COPY FOR THE

BUREAU OF INTERNAL REVENUE

Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholders of
SEDPI Development Finance, Inc.
Unit 303 Loyola Heights Condominium
23 F. Dela Rosa Street, Loyola Heights
Quezon City, Philippines

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SEDPI Development Finance, Inc. (the "Company") as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

What we have audited

The financial statements of the Company comprise:

- the statements of financial position as at December 31, 2021 and 2020;
- the statements of total comprehensive income for the years ended December 31, 2021 and 2020;
- the statements of changes in equity for the years ended December 31, 2021 and 2020;
- the statements of cash flows for the years ended December 31, 2021 and 2020; and
- the notes to financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

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

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

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

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

Auditor's Responsibilities for the Audit of the 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 PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

Report on the Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Bureau of Internal Revenue Revenue Regulations Nos. 15-2010 and 34-2020 in Note 20 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

Imelda Dela Vega-Mangundaya
Partner
CPA Cert. No. 0090670
PTR No. 0024586, issued on January 6, 2022, Makati City
SEC A.N. (individual) as general auditors 90670-SEC, Category A, valid to audit 2017 to 2023 financial statements
SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024 financial statements
TIN 152-015-124
BIR A.N. 08-000745-047-2021, issued on November 23, 2021; effective until November 22, 2024
BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
April 1, 2022

Isla Lipana & Co.

Statement Required by Section 8 - A, Revenue Regulations No. V - 1

To the Board of Directors and Shareholders of
SEDPI Development Finance, Inc.
Unit 303 Loyola Heights Condominium
23 F. Dela Rosa Street, Loyola Heights
Quezon City, Philippines

None of the partners of the firm has any financial interest in SEDPI Development Finance, Inc. or any family relationship with its president, manager, or shareholders.

The supplementary information on taxes and licenses is presented in Note 20 to the financial statements.

Isla Lipana & Co.

Imelda Dela Vega-Mangundaya
Partner
CPA Cert. No. 0090670
PTR No. 0024586, issued on January 6, 2022, Makati City
SEC A.N. (individual) as general auditors 90670-SEC, Category A, valid to audit 2017 to 2023 financial statements
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Makati City
April 1, 2022

SEDPI Development Finance, Inc.

Statements of Financial Position
As at December 31, 2021, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2021	2020 (As restated)	2019 (As restated)
ASSETS				
Current assets				
Cash	2	24,560,268	15,250,984	12,755,951
Loans and receivables, net	3	97,560,680	73,203,531	96,497,549
Financial assets at fair value through profit or loss	4	-	503,125	494,908
Other current assets	6	4,831,646	2,884,403	6,147,625
Total current assets		126,952,594	91,842,043	115,896,033
Non-current assets				
Loans and receivables, net	3	6,506,166	29,407,614	49,743,755
Property and equipment, net	7	15,841,649	20,400,657	21,599,870
Investment in associate	10	-	-	18,329,707
Investment properties	8,17	37,960,816	27,500,480	17,014,260
Financial assets at fair value through other comprehensive income	5	42,185,475	36,889,737	7,756,855
Deferred tax assets, net	15,17	8,904,040	12,078,118	1,959,289
Other non-current assets	9	2,219,777	2,369,779	2,417,265
Total non-current assets		113,617,923	128,646,385	118,821,001
Total assets		240,570,517	220,488,428	234,717,034
LIABILITIES AND EQUITY				
Current liabilities				
Loans payable, current portion	11	74,569,442	96,499,982	129,920,888
Deposit for future stock subscription	13	38,141,819	-	-
Accrued expenses and other liabilities	12	17,286,354	14,189,217	9,488,052
Income tax payable		62,446	412,184	274,440
Total current liabilities		130,060,061	111,101,383	139,683,380
Non-current liability				
Loans payable, non-current portion	11	2,906,849	4,534,154	13,041,737
Total liabilities		132,966,910	115,635,537	152,725,117
Equity				
Share capital	13	119,757,047	118,438,588	78,024,240
(Deficit) Retained earnings		(18,479,081)	(18,450,390)	4,388,232
Share in remeasurement of retirement benefit obligation of an associate		-	-	(420,555)
Revaluation reserve on financial assets at fair value through other comprehensive income		6,325,641	4,864,693	-
Total equity		107,603,607	104,852,891	81,991,917
Total liabilities and equity		240,570,517	220,488,428	234,717,034

(The notes on pages 1 to 31 are integral part of these financial statements)

SEDPI Development Finance, Inc.

Statements of Total Comprehensive Income
For the years ended December 31, 2021 and 2020
(All amounts in Philippine Peso)

	Notes	2021	2020
INTEREST INCOME	3	40,151,387	26,314,744
INTEREST EXPENSE	11	5,565,087	8,602,372
NET INTEREST INCOME		34,586,300	17,712,372
OTHER INCOME, NET			
Fair value gain on investment property	8	3,355,262	2,683,620
Rental income	14	936,041	1,405,178
Dividend income	5	668,992	1,390,381
Commission income		5,968	391,769
Gain on financial assets at fair value through profit or loss	4	-	8,217
Miscellaneous		2,152,441	4,640,100
		7,118,704	10,519,265
OPERATING EXPENSES			
Compensation and other benefits		15,595,766	11,462,174
Loss on write-off	7	3,917,881	680,873
Taxes and licenses		3,449,577	2,754,993
Rental, light and power		3,142,441	2,002,505
Depreciation and amortization	7,9	2,699,485	2,644,397
Client incentives		2,105,189	922,012
Repairs and maintenance		1,830,797	1,385,953
Professional fees		1,596,400	3,756,420
Transportation		1,440,982	961,767
Office supplies		1,250,907	1,046,741
Marketing and representation		470,055	400,333
Insurance		448,771	1,297,112
(Reversal of) provision for impairment of loans and receivables	3	(3,315,575)	29,133,659
Miscellaneous		1,706,792	1,884,511
		36,339,466	60,333,450
INCOME (LOSS) BEFORE INCOME TAX		5,365,539	(32,101,813)
(PROVISION FOR) BENEFIT FROM INCOME TAX	15	(3,441,573)	9,683,746
NET INCOME (LOSS) FOR THE YEAR		1,923,966	(22,418,067)
OTHER COMPREHENSIVE INCOME			
Item that will not be subsequently reclassified to profit or loss			
Net fair value changes on financial asset at fair value through other comprehensive income		1,460,948	4,864,693
Total comprehensive income (loss) for the year		3,384,914	(17,553,374)

(The notes on pages 1 to 31 are integral part of these financial statements)

SEDPI Development Finance, Inc.

Statements of Changes in Equity
For the years ended December 31, 2021 and 2020
(All amounts in Philippine Peso)

	Common stock (Note 13)	Preferred stock (Note 13)	Total share capital (Note 13)	(Deficit) Retained earnings	Other comprehensive income (loss) (Note 10)	Total equity
Balances at January 1, 2020	26,255,189	51,769,051	78,024,240	4,388,232	(420,555)	81,991,917
Comprehensive loss						
Net loss for the year	-	-	-	(22,418,067)	-	(22,418,067)
Other comprehensive income	-	-	-	-	4,864,693	4,864,693
Total comprehensive income (loss) for the year	-	-	-	(22,418,067)	4,864,693	(17,553,374)
Transfer of share in retirement benefit of an associate to retained earnings	-	-	-	(420,555)	420,555	-
Transaction with owners						
Issuance of shares	18,501,912	21,912,436	40,414,348	-	-	40,414,348
Total transaction with owners	18,501,912	21,912,436	40,414,348	-	-	40,414,348
Balances at December 31, 2020	44,757,101	73,681,487	118,438,588	(18,450,390)	4,864,693	104,852,891
Comprehensive income						
Net income for the year	-	-	-	1,923,966	-	1,923,966
Other comprehensive income	-	-	-	-	1,460,948	1,460,948
Total comprehensive income for the year	-	-	-	1,923,966	1,460,948	3,384,914
Transactions with owners						
Issuance of shares	-	1,318,459	1,318,459	-	-	1,318,459
Cash dividends	-	-	-	(1,952,657)	-	(1,952,657)
Total transactions with owners	-	1,318,459	1,318,459	(1,952,657)	-	(634,198)
Balances at December 31, 2021	44,757,101	74,999,946	119,757,047	(18,479,081)	6,325,641	107,603,607

(The notes on pages 1 to 31 are integral part of these financial statements)

SEDPI Development Finance, Inc.

