

**MASS-SPECC Cooperative  
Development Center**

Financial Statements  
December 31, 2016 and 2015

and

Independent Auditor's Report

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**MASS-SPECC COOPERATIVE DEVELOPMENT CENTER**  
**STATEMENTS OF FINANCIAL POSITION**

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 6)	<b>₱435,877,438</b>	₱245,970,840
Loans and other receivables - net (Note 7)	<b>487,285,276</b>	606,741,322
Other current assets (Note 11)	<b>63,113,442</b>	27,852,637
Total Current Assets	<b>986,276,156</b>	880,564,799
<b>Noncurrent Assets</b>		
Loans and other receivables - net (Note 7)	<b>214,808,936</b>	216,240,000
Available-for-sale securities (Note 8)	<b>396,683,791</b>	386,544,856
Property and equipment - net (Note 9)	<b>45,925,111</b>	46,930,492
Investment property (Note 10)	<b>2,455,495</b>	3,451,233
Retirement benefit asset (Note 20)	<b>7,959,106</b>	10,200,592
Other noncurrent assets (Note 11)	<b>94,993,196</b>	30,628,456
Total Noncurrent Assets	<b>762,825,635</b>	693,995,629
<b>TOTAL ASSETS</b>	<b>₱1,749,101,791</b>	₱1,574,560,428
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Current Liabilities</b>		
Interest-bearing loans and borrowings (Note 12)	<b>₱182,818,274</b>	₱41,103,508
Accounts payable and accrued expenses (Note 13)	<b>109,629,477</b>	273,350,414
Short-term members' deposits (Note 14)	<b>270,633,043</b>	250,826,025
Interest on share capital and patronage refund payable (Note 16)	<b>17,721,954</b>	13,176,385
Total Current Liabilities	<b>580,802,748</b>	578,456,332
<b>Noncurrent Liabilities</b>		
Interest-bearing loans and borrowings (Note 12)	<b>38,165,146</b>	10,821,429
Long-term members' deposits (Note 14)	<b>814,099,191</b>	686,587,879
Other noncurrent liabilities (Note 15)	<b>2,581,389</b>	2,972,360
Total Noncurrent Liabilities	<b>854,845,726</b>	700,381,668
Total Liabilities	<b>1,435,648,474</b>	1,278,838,000
<b>Members' Equity (Note 16)</b>		
Share capital	<b>245,574,062</b>	225,224,877
Statutory funds	<b>81,466,915</b>	73,326,176
Other components of equity	<b>(13,587,660)</b>	(2,828,625)
Total Members' Equity	<b>313,453,317</b>	295,722,428
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>₱1,749,101,791</b>	₱1,574,560,428

*See accompanying Notes to Financial Statements.*

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**MASS-SPECC COOPERATIVE DEVELOPMENT CENTER**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**AND DISTRIBUTION OF NET SURPLUS**

	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>REVENUES</b>		
Interest income on loans and other receivables (Note 7)	<b>₱55,626,904</b>	₱61,133,488
Consulting and service fees (Note 17)	<b>39,653,607</b>	44,911,454
Income from bank deposits and investments	<b>24,007,317</b>	11,960,478
Services fees - conditional cash transfer (Note 18)	<b>21,340,688</b>	21,104,149
Education and training	<b>10,308,903</b>	10,423,925
Donation	–	2,221,613
Other income	<b>2,852,138</b>	5,490,567
	<b>153,789,557</b>	157,245,674
<b>COSTS AND EXPENSES</b>		
Interest on members' deposits (Note 14)	<b>40,667,077</b>	50,604,903
Employee benefits (Note 20)	<b>30,289,328</b>	31,258,922
Interest on borrowed funds (Note 12)	<b>13,041,822</b>	14,229,246
Depreciation and amortization (Note 9)	<b>7,118,356</b>	6,440,684
Impairment losses (Notes 7, 9 and 10)	<b>3,068,718</b>	2,221,613
Other operating expenses (Note 19)	<b>31,723,148</b>	30,664,844
	<b>125,908,449</b>	135,420,212
<b>NET SURPLUS BEFORE INCOME TAX</b>	<b>27,881,108</b>	21,825,462
<b>PROVISION FOR INCOME TAX</b> (Note 22)	<b>616,563</b>	1,554,101
<b>NET SURPLUS</b>	<b>27,264,545</b>	20,271,361
<b>OTHER COMPREHENSIVE INCOME</b>		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Fair value losses on available-for-sale securities (Note 8)	<b>(6,169,809)</b>	(8,580,471)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>		
Remeasurement loss on retirement benefit asset (Note 20)	<b>(4,589,226)</b>	(4,980,991)
Increase in fair value of land (Note 9)	–	5,340,900
	<b>(10,759,035)</b>	(8,220,562)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱16,505,510</b>	₱12,050,799
<b>DISTRIBUTION OF NET SURPLUS</b> (Note 16)		
General reserve fund	<b>₱5,452,909</b>	₱4,054,272
Cooperative education and training fund	<b>1,363,227</b>	1,013,568
Land and building development fund	<b>1,090,583</b>	810,854
Information and communication technology development fund	<b>817,936</b>	608,141
Community development fund	<b>817,936</b>	608,141
Interest on share capital and patronage refund	<b>17,721,954</b>	13,176,385
	<b>₱27,264,545</b>	₱20,271,361

See accompanying Notes to Financial Statements.

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**MASS-SPECC COOPERATIVE DEVELOPMENT CENTER**  
**STATEMENTS OF CHANGES IN MEMBERS' EQUITY**

	Years Ended December 31	
	2016	2015
<b>SHARE CAPITAL (Note 16)</b>		
Common:		
Balance at beginning of year	P218,002,794	P194,086,773
Additional members' contributions	20,312,115	23,916,021
Balance at end of year	238,314,909	218,002,794
Preferred:		
Balance at beginning of year	7,222,083	11,119,094
Additional members' contributions - net of transfers from (to) time deposits	37,070	(3,897,011)
Balance at end of year	7,259,153	7,222,083
Total share capital	245,574,062	225,224,877
<b>OTHER COMPONENTS OF EQUITY (Note 16)</b>		
Unrealized loss on available for sale securities:		
Balance at beginning of year	(8,396,565)	183,906
Fair value losses on available for sale securities (Note 8)	(6,169,809)	(8,580,471)
Balance at end of year	(14,566,374)	(8,396,565)
Remeasurement loss on defined benefit plan:		
Balance at beginning of year	(8,626,965)	(3,645,974)
Actuarial losses on defined benefit plan (Note 20)	(4,589,226)	(4,980,991)
Balance at end of year	(13,216,191)	(8,626,965)
Revaluation increment on land:		
Balance at beginning of year	14,194,905	8,854,005
Increase in fair value of land (Note 9)	-	5,340,900
Balance at end of year	14,194,905	14,194,905
Total other components of equity	(13,587,660)	(2,828,625)
<b>STATUTORY FUNDS (Note 16)</b>		
General reserve fund:		
Balance at beginning of year	53,923,478	46,295,203
Allocation from net surplus	5,452,909	4,054,272
Adjustments	690,602	3,574,003
Balance at end of year	60,066,989	53,923,478
Cooperative education and training fund:		
Balance at beginning of year	1,013,568	1,506,326
Allocation from net surplus	1,363,227	1,013,568
Disbursements	(1,013,568)	(1,506,326)
Balance at end of year	1,363,227	1,013,568
Land and building development fund:		
Balance at beginning of year	10,525,876	9,715,022
Allocation from net surplus	1,090,583	810,854
Balance at end of year	11,616,459	10,525,876
Information and communication technology development fund:		
Balance at beginning of year	4,771,722	4,163,581
Allocation from net surplus	817,936	608,141
Balance at end of year	5,589,658	4,771,722
Community development fund:		
Balance at beginning of year	3,091,532	3,299,913
Allocation from net surplus	817,936	608,141
Disbursements	(1,078,886)	(816,522)
Balance at end of year	2,830,582	3,091,532
Interest on share capital and patronage refund:		
Balance at beginning of year	-	-
Allocation from net surplus	17,721,954	13,176,385
Transfer to interest on share capital and patronage refund payable	(17,721,954)	(13,176,385)
Balance at end of year	-	-
Total statutory funds	81,466,915	73,326,176
<b>TOTAL MEMBERS' EQUITY</b>	<b>P313,453,317</b>	<b>P295,722,428</b>

See accompanying Notes to Financial Statements.

