**SECURITIES AND EXCHANGE COMMISSION**
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## Company Information

**SEC Registration No.:** CN200429482
**Company Name:** JMH MICROFINANCE, INC.
**Industry Classification:**
**Company Type:**

## Document Information

**Document ID:** OST105272021810008
**Document Type:** AFS
**Document Code:** AFS
**Period Covered:** December 31, 2020
**Submission Type:** AFS
**Remarks:** None

JMHFI Compliance <compliance@jmhfi.com>

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# COVER SHEET
## for
## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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|---|---|---|---|---|---|---|---|---|---|---|

**COMPANY NAME**

J M H  M I C R O F I N A N C E ,  I N C .

**PRINCIPAL OFFICE** *(No. Street /Barangay/City/ Town)Province)*

C R H  B U I L D I N G ,  S A L U G A N ,  C A M A L I G ,
A L B A Y

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| AAFS | CRMD | NA |

### COMPANY INFORMATION

| Company's Email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| compliance@jmfhi.com | 431-0079 | 0998-582-8550 |

| No. of Stockholders | Annual Meeting Month/Day | Fiscal Year Month/Day |
|---|---|---|
| | 1ST MONDAY OF MAY | December 31 |

### CONTACT PERSON INFORMATION

The designated contract person ***MUST*** be an Officer of the Corporation

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| CHARISMA D. LASCOTA | cdlacosta@jmhfi.com | 431-0079 | 0998-582-8550 |

### CONTACT PERSON's ADDRESS

CRH BUILDING, SALUGAN, CAMALIG, ALBAY

*Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

*2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for this deficiencies.*

# JMH MICROFINANCE INC.

***(Formerly: J. M. Honrado Foundation, Inc.)***

***(A Microfinance Non-Government Organization)***

**CAMALIG, ALBAY - PHILIPPINES**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2020 AND 2019**

CONTENTS

JMH Microfinance, Inc.
CRH Building, Salugan, Camalig, Albay
Tel. No. (052) 431-0706

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

The Management of **JMH MICROFINANCE, INC.** (the "Company"), is responsible for the preparation and fair presentation of financial statements including the schedules attached therein, for the years ended December 31, 2020 and 2019, in accordance with the prescribed financial reporting framework indicated therein, and 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 Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Trustees is responsible for overseeing the Company'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 of the Company.

**Alas, Oplas & Co., CPAs**, the independent auditors appointed by the members for the years ended December 31, 2020 and 2019, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the members, have expressed its opinion on the fairness of presentation upon completion of such audit.

**PAULO R. HONRADO**
Chairman of the Board

**CHARISMA D. LASCOTA**
Chief Executive Officer

**JOSE ROLANDO A. PERLADO JR**
Chief Financial Officer

# Alas Oplas & Co., CPAs

Alas Oplas & Co., CPAs
8/F Richmonde Plaza, San Miguel Avenue
corner Lourdes Drive, Ortigas Center,
Pasig City Philippines 1605
Phone No.: (02) 8535-5029
Email: aocortigasbranch@alasoplascpas.com

10/F Philippine AXA Life Centre
1286 Sen. Gil Puyat Avenue
Makati City, Philippines 1200
Phone No.: (632) 7759-5090 | (632) 8889-1861
Email: aocheadoffice@alasoplascpas.com
www.alasoplascpas.com

Independent Member of
BKR International

**INDEPENDENT AUDITORS' REPORT**
**TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION**

To the Members and the Board of Trustees
**JMH MICROFINANCE, INC.**
*(Formerly: J. M. Honrado Foundation, Inc.)*
*(A Microfinance Non-Government Organization)*
CRH Building, Salugan,
Camalig, Albay

We have examined the financial statements **JMH MICROFINANCE, INC.** for the years ended December 31, 2020 and 2019, on which we have rendered the attached report dated April 12, 2021.

In compliance with Securities Regulation Code Rule 68, as amended, we are stating that the said Company has no stockholders, being a non-stock, non-profit organization.

**ALAS, OPLAS & CO., CPAs**
BOA Registration No. 0190, valid from September 4, 2019 to October 30, 2022
SEC A.N. (Firm) 0321-FR-1, issued on February 7, 2019; effective until February 6, 2022
TIN 002-013-406-000
BIR A.N. 08-001026-000-2021, issued on January 11, 2021; effective until January 10, 2024

By:

**RYAN A. SABUG**
Partner
CPA License No. 0111183
SEC A.N. (Individual) 111183-SEC, issued on February 4, 2021; effective until February 3, 2026
TIN 232-158-286-000
BIR A.N. 08-006531-001-2020, issued on February 24, 2020; effective until February 23, 2023
PTR No. 8533770, issued on January 4, 2021, Makati City

April 12, 2021
Makati City, Philippines

# Alas Oplas & Co., CPAs

**Alas Oplas & Co., CPAs**
8/F Richmonde Plaza, San Miguel Avenue
corner Lourdes Drive, Ortigas Center,
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Independent Member of
B K R International

## INDEPENDENT AUDITORS' REPORT

To the Members and the Board of Trustees
**JMH MICROFINANCE INC.**
*(Formerly: J. M. Honrado Foundation, Inc.)*
*(A Microfinance Non-Government Organization)*
CRH Building, Salugan, Camalig, Albay

### Opinion

We have audited the financial statements of **JMH MICROFINANCE INC.** ("the Company"), which comprise the statements of assets, liabilities and fund balance as at December 31, 2020 and 2019, and the statements of revenue over expenses, statements of changes in fund balance and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs).

### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the 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 Financial Statements

Management is responsible for the preparation of the financial statements in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs) 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

**Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

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

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

**The Supplementary Information Required under Revenue Regulations Nos. 15-2010 and 19-2011**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Information Required under Revenue Regulations Nos. 15-2010 and 19-2011 on taxes, duties and license fees paid or accrued during the taxable year, taxable income, and deductions in Notes 24 and 25 to the financial statements are presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of **JMH MICROFINANCE INC.** The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**ALAS, OPLAS & CO., CPAs**
BOA Registration No. 0190, valid from September 4, 2019 to October 30, 2022
SEC A.N. (Firm) 0321-FR-1, issued on February 7, 2019; effective until February 6, 2022
TIN 002-013-406-000
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By:

**RYAN A. SABUG**
Partner
CPA License No. 0111183
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TIN 232-158-286-000
BIR A.N. 08-006531-001-2020, issued on February 24, 2020; effective until February 23, 2023
PTR No. 8533770, issued on January 4, 2021, Makati City

April 12, 2021
Makati City, Philippines

**JMH MICROFINANCE, INC.**
***(A Microfinance Non-Government Organization)***
**STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE**
**DECEMBER 31, 2020 AND 2019**
**In Philippine Peso**

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 5 | **19,227,269** | 9,065,331 |
| Loans receivable – net | 6 | **145,403,310** | 153,072,531 |
| Accounts receivable and other receivables | 7 | **816,408** | 1,240,972 |
| Other current assets | 8 | **8,720,628** | 7,702,427 |
| Total Current Assets | | **174,167,615** | 171,081,261 |
| **Non-current Assets** | | | |
| Property and equipment – net | 9 | **21,791,564** | 24,721,967 |
| Deferred tax asset | 19 | **20,131** | 13,517 |
| Total Non-current Assets | | **21,811,695** | 24,735,484 |
| **TOTAL ASSETS** | | **195,979,310** | 195,816,745 |
| **LIABILITIES AND FUND BALANCE** | | | |
| **Current Liabilities** | | | |
| Microsavings | 10 | **64,638,076** | 65,123,322 |
| Accounts payable and other payable | 11 | **29,964,035** | 21,749,714 |
| Income tax payable | | **423,561** | 463,120 |
| Advances from related party | 18 | **–** | 6,000,000 |
| Loans payable | 12 | **23,521,994** | 22,108,591 |
| Total Current Liabilities | | **118,547,666** | 115,444,747 |
| **Non-current Liability** | | | |
| Loans payable | 12 | **18,914,374** | 23,521,994 |
| Total Liabilities | | **137,462,040** | 138,966,741 |
| **Fund Balance** | 13 | **58,517,270** | 56,850,004 |
| **TOTAL LIABILITIES AND FUND BALANCE** | | **195,979,310** | 195,816,745 |

*See Notes to Financial Statements.*

**JMH MICROFINANCE, INC.**
***(A Microfinance Non-Government Organization)***
**STATEMENT OF REVENUES OVER EXPENSES**
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**
**In Philippine Peso**

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **REVENUE AND OTHER INCOME** | 14 | **72,330,873** | 95,612,868 |
| **COST AND EXPENSES** | | | |
| Programs and projects | 15 | **(52,643,560)** | (61,758,312) |
| Administrative expenses | 15 | **(16,583,769)** | (23,142,273) |
| | | **(69,227,329)** | (84,900,585) |
| **EXCESS OF REVENUE OVER EXPENSES BEFORE INCOME TAX** | | **3,103,544** | 10,712,283 |
| **INCOME TAX EXPENSE** | 19 | **(1,436,278)** | (1,847,914) |
| **EXCESS OF REVENUE OVER EXPENSES** | | **1,667,266** | 8,864,369 |