Statements of Cash Flows
For the years ended December 31, 2021 and 2020
(All amounts in Philippine Peso)

	Notes	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax		5,365,539	(32,101,813)
Adjustments for:			
(Reversal of) provision for impairment losses	3	(3,315,575)	29,133,659
Gain on financial assets at fair value through profit or loss	4	-	(8,217)
Fair value gain on investment property	8	(3,355,262)	(2,683,620)
Depreciation and amortization	7,9	2,699,485	2,644,397
Loss on write-off	7	3,917,881	680,873
Dividend income	5	(668,992)	(1,390,381)
Interest income	3	(40,151,387)	(26,314,744)
Interest expense	11	5,565,087	8,602,372
Operating loss before working capital changes		(29,943,224)	(21,437,474)
(Increase) decrease in:			
Loans and receivables		(97,638)	14,146,594
Other current assets		(1,947,243)	3,454,104
Other non-current assets		150,002	(490,087)
Increase in accrued expenses and other liabilities		2,581,353	4,256,908
Net cash used in operations		(29,256,750)	(69,955)
Interest received		39,764,021	25,792,896
Income taxes paid		(631,888)	(297,341)
Net cash from operating activities		9,875,383	25,425,600
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment	7	(1,658,356)	(897,608)
Acquisitions of investment property	8	(7,105,074)	(7,802,600)
Acquisitions of financial assets at fair value through other comprehensive income	5	(3,824,790)	(5,948,482)
Proceeds from disposal of financial assets at fair value through profit or loss	4	500,000	-
Dividend received	5	668,992	1,390,381
Net cash used in investing activities		(11,419,228)	(13,258,309)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availment of loans payable	11	146,640,000	169,793,000
Settlement of loans payable	11	(170,197,846)	(211,721,488)
Interest paid	11	(5,049,303)	(8,158,118)
Subscription of ordinary shares	13	-	18,501,912
Issuance of preferred shares	13	1,318,459	21,912,436
Proceeds from deposit for future stock subscription		38,141,819	-
Net cash from (used in) financing activities		10,853,129	(9,672,258)
NET INCREASE IN CASH		9,309,284	2,495,033
Cash at beginning of year		15,250,984	12,755,951
CASH AT END OF YEAR		24,560,268	15,250,984

(The notes on pages 1 to 31 are integral part of these financial statements)

SEDPI Development Finance, Inc.

Notes to Financial Statements
As at and for the years ended December 31, 2021 and 2020
(All amounts in Philippine Peso)

Note 1 - General information

SEDPI Development Finance, Inc. (the "Company") is a domestic corporation incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on March 10, 2008. The Company is owned by various Filipino individuals and it is engaged in general financing business of extending credit facilities to consumers and to industrial commercial or agricultural enterprises, either by direct lending or by discounting, re-discounting or factoring commercial papers or accounts receivable or by buying and selling contracts, leases, chattel mortgages, or evidences of indebtedness, or by financial leasing of movable as well as immovable property.

On January 20, 2014, the SEC approved the Company's application to operate as a financing company.

On May 2016, the Company ventured into microfinance operations, providing financial products and services such as loans, savings, and insurance to low income clients. To date, the Company operates in Bunawan, Agusan del Sur and Bislig City in Surigao del Sur.

Its registered office address is located at Unit 303, Loyola Heights Condominium, 23 Dela Rosa Street, Loyola Heights, Quezon City.

Coronavirus pandemic

The pandemic which broke out in March 2020 forced governments all over the world, including the Philippines, to implement community lockdowns and quarantines to mitigate the spread of the virus. Unfortunately, these lockdowns caused the demands for goods and services to plummet which ultimately led to the contraction of both the global and domestic economies.

In response to the growing number of COVID-19 cases in the country, Republic Act (RA) No. 11469, otherwise known as "Bayanihan to Heal as One Act" was enacted in March 2020 and the RA No. 11494 otherwise known as "Bayanihan to Recover as One Act" was enacted in September 2020 (or simply the Bayanihan Acts), which granted the President of the Republic of the Philippines additional powers to combat the pandemic and aid certain vulnerable sectors of the economy.

As of report date, the pandemic remains the topmost concern of the government and businesses alike. The Philippine economy is gradually opening with the imposition of less stringent community quarantine protocols. Likewise, the vaccination program of the government which commenced in 2021 continue to provide increased vaccination coverage which is hoped to slow down and contain the spread of the virus and boost confidence among businesses and consumers.

Overall, the pandemic did not have significant impact on the Company's results of operations, financial position and cash flows as at and for the year ended December 31, 2021. As at reporting date, the pandemic still poses some risk and uncertainties, the Company, however, remains confident on its ability to absorb financial shocks that may rise due to volatile economic conditions.

Approval and authorization of issuance of financial statements

These financial statements have been approved and authorized for issuance by the Board of Directors on April 1, 2022.

Note 2 - Cash

Details of the account as at December 31 follow:

	2021	2020
Cash on hand	1,191,627	381,701
Cash in banks	23,368,641	14,869,283
	24,560,268	15,250,984

Cash in banks mainly pertain to peso-denominated savings deposits that bear annual interest rates ranging from to 0.25% to 0.50% in 2021 and 2020.

One of the Company's savings account with an account balance as at December 31, 2021 and 2020 of P0.9 million is pledged as security for external borrowings (Note 9).

Interest income earned from cash in banks in 2021 and 2020 amounted to P0.02 million.

Note 3 - Loans and receivables, net

The account as at December 31 consists of:

	Note	2021	2020
Receivables from customers			
Corporate		66,368,371	50,246,415
Individual		12,022,249	26,758,588
		78,390,620	77,005,003
Allowance for credit losses		(10,036,387)	(14,085,098)
		68,354,233	62,919,905
Accrued interest receivable		1,395,471	1,008,105
		69,749,704	63,928,010
Other receivables			
Due from related parties	16	33,182,271	35,842,762
Advances to contractors		-	1,849,603
Accounts receivable		1,134,871	990,770
		34,317,142	38,683,135
		104,066,846	102,611,145

The following presents the breakdown of receivables from customers based on maturity profile as at December 31:

	Terms	2021	2020
Current	1-12 months	68,140,331	39,544,572
Non-current	More than 12 months	10,250,289	37,460,431
		78,390,620	77,005,003

The movements in allowance for impairment for the years ended December 31 follow:

December 31, 2021	Corporate	Individual	Total
Beginning	9,355,150	4,729,948	14,085,098
(Reversal) Provision	(5,115,575)	1,800,000	(3,315,575)
Write-offs	(733,136)	-	(733,136)
End	3,506,439	6,529,948	10,036,387

December 31, 2020	Corporate	Individual	Total
Beginning	1,192,573	265,623	1,458,196
Provision	11,715,908	17,417,751	29,133,659
Write-offs	(3,553,331)	(12,953,426)	(16,506,757)
End	9,355,150	4,729,948	14,085,098

Receivables from customers as at December 31, 2021 and 2020 are unsecured and bear annual effective interest rates ranging from 0.00% to 24.00% at terms ranging from one to five years.