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**MASS-SPECC COOPERATIVE DEVELOPMENT CENTER**  
**STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net surplus before income tax	<b>₱27,881,108</b>	₱21,825,462
Adjustments for:		
Interest expense on borrowed funds (Note 12)	<b>13,041,822</b>	14,229,246
Depreciation and amortization (Note 9)	<b>7,118,356</b>	6,440,684
Impairment losses on property and equipment and investment property (Notes 9 and 10)	<b>419,880</b>	2,221,613
Net change in retirement benefit asset (Note 20)	<b>(2,347,740)</b>	(11,903,854)
Operating income before working capital adjustments	<b>46,113,426</b>	32,813,151
Decrease (increase) in:		
Loans and other receivables (Note 7)	<b>120,887,110</b>	(781,090)
Other current assets (Note 11)	<b>(35,260,805)</b>	(25,329,687)
Increase (decrease) in:		
Accounts payable and accrued expenses (Note 13)	<b>(165,085,487)</b>	217,362,441
Members' deposits (Note 14)	<b>147,318,330</b>	211,928,759
Net cash generated from operations	<b>113,972,574</b>	435,993,574
Interest paid	<b>(12,293,835)</b>	(15,518,089)
Net cash flows from operating activities	<b>101,678,739</b>	420,475,485
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to:		
Available-for-sale securities (Note 8)	<b>(16,308,744)</b>	(182,586,617)
Property and equipment (Note 9)	<b>(6,112,975)</b>	(5,265,506)
Proceeds from disposal of investment property (Note 10)	<b>575,858</b>	-
Increase in other noncurrent assets (Note 11)	<b>(64,364,740)</b>	(13,814,692)
Net cash flows used in investing activities	<b>(86,210,601)</b>	(201,666,815)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from:		
Interest-bearing loans and borrowings (Note 12)	<b>442,207,654</b>	191,720,936
Issuance of share capital - net of transfers from (to) time deposits (Note 16)	<b>20,349,185</b>	24,036,407
Payment of interest-bearing loans and borrowings (Note 12)	<b>(273,149,171)</b>	(368,822,509)
Decrease in:		
Other noncurrent liabilities (Note 15)	<b>(390,971)</b>	(8,467,300)
Statutory fund	<b>(14,578,237)</b>	(18,331,084)
Net cash flows from (used in) financing activities	<b>174,438,460</b>	(179,863,550)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>189,906,598</b>	38,945,120
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>245,970,840</b>	207,025,720
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)</b>	<b>₱435,877,438</b>	₱245,970,840

*See accompanying Notes to Financial Statements.*

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# MASS-SPECC COOPERATIVE DEVELOPMENT CENTER

## NOTES TO FINANCIAL STATEMENTS

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### 1. Cooperative Information

MASS-SPECC Cooperative Development Center (MASS-SPECC), with registration number 9520-1000063, is a federation of cooperatives organized on September 9, 1971, and duly registered with the Cooperative Development Authority (CDA) pursuant to Republic Act (R.A.) No. 6938 on December 27, 1990. On September 25, 2009 and pursuant to R.A. No. 9520, otherwise known as the Philippine Cooperative Code of 2008, MASS-SPECC was re-registered with the CDA. MASS-SPECC's business address is Tiano-Yacapin Streets, Cagayan de Oro City, Philippines.

MASS-SPECC, as allowed by its Articles of Cooperation, is engaged in granting loans, receiving deposits, and providing other financial services to its member-cooperatives or affiliates. Over the years, MASS-SPECC has evolved a number of pioneering services, all geared towards the development of cooperatives to become relevant players in Mindanao development. Majority of MASS-SPECC's member-cooperatives or affiliates are in Mindanao.

#### Tax Exemption of MASS-SPECC

MASS-SPECC is enjoying tax exemption privilege for all its transactions with its member-cooperatives. Article 61 of R.A. No. 9520 stipulates that "cooperatives transacting business with both members and non-members shall not be subject to tax on their transactions with members." The exemption of MASS-SPECC was renewed in 2016 when it obtained its certificate of tax exemption from the Bureau of Internal Revenue (BIR) upon fulfilling the requirements of Article 144 (2) of R.A. No. 9520. This means that MASS-SPECC, for all its transactions with member-cooperatives, is exempted from any national, city, provincial, municipal, or barangay taxes of whatever name and nature, including exemption from custom duties, advanced sales of compensating taxes on importation of machinery, equipment, and spare parts which are not available locally as certified by the Department of Trade and Industry. For transactions with non-members, MASS-SPECC complies with the provisions of R.A. No. 8424 or the National Internal Revenue Code of the Philippines.

The financial statements of MASS-SPECC were authorized for issue by the Board of Directors (BOD) on March 3, 2017.

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### 2. Significant Accounting Policies

#### Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for available for sale securities (AFS) and land under property and equipment that are carried at fair values, and are presented in Philippine Peso (₱), MASS-SPECC's functional currency. All values are rounded to the nearest Philippine Peso, unless otherwise indicated.

#### Statement of Compliance

The financial statements of MASS-SPECC have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). PFRSs includes statements named PFRSs and Philippine Accounting Standards (PASs), including Philippine Interpretations from the International Financial Reporting Interpretations Committee (IFRIC) issued by the Philippine Financial Reporting Standards Council (FRSC).

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On September 16, 2015, the CDA issued Memorandum Circular No. 2015-06 prescribing the use of the Philippine Financial Reporting Framework for Cooperatives for consistency of accounting treatment for all cooperatives. The use of the prescribed framework is effective for financial statements issued starting 2016.

MASS-SPECC, however, obtained an exemption from the CDA on the use of the prescribed framework and applied PFRSs in its financial statements as at and for the year ended December 31, 2016.

#### Changes in Accounting Policies and Disclosures

MASS-SPECC applied for the first time certain amendments, which are effective for annual periods beginning on or after January 1, 2016. The adoption of these pronouncements did not have any significant impact on MASS-SPECC's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, PFRS 12 and PAS 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
  - Amendment to PFRS 5, *Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendment to PAS 19, *Discount Rate: Regional Market Issue*
  - Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

#### Standards Issued but Not Yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, MASS-SPECC does not expect the future adoption of the said pronouncements to have a significant impact on its financial statements. MASS-SPECC intends to adopt the following pronouncements when they become effective.

#### *Effective beginning on or after January 1, 2017*

- Amendment to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The amendments do not have any impact on MASS-SPECC's financial position and results of operation. MASS-SPECC will include the required disclosures in its 2017 financial statements.

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- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

Application of amendments will result in additional disclosures in the 2017 financial statements of MASS-SPECC.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

These amendments are not expected to have any impact on MASS-SPECC.

*Effective beginning on or after January 1, 2018*

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

These amendments are not expected to have any impact on MASS-SPECC.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They

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allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income (OCI), rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to MASS-SPECC since it does not have activities that are predominantly connected with insurance or issue insurance contracts.