*See Notes to Financial Statements.*

**JMH MICROFINANCE, INC.**
***(A Microfinance Non-Government Organization)***
**STATEMENTS OF CHANGES IN FUND BALANCE**
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**
**In Philippine Peso**

| | Members' Contribution (Note 13) | Accumulated Savings (Note 13) | Total |
|---|---|---|---|
| **Balance, December 31, 2018** | **22,344,532** | **25,641,103** | **47,985,635** |
| Additional contribution | – | – | – |
| Excess of revenue over expenses | – | 8,864,369 | 8,864,369 |
| **Balance, December 31, 2019** | **22,344,532** | **34,505,472** | **56,850,004** |
| Additional contribution | – | – | – |
| Excess of revenue over expenses | – | 1,667,266 | 1,667,266 |
| **Balance, December 31, 2020** | **22,344,532** | **36,172,738** | **58,517,270** |

*See Notes to Financial Statements.*

**JMH MICROFINANCE, INC.**
***(A Microfinance Non-Government Organization)***
**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**
**In Philippine Peso**

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Excess of revenue over expenses | | **3,103,544** | 10,712,283 |
| Adjustments for: | | | |
| Depreciation | 9 | **3,783,051** | 4,539,161 |
| Provision for probable losses | 6 | **2,859,797** | 1,606,241 |
| Interest income from bank deposits | 5 | **(34,661)** | (33,818) |
| Operating income before working capital changes | | **9,711,731** | 16,823,867 |
| (Increase) decrease in: | | | |
| Loans and receivables | | **4,150,288** | (29,630,468) |
| Accounts receivable and other receivable | | **424,564** | (202,163) |
| Other current assets | | **(1,018,202)** | 801,392 |
| Increase (decrease) in: | | | |
| Savings deposit | | **(485,247)** | 8,529,870 |
| Accounts and other payables | | **1,790,760** | 8,574,942 |
| Cash generated from (used in) operations | | **14,573,894** | 4,897,440 |
| Income tax paid | | **(1,058,890)** | (1,398,311) |
| Interest income received | | **34,661** | 33,818 |
| Net cash generated from operating activities | | **13,549,665** | 3,532,947 |
| **CASH FLOWS FROM INVESTING ACTIVITY** | | | |
| Additions to property and equipment | 9 | **(193,510)** | (3,546,798) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Payment of loans payable | 12 | **(22,108,591)** | (49,583,574) |
| Proceeds on loans payable | 12 | **18,914,374** | 43,452,739 |
| Net cash used in financing activities | | **(3,194,217)** | (6,130,835) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **10,161,938** | (6,144,686) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **9,065,331** | 15,210,017 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 5 | **19,227,269** | 9,065,331 |

*See Notes to Financial Statements.*

## 1. CORPORATE INFORMATION

**JMH MICROFINANCE INC.** *(Formerly: J.M. Honrado Foundation, Inc.)* "the Company" a microfinance non-government organization (NGO) was organized and registered with the Securities and Exchange Commission (SEC) on October 7, 2004 with SEC Registration No. CN200429482 and Bureau of Internal Revenue with Tax Identification No. 006-140-730.

The Company's primary purpose of which is it to implement a microenterprise development strategy and provide microfinance programs, products and services such as a microcredit and microsavings. (As amended on April 25, 2017)

Being not organized for profit and since no part of its excess of revenue over expenses inures to the benefit of any private individual or member, the Company falls under Section 30(e) of the Tax Reform Act of 1997 and, as such, income from activities in pursuit of the purpose for which the Company was organized is exempt from income tax.

On August 16, 2016, the implementing rules and regulations (IRR) of Republic Act (RA) No. 10693 or otherwise known as Microfinance NGOs Act was approved and implemented. The IRR of RA10693 requires Microfinance NGOs to be established as non-stock, non-profit corporation with a capital contribution of at least One Million pesos and include the word "Microfinance" in the corporate and trade name of the Microfinance NGO seeking accreditation.

On May 16, 2017, the SEC approved the amended articles of incorporation Article I, II and III, which states the following:

- Article I – Registered Name: From J.M. Honrado Foundation, Inc. change to JMH MICROFINANCE, INC.
- Article II - Primary Purpose
- Article III - Transferring the principal office address of from 1620 National Highway Purok 2, Bañag, Daraga, Albay transferred to CRH Building Salugan, Camalig, Albay.

On March 28, 2018, the Company was deemed an accredited Microfinance NGO by the Microfinance NGO Regulatory Council (the Council) after having been certified by the SEC to no derogatory information on March 15, 2018. In accordance with RA 10693, the Company shall be entitled to avail of the two percent (2%) gross receipts tax on its income from microfinance operations.

## 2. BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

### 2.01 Statement of Compliance

The Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs) identifies which entities are qualified and covered by the standard, provides an option for qualified entities in application of the PFRS for SMEs and specifies the financial reporting standards for qualified entities. The Company qualifies as a Small and Medium-sized Entity (SME) and accordingly, availed of the option to apply the PFRS for SMEs that became effective in 2009.

The Company's financial statements for the period ended December 31, 2020 and 2019 is prepared under accounting policies that comply with the PFRS for SMEs.

**2.02 Basis of Preparation**

The financial statements are prepared on a going concern basis under the historical cost convention, except where PFRS for SMEs requires an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements.

**2.03 Presentation and Functional Currency**

The accompanying financial statements are stated in Philippine Peso and amounts are rounded to the nearest Peso, unless otherwise stated. The Company's functional and presentation currency is the Philippine Peso as it reflects the primary economic environment in which the Company operates.

**2.04 Use of Judgments and Estimates**

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the Company's financial statements and accompanying notes.

Judgments are made by management in the development, selection and disclosure of the Company's significant accounting policies and estimates and the application of these policies and estimates.

The estimates and assumptions are reviewed on an on-going basis. These are based on management's evaluation of relevant facts and circumstances as of the reporting date. Actual results could differ from such estimates.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

**2.05 Going Concern Assumption**

The Company is not aware of any significant uncertainties that may cast doubts upon the Company's ability to continue as a going concern.

## 3. SIGNIFICANT ACCOUNTING POLICIES

Principal accounting and financial reporting policies applied by the Company in the preparation of its financial statements are enumerated below and are consistently applied to all the years presented, unless otherwise stated.

In addition to the above, the SEC has issued a memorandum circular on March 26, 2018 changing the quantitative threshold for total assets to ₱100 million to ₱350 million or total liabilities of ₱100 million to ₱250 million to qualify for PFRS for SMEs.

Current versus Non-current Classification

The Company presents assets and liabilities in the statement of assets, liabilities and fund balance on current or non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash and cash equivalents unless restricted from being exchanged or used to settle liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when it is:

- Expected to be settled in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current

**3.01 Financial Assets**

Financial assets are classified as either 'basic financial assets' or 'other financial assets'. As of December 31, 2020 and 2019, the Company has no financial assets classified as other financial assets.

*3.01.01 Basic Financial Assets*
The Company recognizes basic financial assets only when the entity becomes a party to the contractual provisions of the instrument. Financial assets are initially measured at the transaction price including transaction costs unless the arrangement constitutes a financing transaction.

The Company's basic financial assets as presented in the statements of assets, liabilities and fund balance comprise of cash and cash equivalent, loans receivable and accounts receivable and other receivables.

a. *Cash and cash equivalents*

In the statements of cash flows, cash includes cash on hand, cash in bank, cash fund and cash equivalents. The Company recognized cash and cash equivalents as current asset when the cash and cash equivalents is not restricted from being exchanged or used to settle liability for at least twelve months after the end of the reporting period.

Cash on hand includes undeposited cash collections. Cash in bank includes demand deposits which are unrestricted as to withdrawal. Petty cash fund are cash set aside for current purposes.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For an investment to qualify as a cash equivalent, it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preference shares acquired within a short period of their maturity and with a specified redemption date.

Cash is valued at face value.

The Company recognizes cash and cash equivalents as current assets when the cash and cash equivalents are not restricted from being exchanged or used to settle a liability for at least twelve months after the end of the reporting period.

b. *Loans receivable*

Loans receivable pertains to interest bearing loan assistance granted to qualified beneficiaries in the different communities where the Company operates.

Loans receivable are recognized initially at the transaction price and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

c. *Accounts receivable and other receivables*

Accounts receivable and other receivables are amounts due from customers for services performed in the normal operation of the Company. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Accounts receivable and other receivables are recognized initially at transaction price and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

*3.01.02 Offsetting of Financial Instruments*
Financial assets and liabilities are offset and the net amount is reported in the statements of assets, liabilities and fund balance when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

*3.01.03 Impairment of Financial Assets Measured at Cost or Amortized Cost*
At the end of each reporting period, the Company assesses whether there is objective evidence of impairment of any financial assets that are measured at cost or amortized cost. If there is objective evidence of impairment, the Company recognizes an impairment loss in the statement of revenue over expenses immediately.

Financial assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis.

Objective evidence of impairment could include:
- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the creditor, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the creditor would not otherwise consider;
- it has become probable that the debtor will enter bankruptcy or other financial reorganization; and
- observable data indicating that there has been a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, even though the decrease cannot yet be identified with the individual financial assets in the group, such as adverse national or local economic conditions or adverse changes in industry conditions.