As at December 31, 2021 and 2020, the Company's outstanding receivables from customers were pledged as collaterals for loans with BPI, LBP and DBP (Note 10).

Interest income from loans and receivables in 2021 amounts to P40.15 million (2020 - P26.31 million).

In 2020, the Company sold a portion of its individual and corporate loans and receivables amounting to P10,213,388 to social investors. The loans and receivables were sold for a price equal to its amortized cost at the date of derecognition resulting to neither gain or loss from the transaction.

Significant accounting estimates and assumptions on credit losses of loans and receivables

The Company reviews its loan portfolios and receivables at each reporting date to assess whether a provision for credit losses should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

The allowance for impairment of receivables is based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Note 4 - Financial assets at fair value through profit or loss (FVTPL)

The movements in financial assets at FVTPL follow:

	2021	2020
Beginning of year	503,125	494,908
Disposal	(503,125)	
Fair value adjustment	-	8,217
End of year	-	503,125

As at December 31, 2020, financial assets at FVTPL pertain to the 5,000 (P100 par) SEC-registered unsecured 7% fixed rate peso seven-year retail bonds that are listed in Philippine Dealing and Exchange Corp. (PDEx). These are specifically designated by the Company as financial assets at FVTPL at inception date.

On September 2, 2021, the financial assets at FVTPL has matured and was disposed by the Company at fair value. Proceeds from disposal amount to P500,000, resulting to a loss of P3,125. The loss on disposal is recorded under Miscellaneous expenses.

Note 5 - Financial assets at fair value through other comprehensive income (FVOCI)

The movements in financial assets at FVOCI follow:

	Note	2021	2020
Beginning of year		36,899,737	7,756,855
Additions		3,824,790	5,948,482
Reclassification of investment in associate	10	-	18,329,707
Fair value adjustment		1,460,948	4,864,693
End of year		42,185,475	36,899,737

Financial assets at FVOCI pertain to investments in various cooperative entities held in trust for the Company by a major shareholder. These investments are not held for trading, and which the Company has irrevocably elected at initial recognition to recognize in this category. These are strategic investments and the Company considers this classification to be more relevant. In 2021, the fair value adjustment amounted to P1,460,948 (2020 - P4,864,693)

In 2020, the Company no longer holds significant influence over its existing investment in associate comprising of unquoted shares of ARDCI Bank, Inc. (Note 10). As a result, the investment amounting to P18,329,707 was reclassified to financial assets at FVOCI.

The fair values of the unquoted equity securities are based the net asset value of the underlying assets. The fair value measurements have been categorized as Level 3. The cumulative changes in fair values of unquoted equity shares are presented as part of accumulated other comprehensive income in the statements of financial position.

If the underlying net asset value of these securities changed by 10%, there will be a change in other comprehensive income for the year ended December 31, 2021 amounting to P4,218,545 (2020 - P 3,688,974). The 10% used in the sensitivity analysis is based on what management considers to be significant.

For the year ended December 31, 2021, dividend income earned amounted to P668,992 (2020 - P1,390,381).

Note 6 - Other current assets

The account as at December 31 consists of:

	2021	2020
Prepayments	4,760,522	2,836,466
Creditable withholding taxes	71,124	47,937
	4,831,646	2,884,403

Prepayments mainly pertain to prepaid rent and prepaid insurance.

Note 7 - Property and equipment, net

The account as at December 31 consists of:

	Transportation equipment	Computer and office equipment	Buildings and improvements	Land	Total
Cost					
January 1, 2020	2,963,400	2,000,462	18,110,495	4,944,645	28,019,002
Additions	5,831	891,775	-	-	897,608
December 31, 2020	2,969,231	2,892,237	18,110,495	4,944,645	28,916,610
Additions	1,016,102	642,256	-	-	1,658,356
Write-off	-	-	(4,470,000)	-	(4,470,000)
December 31, 2021	3,985,333	3,534,493	13,640,495	4,944,645	26,104,966
Accumulated depreciation					
January 1, 2020	1,478,753	1,519,959	2,970,683	-	5,969,395
Depreciation	785,497	657,976	653,438	-	2,096,911
December 31, 2020	2,264,250	2,177,935	3,624,121	-	8,066,306
Depreciation	1,101,302	594,499	603,684	-	2,299,485
Write-off	-	-	(552,119)	-	(552,119)
December 31, 2021	3,365,552	2,772,434	3,675,686	-	9,813,672
Accumulated impairment					
January 1, 2020	-	-	-	449,645	449,645
December 31, 2020	-	-	-	449,645	449,645
December 31, 2021	-	-	-	449,645	449,645
Net book values at					
December 31, 2020	704,981	714,302	14,486,374	4,495,000	20,400,657
December 31, 2021	619,781	762,059	9,964,809	4,495,000	15,841,649

In 2021, the Company has recorded a loss from write-off of building improvements amounting to P3,917,881. The amount of loss is equivalent to the net book value of the retired building improvements that are no longer available for use.

Fully depreciated property and equipment that are still in use by the Company as at December 31, 2021 and 2020 amounted to P1.11 million.

Significant accounting judgement on impairment of property and equipment

The Company assesses impairment on its property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review on its property and equipment include the following:

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

The Company recognizes an impairment loss whenever the carrying amount of an item of property and equipment exceeds its recoverable amount. The recoverable amount of an asset pertains to the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell of an asset pertains to its current selling price, less direct costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Company is required to make estimates and assumptions that can materially affect the carrying amount of the asset being assessed. The Company writes off property and equipment that are no longer in use and assessed as obsolete.

In valuing the land, the current use of the properties are considered to be its highest and best use; records of recent sales and offerings of similar property are analyzed and comparison made for such factors as size, location, quality and prospective use.

The Company used market approach to determine the recoverable amount of the land. Market approach is a method of comparing prices paid for comparable properties sold in the market against the subject property. The weight given to this approach is dependent on the availability of recent confirmed sales of properties considered comparable to the property under appraisement. These sold properties are compared to the subject in key units of comparison. Appropriate adjustments are made for differences between the subject and the comparables, resulting in adjusted sales values for each of the comparables. These adjustments are then reconciled for a value conclusion by the market approach.

Significant accounting judgement on estimated useful lives of property and equipment

The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, legal or other limits on the use of the asset. The carrying value of property and equipment at reporting dates and the amount and timing of recorded provision for any period could be materially affected by changes in estimates brought about by changes in the factors mentioned above. These estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Note 8 - Investment properties

The Company's investment properties located in Bislig, Sinubong, Maddela, Quirino and Sampaloc, Manila include parcels of land and buildings held for lease to third parties. Movements in this account are as follows:

	Land (As restated)	Building (As restated)	Total
At January 1, 2019	8,791,406	1,464,865	10,256,271
Additions	1,800,000	5,089,502	6,889,502
Fair value adjustment	805,914	(937,427)	(131,513)
At December 31, 2019	11,397,320	5,616,940	17,014,260
Additions	4,533,583	3,269,017	7,802,600
Fair value adjustment	(607,755)	3,291,375	2,683,620
At December 31, 2020	15,323,148	12,177,332	27,500,480
Additions	1,740,000	5,365,074	7,105,074
Fair value adjustment	4,318,727	(963,465)	3,355,262
At December 31, 2021	21,381,875	16,578,941	37,960,816

The fair value of investment properties were determined based on valuations made by an independent external appraiser for the year ended December 31, 2021 and 2020. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made. The fair value measurement has been categorized as Level 3. The current use of these properties is their highest and best use. Rental income on the investment properties in 2021 amounted to P0.94 million (2020 - P1.41 million) (Note 14).

Direct operating expenses related to investment property amounted to P0.05 million in 2021. This is lodged under repairs and maintenance.