▪ **PFRS 15, *Revenue from Contracts with Customers***

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

MASS-SPECC is primarily engaged in granting loans, receiving deposits, and providing other financial services to its member-cooperatives or affiliates. MASS-SPECC also serves as a training and resource center, databank, program coordinator for the cooperatives included in its roster of membership.

*(a) Sale of goods*

MASS-SPECC engages in installations of Automated Teller Machines (ATMs) and software to its various member cooperatives. Contracts with customers in which the sale of goods is generally expected to be the only performance obligation are not expected to have any impact on the MASS-SPECC's profit or loss. MASS-SPECC expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

In preparing to PFRS 15, the factor considered by MASS-SPECC is discussed below:

*Variable consideration.* Currently, MASS-SPECC recognizes revenue from the sale of goods measured by reference to the fair value of consideration received or receivable by MASS-SPECC for goods sold, excluding trade discounts. If revenue cannot be reliably measured, MASS-SPECC defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under PFRS 15, and will be required to be estimated at contract inception.

PFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. MASS-SPECC continues to assess individual contracts to determine the estimated variable consideration and related constraint.

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*(b) Rendering of services*

Other than the sale of goods, MASS-SPECC also derives income from granting loans, receiving deposits, and providing other financial services to its member-cooperatives or affiliates which are recognized as interest is accrued or the services have already been rendered. Under PFRS 15, allocation will be made based on relative stand-alone selling prices. As a result, the allocation of the consideration and consequently, the timing of the amount of revenue recognized in relation to the revenue from the rendering of services may be impacted. MASS-SPECC has preliminarily assessed that the services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by MASS-SPECC. MASS-SPECC would continue to recognize revenue for these service contracts/service components of bundled contracts over time rather than at a point in time.

*(c) Presentation and disclosure requirements*

PFRS 15 provides presentation and disclosure requirements, which are more detailed than under current PFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in MASS-SPECC's financial statements. Many of the disclosure requirements in PFRS 15 are completely new. In 2016, MASS-SPECC kept itself updated on developments in the standards and designed policies and procedures necessary to collect and disclose the required information.

▪ *PFRS 9, Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of MASS-SPECC's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the MASS-SPECC's financial liabilities. The adoption will also have an effect on the MASS-SPECC's credit losses. MASS-SPECC is currently assessing the impact of adopting this standard.

▪ *Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

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These amendments are not expected to have any impact on MASS-SPECC.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

MASS-SPECC is currently assessing the impact of these amendments on its financial statements.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The amendments are not expected to have any impact on MASS-SPECC.

*Effective beginning on or after January 1, 2019*

- PFRS 16, *Leases*

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

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Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

MASS-SPECC is currently assessing the impact of adopting PFRS 16.

#### *Deferred effectivity*

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

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

#### 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 measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to MASS-SPECC. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, MASS-SPECC determines whether or not transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, MASS-SPECC has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

#### Financial Assets

Financial assets are recognized when MASS-SPECC becomes a party to the contractual terms of the financial instrument. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity-investments and AFS financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVPL are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.

The categories of financial instruments relevant to MASS-SPECC are fully described below.

*Loans and Other Receivables.* Loans and other receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when MASS-SPECC provides money, goods, or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as noncurrent assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment loss, if any. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is objective evidence that MASS-SPECC will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amounts and the present values of estimated cash flows.

MASS-SPECC's financial assets categorized as loans and receivables are presented as cash and cash equivalents, loans and other receivables, and short-term placements under other current assets in the statements of financial position. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

*AFS Financial Assets.* AFS Financial assets include equity investment and debt securities. Equity investments recognized as AFS are those that are neither classified as held for trading nor designated at FVPL. Debt securities in this category are those that are intended to be held for an indefinite period of time, unless management intends to dispose of the investment within

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12 months from the end of the reporting period. MASS-SPECC's AFS financial assets include listed entity securities, corporate bonds, government bonds that are subsequently measured at fair value, and investments in shares of stock of other cooperatives and organizations that are not quoted in active market and their fair value cannot be readily measured. The investments in shares of stock of other cooperatives and organizations that are not quoted in active market are carried at cost less any impairment losses.

Gains and losses from changes in fair value of quoted AFS financial assets are recognized in OCI and are reported as part of the revaluation reserve account in members' equity. When the financial asset is disposed of, or is determined to be impaired, the cumulative fair value gains or losses recognized in OCI is reclassified from equity to profit or loss and is presented as reclassification adjustment within OCI.

Reversal of impairment losses are recognized in OCI, except for financial assets that are debt securities, and which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

Noncompounding interest, dividend income, and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

#### Financial Liabilities

Financial liabilities of MASS-SPECC, which include interest-bearing loans and borrowings, accounts payable and accrued expenses, members' deposits, and interest on share capital and patronage refund payable, are recognized when MASS-SPECC becomes a party to the contractual terms of the instrument, and which are measured at amortized cost using the effective interest method.

All interest related charges are recognized as an expense in profit or loss under captions "Interest on members' deposits" and "Interest on borrowed funds" in the statements of comprehensive income and distribution of net surplus.

Interest-bearing loans and borrowings, and members' deposits are raised for support of short and long-term funding of operations. They are recognized at proceeds received, net of direct issue costs. Finance charges are charged to profit or loss on an accrual basis using the effective interest method, and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Accounts payable and accrued expenses, and interest on share capital and patronage refund payable are initially recognized at fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Interest on share capital and patronage refund (or dividend payable) for distributions to members is recognized as financial liability upon declaration by the BOD, subject to the concurrence of the General Assembly.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period, or when MASS-SPECC does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. Otherwise, these are presented as noncurrent liabilities.

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### Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset have expired;
- MASS-SPECC retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- MASS-SPECC has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When MASS-SPECC has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of MASS-SPECC’s continuing involvement in the asset.

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the separate statement of comprehensive income.

### Property and Equipment

Land is measured at fair value. All other property and equipment are stated at cost less accumulated depreciation and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements, and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Following initial recognition at cost, land is carried at a revalued amount, which is the fair value at the date of the revaluation, as determined by independent appraisers. Revalued amounts are fair market values determined in appraisals by external professional valuers, unless market-based factors indicate immediate impairment risk. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm’s length transaction as of the valuation date. Any revaluation surplus is recognized in OCI and credited to the revaluation reserves account in the statement of changes in members’ equity. Any revaluation deficit directly offsetting a previous surplus in the same asset is charged to OCI to the extent of any revaluation surplus in members’ equity relating to this asset, and the remaining deficit, if any, is recognized in profit or loss.

Upon disposal of revalued assets, amounts included in revaluation reserves relating to them are transferred to general reserve fund account under members’ equity. Revaluations are performed every two years unless circumstances require annual revaluations.

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Depreciation is computed on the straight line basis over the estimated useful lives of the assets, as follows:

	Years
Building and improvements	5–25 years
Transportation equipment	8 years
Furniture, fixtures and equipment	2–8 years
Kitchenware, dinnerware and others	2–5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at each reporting date.

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

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

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 the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognized. When assets are retired or otherwise disposed of, both the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts while any resulting gain or loss is included in the profit or loss.

#### Investment Property

Investment property pertains to parcels of land acquired by MASS-SPECC in settlement of loans from defaulting borrowers through foreclosure or "dation in payment," and is currently held either to earn rental or for capital appreciation or for both, but not for sale in the ordinary course of business or use in the supply of services or for administrative purpose.

These properties are initially recognized at fair value plus directly attributable cost incurred such as legal fees, transfer taxes and other transaction costs. Subsequent to initial recognition, the investment property is stated at cost less any impairment losses, if any.