For instruments measured at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the Company shall reverse the previously recognized impairment loss either directly or adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset (net of allowance account) that exceeds what the carrying amount would have been had the impairment not previously recognized. The Company shall recognize the amount of reversal in profit or loss immediately.

*3.01.04 Derecognition of Financial Assets*
The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or are settled, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the Company derecognizes the asset and any rights and obligations retained or created in the transfer.

**3.02 Property and Equipment**

Property and equipment, except land is 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 that 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 consists of its purchase price, including import duties, taxes and any directly attributable costs necessary in bringing the asset to its working condition and location for its intended use. When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. Expenditures incurred after the item has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have improved the condition of the asset beyond the originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

| | | |
|---|---|---|
| Building | - | 10 years |
| Transportation equipment | - | 5 years |
| Furniture, Fixtures and other Equipment | - | 3 years |

The residual values, useful lives and method of depreciation of the assets are reviewed and adjusted, if appropriate at each reporting date. Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation and amortization is credited or charged to current operations. If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset the depreciation of that asset is revised prospectively to reflect the new expectations.

An item of property and equipment is derecognized when either it has been disposed or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gains or losses arising on the retirement and disposal of an item of property and equipment are recognized in the statement of revenue over expenses in the period of retirement or disposal.

*3.02.01 Impairment of Property and Equipment other than Inventories*
At each reporting date, property and equipment are reviewed to determine whether there is any indication that those assets suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount.

If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in the statement of revenue over expenses.

If impairment loss subsequently reverses, the carrying amount of the asset (or group of assets) is increased to the revised estimate of recoverable amount but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (or group of assets) in prior years. A reversal of impairment loss is recognized immediately in the statement of revenue over expenses.

**3.03 Financial Liabilities and Equity Instruments**

*3.03.01 Classification as Debt or Equity*
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

*3.03.02 Financial Liabilities*
Financial liabilities are initially measured at the transaction price including transaction costs except for those that are measured at fair value through profit and loss (FVTPL), unless the arrangement constitutes a financing transaction. Such financial liabilities will be subsequently measured at amortized cost using the effective interest method or those classified as current liabilities will be measured at the undiscounted amount of cash expected to be paid.

The Company has no financial liabilities at FVTPL as of December 31, 2020 and 2019.

*3.03.03 Derecognition of Financial Liabilities*
The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired.

**3.04 Fund Balance**

*3.04.01 Capital Contribution*
Capital contribution pertains to the donation received by the Company. The capital contribution is measured at the fair value of the consideration received at the date of contribution.

*3.04.02 Accumulated Savings*
The amount included in fund balances includes accumulated excess of revenues over disbursement reduced by funds returned to funding agencies/partners and other adjustments. Funds returned to funding agencies/partners are recognized as a liability and deducted from fund balances in accordance with specific provision of the contract related to the funds. Fund balances may also include effect of change in accounting policy as may be required by the provisions of new accounting standards and interpretations.

**3.05 Provisions, Contingent Liabilities and Contingent Assets**

*3.05.01 Provisions*
Provisions are recognized when, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are measured at the best estimate of the amount required to settle the obligation at the reporting date. The best estimate is the amount the Company would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time.

The Company reviews the provisions at each reporting date and adjust them to reflect the current best estimate of the amount that would be required to settle the obligation at the reporting date. Any adjustments to the amounts previously recognized shall be charged to statement of revenue over expenses.

*3.05.02 Contingent Liabilities and Contingent Assets*
Contingent liabilities and contingent assets are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.

Contingent liabilities are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are disclosed only when an inflow of economic benefits is probable.

**3.06 Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transactions will flow to the Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

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

*3.06.01 Interest Income*
Interest income is recognized when it is probable that the economic benefits will flow to the Cooperative and the amount of revenue can be measured reliably. Interest income is recognized using the effective interest method.

*3.06.02 Other Income*
Income from other sources is recognized when earned during the period and the amount of revenue can be measured reliably.

**3.07 Cost and Expense Recognition**

Cost and expenses are recognized in the statement of revenue over expenses when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Cost and expenses are recognized in the statement of revenue over expenses in following manner:

- on the basis of a direct association between costs incurred and the earning of specific items of income; or
- immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of assets, liabilities and fund balance as an asset.

**3.08 Employee Benefits**

*3.08.01 Short-term Benefits*
The Company recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Said benefits are measured at the undiscounted amount expected to be paid in exchange for services rendered. Short-term benefits given by the Company to its employees include salaries and wages, social security contributions, short-term compensated absences, profit sharing and bonuses, non-monetary benefits, and other short-term benefits.

*3.08.02 Post-employment Benefits*
The Company has no formal retirement plan for its qualified employees. The Company does not have a policy on retirement benefits but pays certain amount of money to employees upon retirement from service.

*3.08.03 Termination Benefits*
Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either; terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

**3.09 Leases**

*3.09.01 Company as Lessee*
Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**3.10 Related Parties and Related Party Transactions**

*3.10.01 Related Parties*
Parties are considered related if one party has control, joint control, or significant influence over the other party in making financial and operating decisions. The key management personnel of the Company and close members of the family of any individuals owning directly or indirectly a significant voting power of the Company that gives them significant influence in the financial and operating policy decisions are also considered to be related parties. An entity is related to the Company when it directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with the Company.

*3.10.02 Related Party Transactions*
A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

**3.11 Income Tax**

*3.11.01 Income Subject to Preferential Tax*
Under Republic Act No. 10693, also known as Microfinance NGOs Act, the preferential tax rate covers only NGOs that operate as microfinance for the poor and low-income individuals. Also, the preferential tax based on gross receipts should only refer to lending activities and insurance commissions integral to the qualified lending activities of the Company.

*3.11.02 Income Subject to Regular or Minimum Corporate Income Tax*
All other income not generated from lending activities and insurance commissions are subject to all applicable taxes.

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.
Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

**3.12 Events After the End of the Reporting Period**

The Company identifies subsequent events as events that occurred after the reporting date but before the date when the financial statements were authorized for issue. Any subsequent events that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements while subsequent events that do not require adjustments (non-adjusting events) are disclosed in the notes to financial statements when material.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

**4.01 Critical Judgments in Applying Accounting Policies**

The following are the critical judgments, apart from those involving estimations that Management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in financial statements.

*4.01.01 Distinction between Provisions and Contingencies*
Judgment is exercised by Management to distinguish between provisions and contingencies. The policy on the recognition and disclosure of provisions is discussed in Note 3. As of December 31, 2020 and 2019, the Company has determined that no contingencies will materially affect the Company's financial statements, hence no provision is recognized.

*4.01.02 Functional Currency*
The Company has determined that its functional currency is the Philippine Peso. The Philippine Peso is the currency of the primary economic environment in which the Company operates.

*4.01.03 Classification of Cost and Expenses*
The Company determines the classification of costs and expenses as either service costs or administrative expenses. Classification of costs and expenses to cost of services are determined on the basis of direct association with the servicing activities of the Company. All other costs and expenses are classified as operating expenses.

*4.01.04 Classification of Leases*
In making an evaluation, judgment is used in determining lease classification into operating leases or finance leases. The title does not pass at the end of the lease term. The rent paid to the lessor for the space is increased to market rent at regular intervals. As substantially all the risks and rewards of the office space are with the lessor based on these qualitative factors, it was judged that the entire lease is an operating lease.

*4.01.05 Classification of Financial Instruments*
The Company classifies a financial instrument, or its components parts, on initial recognition, as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial condition.

*4.01.06 Recognition of Deferred Tax*
Management's judgment is required in determining the provision for income taxes, deferred tax assets and liabilities, and the extent to which deferred income tax assets can be recognized. A deferred tax asset is recognized if it is probable that sufficient taxable income will be available in the future against which the temporary differences and unused tax losses can be utilized. Management also considers future taxable income and tax planning strategies in assessing whether deferred tax assets should be recognized in order to reflect changed circumstances as well as tax regulations. As a result, due to their inherent nature, it is likely that deferred tax calculation relates to complex fact patterns for which assessments of likelihood are judgmental and not susceptible to precise determination.

Deferred tax asset recognized amounted to ₱20,131 and ₱13,517 as of December 31, 2020 and 2019, respectively, as disclosed in Note 19.

**4.02 Key Sources of Estimation Uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

*4.02.01 Estimating Allowance for Probable Losses*
The Company assesses whether objective evidence of impairment exists for loans receivable that are individually significant, and collectively for loans receivable that are not individually significant. Allowance for probable losses is maintained at a level considered adequate to provide for potentially uncollectible receivable. The level of allowance is based on the aging of loans receivable, past collection experience and other factors that may affect its collectability. The allowance is established through charges to income in the form of provision for probable losses. In addition, the Company uses the estimation of allowance for probable losses mandated by the Microfinance NGO Regulatory Council.

*4.02.02 Useful Lives of Property and Equipment*
The useful lives of each item of the Company's property and equipment acquired are estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of similar business, internal technical evaluation and experience with similar asset. The estimated useful life of each asset is reviewed periodically and 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.