Significant accounting estimates and assumptions on fair value of investment properties

Fair values of investment properties are determined using valuation methodologies acceptable under PFRS and valuation standards. Management determines the applicable valuation model based on the market value of the asset.

The valuation techniques and unobservable key inputs used to value investment properties are:

Account	Valuation technique	Significant unobservable inputs	Range	Relationship of unobservable inputs to fair value
Investment properties	Market data approach	Price per square meter Size Time element	₱5,000 to ₱65,000 60 to 290 square meters Sales from years 2008 to 2016	The higher the price per square meter the higher the fair value

The following table demonstrates the sensitivity of income before income tax to a reasonably possible change in estimated market value used in the valuation of investment properties, with all other variables held constant:

	Change in assumption	2021 Residential	2021 Commercial	2020 Residential	2020 Commercial
Estimated market value per square meter	+10%	1,657,894	2,138,188	1,282,868	1,061,662
	-10%	(1,657,894)	(2,138,188)	(1,282,868)	(1,061,662)

Note 9 - Other non-current assets

Other non-current assets as at December 31 consists of:

	Note	2021	2020
Restricted cash in bank	2	900,000	900,000
Advances to cooperatives		750,000	500,000
Computer software		399,500	799,500
Others		170,277	170,279
		2,219,777	2,369,779

Restricted cash in bank is held by the Development Bank of the Philippines as deposit hold-out to secure the Company's loans payable (Note 11).

Advances to cooperatives pertain to advances for future investments.

Details of the Company's computer software are as follows:

	2021	2020
Cost	1,441,000	1,441,000
Accumulated amortization, beginning	641,500	94,014
Amortization	400,000	547,486
Accumulated amortization, end	1,041,500	641,500
Carrying amount	399,500	799,500

Note 10 - Investment in associate

The account as at December 31, 2019 consists of:

	Amount
Acquisition cost	5,865,389
Accumulated equity in net earnings	
At January 1	11,760,516
Share in the net income	1,124,357
At December 31	12,884,873
Share in comprehensive loss	
At January 1	(306,148)
Share in remeasurements of the net defined benefit liability during the year	(114,407)
At December 31	(420,555)
	18,329,707

Investment in an associate comprises of unquoted shares of ARDCI Bank, Inc. ARDCI Bank, Inc., is a microfinance-oriented rural bank offering financial products and services to poor and low-income households and micro-enterprises. Its principal place of business is at Ground Floor ARDCI Corporate Bldg., San Roque, Virac, Catanduanes.

On November 24, 2013, the Company acquired 50,000 shares, representing 19.68% of the voting stocks of ARDCI Bank, Inc. for a total consideration of P5.86 million.

The following table provides the summarized financial information of ARDCI Bank, Inc. as at and for the years ended December 31 follow:

	2019
Assets	191,256,929
Liabilities	93,580,021
Revenues	34,052,351
Total comprehensive income	(974,836)

As at December 31, 2019, there are no indicators of impairment on the Company's investment in ARDCI Bank, Inc.

In 2020, the Company no longer holds significant influence over their associate and reclassified their investments to financial assets at FVOCI (Note 5).

Significant influence over investment in an associate

An associate is an entity over which the Company has the power to participate in the operating and financing policy decisions of the investee but does not have a control or joint control of those policies ("significant influence"). Under PAS 28, an investment in associate is accounted for using equity method if it holds directly or indirectly, 20 percent or more of the voting power of the investee or if the Company holds less than 20 percent of the voting power of the investee, it is presumed that the Company does not have significant influence, unless influence can be clearly demonstrated.

In assessing for significant influence, management has considered the voting rights of the Board members and participation of the Board members on the policy-making decisions of these companies, including decisions on strategic issues, dividends and other distributions.

The Company accounts for its investment in ARDCI Bank, Inc. as an associate since November 24, 2013.

As at December 31, 2019, it holds 19.68% of the issued share capital and holds one out of five board seats providing it the ability to exercise significant influence over the investment due to its voting power.

However, in 2020, the Company no longer maintains its board seat and its voting rights and participation in policy-making decisions, including decisions on strategic issues, dividends and other distributions. As a result, the investment in ARDCI Bank, Inc. is reclassified and accounted for as a financial assets at FVOCI (Note 5).

Significant accounting judgement on impairment of investment in an associate

Investment in an associate is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In assessing whether there is any indication that the Company's investment in an associate is impaired, management considers both external and internal sources of information such as significant changes with adverse effect on the subsidiary that have taken place during the period, or will take place in the near future such as plans to discontinue or restructure the operation of the associate, the carrying amount of the net assets of the associate is more than its market capitalization, or there is continuing operating losses and decline in cash flows from the operating activities of the associate.

No indicators were observed and no impairment loss was recognized in 2019 for its investment in associate.

Note 11 - Loans payable

This account represents the Company's total borrowings from the following:

	Interest rate	Terms
Bank of the Philippine Islands (BPI)	6.50%	1 year
Landbank of the Philippines (LBP)	5.50% to 5.85%	1 month to 5 years
Development Bank of the Philippines (DBP)	5.25%	1 month to 2 years

The loans are secured by assigned receivables from customers that are outstanding as at reporting dates (Note 3). Loans payable to BPI is also secured with a negative pledge on the Company's condominium unit as at reporting dates (Note 7). The loans payable to DBP is secured by savings account amounting to P0.9 million (Note 9).

The current and non-current portion of these loans are as follows:

	2021		2020	
	Current	Non-current	Current	Non-current
Landbank of the Philippines	49,569,442	2,906,849	66,591,970	-
Bank of the Philippine Islands	25,000,000	-	25,000,000	-
Development Bank of the Philippines	-	-	4,908,012	4,534,154
	74,569,442	2,906,849	96,499,982	4,534,154

Details of movements in borrowings are as follows:

	2021	2020
Beginning of year	101,034,137	142,962,625
Proceeds from borrowings	146,640,000	169,793,000
Payments of borrowings	(170,197,846)	(211,721,488)
End of year	77,476,291	101,034,137

Details of interests are as follows:

	2021	2020
Accrued interest, beginning	1,379,664	935,410
Interest expense	5,565,087	8,602,372
Interest paid	(5,049,303)	(8,158,118)
Accrued interest, ending	1,895,448	1,379,664

There are no significant covenants or breaches thereof relative to the above borrowings.

<u>Note 12 - Accrued expenses and other liabilities</u>

Accrued expenses and other liabilities as at December 31 consists of:

	Note	2021	2020
Accounts payable		9,618,714	9,316,917
Accrued expenses		2,903,570	2,496,474
Dividends payable	13	2,431,620	478,963
Interest payable		1,895,448	1,379,664
Gross receipts tax payable		433,752	398,417
Others		3,250	118,782
		17,286,354	14,189,217

Accounts payable comprise mainly of obligations to third party vendors and are normally settled within the next financial year.

Accrued expenses consist mainly of accruals for professional fees, rent and utilities.

Others mainly pertain to withholding tax payable, liability for advance rent and security deposit.

Note 13 - Equity

Details of the Company's share capital follow:

	2021		2020	
	Number of shares	Amount	Number of shares	Amount
Ordinary shares				
(515,000 authorized shares at P200 par value)				
Issued and outstanding, beginning	153,842	30,768,226	61,332	12,266,314
Issuances	-	-	92,510	18,501,912
	153,842	30,768,226	153,842	30,768,226
Subscribed shares	212,500	42,500,000	212,500	42,500,000
Less subscription receivable		(28,511,125)	-	(28,511,125)
Subscribed and paid	212,500	13,988,875	212,500	13,988,875
Total	366,342	44,757,101	366,342	44,757,101
Preferred shares				
(375,000 authorized shares at P200 par value)				
Issued and outstanding, beginning	368,408	73,681,487	258,845	51,769,051
Issuances	6,592	1,318,459	109,562	21,912,436
Issued and outstanding, end	375,000	74,999,946	368,407	73,681,487

Subscription receivable are expected to be collected in the next five years.