MASS-SPECC adopted the cost model in measuring the asset; hence, the cost is carried or computed as cost less any impairment in value. The carrying value of the asset, if reviewed for impairment when changes in circumstances indicate the carrying value, may not be recoverable. If any such indication exists, and where the carrying value exceeds the estimated recoverable amount, the asset is written down to its recoverable amount while impairment losses are recognized in the statements of comprehensive income and distribution of net surplus.

The investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of the asset is recognized in the statements of comprehensive income and distribution of net surplus in the year of retirement or disposal.

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#### Impairment of Nonfinancial Assets

MASS-SPECC's property and equipment and investment property are subject to impairment testing. Individual assets or cash generating units (CGUs) are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. As a result, some assets are tested for impairment individually; others at CGU level.

An impairment loss is recognized for the amount by which the asset or CGU's carrying amount exceeds its recoverable amount. The recoverable amount is the higher amount between the fair value (reflecting market conditions) less costs to sell, and the value in use, which is computed based on an internal discounted cash flow evaluation. Impairment loss is charged pro-rata to the other assets in the CGU.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

#### Revenue and Expense Recognition

Revenue comprises revenue from the sale of goods and rendering of services measured by reference to the fair value of consideration received or receivable by MASS-SPECC for goods sold and services rendered, excluding trade discounts.

If revenue is recognized to the extent that the revenue can be reliably measured, it is probable that the economic benefits will flow to MASS-SPECC; and therefore, the costs incurred or to be incurred can also be reliably measured. However, before any revenue is recognized, the following specific recognition criteria must also be met:

- *Interest income on loans and other receivables.* This is recognized as the interest accrues taking into account the effective yield on the asset.
- *Consulting and service fees, service fees from conditional cash transfer, ATM installations and education and training.* Revenue is recognized when the service has already been provided.
- *Income from bank deposits and investments.* This is recognized as the interest accrues or when income is earned.

Cost and expenses are recognized in profit or loss upon utilization of goods or services, or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis.

#### Retirement Benefit Obligation

Pension benefits are provided to employees through a defined benefit plan.

*Post-employment Defined Benefit Plan.* The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

The following comprise the defined benefit costs:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs, which include current service costs, past service costs, and gains or losses on nonroutine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

#### Donations and Grants

Donations and grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as an income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as an income in equal amounts over the expected useful life of the related asset.

When MASS-SPECC receives grants of nonmonetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual installments.

#### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

- a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. There is a change in the determination of whether fulfillment is dependent on a specific asset;  
or
- d. There is a substantial change to the asset.

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Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

*As Lessee.* Operating lease payments are recognized as an expense in the profit or loss on a straight line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognized as a reduction of rental expense over the lease term on a straight line basis.

*As Lessor.* Leases where MASS-SPECC retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Contingent rents are recognized as revenue in the period in which they are earned. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on a straight line basis.

#### Members' Equity

Share capital is determined using the nominal value of shares that have been issued.

Statutory funds include all current and prior period results, net of interest on share capital and patronage refunds, as reported in the statements of comprehensive income and distribution of net surplus.

Other components of equity comprise gains and losses due to the revaluation of property and equipment and certain financial assets, and actuarial gains and losses on defined benefit plan.

#### Provisions and Contingencies

Provisions are recognized when current obligations are projected to lead to an outflow of economic resources, and therefore are reliably estimated even if the timing or amount of the outflow may still be uncertain. A current obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the current obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Provisions due to passage of time are recognized as expense.

In cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to MASS-SPECC that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that MASS-SPECC can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

#### Events After the Reporting Period

Any post-year-end event that provides additional information about MASS-SPECC's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements.

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Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

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### 3. Significant Accounting Judgment, Estimates and Assumptions

The preparation of the financial statements requires MASS-SPECC to make judgment, estimates, and assumptions that affect the reported amounts of income, expenses, assets, liabilities and the accompanying disclosures. Future events may occur which will cause the judgment, estimates and assumptions used in arriving at the estimates to change. The effects of any change in judgment, estimates, and assumptions are reflected in the financial statements as they become reasonably determinable.

#### Judgment

The judgment made by management in the process of applying MASS-SPECC's accounting policies, apart from those involving estimation, that have the most significant effect on the amounts recognized in the financial statements:

*Provisions and Contingencies.* Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.

#### Estimates and Assumptions

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

*Allowance for Impairment of Loans and Other Receivables.* Allowance is made for specific and groups of accounts where objective evidence of impairment exists. MASS-SPECC evaluates these accounts based on available facts and circumstances, including, but is not limited to, the length of MASS-SPECC's relationship with the members, the members' current credit status, average age of accounts, collection experience, and historical loss experience. The carrying value of loans and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 7. MASS-SPECC recognized impairment loss amounting to ₱2.6 million in December 31, 2016 and nil in December 31, 2015, respectively (see Note 7).

*Impairment Losses of AFS Investments.* MASS-SPECC, at each reporting period, assesses whether or not there is objective evidence that a financial asset or group of similar financial assets is impaired.

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of comprehensive income is transferred from fund balances to the statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through the statement of comprehensive income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income.

The carrying value of AFS investments amounted to ₱396.7 million and ₱386.5 million as of December 31, 2016 and 2015, respectively (see Note 8). No provision for impairment losses of AFS investments was recognized in 2016 and 2015.

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*Fair Value Measurement of Financial Instruments.* When fair values of financial assets and financial liabilities recorded in the statements of financial position cannot be measured based on quoted prices in active markets, the fair value is measured using valuation techniques, which includes the discounted cash flow model. The inputs to these models are taken from observable markets where possible. However, when these inputs are not available, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs, such as liquidity risk, credit risk, and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (see Note 4).

*Fair Value of Land.* MASS-SPECC carries its land value under “Property and equipment” at fair value, with changes in fair value being recognized as part of the “Revaluation reserves” account in the statements of changes in members’ equity. MASS-SPECC engaged an independent valuation specialist to assess the fair value of its land. For these assets, the valuation methodology based on a Sales Comparison Approach was used (see Note 9).

*Impairment of Nonfinancial Assets.* MASS-SPECC’s policy on estimating the impairment of nonfinancial assets is discussed in detail in Note 2. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values. Any resulting impairment loss could have a material adverse effect on the results of operations.

MASS-SPECC recognized impairment loss amounting to ₱0.4 million and ₱2.2 million in 2016 and 2015, respectively, for its property and equipment (see Note 9) and investment property (see Note 10).

*Post-employment Defined Benefit Plan.* The cost of defined benefit pension plans and other post-employment medical benefits as well as the present value of the retirement benefit obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality and disability rates, and future retirement benefit obligation increases. Due to the complexity of the valuation, the underlying assumptions, and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The net retirement benefit asset amounted to ₱8.0 million and ₱10.2 million as of December 31, 2016 and 2015, respectively (see Note 20).

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#### 4. Financial Risk Management Policies and Objectives

MASS-SPECC is exposed to certain financial risks in relation to financial instruments. MASS-SPECC’s financial assets and liabilities by category are summarized in Note 5. The main types of risks are market risk, credit risk, and liquidity risk.

The management takes charge of MASS-SPECC’s overall risk management strategies, which is focused on actively monitoring and securing its short-to-medium-term cash flows by minimizing the exposure to financial markets.

MASS-SPECC does not engage in the trading of financial assets for speculative purposes, nor does it write-off options. The most significant financial risks to which MASS-SPECC is exposed to are described in the succeeding pages.