As of December 31, 2020 and 2019, the net carrying value of the Company's property and equipment amounted to ₱21,791,564 and ₱24,721,967, respectively, as disclosed in Note 9.

In Philippine Peso

## 5. CASH AND CASH EQUIVALENT

Cash and cash equivalent consist of:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Cash in bank | ₱ | **16,277,699** | ₱ | 5,380,013 |
| Cash on hand | | **1,967,382** | | 686,725 |
| Petty cash fund | | **134,500** | | 134,275 |
| Short-term investment | | **-** | | 2,577,384 |
| Others | | **847,688** | | 286,934 |
| Total | ₱ | **19,227,269** | ₱ | 9,065,331 |

Cash in banks earn interest at the rate of 0.50% to 2% per annum in 2020 and 2019.

In 2019, the Company placed short-term investment with a term of sixty-two (62) days and earns interest at the rate of 3.14% per annum.

Interest income earned from bank deposits and investments amounted to ₱34,661 and ₱33,818 for the years ended December 31, 2020 and 2019, respectively, as disclosed in Note 14.

Others pertain to G-Cash load wallet of the Company.

There were no restrictions in the Company's cash and cash equivalents as of December 31, 2020 and 2019.

## 6. LOANS RECEIVABLE

The Company's loans receivable consists of:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Current | ₱ | **131,877,060** | ₱ | 156,633,759 |
| Past due | | **19,743,178** | | 3,462,729 |
| Gross Loans Receivable | | **151,620,238** | | 160,096,488 |
| Unearned interest income | | **(3,986)** | | (2,324,795) |
| Allowance for probable losses | | **(6,212,942)** | | (4,699,162) |
| | ₱ | **145,403,310** | ₱ | 153,072,531 |

**In Philippine Peso**

Breakdown of gross loan receivable as to loan product and performance is as follows:

| | **2020** | | |
|---|---|---|---|
| **Loan Product** | **Current** | **Past Due** | **Total** |
| KABUHAYAN | 110,290,543 | 15,434,689 | 125,725,232 |
| AGAP | 6,584,460 | 3,139,982 | 9,724,442 |
| KAAGAPAY | 9,269,908 | 700,775 | 9,970,683 |
| Motor vehicle scheme | 1,842,660 | - | 1,842,660 |
| Multipurpose incentives | 1,948,298 | 323,323 | 2,271,621 |
| Employee Loan | 1,192,407 | - | 1,192,407 |
| SOLAR | 617,459 | 105,365 | 722,824 |
| WASH | 78,827 | 36,828 | 115,655 |
| SSS | 52,498 | 2,216 | 54,714 |
| **Total** | **131,877,060** | **19,743,178** | **151,620,238** |

| | 2019 | | |
|---|---|---|---|
| Loan Product | Current | Past Due | Total |
| KABUHAYAN | 133,528,037 | 1,578,875 | 135,106,912 |
| AGAP | 6,190,155 | 1,751,128 | 7,941,283 |
| KAAGAPAY | 5,876,289 | 15,279 | 5,891,568 |
| Employee Loan | 3,352,499 | 59,420 | 3,411,919 |
| Multipurpose incentives | 3,860,228 | 34,023 | 3,894,251 |
| Motor vehicle scheme | 2,181,350 | – | 2,181,350 |
| SOLAR | 1,426,651 | – | 1,426,651 |
| SSS | 164,061 | – | 164,061 |
| WASH | 54,489 | – | 54,489 |
| Palay | - | 24,004 | 24,004 |
| Total | 156,633,759 | 3,462,729 | 160,096,488 |

Loans Receivables consist of KABUHAYAN Loan Program which means "Kaunlaran sa Buhay Hango sa Yaman ng Negosyo" and KAAGAPAY Loan Program which means "Katuwang at Gabay sa Pag-unlad at Pagyabong ng Negosyo" that are group and individual loan, respectively. The purpose of the loan is for starting or additional capital of the clients. KABUHAYAN earns interest of 2.8% per month while KAAGAPAY earns 3% per month both for a maximum of six (6) months to pay. The Palay Loans Receivables is granted to farmers earning an interest rate of 3% per month and payable after three (3) months or during harvest.

Interest income earned from loans receivable amounted to ₱72,296,212 and ₱76,331,295 for the years ended December 31, 2020 and 2019, respectively, as disclosed in Note 14.

In 2016, the Company introduces a new loan profile called Alalay sa Ganap na Pagunlad (AGAP) which can be availed by the client with businesses ranging from medium sized sari-sari stores, mini grocery stores, food vending (mini-eateries, distribution of foodstuffs thru vendors/retailers), market stalls, personal services shop, repair shops and similar business and trade, transport service operators, and the likes. In 2020, the Company, redesigned the business loan product to help realize goal of the Company in becoming the choice in Region 5. This type of loan has the following term and condition:

1. Loan payable in 3 to 6 months
2. Loan payments weekly and bi-monthly
3. Loan bearing 4.18% interest, deducted upfront
4. Inclusive of free Life Insurance and Loan Protection benefits

**In Philippine Peso**

The Company also established another loan program to the dependents of their member clients to support their educational needs. The following are the terms and charges of the said loan program:

| MIL Loan Type | Amount | Term | Charges |
|---|---|---|---|
| Educational | Minimum of ₱3,000 up to ₱20,000 (amount subject to available ADC balance) | 3 to 10 months | -3.15% nominal or<br>-5.73% diminishing interest per month<br>-Unlad-Kalinga<br>-20% fixed savings as compensating balance |

Movement of allowance for probable losses on loans receivable is disclosed below:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Balance, beginning | ₱ | **4,699,162** | ₱ | 4,260,645 |
| Additional provision | | **2,859,797** | | 1,606,241 |
| Reversal | | **(1,346,017)** | | (1,167,724) |
| | ₱ | **6,212,942** | ₱ | 4,699,162 |

## 7. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

The account consists of:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Due from suppliers | ₱ | **188,237** | ₱ | 751,344 |
| Due from employees | | **628,171** | | 487,553 |
| Advances to officers and staff | | **–** | | 2,075 |
| | ₱ | **816,408** | ₱ | 1,240,972 |

Due from employees pertains to loans availed by the employees of the Company which are non-interest bearing and deducted on their semi-monthly salary.

Due from suppliers includes an advance payment by the Company for the use of a Retailer Teller Machine (RTM).

Advances to officers and staff consist of a budget for opening of branch such as transportation and other expense to be deducted during their semi-monthly salary.

## 8. OTHER CURRENT ASSETS

The account consists of:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Prepaid insurance – St. Peter Life Plan | ₱ | **4,419,320** | ₱ | 5,375,740 |
| Supplies on hand | | **3,297,710** | | 1,308,954 |
| Prepaid rent | | **639,835** | | 594,200 |
| Catering and Kitchen Supplies | | **250,594** | | 250,594 |
| WASH inventory | | **38,578** | | 51,428 |
| Others | | **74,591** | | 121,511 |
| | ₱ | **8,720,628** | ₱ | 7,702,427 |

Prepaid insurance refers to plans bought by the Company from St. Peter Life Plan for its clients, as an option instead of cash, that the beneficiaries will receive in case of client's sudden death.

Supplies on hand consists of office supplies and certified seeds, fertilizer and pesticides used in Palay loans.

**In Philippine Peso**

## 9. PROPERTY AND EQUIPMENT - net

The carrying amounts of the Company's property and equipment are as follows:

| 2020 | Land | Building | Transportation equipment | Furniture, Fixtures & Other equipment | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance, January 1 | ₱ 3,000,000 | ₱ 10,000,000 | ₱ 6,594,293 | ₱ 24,749,388 | ₱ 44,343,681 |
| Additions | – | – | – | 193,510 | 193,510 |
| Adjustment | – | – | (140,421) | – | (140,421) |
| **Balance, December 31** | **3,000,000** | **10,000,000** | **6,453,872** | **24,942,898** | **44,396,770** |
| **Accumulated depreciation** | | | | | |
| Balance, January 1 | – | 990,000 | 3,482,575 | 15,149,139 | 19,621,714 |
| Depreciation | – | 495,000 | 2,289,540 | 998,511 | 3,783,051 |
| Adjustment | – | – | (1,988,018) | 1,188,459 | (799,559) |
| **Balance, December 31** | **–** | **1,485,000** | **3,784,097** | **17,336,109** | **22,605,206** |
| **Carrying amount** | **₱ 3,000,000** | **₱ 8,515,000** | **₱ 2,669,775** | **₱ 7,606,789** | **₱ 21,791,564** |

| 2019 | Land | Building | Transportation equipment | Furniture, Fixtures & Other equipment | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance, January 1 | ₱ 3,000,000 | ₱ 10,000,000 | ₱ 5,080,714 | ₱ 26,367,867 | ₱ 44,448,581 |
| Additions | – | – | 1,780,950 | 1,765,848 | 3,546,798 |
| Adjustment | – | – | (267,371) | (3,384,327) | (3,651,698) |
| Balance, December 31 | 3,000,000 | 10,000,000 | 6,594,293 | 24,749,388 | 44,343,681 |
| Accumulated depreciation | | | | | |
| Balance, January 1 | – | 500,000 | 3,656,212 | 12,160,654 | 16,316,866 |
| Depreciation | – | 495,000 | 773,588 | 3,270,573 | 4,539,161 |
| Adjustment | – | (5,000) | (947,225) | (282,088) | (1,234,313) |
| Balance, December 31 | – | 990,000 | 3,482,575 | 15,149,139 | 19,621,714 |
| Carrying amount | ₱ 3,000,000 | ₱ 9,010,000 | ₱ 3,111,718 | ₱ 9,600,249 | ₱ 24,721,967 |

**In Philippine Peso**

Breakdown of the depreciation expense is disclosed as follows:

| | Note | | 2020 | | 2019 |
|---|---|---|---|---|---|
| Program and project expenses | 15 | ₱ | **1,481,636** | ₱ | 2,137,181 |
| Administrative expenses | 15 | | **2,301,415** | | 2,401,980 |
| | | ₱ | **3,783,051** | ₱ | 4,539,161 |

The Company assesses at each financial reporting date whether there is an indication that an item of property and equipment may be impaired and believes that there is no such indication as of December 31, 2020 and 2019.