The Company's preferred shares are nonvoting, cumulative, nonconvertible and nonparticipating.

On December 31, 2021, the Company's Board of Directors approved the declaration of cash dividends amounting to P1,952,657 or P5.21 per share in favor of shareholders of record as of the date of declaration. As at December 31, 2021, the dividend is still unpaid (Note 12).

Deposit for future stock subscription

As at December 31, 2021, the Company has a deposit for future stock subscription of preferred shares amounting to P38,141,819 (2020 - nil). The Company has yet to file with the SEC its application for the increase in authorized share capital. Consequently, the amount of subscription is presented as deposit for future stock subscription as part of liabilities in the balance sheet.

Note 14 - Leases

Company as lessor

The Company has various cancelable lease agreements for its investment properties in Maddela, Quirino and Sampaloc, Manila for residential and commercial purposes. The lease term on the properties ranges from 1 to 30 years with an annual escalation rate of 5.0%.

Rental income in 2021 amounted to P0.9 million (2020 - P1.4 million).

Company as lessee

In 2016, the Company entered into a cancelable lease agreement to lease the land from a stockholder located in Maddela, Quirino for 10 years.

The Company also entered into two cancelable one-year lease agreements with third parties for the office spaces of its branch operations in Bislig City and Lingig, Surigao de Sur and Bunawan, Agusan del Sur, respectively.

Rental expense included in Rental, light and power in 2021 amounts to P1.55 million (2020 - P1.31 million).

Note 15 - Income taxes

Income tax expense (benefit) for the years ended December 31 consists of:

	2021	2020
Current	267,495	435,083
Deferred	3,174,078	(10,118,829)
	3,441,573	(9,683,746)

The Company's net deferred tax assets consist of:

	2021	2020 (as restated)	2019 (as restated)
Deferred tax assets			
Net operating loss carry-over (NOLCO)	6,139,508	7,473,388	369,006
Allowance for credit and impairment losses	2,509,097	4,225,530	437,459
Minimum corporate income tax (MCIT)	981,839	1,294,857	1,104,898
Allowance for impairment of land	112,412	134,894	134,894
Change in fair value of investment property	240,866	-	156,032
	9,983,722	13,128,669	2,202,289
Deferred tax liabilities			
Change in fair value of investment property	1,079,682	1,291,086	243,000
Unrealized foreign exchange gain	-	2,465	-
	1,079,682	1,050,551	243,000
	8,904,040	12,078,118	1,959,289

Details of the Company's NOLCO are as follows:

Year of Incurrence	Year of Expiry	2021 (25%)	2020 (30%)
2020	2025	23,681,271	23,681,271
2019	2022	876,762	876,762
2018	2021	-	353,259
		24,558,033	24,911,292
Applied during the year		-	-
		24,558,033	24,911,292
Deferred tax asset at applicable tax rate		6,139,508	7,473,388

Details of the Company's MCIT are as follows:

Year of Incurrence	Year of Expiry	2021	2020
2021	2024	178,598	-
2020	2023	326,312	435,083
2019	2022	476,929	476,929
2018	2021	382,845	382,845
		1,364,684	1,294,857
Expired during the year		(382,845)	-
Deferred tax asset		981,839	1,294,857

The reconciliation between the statutory and effective income tax follows:

	2021 (25%)	2020 (30%)
Statutory income tax	1,342,165	(9,630,544)
Tax effects of:		
Adjustment of prior year current income tax	(108,771)	-
Impact of change in tax rate to deferred taxes	2,013,020	-
Interest income subjected to final tax	(20,222)	(57,264)
Non-taxable income	(1,006,064)	(417,114)
Non-deductible expenses	1,221,445	421,176
Effective income tax	3,441,573	(9,683,746)

As a result of the CREATE law, the Company recognized an adjustment in 2021 pertaining to the December 31, 2020 balances which resulted in a decrease of P108,771 in current income tax expense and P843,236 increase in deferred income tax benefit expense using the applicable weighted average effective annual income tax rate.

Significant accounting judgement on recognition of deferred tax asset

Deferred tax asset is recognized for all unused tax losses to the extent that it is probable that future taxable income will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Note 16 - Related party transactions

The following significant transactions and balances are carried out with related parties:

Due from related parties	2021		2020		
	Transactions	Outstanding receivable	Transactions	Outstanding receivable	Terms and conditions
Reimbursements					
Shareholders	255,938	6,685,157	1,303,545	6,429,219	All outstanding balances are unguaranteed, unsecured, non-interest bearing and collectible in cash at gross amount upon demand, but not later than 12 months after reporting period.
Entities under common control	(2,916,429)	26,497,114	6,149,125	29,413,543	
	(2,660,491)	33,182,271	7,452,670	35,842,762	

The Company has a reimbursement arrangement with entities under common control, whereby the Company advances the payment of certain expenses which are billed at cost to the related party.

Note 17 - Restatement

Certain amounts in the December 31, 2020 and January 1, 2020 financial statements have been restated to recognize previously unrecorded investment property and any corresponding fair value and deferred income tax. Accordingly, a three-year statement of financial position was presented.

The impact of restatement on the statements of financial position is summarized below:

	As previously stated	Effects of restatement	As restated
December 31, 2020			
Investment properties	23,900,480	3,600,000	27,500,480
Deferred tax assets, net	12,321,118	(243,000)	12,078,118
Retained earnings	(21,807,390)	3,357,000	(18,450,390)

	As previously stated	Effects of restatement	As restated
January 1, 2020			
Investment properties	13,414,260	3,600,000	17,014,260
Deferred tax assets, net	2,202,289	(243,000)	1,959,289
Retained earnings	1,031,232	3,357,000	4,388,232

There were no fair value adjustment in the fair value of investment property and that the restatement has no impact in the statement of total comprehensive income for the year ended December 31, 2020. Likewise, the restatement has no impact in the statement of cash flows for the year ended December 31, 2020.

Note 18 - Financial risk and capital management

The main risks arising from the Company's financial instruments are credit risk, liquidity risk and market risk. The Company assessed that its exposure to equity price risk, currency risk and interest rate risk is minimal. Its foreign-currency denominated assets and debt securities are insignificant.

18.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages credit risk by assessing the creditworthiness of its counterparties. The Company continuously monitors the financial health and status of its counterparties to ascertain that receivables from these counterparties will be substantially collected on due date. Credit applications go through a process of screening using the Company's credit standards to minimize risk.

The details of the Company's financial assets subject to credit risk as at December 31 are as follows:

	Note	2021	2020
Cash in banks	2	23,371,766	14,869,283
Loans and receivables, net	3	104,066,846	102,611,145
Financial assets at fair value through profit or loss		-	503,125
		127,438,612	117,983,553

The Company does not hold any collateral as a security for these financial assets.

The maximum exposure to credit risk at reporting date approximates the carrying value of financial assets as shown in the statement of financial position.

Loans from customers

The Company applies PFRS 9 in calculating the impairment on its loans from customers.

The Company considers the probability of default upon initial recognition of a loan and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. Significant increase in credit risk is assessed if a client is past due in making a contractual payment.

A default on a loan is when the counterparty fails to make contractual payments within 90 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a client failing to engage in a repayment plan with the Company. Where loans have been written off, the Company continues to engage in enforcement activity to attempt to recover the loan due. Where recoveries are made, these are recognized in profit or loss.