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Market Risk

Market risk is the risk of loss to future earnings, to fair values, or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchanges rates, commodity prices, equity prices and other market changes. MASS-SPECC's market risk originates from its holdings in its AFS investments.

*Interest Rate Risk.* MASS-SPECC's policy is to minimize interest rate cash flow risk exposures on long term financing. At December 31, 2016, MASS-SPECC is exposed to changes in market interest rates through its cash and cash equivalents, short-term placements under other current assets and bonds and deposits under other noncurrent assets which are subject to variable interest rates (see Notes 6 and 11). All other financial assets and liabilities, such as loans and other receivables, members' deposits, and interest-bearing loans and borrowings have fixed interest rates.

The table below presents the sensitivity of MASS-SPECC's net result for the year and equity to a reasonably possible change in interest rate of +/- 8.37% and +/- 9.37% for short-term placements under cash and cash equivalents and other current assets in 2016 and 2015, respectively. These changes are considered to be reasonably possible based on observation of current market conditions. The calculation is based on changes in the average market interest rates for the period, and the financial instruments held at the end of each reporting period that are sensitive to changes in interest rates. All other variables are held constant.

	Increase (Decrease) in Interest Rate	Effect on Income before Tax
<b>2016</b>	<b>+8.37%</b>	<b>₱13,792,542</b>
	<b>-8.37%</b>	<b>(13,792,542)</b>
2015	+9.37%	9,841,329
	-9.37%	(9,841,329)

Credit Risk

Credit risk is the risk that counterparty will fail to discharge an obligation to MASS-SPECC. MASS-SPECC is exposed to credit risk from its operating and investing activities. Its maximum exposure to credit risk for the components of the statement of financial position as of December 31, 2016 and 2015 is the carrying amounts as shown below:

	2016	2015
Loans and receivables:		
Cash and cash equivalents*	<b>₱435,786,945</b>	₱245,951,922
Loans and other receivables	<b>702,094,212</b>	822,981,322
91 day to 365 day short-term placements**	<b>62,657,850</b>	26,475,418
Bonds and deposits**	<b>92,866,380</b>	29,575,787
	<b>1,293,405,387</b>	1,124,984,449
AFS financial assets:		
Quoted equity securities	<b>191,480,786</b>	124,994,434
Quoted debt securities	<b>189,095,368</b>	250,413,767
Unquoted equity securities	<b>16,107,637</b>	11,136,655
	<b>₱1,690,089,178</b>	₱1,511,529,305

\* Excluding cash on hand amounting to ₱90,493 and ₱18,918 in 2016 and 2015, respectively.

\*\* Presented under other assets.

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The aging analysis of loans and receivables and AFS securities as of December 31, 2016 and 2015 are as follows:

	2016						
	Total	Neither Past Due nor Impaired	Past Due But not Impaired				Impaired
			Less than 30 Days	30-60 Days	61-90 Days	More than 90 Days	
Loans and receivables:							
Cash and cash equivalents*	<b>₱435,786,945</b>	<b>₱435,786,945</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>
Loans and other receivables	<b>733,019,344</b>	<b>701,640,370</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>453,842</b>	<b>30,925,132</b>
91 day to 365 day short-term placements**	<b>62,657,850</b>	<b>62,657,850</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Bonds and deposits**	<b>92,866,380</b>	<b>92,866,380</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
AFS financial assets:							
Quoted equity securities	<b>191,480,786</b>	<b>191,480,786</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Quoted debt securities	<b>189,095,368</b>	<b>189,095,368</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Unquoted equity securities	<b>16,107,637</b>	<b>16,107,637</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>₱1,721,014,310</b>	<b>₱1,689,635,336</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱453,842</b>	<b>₱30,925,132</b>

\* Excluding cash on hand amounting to ₱90,493.

\*\* Presented under other assets.

	2015						
	Total	Neither Past Due nor Impaired	Past Due But not Impaired				Impaired
			Less than 30 Days	30-60 Days	61-90 Days	More than 90 Days	
Loans and receivables:							
Cash and cash equivalents*	<b>₱245,951,922</b>	<b>₱245,951,922</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>
Loans and other receivables	<b>851,257,616</b>	<b>822,247,989</b>	<b>-</b>	<b>733,333</b>	<b>-</b>	<b>-</b>	<b>28,276,294</b>
91 day to 365 day short-term placements**	<b>26,475,418</b>	<b>26,475,418</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Bonds and deposits**	<b>29,575,787</b>	<b>29,575,787</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
AFS financial assets:							
Quoted debt securities	<b>250,413,767</b>	<b>250,413,767</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Quoted equity securities	<b>124,994,434</b>	<b>124,994,434</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Unquoted equity securities	<b>11,136,655</b>	<b>11,136,655</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>₱1,539,805,599</b>	<b>₱1,510,795,972</b>	<b>₱-</b>	<b>₱733,333</b>	<b>₱-</b>	<b>₱-</b>	<b>₱28,276,294</b>

\* Excluding cash on hand amounting to ₱18,918.

\*\* Presented under other assets.

*Cash.* The credit risk for cash is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Cash in banks, which are insured by the Philippine Deposit Insurance Corporation up to maximum coverage of ₱0.5 million per depositor per banking institution, and as provided for under R.A. No. 9302, Charter of Philippine Deposit Insurance Corporation, are still subject to credit risk.

*Loans and Other Receivables.* MASS-SPECC's loans and other receivables are actively monitored to avoid significant concentration of credit risk. MASS-SPECC continuously monitors defaults of borrowers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. MASS-SPECC's policy is to deal only with creditworthy counterparties.

MASS-SPECC's management considers that all of the above financial assets that are not impaired for each of the reporting dates under review are of sound credit quality, including those that are past due (see Note 7).

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With regards to loans and other receivables, MASS-SPECC is not exposed to any significant credit risk exposure to any single counterparty. There is, however, a concentration risk on loans receivable and accounts receivable because the counterparties are all cooperatives.

Credit quality per class of MASS-SPECC's financial assets that are neither past due nor impaired follows:

2016						
	Neither Past Due nor Impaired			Past Due but Not Impaired	Impaired	Total
	High	Medium	Low			
Loans and receivables:						
Cash and cash equivalents*	P435,786,945	P-	P-	P-	P-	P435,786,945
Loans and other receivables	701,640,370	-	-	453,842	30,925,132	733,019,344
91 day to 365 day short-term placements**	62,657,850	-	-	-	-	62,657,850
Bonds and deposits**	92,866,380	-	-	-	-	92,866,380
AFS financial assets:						
Quoted equity securities	191,480,786	-	-	-	-	191,480,786
Quoted debt securities	189,095,368	-	-	-	-	189,095,368
Unquoted equity securities	16,107,637	-	-	-	-	16,107,637
	<b>P1,689,635,336</b>	<b>P-</b>	<b>P-</b>	<b>P453,842</b>	<b>P30,925,132</b>	<b>P1,721,014,310</b>

\* Excluding cash on hand amounting to P90,493.

\*\* Presented under other assets.

2015						
	Neither Past Due nor Impaired			Past Due but Not Impaired	Impaired	Total
	High	Medium	Low			
Loans and receivables:						
Cash and cash equivalents*	P245,951,922	P-	P-	P-	P-	P245,951,922
Loans and other receivables	822,247,989	-	-	733,333	28,276,294	851,257,616
91 day to 365 day short-term placements**	26,475,418	-	-	-	-	26,475,418
Bonds and deposits**	29,575,787	-	-	-	-	29,575,787
AFS financial assets:						
Quoted debt securities	250,413,767	-	-	-	-	250,413,767
Quoted equity securities	124,994,434	-	-	-	-	124,994,434
Unquoted equity securities	11,136,655	-	-	-	-	11,136,655
	<b>P1,510,795,972</b>	<b>P-</b>	<b>P-</b>	<b>P733,333</b>	<b>P28,276,294</b>	<b>P1,539,805,599</b>

\* Excluding cash on hand amounting to P18,918.