All additions were paid in cash. No items of property and equipment were used as collateral for liabilities as of December 31, 2020 and 2019.

Under existing MNRC regulations, total investment in real estate and stocks in a real estate corporation and other real estate projects shall not exceed 25% of the Microfinance NGO's net worth. As of December 31, 2020 and 2019, the Company has satisfactorily complied with this provision.

## 10. MICROSAVINGS

The account consists of:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Pilit Impok | ₱ | **61,100,858** | ₱ | 60,845,489 |
| Impok Para sa Kinabukasan | | **3,537,218** | | 4,277,833 |
| | ₱ | **64,638,076** | ₱ | 65,123,322 |

The "Pilit Impok" pertains to the savings of the members, as capital build-up, which is equivalent to ₱5 per weekly amortization of the loan amount that are deducted upon release thereof. This can be used for any project development of the centers. Members can withdraw the savings upon termination of their membership. The "Pilit Impok Funds' earns interest of 2% per quarter based on the outstanding balance.

This "Impok Para sa Kinabukasan" is the savings made by the employees of the Company is a voluntary savings earning an interest of 6% per annum. This can be withdrawn upon full payment of their outstanding loans.

Per R.A. No. 10693 or the Implementing Rules and Regulations of the Microfinance NGOs Act states that the total capital build-up should not exceed the total loan portfolio. The Company is compliant.

Interest expense incurred from microsavings amounted to ₱1,291,376 and ₱1,238,348 for the years ended December 31, 2020 and 2019, respectively.

In Philippine Peso

## 11. ACCOUNTS PAYABLE AND OTHER PAYABLE

The account is composed of the following:

| | 2020 | 2019 |
|---|---|---|
| Accounts payable | ₱ 22,577,122 | ₱ 11,788,969 |
| Pension Liability | 3,988,583 | 3,504,517 |
| Calamity fund | 2,133,373 | 2,400,520 |
| SSS/PhilHealth/Insurance premium payable | 602,290 | 715,190 |
| Accrued medical expenses | 346,291 | 641,638 |
| Accrued interest | 167,737 | 880,253 |
| Consignment payable | 132,190 | - |
| Taxes payable | 16,449 | 89,382 |
| Accrued salaries | - | 1,625,245 |
| Unearned income | - | 104,000 |
| | ₱ 29,964,035 | ₱ 21,749,714 |

Accounts payable are composed of non-refundable insurance that are deducted from loans of the borrowers.

Calamity fund is an allocated amount to support the members and borrowers' livelihood in case of emergency or natural calamities occurred.

## 12. LOANS PAYABLE

Loans payable pertains to borrowings from Land Bank of the Philippines and Small Business Corporation as follows:

| | 2020 | 2019 |
|---|---|---|
| Small Business Corporation | ₱ 38,650,200 | ₱ 31,177,846 |
| Land Bank of the Philippines | 4,323,418 | 14,452,739 |
| | ₱ 42,973,618 | ₱ 45,630,585 |

Movement of the account is disclosed below:

| | 2020 | 2019 |
|---|---|---|
| Beginning balance | ₱ 45,630,585 | ₱ 51,761,420 |
| Availments made during the year | 18,914,374 | 43,452,739 |
| Payments made during the year | (22,108,591) | (49,583,574) |
| | ₱ 42,436,368 | ₱ 45,630,585 |

As to maturity:

| | 2020 | 2019 |
|---|---|---|
| Due within twelve months | ₱ 23,521,994 | ₱ 22,108,591 |
| Due after twelve months | 18,914,374 | 23,521,994 |
| | ₱ 42,436,368 | ₱ 45,630,585 |

Such borrowings bear an interest ranges from 2% to 8.50% for the years ended December 31, 2020 and 2019.

**In Philippine Peso**

No assets were pledged to secure the loans payable as of December 31, 2020 and 2019.

Interest expense incurred from loans payable amounted to ₱2,755,167 and ₱3,012,179 for the years ended December 31, 2020 and 2019, respectively.

## 11. FUND BALANCE

The Company uses the funds for the operational activities as indicated in the approved agreement with the members. Fund balance are utilized only for projected activities in conformity with the approved work plans, budgets, personnel and financial guidelines and policies of the Company. The fund balance as of December 31, 2020 and 2019, amounted to ₱58,517,270 and ₱56,850,004, respectively.

Breakdown of fund balance is as follows:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Capital contribution | ₱ | **22,344,532** | ₱ | 22,344,532 |
| Accumulated savings | | **36,172,738** | | 34,505,472 |
| | ₱ | **58,517,270** | ₱ | 56,850,004 |

## 12. REVENUE AND OTHER INCOME

Other income is composed of the following:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Interest income | ₱ | **68,385,633** | ₱ | 76,365,113 |
| Service charge | | **2,502,037** | | 13,407,736 |
| Rental and catering service | | **516,950** | | 4,753,182 |
| Miscellaneous income | | **926,253** | | 1,086,837 |
| | ₱ | **72,330,873** | ₱ | 95,612,868 |

Miscellaneous income pertains to reversal of allowance for probable losses, discounts, cash overage, and other income.

Interest income is breakdown as follows:

| | Notes | | 2020 | | 2019 |
|---|---|---|---|---|---|
| Interest income on loans | 6 | ₱ | **68,350,972** | ₱ | 76,331,295 |
| Interest income on bank deposits | 5 | | **34,661** | | 33,818 |
| | | ₱ | **68,385,633** | ₱ | 76,365,113 |

**In Philippine Peso**

## 15. COST AND EXPENSES

The account consists of:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Programs and projects | ₱ | **52,643,560** | ₱ | 61,758,312 |
| Administrative expenses | | **16,583,769** | | 23,142,273 |
| | ₱ | **69,227,329** | ₱ | 84,900,585 |

Programs and projects represent the amount incurred for the activities disclosed in Note 20.

The breakdown of the Company's programs and projects expenses from continuing activities is as follows:

| | Notes | | 2020 | | 2019 |
|---|---|---|---|---|---|
| Personnel cost | | ₱ | **29,474,293** | ₱ | 30,909,292 |
| Transportation expense | | | **5,079,636** | | 6,383,261 |
| Rent | 16 | | **3,003,081** | | 2,989,932 |
| Interest | | | **3,943,543** | | 3,221,349 |
| Provision for probable losses | | | **2,859,797** | | 1,593,241 |
| Depreciation | 9 | | **1,481,636** | | 2,137,181 |
| Utilities | | | **1,321,067** | | 1,844,919 |
| Supplies expense | | | **1,057,868** | | 1,103,210 |
| Fuel and lubricants | | | **1,028,026** | | 1,762,824 |
| Programs and project | | | **933,055** | | 3,857,267 |
| Taxes and licenses | 26 | | **637,765** | | 1,498,247 |
| Repairs and maintenance | | | **579,270** | | 602,555 |
| Representation | | | **9,872** | | 984 |
| Professional fee | | | **270** | | - |
| Communication | | | **50** | | 9,219 |
| Miscellaneous | | | **1,234,331** | | 3,844,831 |
| | | ₱ | **52,643,560** | ₱ | 61,758,312 |

**In Philippine Peso**

The breakdown of the Company's administrative expenses from continuing activities is as follows:

| | Notes | | 2020 | | 2019 |
|---|---|---|---|---|---|
| Personnel cost | | ₱ | **8,843,307** | ₱ | 13,743,643 |
| Depreciation | 9 | | **2,301,415** | | 2,401,980 |
| Repairs and maintenance | | | **1,108,802** | | 579,647 |
| Professional fee | | | **909,240** | | 1,423,214 |
| Utilities | | | **632,281** | | 661,938 |
| Supplies expense | | | **554,680** | | 341,352 |
| Taxes and licenses | | | **522,869** | | - |
| Fuel and lubricants | | | **276,781** | | 607,799 |
| Transportation expense | | | **217,147** | | 434,990 |
| Interest | | | **103,000** | | 1,029,178 |
| Representation | | | **6,204** | | 1,049,420 |
| Communication | | | **3,632** | | 25,597 |
| Rent | 16 | | **-** | | 210,000 |
| Provision for probable losses | | | **-** | | 13,000 |
| Miscellaneous | | | **1,104,411** | | 620,515 |
| | | ₱ | **16,583,769** | ₱ | 23,142,273 |

Miscellaneous pertains to food and beverages cost, small tools and equipment, advertising and promotion, staff amenities and others.