The Company uses three categories for loans which reflect their credit risk and how the loan loss provision is determined for each of those categories. A summary of the assumptions underpinning the company's expected credit loss model is as follows:

Category	Company definition of category	Basis for recognition of expected credit loss provision	Basis of calculation of interest income
Performing (Stage 1)	Clients have a low risk of default and a strong capacity to meet contractual cash flows	12 month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime.	Gross carrying amount
Underperforming (Stage 2)	Loans for which there is a significant increase in credit risk; a significant increase in credit risk is presumed if interest and/or principal repayments are past due	Lifetime expected losses	Gross carrying amount
Non-performing (Stage 3)	Interest and/or principal repayments are 90 days past due.	Lifetime expected losses	Amortized cost carrying amount (net of credit allowance)
Write-off	There is no reasonable expectation of recovery based on continual efforts of collection with the borrowers		None

Over the term of the loans, the Company accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Company considers historical loss rates for each category of clients, and adjusts for forward looking macroeconomic data. The Company performs historical analysis and identifies the key economic variables impacting credit risk and expected credit losses for its loans portfolio.

The Company incorporates historical and current information, and forecasts forward looking events and conditions in determining its expected credit losses. The Company considers the industry growth rates under the Philippine microfinance sector concentrated to geographic locations of major clients as the key macroeconomic variable. Based on the Company's assessment, the impact of forward-looking information to the expected credit loss calculation is insignificant.

The Company provides for credit losses against loans to clients as follows:

2021	Estimated gross carrying amount at default	Loan loss provision	Net carrying amount
Performing	70,670,358	4,145,333	66,525,026
Underperforming	2,945,215	1,116,007	1,829,208
Non-performing	4,775,047	4,775,047	-
	78,390,620	10,036,387	68,354,234

2020	Estimated gross carrying amount at default	Loan loss provision	Net carrying amount
Performing	68,509,578	6,493,235	62,016,343
Underperforming	3,062,095	2,158,533	903,562
Non-performing	5,433,330	5,433,330	-
	77,005,003	14,085,098	62,919,905

No significant changes to estimation techniques or assumptions were made during the reporting period.

The loss allowance for loans as at December 31, 2021 reconciles to the opening loss allowance for that provision as follows:

	Performing	Underperforming	Non-performing	Total
Loss allowance, January 1, 2020	679,438	222,380	556,378	1,458,196
New financial assets originated	5,813,797	1,936,153	21,383,708	29,133,659
Write-offs	-	-	(16,506,757)	(16,506,757)
Loss allowance, January 1, 2021	6,493,235	2,158,533	5,433,330	14,085,098
New financial assets originated	1,800,000	-	74,853	1,874,853
Reversals	(4,147,902)	(1,042,526)	-	(5,190,428)
Write-offs	-	-	(733,136)	(733,136)
Loss allowance, December 31, 2021	4,145,333	1,116,007	4,775,048	10,036,387

Loans with a contractual amount of P733,136 written off during the period are still subject to enforcement activity (2020 - P16,506,757).

The gross carrying amount of loan and the maximum exposure to loss is as follows:

	2021	2020
Performing	70,670,358	68,509,578
Underperforming	2,945,215	3,062,095
Non-performing	4,775,047	5,433,330
Total gross loans	78,390,620	77,005,003
Less: Loan loss allowance	10,036,387	14,085,098
	68,354,233	62,919,905

Other financial assets

Other financial assets that are exposed to credit risk are as follows:

	2021	2020
Cash in banks	23,368,641	14,869,283
Due from related parties	33,182,271	35,842,762
Other receivables	1,134,871	990,770
FVTPL	-	503,125
	57,685,783	52,205,940

As credit risk mitigation step, the Company maintains banking relationships only with universal banks which is duly approved by the Company's BOD and, by policy, limits the amount of credit exposure to such financial institution. Cash in banks is considered to be fully performing. Impairment is considered immaterial.

The Company does not perceive any significant credit risk exposure arising from amounts due from related parties. The Company has a reimbursement arrangement with entities under common control, whereby the Company advances the payment of certain expenses which are billed at cost to the related party. The Company monitors the overall compliance with the terms of the agreement and ensures uniform application of policies with respect to related party transactions and balances (Note 16). The balances are assessed to be fully collectible mainly because of strong credit quality as the Company and related entities are all generating sustained profitable results and there are no history of defaults and disputes.

The Company's accounts receivable generally arise from transactions with various counterparties with good credit standing. The Company applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss methodology for accounts receivable. To measure the expected credit losses, accounts receivable have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of receivables over a period of 36 months before reporting date and corresponding historical credit losses experienced within these periods. The impact of forward-looking variables on macroeconomic factors is considered insignificant in calculating ECL provisions for other financial assets. Based on this approach, the Company assessed that impairment of accounts receivable is immaterial.

Other financial assets as at reporting dates consist primarily of security deposits which is considered to be fully collectible at end of lease term, and therefore, are classified as performing. Impairment is considered immaterial.

18.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due. The Company manages its liquidity by close monitoring of cash flows to ensure that optimum level of liquidity is maintained at all times sufficient to meet contractual obligations as and when they fall due. Due to the dynamic nature of the underlying business, the Company also aims to maintain flexibility by keeping committed credit lines available.

The Company monitors rolling forecasts of the Company's liquidity reserve on the basis of projected cash flows, and seeks to collect amount due from customers on a timely basis to ensure availability of funds.

The amounts disclosed in the table below are the expected undiscounted cash flows of financial liabilities, including future interest, which the Company uses to manage the inherent liquidity risk.

	2021			2020		
	Up to 1 year	1-3 years	Total	Up to 1 year	1-3 years	Total
Loans payable	74,569,442	2,906,849	77,476,291	96,499,982	4,534,154	101,034,136
Accrued expenses and other liabilities						
Accounts payable	9,618,714	-	9,618,714	9,316,917	-	9,316,917
Accrued expenses	2,903,570	-	2,903,570	2,496,474	-	2,496,474
Dividends payable	2,431,620	-	2,431,620	478,963	-	478,963
Interest payable	1,895,448	-	1,895,448	1,379,664	-	1,379,664
Other payables	3,250	-	3,250	118,782	-	118,782
	91,422,044	-	91,422,044	110,290,782	4,534,154	114,824,936

18.3 Market risk

Fair value interest rate risk

The Company's exposure to fair value interest rate risk arises from retail bonds that are classified as financial assets at FVTPL. The carrying amounts and amounts recognized in profit or loss in relation to the retail bonds held by the Company are disclosed in Note 4. If the fair value of these financial assets increase or decrease by 10%, the Company would recognize pre-tax impact amounting to P50,313 in 2020. The Company's exposure to cash flow interest rate risk on financial assets at FVTPL is deemed insignificant due to fixed interest rates of retail bonds.

The Company does not hold financial assets at FVTPL as at December 31, 2021.

The Company's exposure to fair value interest rate risk and cash flow interest rate risk on loans receivables and loans payables is considered insignificant as these financial instruments are measured at amortized cost and have fixed interest rates.
Price risk

The Company's exposure to price risk arises from investments in various cooperative entities that are classified as financial assets at FVOCI (Note 5). There were no changes in the fair value of these investments during the reporting period. If the net asset value of the underlying assets of these securities change by 10%, there will be an impact in other comprehensive income in 2021 amounting to P4,072,453 (2020 - P3,688,974). The Company believes that its exposure to price risk is insignificant to the financial statements as the Company does not intend to trade these investments and expects to generate future cash flows from the dividends declared by the entities.

18.4 Fair value of financial instruments

Note 19 provides for a description of the accounting policies for each category of financial instrument and a description of the Company's risk management objectives and policies for financial instruments.

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

Financial assets at fair value through profit or loss are carried at fair value based on prevailing market rates (Note 4) which are considered as Level 1 input.

Financial assets at FVOCI are measured at fair value. The fair values of the unquoted equity securities are based the net asset value of the underlying assets. The fair value measurements have been categorized as Level 3.

All other financial instruments of the Company approximate its carrying value as at reporting dates.

In 2021 and 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfer into and out of Level 3 fair value measurement.