\*\* Presented under other assets.

High quality financial assets include cash, which include cash on hand and in banks, receivables from employees and member-cooperatives with good favorable credit standing based on historical experience, and bonds and deposits. Medium quality financial assets are active accounts with propensity of deteriorating to mid-range age buckets. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly. Low quality financial assets are accounts which have probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up actions and extended payment terms.

#### Liquidity Risk

Liquidity risk is the risk that MASS-SPECC will be unable to meet its payment obligations when they fall due under normal and stress circumstances. MASS-SPECC seeks to manage its liquidity profile to be able to service its maturing debts, and to finance operating and capital requirements. MASS-SPECC maintains a level of cash on hand and in banks to cover liquidity needs. As part of its liquidity risk management, MASS-SPECC regularly evaluates its projected and actual cash flows.

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The tables below summarize MASS-SPECC's financial assets that can be used to manage its liquidity risk and the maturity profile of MASS-SPECC financial liabilities as of December 31, 2016 and 2015 based on contractual undiscounted payments:

	2016		Total
	One Year and Below	More than One Year	
<b>Financial Assets</b>			
Loans and receivables:			
Cash and cash equivalents	P435,877,438	P-	P435,877,438
Loans and other receivables - net	487,285,276	214,808,936	702,094,212
91 day to 365 day short-term placements*	62,657,850	-	62,657,850
Bonds and deposits*	-	92,866,380	92,866,380
AFS financial assets:			
Quoted equity securities	-	191,480,786	191,480,786
Quoted debt securities	-	189,095,368	189,095,368
Unquoted equity securities	-	16,107,637	16,107,637
	<b>985,820,564</b>	<b>704,359,107</b>	<b>1,690,179,671</b>
<b>Financial Liabilities</b>			
Financial liabilities at amortized costs:			
Accounts payable and accrued expenses**	P109,338,118	P-	P109,338,118
Interest-bearing loans and borrowings	182,818,274	38,165,146	220,983,420
Members' deposits	270,633,043	814,099,191	1,084,732,234
Interest on share capital and patronage refund payable	17,721,954	-	17,721,954
	<b>580,511,389</b>	<b>852,264,337</b>	<b>1,432,775,726</b>
<b>Net Inflow (Outflows)</b>	<b>P405,309,175</b>	<b>(P147,905,230)</b>	<b>P257,403,945</b>

\* Presented under other assets.

\*\* Excluding withholding taxes amounting to P291,359.

	2015		Total
	One Year and Below	More than One Year	
<b>Financial Assets</b>			
Loans and receivables:			
Cash and cash equivalents	P245,970,840	P-	P245,970,840
Loans and other receivables - net	606,741,322	216,240,000	822,981,322
91 day to 365 day short-term placements*	26,475,418	-	26,475,418
Bonds and deposits*	-	29,575,787	29,575,787
AFS financial assets:			
Quoted debt securities	-	250,413,767	250,413,767
Quoted equity securities	-	124,994,434	124,994,434
Unquoted equity securities	-	11,136,655	11,136,655
	<b>879,187,580</b>	<b>632,360,643</b>	<b>1,511,548,223</b>
<b>Financial Liabilities</b>			
Financial liabilities at amortized costs:			
Accounts payable and accrued expenses**	P273,086,074	P-	P273,086,074
Interest-bearing loans and borrowings	41,103,508	10,821,429	51,924,937
Members' deposits	250,826,025	686,587,879	937,413,904
Interest on share capital and patronage refund payable	13,176,385	-	13,176,385
	<b>578,191,992</b>	<b>697,409,308</b>	<b>1,275,601,300</b>
<b>Net Inflow (Outflows)</b>	<b>P300,995,588</b>	<b>(P65,048,665)</b>	<b>P235,946,923</b>

\* Presented under other assets.

\*\* Excluding withholding taxes amounting to P264,340.

Members' deposits and interest-bearing loans and borrowings, as presented above, are inclusive of interest.

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## 5. Categories and Fair Values of Financial Assets and Liabilities

### Comparison of Carrying Amounts and Fair Values

The carrying amounts and fair values of the categories of financial assets and liabilities presented in the statements of financial position are shown below.

	Carrying Values		Fair Values	
	2016	2015	2016	2015
<b>Financial Assets</b>				
Loans and receivables:				
Cash and cash equivalents	<b>P435,877,438</b>	P245,970,840	<b>P435,877,438</b>	P245,970,840
Loans and other receivables - net	<b>702,094,212</b>	822,981,322	<b>702,094,212</b>	822,981,322
91 day to 365 day short-term placements*	<b>62,657,850</b>	26,475,418	<b>62,657,850</b>	26,475,418
Bonds and deposits*	<b>92,866,380</b>	29,575,787	<b>92,866,380</b>	29,575,787
AFS securities:				
Quoted equity securities	<b>191,480,786</b>	124,994,434	<b>191,480,786</b>	124,994,434
Quoted debt securities	<b>189,095,368</b>	250,413,767	<b>189,095,368</b>	250,413,767
Unquoted equity securities	<b>16,107,637</b>	11,136,655	<b>16,107,637</b>	11,136,655
	<b>P1,690,179,671</b>	P1,511,548,223	<b>P1,690,179,671</b>	P1,511,548,223

### **Financial Liabilities**

Financial liabilities at amortized costs:

Accounts payable and accrued expenses**	<b>P109,338,118</b>	P273,086,074	<b>P109,338,118</b>	P273,086,074
Interest-bearing loans and borrowings	<b>220,983,420</b>	51,924,937	<b>191,832,886</b>	51,527,699
Members' deposits	<b>1,084,732,234</b>	937,413,904	<b>1,084,732,234</b>	937,413,904
Interest on share capital and patronage refund payable	<b>17,721,954</b>	13,176,385	<b>17,721,954</b>	13,176,385
	<b>P1,432,775,726</b>	P1,275,601,300	<b>P1,403,625,192</b>	P1,275,204,062

\* Presented under other assets.

\*\* Excluding withholding taxes amounting to P291,359 and P264,340 in 2016 and 2015, respectively.

Note 2 provides for a description of the accounting policies for each category of financial instrument and a description of MASS-SPECC's risk management objectives and policies for financial instruments is provided in Note 4.

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

- *Cash and Cash Equivalents, 91 day to 365 day Short-term Placements, Accounts Payable and Accrued Expenses, and Interest on Share Capital and Patronage Refund Payable.* The carrying amounts approximate fair values due to relatively short-term maturity of these financial instruments.
- *Loans and Other Receivables - Net.* The estimated fair value is equal to the carrying amount as this is carried based on the discounted value of future cash flows using the prevailing market interest rates as of the balance sheet dates.
- *Members' Deposits.* The estimated fair values are equal to the carrying amounts as these are carried based on the discounted value of future cash flows using appropriate discount rates for similar type of liabilities.

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- *Interest-bearing Loans and Borrowings.* The fair value of borrowings with fixed interest rate is based on the discounted present value of cash flows using the Philippine Dealing System Treasury Reference Rate PM (PDST-R2). MASS-SPECC classifies the fair value of its interest-bearing loans and borrowings under Level 3.

Certain investments classified as investment in nonmarketable equity securities amounting to ₱16.1 million and ₱11.1 million in 2016 and 2015, respectively, are stated at cost since they have no available market price references and their fair values cannot be determined using valuation techniques.