Personnel cost consists of:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Salaries and wages | ₱ | **24,454,512** | ₱ | 32,935,595 |
| Other employee benefits | | **10,486,120** | | 8,593,419 |
| Government contributions | | **3,203,872** | | 2,794,502 |
| Medical, dental, and hospitalization | | **173,096** | | 329,419 |
| | ₱ | **38,317,600** | ₱ | 44,652,935 |

## 16. LEASES

The Company has several lease agreements which are renewable under certain terms and conditions.

Rent expense for the years ended December 31, 2020 and 2019 amounted to ₱3,003,081 and ₱3,199,932, respectively.

Breakdown of rent expense for the year is disclosed as follows:

| | Note | | 2020 | | 2019 |
|---|---|---|---|---|---|
| Program and project expenses | 15 | ₱ | **3,003,081** | ₱ | 2,989,932 |
| Administrative expenses | 15 | | **-** | | 210,000 |
| | | ₱ | **3,003,081** | ₱ | 3,199,932 |

**In Philippine Peso**

At the reporting date, the future minimum lease payment under non-cancellable operating leases is as follows:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Not later than one year | ₱ | **2,301,014** | ₱ | 1,569,242 |
| Later than one year but not later than five years | | **601,675** | | 601,675 |
| | ₱ | **2,902,689** | ₱ | 2,170,917 |

## 17. RETIREMENT BENEFIT

The Company has not yet adopted a formal retirement plan for the benefit of its qualified employees. Under Republic Act No. 7641, (known as the Retirement Pay Law), in the absence of the retirement plan or agreement providing the retirement benefits or employees in the private sector, an employee upon reaching the age of 60 years or more, but not beyond 65 years, who has served at least five (five years in the said establishment, may retire and shall be entitled to retirement pay equivalent or at least one-half (1/2) month for every year of service, a fraction of at least six (6) months being considered as one whole year.

In anticipation to have a formal retirement plan, the Company recognized retirement benefit obligation amounted to ₱3,988,583 and ₱3,504,517 as of December 31, 2020 and 2019, respectively, as disclosed in Note 11.

Movement of retirement benefit obligation is as follows:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Balance, January 1, | ₱ | **3,504,517** | ₱ | 2,000,000 |
| Retirement expense | | **534,066** | | 1,504,517 |
| Payments | | **(50,000)** | | - |
| Balance, December 31 | ₱ | **3,988,583** | ₱ | 3,504,517 |

## 18. RELATED PARTY TRANSACTION

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. Entities are considered to be related if they are subjected under common control or common significant influence. The Company's related parties include:

- Key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members,
- Post-employment benefit plans for the benefit of the Company's employees, and
- Other related parties within the Company.

Significant transactions with related parties are non-interest advances and reimbursement of expenses of directors, officers and employees.

### 18.01 Advances to officers

Amounts due from officers and employee includes unsecured non-interest-bearing loans pertaining to motorcycle loan and salary loans, and other unsecured non-interest bearing loans and advances granted to the Company's officers and employees. The account has the balance as of December 31, 2020 and 2019 amounting to ₱3,935,066 and ₱2,183,425, respectively.

**In Philippine Peso**

### 18.02 Advances from trustees

The advances from trustees were obtained to support the working capital requirements of the Company. These advances are non-interest bearing and payable in cash and on demand. As of December 31, 2020 and 2019, the account has the balance of nil and ₱6,000,000, respectively.

Movement of the account is as follows:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Beginning balance | ₱ | **6,000,000** | ₱ | 6,000,000 |
| Payments made during the year | | **–** | | – |
| Reclassification | | **(6,000,000)** | | – |
| | ₱ | **–** | ₱ | 6,000,000 |

### 18.03 Compensation of Key Management Personnel

Compensation of key management personnel of the Company pertains to consultancy fees, salaries and other short-term benefits. As of December 31, 2020 and 2019, the Company paid to its key management personnel amounting to ₱3,336,012 and ₱3,232,212, respectively.

## 19. INCOME TAXES

Under R.A. 10693, otherwise known as, The "Microfinance NGOs Act", under Section 20 states that a duly registered and accredited Microfinance NGO shall pay two percent (2%) tax based on its gross receipts from microfinance operations in lieu of all national taxes: Provided that, preferential tax treatment shall be accorded only to NGOs whose primary purpose is microfinance and only on their microfinance operations catering to the poor and low-income individuals in alignment with the main goal of this Act to alleviate poverty. The non-microfinance activities of Microfinance NGOs shall be subject to all applicable regular taxes.

### 19.01 Income Tax Recognized in Profit or Loss

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Income tax expense – current (Preferential tax at 2%) | ₱ | **1,436,278** | ₱ | 1,803,468 |
| Income tax expense – current (MCIT at 2%) | | **6,614** | | 57,963 |
| Income tax expense – current (RCIT at 30%) | | **–** | | – |
| Income tax benefit – deferred | | **(6,614)** | | (13,517) |
| | ₱ | **1,436,278** | ₱ | 1,847,914 |

**In Philippine Peso**

A numerical reconciliation between tax expense and the excess of revenue over expense multiplied by the tax rate for the year ended December 31, 2020 and 2019 is as follows:

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Excess of revenue over expenses before income tax | ₱ | **3,103,544** | ₱ | 10,712,283 |
| Tax expense at 30% | | **931,063** | | 3,213,685 |
| Tax effect of: | | | | |
| Income subject to special rate | | **(21,544,176)** | | (27,246,851) |
| Non-deductible expense charged to special rate | | **20,376,985** | | 24,087,758 |
| Unrecognized DTA on NOLCO | | **230,122** | | – |
| Non-deductible expense | | **6,006** | | – |
| Interest income subject to final tax | | – | | (10,146) |
| Total | | **–** | | 44,446 |
| Preferential tax | | **1,436,278** | | 1,803,468 |
| | ₱ | **1,436,278** | ₱ | 1,847,914 |

**19.02 Deferred Tax Asset**

Details of the Company's deferred tax assets are disclosed below:

| | | **Excess of MCIT over RCIT** | | **Allowance for probable losses** | | **Total** |
|---|---|---|---|---|---|---|
| **Balance, December 31, 2018** | ₱ | – | ₱ | – | ₱ | – |
| Profit or loss | | | | | | |
| Origination | | 13,217 | | 300 | | 13,517 |
| Reversal | | – | | – | | – |
| **Balance, December 31, 2019** | ₱ | **13,217** | ₱ | **300** | ₱ | **13,517** |
| Profit or loss | | | | | | |
| Origination | | 6,614 | | – | | 6,614 |
| Reversal | | – | | – | | – |
| **Balance, December 31, 2020** | ₱ | **19,831** | ₱ | **300** | ₱ | **20,131** |

Prior to 2019, the Company did not recognize deferred tax assets since management believes that future taxable income will not be available to allow such deferred tax assets to be utilized.

The Company has unrecognized deferred tax assets as follows:

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Allowance for probable losses | ₱ | **1,863,883** | ₱ | 1,409,449 |
| Retirement benefit obligation | | **1,196,575** | | 1,051,335 |
| Unearned income | | **–** | | 31,200 |
| | ₱ | **3,060,458** | ₱ | 2,491,984 |

In Philippine Peso

**19.03 Minimum Corporate Income Tax (MCIT)**

Section 27(E) of the National Internal Revenue Code of 1997 provides that an MCIT of two percent (2%) of the gross income as of the end of the taxable year is imposed on a taxable corporation beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operation, when the MCIT is greater than RCIT for the taxable year. The Company was incorporated in November 1998, thus, the Company is subject to MCIT.

Details of the Company's MCIT are as follows:

| Year Incurred | Original Amount | Applied | Expired | Remaining Balance | Expiration |
|---|---|---|---|---|---|
| 2020 | P 6,614 | P - | P - | P 6,614 | 2023 |

**19.04 Republic Act No. 11534, otherwise known as the "Corporate Recovery and Tax Incentives for Enterprises (CREATE)" Act**

On February 03, 2021, the final provisions of Senate Bill No. 1357 and House Bill No. 4157 or the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill, which seeks to reform corporate income taxes and incentives in the country, had been ratified by the Senate and the House of Representatives of the Philippines.

Under the proposed law, effective July 1, 2020, the corporate income tax will be reduced from the current 30% to 20% for domestic corporations with total assets not exceeding P100 million, excluding land, and total net taxable income of not more than P5 million. The corporate income tax of all other corporations (domestic and resident foreign), meanwhile, will be lowered to 25%. The bill would also lower the minimum corporate income tax (MCIT) from 2% to 1% effective July 2020 until June 30, 2023.