18.5 Capital management

The primary objectives of the Company for capital management are to ensure its ability to continue as a going concern, to maintain quality ratios especially liquidity, and to ensure compliance with SEC regulations. The BOD is responsible for managing the Company's capital structure and making the necessary adjustments to address the risks and adapt to changes in economic conditions and regulatory requirements. The Company's objective when managing capital (which consists of total equity as shown in the statement of financial position) is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The SEC requires at least 40% of the voting stock of secondary licensees operating as financing companies to be owned by the citizens of the Philippines and a minimum paid-up capital of P10 million. Additional capital is required for each branch of P1.00 million for branches established in Metro Manila, P0.50 million for branches in other classes of cities and P0.25 million for branches established in municipalities. As at December 31, 2021 and 2020, the Company was in compliance with the above mentioned regulations.

Note 19 - Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

19.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

These financial statements have been prepared under the historical cost convention, except for financial assets at fair value through other comprehensive income and profit or loss, and investment properties that are carried at fair value.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the financial statements therefore fairly present the financial position and results of the Company. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

- Credit losses on loans and receivables (Note 3)
- Impairment of property and equipment (Note 7)
- Estimated useful lives of property and equipment (Note 7)
- Fair value of investment properties (Note 8)
- Recognition of deferred tax asset (Note 14)

Changes in accounting policy and disclosures

(a) New amendments to existing standards adopted by the Company

The following relevant amendments to existing standards and the revised Conceptual Framework have been adopted by the Company effective January 1, 2021:

- *Amendments to PFRS 16, Leases, COVID-19 Related Concessions*. As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. The amendment, effective June 1, 2020, provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

The relief was originally limited to reduction in lease payments that were due on or before June 30, 2021. However, it was subsequently extended to June 30, 2022.If a lessee already applied the original practical expedient, it is required to continue to apply it consistently, to all lease contracts with similar characteristics and in similar circumstances, using the subsequent amendment. If a lessee did not apply the original practical expedient to eligible lease concessions, it is prohibited from applying the expedient in the 2021 amendment.

However, if a lessee has not yet established an accounting policy on applying (or not) the practical expedient to eligible lease concessions, it can still decide to do so.

The adoption of the above amendments did not impact the financial statements of the Company since its lease agreements are out of scope of PFRS 16.

(b) *New amendments to existing standards that are not yet effective and not early adopted by the Company*

A number of new standards, amendments to existing standards and interpretations are effective for annual periods beginning after January 1, 2021 and have not been applied in preparing these financial statements. Except as otherwise indicated, none of these is expected to have a significant effect on the financial statements. Those which may be relevant to the Company are set out below:

- *Amendments to PAS 1, Presentation of Financial Statements and PFRS Practice Statement 2, Disclosure of Accounting Policies*. The amendments to PAS 1 and PFRS Practice Statement 2, effective January 1, 2023, require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

- *Amendments to PAS 8, Changes in Accounting Estimates and Errors, Definition of Accounting Estimates*. The amendment to PAS 8, effective January 1, 2023, clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

- *Amendments to PAS 12, Income Taxes, Deferred Tax related to Assets and Liabilities arising from a Single Transaction*. The amendments to PAS, effective January 1, 2023, require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:
    - right-of-use assets and lease liabilities, and
    - decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.

  The cumulative effect of recognizing these adjustments is recognized in retained earnings, or another component of equity, as appropriate. PAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments.

19.2 Financial instruments

19.2.1 Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value [either through other comprehensive income ("OCI") or through profit or loss], and
- those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

19.2.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

19.2.3 Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in other income, net, using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other income, net, together with foreign exchange gains and losses. Impairment losses are presented in administrative expenses in the statement of total comprehensive income.

  The Company's financial assets at amortized cost consist of cash, loans and receivables and refundable deposit.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other income, net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other income, net, and impairment expenses are presented in administrative expenses in the statement of total comprehensive income.

  The Company does not hold any financial assets at FVOCI as at December 31, 2021 and 2020.
- FVTPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or loss and presented within other income, net, in the period in which it arises.

  The Company's financial assets at FVTPL include retail bonds that are listed in PDEx as at December 31, 2020 (Note 4). As at December 31, 2021, the Company does not hold any financial assets at FVTPL.

Business model: The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at fair value through profit or loss. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Equity instruments

The Company subsequently measures all equity investments at fair value through profit or loss, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Company's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Company's right to receive payments is established.

The Company's investments in equity instruments include investments in various cooperative entities designated and classified as fair value through OCI as at December 31, 2021 and 2020.

19.2.4 Impairment and write off

The Company assesses impairment as follows:

- individually for loans that exceed specified thresholds. Where there is an objective evidence of impairment, individually assessed provisions will be recognized; and
- collectively for loans below the specified thresholds noted above or if there is no objective evidence of impairment. These loans are included in a group of loans with similar risk characteristics and collectively assessed for impairment. If there is an objective evidence that the group of loans is collectively impaired, collectively assessed provisions will be recognized.

The Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The Company recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

PFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Company.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3".
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with PFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired (POCI) financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3). There are no POCI as at December 31, 2021.

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

Please refer to Note 18.1 for further disclosure.

19.3 Cash

Cash includes cash in banks and cash on hand. Cash in banks are stated at face amount and earns interest at the prevailing bank deposit rate.

19.4 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

The Company has financial assets at FVTPL which are carried at fair value as at December 31, 2020. The fair value of these financial assets fall under Levels 1 of the fair value hierarchy. There are no financial assets at FVTPL as at December 31, 2021.

The Company has financial assets at FVOCI which are carried at fair value as at December 31, 2021 and 2020. The fair value of these financial assets fall under Levels 3 of the fair value hierarchy.

The Company holds no other financial instruments that are carried or subsequently measured at fair value in 2021 and 2020.

Non-financial assets or liabilities

The Company uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- *Market approach* - A valuation technique that uses observable inputs, such as prices, broker quotes and other relevant information generated by market transactions involving identical or comparable assets or group of assets.

- *Income approach* - A valuation technique that converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

- *Cost approach* - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The fair values are determined in reference to observable market inputs reflecting orderly transactions, i.e., market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions.

External appraisers are involved for valuation of significant non-financial assets, such as investment properties.

The fair value disclosure of the Company's investment properties fall under Level 3 of the fair value hierarchy.

The Company has no other non-financial assets or liabilities carried at fair value as at December 31, 2021 and 2020.

19.5 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

The Company does not have financial assets and liabilities that are covered by enforceable master netting agreements and other similar agreements at December 31, 2021 and 2020.

19.6 Property and equipment

Land is stated at cost less any accumulated impairment in value. Land is not depreciated. Depreciable properties including buildings and land improvements, computer, office and transportation equipment are stated at cost less accumulated depreciation and any impairment in value.
The initial cost of property and equipment comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into working condition, such as repairs and maintenance are normally charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Depreciation is calculated on the straight-line method over the estimated useful lives of the depreciable assets.

The estimated useful lives of property and equipment of the Company are as follows:

Buildings	30 years
Transportation equipment	5 years
Computer and office equipment	3 years

Improvements are amortized over the lower of improvements' useful life or the useful life of the building.

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

19.7 Investment properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of the asset given up.

Subsequent to initial recognition, investment property whose fair value can be measured reliably without undue cost or effort are measured at the fair value at each reporting date with changes in fair value recognized under ‘Gain (loss) on change in fair value of investment property’ in the statement of total comprehensive income.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to operations in the year in which the costs are incurred.

Investment property is derecognized when it has been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

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

19.8 Prepayments and other non-financial assets

Prepayments are recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. Prepayments are initially measured at nominal amounts, which are equal to the amount of cash paid. These are derecognized upon delivery of goods or when services have been rendered, through amortization over a certain period of time, and use or consumption.