During the years ended December 31, 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

## 6. Cash and Cash Equivalents

	2016	2015
Cash on hand	₱90,493	₱18,918
Cash in banks	333,659,342	167,397,143
Short-term placements	102,127,603	78,554,779
	<b>₱435,877,438</b>	<b>₱245,970,840</b>

Cash in banks generally earns interest at rates based on daily bank rates. Short-term placements are made for varying periods from 30 to 90 days and earn effective interest ranging from 1% to 10% in 2016 and 2015.

## 7. Loans and Other Receivables

	2016	2015
Loans receivable	₱507,697,610	₱477,105,738
Less allowance for impairment	26,906,858	24,258,020
	<b>480,790,752</b>	452,847,718
Other receivables:		
Accounts receivable	203,706,382	342,279,132
Accrued interest receivable	12,857,966	25,530,349
Receivable from officers and employees (Note 21)	4,481,697	4,091,924
Employee retirement loan	1,281,844	1,258,336
Others	2,993,845	992,137
	<b>225,321,734</b>	374,151,878
Less allowance for impairment	4,018,274	4,018,274
	<b>221,303,460</b>	370,133,604
	<b>₱702,094,212</b>	<b>₱822,981,322</b>

Loans and other receivables are further classified into the following:

	2016	2015
Current	₱487,285,276	₱606,741,322
Noncurrent	214,808,936	216,240,000
	<b>₱702,094,212</b>	<b>₱822,981,322</b>

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Regular loans pertain to loans provided to its members to finance their working capital requirements. These loans have a term ranging from three months to five years and earn interest at various rates from 5.0% up to a maximum rate of 21.0% per annum diminishing monthly. In the event of default, these loans are offset against the member-borrowers' contributions to MASS-SPECC.

Interest income earned from loan receivables are recognized as "Interest income on loans and receivables" in the statements of comprehensive income and distribution of net surplus. Accounts receivable pertains to various receivables from member-cooperatives for services rendered such as banking software and ATM installations, ATM processing and transactions fees, interest and penalties arising from restructured loans and unpaid cash to beneficiaries of Conditional Cash Conditional (CCT).

Accounts receivable - LBP pertains to MASS-SPECC's receivable from the Land Bank of the Philippines (LBP) for initially funding the distribution of cash grants to household beneficiaries of the Conditional Cash Transfer Pantawid Pamilyang Pilipino Program (CCT 4Ps) of the Department of Social Welfare and Development (DSWD) (see Note 18).

Receivable from officers and employees pertains to various cash advances made to CGUs for the expenses incurred related to operations of MASS-SPECC and are subject to liquidation. All long outstanding receivables from employees are currently paid through payroll deduction and succeeding availments will not be allowed unless previous advances are fully liquidated.

Employee retirement loan represents regular employees' long-term loan availments that are secured with assignment of future retirement benefits. These loans bear interest from 8% to 10% diminishing per annum in 2016 and 2015.

Others include long-term receivables from the spin-off of MASS-SPECC's auditing unit in July 2004 and receivables from resigned employees.

All of MASS-SPECC's loans and other receivables had been reviewed for indicators of impairment. A reconciliation of the allowance for impairment loss on loans and other receivables at the beginning and end of 2016 and 2015 is shown below.

	<b>2016</b>	2015
Balance at beginning of year	<b>₱28,276,294</b>	₱33,034,795
Impairment loss during the year	<b>2,648,838</b>	-
Write-offs during the year	-	(4,758,501)
<b>Balance at end of year</b>	<b>₱30,925,132</b>	₱28,276,294

Certain past due loans and other receivables had been provided with allowance for impairment using Portfolio at Risk (PAR) based on the rates prescribed by the CDA.

Certain loan receivables are assigned with recourse to creditor banks of MASS-SPECC's as collateral for its borrowings (see Note 12).

Interest income on loans and other receivables recognized in the statements of comprehensive income amounted to ₱55.6 million and ₱61.1 million in 2016 and 2015, respectively.

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## 8. Available-for-Sale Securities

The carrying amounts of the AFS financial securities as of December 31, 2016 and 2015 are classified as follows:

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	2016	2015
Quoted equity securities	<b>₱191,480,786</b>	₱124,994,434
Quoted debt securities	<b>189,095,368</b>	250,413,767
Total quoted AFS securities	<b>380,576,154</b>	375,408,201
Unquoted nonmarketable equity securities	<b>16,107,637</b>	11,136,655
	<b>₱396,683,791</b>	₱386,544,856

Investment in AFS debt securities of MASS-SPECC at December 31, 2016 and 2015 earns interest at the following annual rates:

	2016	2015
Peso bonds	<b>3.0%–6.0%</b>	1.0%–3.0%
Government securities	<b>3.0%–5.0%</b>	3.0%–4.0%

The fair values of the quoted equity and debt securities are derived from quoted market prices in active markets. Unquoted nonmarketable equity securities are not quoted in active market and their fair value cannot be readily measured. These equity securities are accounted for under the cost method.

The reconciliation of the carrying amounts of the quoted AFS securities in 2016 and 2015 follows:

	2016	2015
At January 1	<b>₱375,408,201</b>	₱201,427,184
Additions during the year	<b>10,878,012</b>	183,048,634
Amortization of discount (premium)	<b>459,750</b>	(487,146)
Unrealized valuation losses:		
Balance at the beginning of the year	<b>(8,580,471)</b>	(3,264,241)
Changes in fair value	<b>2,410,662</b>	(5,316,230)
At December 31	<b>₱380,576,154</b>	₱375,408,201

The fair value losses of ₱6.2 million and ₱8.6 million in 2016 and 2015, respectively, are presented as OCI in the statements of comprehensive income. The fair value of AFS securities have been determined directly by reference to published prices in active markets.

MASS-SPECC had established investment management accounts and appointed reputable banks as investment managers.

Unquoted nonmarketable equity securities of MASS-SPECC at December 31, 2016 and 2015 consist of the following:

	2016	2015
Coop Life Insurance & Mutual Benefit Services	<b>₱4,215,695</b>	₱3,163,423
Premier Health Cooperative Federation	<b>3,250,000</b>	–
Federation of People’s Sustainable Development Cooperative	<b>2,845,464</b>	2,377,482
Coop Bank of Plaridel Misamis Occidental	<b>2,000,000</b>	2,000,000
National Confederation of Cooperatives	<b>1,213,860</b>	1,013,132
Philippine Cooperative Center	<b>223,241</b>	223,241
Others	<b>3,132,087</b>	3,132,087
	<b>16,880,347</b>	11,909,365
Less allowance for impairment	<b>772,710</b>	772,710
	<b>₱16,107,637</b>	₱11,136,655

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MASS-SPECC carries its investment in shares of stock (unquoted equity securities) using cost method. Under this method, dividends are recognized as income when received. When there is a significant and apparently permanent decline in value of the investment, as indicated by a series of operating losses of an investee or other factors, the carrying amount of the investment is written down to fair value.