Other key provisions of the CREATE bill include:

- Effective January 1, 2021, income tax rate for nonresident foreign corporation is reduced from 30% to 25%.
- Preferential income tax rate for proprietary educational institutions and hospitals which are nonprofit is reduced from 10% to 1% effective July 1, 2020 to June 30, 2023.
- Effective January 1, 2022, regional operating headquarters (ROHQ) currently enjoying 10% preferential income tax rate shall be subject to RCIT.
- Imposition of improperly accumulated earnings tax (IAET) is repealed.
- Foreign-sourced dividends received by domestic corporations are exempt from income tax subject to the following conditions:
  - The funds from such dividends actually received or remitted into the Philippines are reinvested in the business operations of the domestic corporation in the Philippines within the next taxable year from the time the foreign-sourced dividends were received;
  - Shall be limited to funding the working capital requirements, capital expenditures, dividend payments, investment in domestic subsidiaries, and infrastructure project; and
  - The domestic corporation holds directly at least 20% of the outstanding shares of the foreign corporation and has held the shareholdings for a minimum of 2 years at the time of the dividend distribution.
- Qualified export enterprises shall be entitled to 4 to 7 years income tax holiday (ITH) to be followed by 10 years 5% special corporate income tax (SCIT) or enhanced deductions (ED).
- Qualified domestic market enterprises shall be entitled to 4 to 7 years ITH to be followed by 5 years ED.
- For investments prior to effectivity of CREATE:
  - Registered business enterprises (RBEs) granted only an ITH – can continue with the availment of the ITH for the remaining period of the ITH.

**In Philippine Peso**

- RBEs granted an ITH followed 5% GIT or are currently enjoying 5% GIT – allowed to avail of the 5% GIT for 10 years.

The said bill was signed into law on March 26, 2021, except for certain provisions that were vetoed, by the President of the Philippines.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

Applying the provisions of the CREATE Act, the Company would have been subjected to lower minimum corporate income tax rate of 1% effective July 1, 2020.

This will result in lower provision for current income tax and income tax payable for the year ended December 31, 2020 amounting to ₱1,441,239 or a reduction of ₱1,653. The reduced amounts which will be reflected in the Company's 2020 annual income tax return but will only be recognized for financial reporting purposes in its 2021 financial statements.

The following is the expected impact of CREATE Act in the Company's financial statements:

| | Old tax rate | New tax rate | Change |
|---|---|---|---|
| **Total assets** | **₱ 195,979,311** | **₱ 195,964,390** | **₱ (14,921)** |
| DTA – MCIT | 19,831 | 4,960 | (14,871) |
| DTA – Allowance for losses | 300 | 250 | (50) |
| **Total liability** | **₱ 137,462,040** | **₱ 137,460,388** | ₱ (1,654) |
| Income tax payable | 1,442,892 | 1,441,238 | (1,654) |
| **Fund balance** | **₱ 58,517,270** | **₱ 58,504,003** | **₱ (13,267)** |
| Accumulated savings | 36,172,738 | 36,159,471 | (13,267) |
| **Excess of revenues over expenses** | **₱ 1,667,266** | **₱ 1,653,999** | **₱ 13,267** |
| Income tax expense – current | 1,442,892 | 1,441,239 | (1,654) |
| Income tax benefit | 6,614 | (8,307) | 14,921 |

**19.05 Revenue Regulations (RR) No. 34-2020 – Related Party Transaction (RPT) Form and Transfer Pricing Documentation**

The Bureau of Internal Revenue, in its Revenue Regulation No. 34-2020, requires taxpayers to submit BIR Form No. 1709 (RPT Form) to allow the BIR to verify that taxpayers are reporting their related party transactions at arm's length prices. It is also intended to improve and strengthen the Bureau's transfer pricing risk assessment and audit functions. Most importantly, the information that will be gathered from the RPT Form and its attachments will be used by the BIR during the transfer pricing risk assessment to determine whether or not to conduct a thorough review/audit of a particular entity or transaction.

Under the said RR, the following are required to file and submit the RPT Form, together with the Annual Income Tax Return (AITR):

1. Large taxpayers
2. Taxpayers enjoying tax incentives, i.e. Board of Investments (BOI)-registered and economic zone enterprises, those enjoying Income Tax Holiday (ITH) or subject to preferential income tax rate;

3. Taxpayers reporting net operating losses for the current taxable year and the immediately preceding two (2) consecutive taxable years; and
4. A related party, as defined under Section 3 of RR No. 19-2020, which has transactions with (1), (2) or (3) above. For this purpose, key management personnel (KMP), as defined under Section 3(7) of RR No. 19-2020, shall no longer be required to file and submit the RPT Form, nor shall there be any requirement to report any transaction between KMP and the reporting entity/parent company of the latter in the RPT Form.

In addition, the preparation and submission of Transfer Pricing Documentation (TPD) under RR No. 02-2013, otherwise known as "Transfer Pricing Guidelines" and all other relevant issuances, shall be mandatory for taxpayers enumerated above who meet the following materiality thresholds:

a. Annual gross sales/revenue for the subject taxable period exceeds ₱150 million and the total amount of related party transactions with foreign and domestic related parties exceeds ₱90 million; OR
b. Related party transactions meeting the following materiality threshold:
i. If it involves sale of tangible goods in the aggregate amount exceeding ₱60 million within the taxable year;
ii. If it involves service transaction, payment of interest, utilization of intangible goods or other related party transaction in the aggregate amount exceeding ₱15 million within the taxable year
iii. If TPD was required to be prepared during the immediately preceding taxable period for exceeding either (a) or (b) above.

As it does not belong to taxpayers who are required to file and submit the RPT Form under Section 2 of RR 34-2020, the Company is not covered by the requirements and procedures for related party transactions under the said RR.

## 20. PROJECTS AND ACTIVITIES

### 20.01 Scholarship

The Company has sixty-four (64) scholars as of December 31, 2019, under its "Pag-adal Ko Sagot Mo" project. Under this program, the scholars will be given full tuition fees for every semester for a four-year course, other fees applicable to the course, actual uniform expenses not exceeding P1,000 and not more frequent than twice during the Scholar's college years, actual cost of books for every semester, actual cost of Physical Education (P.E.) Uniform and a monthly allowance in the amount of P1,500.00/month.

### 20.02 Environmental Protection/ Conservation Advocacies

A program under JMH "Kalikasan" Program, which aims to participate in the environmental protection and conservation, though partnership with the communities, the Barangay LGU and other agencies with the same advocacy. Activities on this program are the Tree Planting, Mangrove Planting, Clean Up drive, Coastal Clean Up and training on Proper Solid Waste Management, to our member-clients.

### 20.03 School Supply Assistance Program

An annual distribution of School Supply Package for deserving and qualified children of JMH member-clients, enrolled either in elementary or in secondary. For school year 2019-2020. JMH distributed a total of three hundred fifty-five (355) school supply package to its beneficiaries across all branches in Sorsogon, Masbate, Albay and Camarines Sur.

**20.04 Dental Mission**

Last October 5, 2019, JMH held its 2nd Dental Mission in Bacon District, Sorsogon City. Said activity were participate by both client-member and non-member resident of Bacon District and avail its dental services like Dental extraction, dental consultation and free medicines. This activity was made through partnership with both private and government agencies like Sorsogon Provincial Health Office, PNP- Regional Health Service 5, Bicol Regional Training and Teaching Hospital, Philippine National Red Cross-Sorsogon Chapter, JB Healthcare Foundation, St. Peter Life Plan and private dentist who gave their free services for the cause.

**20.05 Client Skills/ Livelihood Training**

As of December 2019, three hundred twenty-two (322) microentrepreneurs client-member of JMH, attended different Skills and Livelihood Training facilitated and organized by JMH, in partnership with Department of Trade and Industry (DTI) and Department of Agriculture. Training conducted Skills Training in Kropeck Making, Coco Shell Home Decors making, Novelty Items Making using pili shell and scrap materials, Bangkuan Slippers Making, Meat Processing, Training on the Technology in Zero Waste Squash Utilization, Candle and Nutri-Snack making and many more. This program aims for the client-members to acquire new skills that can be a source of an additional or alternative income.

**20.06 Enterprise and Business Management Training**

One of JMHs goal is for its microentrepreneurs clients to scale their business, that is why, through partnership with different Negosyo Center of DTI, JMH organized and facilitated trainings and seminars. This trainings and seminars were given to client-members, whose business are ready for scaling up and for them to acquire some competencies that will improve their business. Trainings and seminars conducted were Entrepreneurial Mindset, Business Management Seminar, Business Continuity Planning, Marketing Strategy, Good Manufacturing Practice, Packaging and Labelling, One-on-one coaching, Financial Management. E-marketing and many more.

**20.07 SSS Facilitation (Registration and Collection)**

Due to limitation on access to government benefits of the majority of its client-member, JMH decide to partner with Social Security System starting with its application for accreditation as Partner Agent for its Collection and Non-collection Facilitation. Today, all JMH Branches are offering a registration and collection facilitation for those who are interested to be an SSS Member, whether they are a JMH member or non-member. As of December 31, 2019, JMH assisted three hundred nineteen (319) individuals to be registered with SSS and now are actively remitting their monthly contribution.

