplementary information which is required by the BIR under its existing Revenue Regulations (RR) to be disclosed as part of the notes to separate financial statements in addition to the disclosures mandated under PFRS.

### REVENUE REGULATION (RR) NO. 15-2010

The Bureau of Internal Revenue (BIR) has issued RR No. 15-2010 which requires certain tax information to be disclosed in the notes to the separate financial statements in addition to the disclosures mandated under PFRS. Presented below is the supplementary information required under RR 15-2010:

#### 1. Value-added tax (VAT)

BIR issued RR 3-2017 which a registered and accredited microfinance NGO must pay 2% tax in lieu of all national taxes based on gross receipts from microfinance operations. Hence, no VAT was paid/accrued for the year.

#### 2. Taxes and licenses

##### a. Local

Permits and licenses	₱6,233,059
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##### b. National

BIR annual registration	47,500
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**₱6,280,559**

#### 3. Documentary Stamp Tax (DST)

DST on contract of loans at ₱1.50 every ₱200	₱1,130,458
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#### 4. Withholding taxes

The amount of withholding taxes paid/accrued for the year follows:

Taxes on compensation and benefits	₱2,749,225
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Expanded withholding taxes	1,432,533
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**₱4,181,758**

#### 5. Tax cases/assessments

As of December 31, 2021, the Organization has no pending tax cases and has not received any tax assessment notices from the BIR.

### REVENUE REGULATION (RR) NO. 34-2020

RR No. 34-2020, Prescribing the Guidelines and Procedures for the Submission of BIR Form No. 1709, Transfer Pricing Documentation (TPD) and other Supporting Documents, Amending for this Purpose the Pertinent Provisions of RR Nos. 19-2020 and 21-2002, as amended by RR No. 15-2010, to streamline the guidelines and procedures for the submission of BIR Form No. 1709, TPD and other supporting documents. Section 2 of the RR enumerated the taxpayers required to file and submit the RPT Form, together with the Annual Income Tax Return.

The Organization is covered by the requirements and procedures for related party transactions provided under RR 34-2020 for the year ended December 31, 2021.



**SWORN STATEMENT**

We, **VICTOR T. BERNAL** and **EVELYN T. TEVES** Executive Director and Finance Director, respectively, of **ARDCI MICROFINANCE, INCORPORATED** with address at **San Roque St. Virac, Catanduanes** hereby depose and state that:

In compliance with the Revised SRC Rule 68, we are stating the following information that related to the preceding year December 31, 2021, to wit:

Documents/ Schedules to the audited financial statements as of _____	NSPO Forms	Check if applicable
1. Affidavit of Willingness to be Audited by the Commission	NSPO Form-2	✓
2. Schedule of Receipts or Income or Sources of Funds other than Contributions and Donations	NSPO Form-3	✓
3. Schedule of Contributions and Donations	NSPO Form-4	
4. Schedule of Application of Funds	NSPO Form-5	
5. Certificate of Existence of Program/Activity (COEP)		
6. COEP issued by Heads/Officers of private institution or actual beneficiaries/recipients of the program/activity shall be allowed in lieu of COEP issued by the government offices/entities.		

We hereby certify that this Sworn Statement with duly attached documents/schedules is executed to attest to the truth of the foregoing and for whatever legal purpose it may serve.

**MAY 26 2022**

In witness thereof, we have hereunto affixed our signature this \_\_\_\_\_ day of \_\_\_\_\_, at \_\_\_\_\_, Philippines.

**Virac, Catanduanes**

  
**VICTOR T. BERNAL**  
 Executive Director

  
**EVELYN T. TEVES**  
 Finance Director

Subscribed and sworn to before me, a Notary Public for and in \_\_\_\_\_ **Virac, Catanduanes** City, on **MAY 26 2022** affiants personally, exhibiting their respective competent evidence of identification Card \_\_\_\_\_ issued at \_\_\_\_\_ issued on \_\_\_\_\_.

NOTARY PUBLIC

**ALFRED M. AQUINO**  
 Notary Public  
 Commission expires December 31, 2022  
 San Jose Street, Virac, Catanduanes  
 PTR No. 02257611 / Jan. 3, 2022 / Virac, Catanduanes  
 MCLE Compliance No. VI-0016841 / Valid until April 24, 2022  
 IBP Lifetime No. 017855  
 Roll No. 32981

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 Book No. 449  
 Series of wn

REPUBLIC OF THE PHILIPPINES)  
Province of Catanduanes ) S.S.  
Municipality of Virac )

**AFFIDAVIT OF WILLINGNESS TO BE AUDITED BY THE COMMISSION**

I, **EVELYN T. TEVES**, of legal age, Filipino and resident of **Cavinitan, Virac, Catanduanes**, after having been sworn to in accordance with law hereby depose and state:

I am the Treasurer/Chief Finance Officer of **ARDCI Microfinance, Incorporated**, a non- stock non-profit Organization registered with the Security and Exchange Commission.

That I, as authorized by the Board of Trustees of the Organization, hereby manifest its willingness to be audited by the Commission upon its Order and Authority for the purpose of determining compliance of the corporation with existing laws and regulations.