Prepayments and other non-financial assets are included in current assets, except when the related benefits are expected to be received more than 12 months after the reporting period, which are then classified as non-current assets.

19.9 Impairment of non-financial assets

Assets that have definite useful life, particularly property and equipment, investment properties and investment in associate which are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. At each reporting date, the Company assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of the asset's recoverable amount. Recoverable amount is the higher of an asset's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to operations in the year in which it arises. The excess of carrying amount over the recoverable amount on the Company's property is presented under 'Provision for impairment losses' in the statement of total comprehensive income.

An assessment is made at each reporting date as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years.

Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

19.10 Borrowings and borrowing costs

The Company's borrowings consist mainly of loans payable. Borrowings are recognized initially at fair value, being their issue proceeds, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between proceeds (net of transaction costs) and the redemption value is recognized as interest and borrowing charges in the statement of total comprehensive income over the period of the borrowings using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred. The Company has no qualifying assets and has not capitalized any borrowing cost as at December 31, 2021 and 2020.

19.11 Other liabilities

Other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Company is established.

19.12 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are not recognized for future operating losses.
Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in provision due to the passage of time is recognized as interest expense in profit or loss.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed and derecognized in the statement of financial position.

19.13 Equity

Share capital is measured at par value for all shares issued and outstanding. When the shares are issued at a premium, the difference between the proceeds and the par value is credited to 'Share premium'. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Share premium'. If the share premium is not sufficient, the excess is charged against 'Retained earnings'. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Retained earnings represents accumulated earnings of the Company less dividends declared.

Cash and stock dividends on preferred and common shares are recognized as a liability and deducted from equity when approved by the Board of Directors of the Company. Dividends for the year that are approved after the reporting date are dealt with after the reporting date.

19.13 Deposit for future stock subscription

Deposit for future share subscriptions represent funds received by the Company with a view of applying the same as payment for future additional issuance of shares either from its authorized but unissued shares, from a proposed increase in authorized share capital, or as share premium.

Under the Corporation Code, a stock corporation is empowered to issue or sell stocks to subscribers.

Such issuance should only be to the extent of the share capital approved or authorized by the SEC. If there is no more authorized share capital, an increase thereof for the purpose of issuing additional shares may be made by the entity subject to the approval by its Board of Directors, shareholders and the SEC.

The Company classifies a deposit for future share subscription as an equity instrument if all of the following conditions are met:

- The unissued authorized share capital of the Company is insufficient to cover the amount of shares indicated in the contract;
- There is a Board of Directors' approval on the proposed increase in authorized share capital (for which a deposit was received by the Company);
- There is shareholder's approval of said proposed increase; and
- The application for the approval of the proposed increase has been presented for filing or has been filed with the SEC.

If any or all of the foregoing elements are not present, the Company recognizes the deposit as a liability.

19.14 Income and expense recognition

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The adjusted carrying amount is calculated based on the original effective interest rate. The change in carrying amount is recorded as 'Interest income' in the statement of total comprehensive income. Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Other income

Other income is recognized only upon collection or accrued where there is reasonable degree of certainty as to its collectability.

Expense recognition

Expenses encompass losses as well as those expenses that arise in the ordinary activities of the Company. Expenses are recognized when incurred and are presented using the nature of expense method.

19.15 Leases

Company as lessee

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Company as lessor

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Operating lease income is recognized as 'Rental income' in the statement of total comprehensive income on a straight-line basis over the lease term. Contingent rents are recognized as revenue in the period in which they are earned.

19.16 Employee benefits

Short-term benefits

Wages, salaries, compensated absences, bonuses, and other non-monetary benefits are recognized in the period the related services are rendered by the employees of the Company. Short-term employee benefits obligations are measured on an undiscounted basis. The Company recognizes a liability and an expense when the related service is provided.

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.

19.17 Income taxes

Current taxes

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are substantively enacted at the reporting date.

Deferred taxes

Deferred tax is provided or recognized in full using the balance sheet method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liability is recognized for all taxable temporary differences, and deferred tax asset is recognized for all deductible temporary differences, carryforward of unused tax credits from excess MCIT over the regular corporate income tax (RCIT) and unused NOLCO, if any, to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences, and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized.

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

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

Deferred tax asset and liability are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in other comprehensive income is also recognized in other comprehensive income and not in profit or loss.

19.18 Foreign currency transactions and translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in Philippine Peso, which is the Company's functional currency.

Transactions and balances

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

19.19 Related party transactions and relationships

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party, or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholder. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

19.20 Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying the economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

19.21 Subsequent events (or events after the reporting date)

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

Note 20 - Supplementary information required by the Bureau of Internal Revenue (BIR)

The following supplementary information, as required by Revenue Regulations No. 15-2010, is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

(i) Local and national taxes

Local and national taxes paid for the year ended December 31, 2021 consist of:

	Amount
Gross receipts tax	2,195,464
Documentary stamp taxes	677,225
License and permits fees	524,691
Real property taxes	49,298
Others	2,900
	3,449,577

The above payments are presented in taxes and licenses under operating expenses in the statement of total comprehensive income.

(ii) Withholding taxes

Expanded withholding tax paid and accrued for the year ended and as at December 31, 2021 amounts to P9,750 and P3,250, respectively.

Accrued withholding taxes is included within accrued expenses and other liabilities in the statement of financial position.

(iii) Tax assessments and cases

As at December 31, 2021, taxable years 2020, 2019 and 2018 remain open. As at December 31, 2021, there are no outstanding assessments and tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR.

(iv) Other information

The Company did not have transactions that are subject to value-added taxes, custom duties, tariff fees and excise taxes for the year ended December 31, 2021.

All other information required to be disclosed by the BIR has been included in this note.

(v) Revenue Regulations No. 34-2020

On December 18, 2020, BIR issued RR No. 34-2020, Prescribing the Guidelines and Procedures for the Submission of BIR Form No. 1709, Transfer Pricing Documentation (TPD) and other Supporting Documents, Amending for this Purpose the Pertinent Provisions of RR Nos. 19-2020 and 21-2002, as amended by Revenue Regulations No. 15-2010, to streamline the guidelines and procedures for the submission of BIR Form No. 1709, TPD and other supporting documents by providing safe harbors and materiality thresholds. Section 2 of the RR provides the list of taxpayers that are required to file and submit the RPT Form, together with the Annual Income Tax Return.

The Company is not covered by the requirements and procedures for related party transactions provided under this RR as it does not meet any criteria of taxpayers prescribed in Section 2 of the Revenue Regulations.

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

The management of **SEDPI Development Finance, Inc**. (the "Company") is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the year ended December 31, 2021, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud of 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 Directors is responsible for overseeing the Company's financial reporting process.

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

Isla Lipana & Co., the independent auditors appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

MARIEL VINCENT A. RAPISURA
President

EMILENN KATE D. SACDALAN-PATENO
Treasurer

EDWIN M. SALONGA
Chairperson

Signed this 8th day of April 2022

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

The management of **SEDPI Development Finance, Inc.** is responsible for all information and representations contained in the Annual Income Tax Return for the year ended

December 31, 2021. Management is likewise responsible for all information and representations contained in the financial statements accompanying the (Annual Income Tax Return or Annual Information Return) covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements as at and for the year ended December 31, 2021 and the accompanying Annual Income Tax Return are in accordance with the books and records of SEDPI Development Finance, Inc., complete and correct in all material respects. Management likewise affirms that:

(a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
(b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;
(c) SEDPI Development Finance, Inc. has filed all applicable tax returns, reports and statements required to be filed under Philippines tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

MARIEL VINCENT A. RAPISURA
President

EMILENN KATE D. SACDALAN-PATENO
Treasurer

EDWIN M. SALONGA
Chairperson

Signed this 8th day of April 2022