**20.08 Disaster/ Calamity Relief Assistance**

Being one of the calamity prone area in the Philippines, Bicol Region is experiencing different disaster such as typhoon, floods, volcanic eruption, earthquake and other natural and man-made disaster. For this reason, JMH client-members are also prone to calamity that hits year-round, and one of the most affected sectors were the farmers, fisherfolks and the microentrepreneurs, which comprise the large percentage of JMH Clients. That is why, JMH established its Disaster Risk Reduction Program by giving trainings on Disaster Management Protocols to its clients-member, since 2017. JMH had been active in disaster relief assistance to its members affected by typhoon Usman, during late part of December 2018 and Typhoon Tisoy in December 2019.

### 20.09 Capacity Building Training

A training given to improve clients' capacity in different aspects of life. In 2019, different training/seminars were conducted such as seminar on Consumer Welfare Rights, facilitate by Department of Trade and Industry; seminar on Over-indebtedness by Bangko Sentral ng Pilipinas; and seminar on Marketing and Selling Capacity, facilitated by a local entrepreneur.

### 20.10 Youth Values Formation/ Retreat

As part of Youth Development Program, a 2-day values formation/ retreat were conducted to twenty-nine (29) academic scholars of JMH last April 2019. This activity aims to give the youth, the JMH Scholars specifically, another perspective of their life, apart from being just a student, which is the spiritual aspect. It also become an avenue to de stress themselves from the stressful student life and focus on their relationship with God. This two-day activity was facilitated by two (2) of JMH Seminarian Scholars.

### 20.11 Rice Pa-raffle Promo

A monthly raffle promo of one sack of rice per JMH Branch, for centers who qualified for the set criteria. In 2019, a total of seventy (70) centers were benefited one (1) sack of rice as their prize.

### 20.12 Basic Financial Literacy

Improving the clients' financial capability requires of educating and empowering them to address the types of financial decisions, opportunities and challenges that arise throughout their financial cycle. Without financial literacy training will lead to bad money habits.

## 21. PROVISION AND CONTIGENCIES

The Company is not aware of any pending or threatened litigation, claims or assessments or unasserted claims of assessments that are required by Section 21 of the PFRS for SMEs, Provisions and Contingencies, to be accrued or disclosed in the financial statements.

The Company has no outstanding provisions, commitments and contingent liabilities as of December 31, 2020 and 2019.

## 22. EVENTS AFTER THE END OF THE REPORTING PERIOD

On March 26, 2021, the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill was signed into law by President Rodrigo Duterte. The said law will take effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation.

The CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the passage of the CREATE Act into law on March 26, 2011 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes. See Note 19 for full discussion of the law and its impact to the financial statements.

In Philippine Peso

Except for the above, no events after the end of the reporting date were identified in these financial statements that provide evidence of conditions that existed at the reporting date (adjusting events after reporting date), and that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

## 23. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorized for issue by the Board of Trustees on April 12, 2021.

## 24. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS No. 15-2010

Revenue Regulations (RR) No. 21-2002 prescribing additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying income tax returns was amended under RR No. 15-2010. The amendment that became effective on December 28, 2010 requires the inclusion in the notes to financial statements, information on taxes, duties and license fees paid or accrued during the year in addition to what is required under the Philippine Financial Reporting Standards for SMEs and such other standards and/or conventions.

Below are the additional information required by RR No. 15-2010. This information is presented for purposes of filing with the Bureau of Internal Revenue (BIR) and is not a required part of the basic financial statements.

### 24.01 Percentage taxes

Percentage taxes paid and accrued for the year consist of:

| **2020** | | **Paid** | | **Accrued** | | **Total** |
|---|---|---|---|---|---|---|
| Percentage taxes | ₱ | **15,509** | ₱ | **–** | ₱ | **15,509** |

| 2019 | | Paid | | Accrued | | Total |
|---|---|---|---|---|---|---|
| Percentage taxes | ₱ | 108,276 | ₱ | 34,410 | ₱ | 142,686 |

### 24.02 Withholding taxes

Withholding taxes paid and accrued and/or withheld for the year consist of:

| **2020** | | **Paid** | | **Accrued** | | **Total** |
|---|---|---|---|---|---|---|
| Withholding taxes – compensation | ₱ | 54,831 | ₱ | 1,915 | ₱ | 56,746 |
| Expanded withholding tax | | 131,743 | | 11,746 | | 143,489 |
| | ₱ | **186,574** | ₱ | **13,661** | ₱ | **200,235** |

| 2019 | | Paid | | Accrued | | Total |
|---|---|---|---|---|---|---|
| Withholding taxes – compensation | ₱ | 58,682 | ₱ | 40,224 | ₱ | 98,906 |
| Expanded withholding tax | | 151,151 | | 14,748 | | 165,899 |
| | ₱ | 209,833 | ₱ | 54,972 | ₱ | 264,805 |

**In Philippine Peso**

**24.03 Other Taxes and Licenses**

An analysis on the Company's other taxes and licenses and permit fees paid or accrued for the year is presented under taxes and licenses as part of administrative expense is as follows:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| **National tax:** | | | | |
| Documentary stamp tax | ₱ | **383,964** | ₱ | 302,506 |
| Capital gains tax | | **227,180** | | – |
| Registration fee | | **16,500** | | 16,500 |
| Percentage tax | | **15,509** | | 142,686 |
| **Local tax:** | | | | |
| Business permit | | **471,635** | | 695,650 |
| Others | | **45,846** | | 340,905 |
| | ₱ | **1,160,634** | ₱ | 1,498,247 |

**24.04 Tax Assessments**

The Company has no outstanding tax assessments as of December 31, 2020 and 2019.

**24.05 Tax Cases**

The Company has no outstanding tax cases in any other court or bodies outside of the BIR as of December 31, 2020 and 2019.

## 25. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS No. 19-2011

RR No. 19-2011 that prescribes the use of new income tax forms starting with calendar year 2011 became effective on December 9, 2011. Companies are now required to include, as part of the notes to the financial statements, the schedules and information on taxable income and deductions.

Below are the additional information required by RR No. 19-2011. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

**25.01 Revenue**

Revenue for the year ended December 31, 2020 consists of:

| | | | | Income tax returns | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Regular | | |
| | | **Financial statements** | | **Special tax** | | **Subject to final tax/future taxable** | | **Taxable** |
| Interest income | ₱ | 68,385,633 | ₱ | 68,385,633 | ₱ | – | ₱ | – |
| Catering and rental | | 516,950 | | – | | – | | 516,950 |
| | ₱ | **68,902,583** | ₱ | **68,385,633** | ₱ | **–** | ₱ | **516,950** |

**In Philippine Peso**

### 25.02 Direct cost

Direct cost for the year ended December 31, 2020 consists of:

| | | | Income tax returns | |
|---|---|---|---|---|
| | | | Regular | |
| | Financial statements | Special tax | Non-deductible | Taxable |
| Interest expense on borrowed funds | ₱ 2,550,167 | ₱ 2,550,167 | ₱ – | ₱ – |
| Interest expense on deposits | 1,291,376 | 1,291,376 | – | – |
| Other direct cost | 205,000 | 205,000 | – | – |
| | ₱ **4,046,543** | ₱ **4,046,543** | ₱ **–** | ₱ **–** |

### 25.03 Other Income

Other income for the year ended December 31, 2020 consists of:

| | | | Income tax returns | |
|---|---|---|---|---|
| | | | Regular | |
| | Financial statements | Special tax | Subject to final tax/future taxable | Taxable |
| Service charge | ₱ 2,502,037 | ₱ 2,502,037 | ₱ – | ₱ – |
| Miscellaneous income | 926,253 | 926,253 | – | – |
| | ₱ **3,428,290** | ₱ **3,428,290** | ₱ **–** | ₱ **–** |

**In Philippine Peso**

**25.04 Allowable Deductions**

Itemized deductions for the year ended December 31, 2020 consist of:

| | Financial statements | Income tax returns: Charged to income subject to special tax | Regular: Non-deductible/ future deductible | Regular: Deductible |
|---|---|---|---|---|
| Personnel cost | ₱ 38,317,600 | ₱ 38,072,202 | ₱ – | ₱ 245,398 |
| Transportation expense | 5,296,783 | 5,292,403 | – | 4,380 |
| Depreciation and amortization | 3,783,051 | 3,376,086 | – | 406,965 |
| Rent | 3,003,081 | 3,003,081 | – | – |
| Utilities | 1,953,348 | 1,947,348 | – | 6,000 |
| Repairs and maintenance | 1,688,072 | 1,507,205 | – | 180,867 |
| Supplies expense | 1,612,548 | 1,607,386 | – | 5,162 |
| Fuel and lubricants | 1,304,807 | 1,300,575 | – | 4,232 |
| Programs and project expenses | 933,055 | 933,055 | – | – |
| Professional fee | 909,510 | 909,510 | – | – |
| Taxes and licenses | 538,626 | 523,087 | – | 15,539 |
| Representation | 16,077 | 16,077 | – | – |
| Communication | 3,682 | 3,632 | – | 50 |
| Miscellaneous | 2,960,748 | 2,525,295 | 20,019 | 415,434 |
| | ₱ 62,320,988 | ₱ 61,016,942 | ₱ 20,019 | ₱ 1,284,027 |
| Provision for probable losses | 2,859,797 | 2,859,797 | – | – |
| | **₱ 65,180,785** | **₱ 63,876,739** | **₱ 20,019** | **₱ 1,284,027** |