That this affidavit is executed to attest to the truth of the foregoing and for whatever legal purpose and intent it may serve.

**MAY 26 2022**

In witness whereof, I hereby sign this affidavit this \_\_\_ day of \_\_\_\_\_ 20\_\_ at VIRAC, CATANDUANES

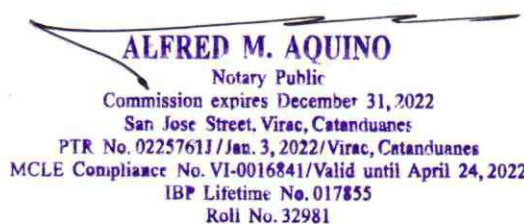
  
**EVELYN T. TEVES**

Affiant

(Signature over printed name)

**MAY 26 2022**

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_, affiant exhibiting to me his \_\_\_\_\_ issued on \_\_\_\_\_ at \_\_\_\_\_ as competent evidence of identity.

  
**ALFRED M. AQUINO**  
Notary Public  
Commission expires December 31, 2022  
San Jose Street, Virac, Catanduanes  
PTR No. 02257611 / Jan. 3, 2022 / Virac, Catanduanes  
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**SCHEDULE OF RECEIPTS OR INCOME OR SOURCES OF FUNDS  
OTHER THAN CONTRIBUTIONS AND DONATIONS**

**Name of Organization**  
ARDCI Microfinance Incorporated

**SEC Registration No.**  
I1998-00277

**For the year ended**  
**December 31, 2021**

<b>Receipts or Income or Sources of funds</b>				
<b>(a) No.</b>	<b>(b) Description of Income</b>	<b>(c) Source</b>	<b>(d) Amount (Indicate by footnote if other than Philippine currency, then translate in this column)</b>	<b>(e) Date Received/Period Covered</b>
1	Interest income	Income generated from members' loan	P521,339,725	January 1 – December 31, 2021
2	Share in Group Life Insurance Coverage (GLIC)	Commission on insurance	14,456,372	January 1 – December 31, 2021
3	Share in Credit Group Life Insurance (CGLI)	Commission on insurance	5,917,862	January 1 – December 31, 2021
4	Recovery of previously written-off accounts	Income generated from written off accounts	4,315,232	January 1 – December 31, 2021
5	Share in Loan Protect Plus (LPP)	Commission on insurance	4,304,243	January 1 – December 31, 2021
6	Service charges	Generated upon members availment of loan	1,135,112	January 1 – December 31, 2021
7	Amortization of deferred income from grants	Generated from grants	363,770	January 1 – December 31, 2021
8	ID/Passbook	Income generated from members' deposits	301,389	January 1 – December 31, 2021

9	Miscellaneous income from operations	Income generated from overages, reversal of long outstanding members' deposits and insurance liabilities	4,570,238	January 1 – December 31, 2021
10	Interest from deposits in banks	Deposits with banks	5,472,988	January 1 – December 31, 2021
11	Rental income	Rental agreements with related parties	795,000	January 1 – December 31, 2021
12	Miscellaneous income from non-microfinance operations	Income generated from gain on disposal and insurance settlement of property & equipment, and other non-microfinance income	1,559,678	January 1 – December 31, 2021

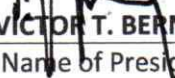
REPUBLIC OF THE PHILIPPINES)  
 PROVINCE OF CATANDUANES ) S.S  
 MUNICIPALITY OF VIRAC )

**CERTIFICATION**

I, **VICTOR T. BERNAL** , of legal age, single/married, Filipino citizen, with residence address at \_\_\_\_\_, after having been sworn to in accordance with law, do hereby depose and state that:

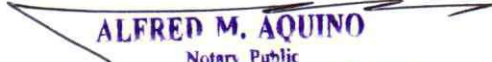
1. I am the duly elected President of **ARDCI MICROFINANCE, INCORPORATED** , a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office address at **San Roque St., Virac, Catanduanes** ;
2. The Organization has not received any funds from any Philippine government agency or any department, bureau or office of the national government, or any of its branches and instrumentalities, or any political subdivision or its instrumentalities, as well as any government-owned or controlled corporation, including its subsidiaries, or other self-governing board or commission of the government, nor received donations/grants/contributions in the amount of at least Five Hundred Thousand Pesos (Php500,000) in one or aggregate transactions per donor/grantor/contributor; and
3. To the best of my knowledge, no action or proceeding has been filed or is pending before any Court involving an intra-corporate dispute and/or claim by any person or group against the Organization, its duly elected Trustees and/or corporate officers.

IN WITNESS WHEREOF, I have hereunto signed this Certification this      day of      **MAY 26 2022** at       
     **VIRAC, CATANDUANES**

  
**VICTOR T. BERNAL**  
 Name of President  
 PRESIDENT

SUBSCRIBED AND SWORN to before me this      **MAY 26 2022**, the affiant having exhibited to me his/her \_\_\_\_\_ as competent proof of his/her identity.

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**ALFRED M. AQUINO**  
 Notary Public  
 Commission expires December 31, 2022  
 San Jose Street, Virac, Catanduanes  
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