## 9. Property and Equipment

	2016						
	At Cost						
	Land at Fair Value	Furniture Fixtures and Equipment	Building and Improvements	Transportation Equipment	Kitchenware Dinnerware and Others	Construction in Progress	Total
<b>Cost or Valuation</b>							
At January 1	₱17,133,300	₱58,757,751	₱45,304,091	₱5,786,185	₱835,205	₱170,926	₱127,987,458
Additions	–	4,190,920	1,093,370	–	10,478	818,207	6,112,975
Reclassifications	–	–	832,633	–	–	(832,633)	–
At December 31	17,133,300	62,948,671	47,230,094	5,786,185	845,683	156,500	134,100,433
<b>Accumulated depreciation and impairment</b>							
At January 1	₱–	₱50,853,827	₱27,077,150	₱2,400,482	₱725,507	₱–	₱81,056,966
Depreciation	–	4,043,920	2,430,716	643,152	568	–	7,118,356
At December 31	–	54,897,747	29,507,866	3,043,634	726,075	–	88,175,322
<b>Net Book Value</b>	<b>₱17,133,300</b>	<b>₱8,050,924</b>	<b>₱17,722,228</b>	<b>₱2,742,551</b>	<b>₱119,608</b>	<b>₱156,500</b>	<b>₱45,925,111</b>

  

	2015						
	At Cost						
	Land at Fair Value	Furniture Fixtures and Equipment	Building and Improvements	Transportation Equipment	Kitchenware Dinnerware and Others	Construction in Progress	Total
<b>Cost or Valuation</b>							
At January 1	₱11,154,900	₱56,129,488	₱44,923,868	₱4,337,185	₱766,859	₱68,752	₱117,381,052
Additions	637,500	2,628,263	224,011	1,449,000	68,346	258,386	5,265,506
Appraisal increase	5,340,900	–	–	–	–	–	5,340,900
Reclassifications	–	–	156,212	–	–	(156,212)	–
At December 31	17,133,300	58,757,751	45,304,091	5,786,185	835,205	170,926	127,987,458
<b>Accumulated depreciation and impairment</b>							
At January 1	–	45,083,714	24,693,082	1,893,174	724,699	–	72,394,669
Depreciation	–	3,548,500	2,384,068	507,308	808	–	6,440,684
Impairment loss	–	2,221,613	–	–	–	–	2,221,613
At December 31	–	50,853,827	27,077,150	2,400,482	725,507	–	81,056,966
<b>Net Book Value</b>	<b>₱17,133,300</b>	<b>₱7,903,924</b>	<b>₱18,226,941</b>	<b>₱3,385,703</b>	<b>₱109,698</b>	<b>₱170,926</b>	<b>₱46,930,492</b>

The fair values of land as of December 31, 2016 and 2015, as determined by an accredited independent appraiser based on International Valuation Standards, amounted to ₱17.1 million. The fair values of land exceed its costs by ₱14.2 million as of December 31, 2016 and 2015, which is presented as part of “Revaluation increment on land” account in the statements of changes in members’ equity. MASS-SPECC classifies the fair value of its land under Level 3.

The fair value of the land was arrived at using the Sales Comparison Approach. The Sales Comparison Approach is a comparative approach that considers the sales of similar or substitute properties and related market data, which establishes a value estimate by processes involving comparison. Listings and offerings may also be considered.

In 2015, management determined that 15 ATM units with a net book value of ₱2.2 million were fully impaired and hence, impairment loss was recorded during this year.

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## 10. Investment Property

This represents land held for capital appreciation. The carrying amounts at the beginning and end of 2016 and 2015 are shown below:

	2016	2015
Balance at beginning of year	<b>₱3,451,233</b>	₱3,451,233
Disposals	<b>(575,858)</b>	-
Impairment loss during the year	<b>(419,880)</b>	-
Balance at end of year	<b>₱2,455,495</b>	₱3,451,233

The fair value of the investment property as of December 31, 2016 and 2015, based on the latest available appraisal values dated December 31, 2016, amounted to ₱2.1 million.

MASS-SPECC's land with a carrying amount of ₱1.8 million exceeds its fair value by ₱0.4 million. Consequently, MASS-SPECC recorded an impairment loss amounting to ₱0.4 million in 2016.

The fair value of investment property was arrived at using the Sales Comparison Approach. The Sales Comparison Approach is a comparative approach that considers the sales of similar or substitute properties and related market data, which establishes a value estimate by processes involving comparison. Listings and offerings may also be considered.

## 11. Other Assets

	2016	2015
Current:		
Short-term placements	<b>₱62,657,850</b>	₱26,475,418
Inventory supplies	<b>317,515</b>	302,614
Prepaid expenses	<b>100,839</b>	1,032,250
Others	<b>37,238</b>	42,355
	<b>₱63,113,442</b>	₱27,852,637
Noncurrent:		
Bonds and deposits	<b>₱92,866,380</b>	₱29,575,787
Others	<b>2,126,816</b>	1,052,669
	<b>₱94,993,196</b>	₱30,628,456

Short-term placements are made for varying periods from 91 to 365 days and earn effective interest ranging from 1% to 10% in 2016 and 2015.

The amortization expenses of the licenses and fees related to MASS-SPECC's Microbanking and Megalink connectivity systems amounted to ₱2.8 million and ₱1.9 million as of December 31, 2016 and 2015, respectively, and are presented as part of license fees of "Other operating expenses" account in the statements of comprehensive income and distribution of net surplus (see Note 19).

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## 12. Interest-Bearing Loans and Borrowings

	2016	2015
Current:		
LBP	<b>₱105,639,703</b>	₱12,836,842
Banco de Oro (BDO)	<b>65,000,000</b>	-
Philippine Business for Social Progress, Inc. (PBSP)	<b>12,178,571</b>	28,266,666
	<b>182,818,274</b>	41,103,508
Non-current:		
LBP	<b>38,165,146</b>	-
PBSP	-	10,821,429
	<b>38,165,146</b>	10,821,429
	<b>₱220,983,420</b>	₱51,924,937

MASS-SPECC obtained various secured loans from LBP payable from 2017 to 2019. These loans bear interest of 5.0% to 6.0% per annum and are being secured by deeds of assignment of loan receivables with recourse having total values of ₱204.7 million and ₱157.2 million in 2016 and 2015, respectively (see Note 7).

MASS-SPECC obtained various short-term notes from BDO due on May 2017. These notes bear interest of 3.5% to 3.8% per annum and are secured by government securities from Investment Management Account (IMA) in BDO.

MASS-SPECC obtained various two-year loans from PBSP in 2015 due on various dates in 2017. These loans bear interest of 5.0% to 5.5% per annum and are secured by deeds of assignment of loan receivables with recourse having total values of ₱37.5 million as of December 31, 2016 and 2015 (see Note 7).

Interest expense incurred from MASS-SPECC's borrowings amounted to ₱13.0 million and ₱14.2 million as of December 31, 2016 and 2015, respectively.

## 13. Accounts Payable and Accrued Expenses

	2016	2015
Accounts payable - LBP	<b>₱20,875,493</b>	₱233,305,300
Accounts payable	<b>49,082,648</b>	5,515,006
Accrued interest payable	<b>18,550,304</b>	21,960,882
Unearned income and service fees	<b>7,199,657</b>	3,548,411
Accrued expenses	<b>3,889,747</b>	2,833,045
Others	<b>10,031,628</b>	6,187,770
	<b>₱109,629,477</b>	₱273,350,414

Accounts payable - LBP pertains to the amount transferred by LBP to MASS-SPECC subject for liquidation upon distribution to of the cash grants to household beneficiaries of the CCT 4Ps of the DSWD (see Note 18).

Accounts payable, accrued interest payable and accrued expenses are non-interest bearing and are generally settled on 30 to 90 day terms.

Unearned income and service fees pertain to MASS-SPECC's ATM installations as well as its loan service fees which are amortized over the life of the loan.

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Others pertain to expanded tax withheld from suppliers, taxes withheld from employees' compensation, and other statutory payables remitted on a monthly basis.

#### 14. Members' Deposits

	2016	2015
Time deposits	<b>₱942,520,291</b>	₱847,975,973
ATM settlement deposits	<b>100,967,309</b>	67,709,367
Pooled funds	<b>40,317,383</b>	17,528,124
Regular savings	<b>927,251</b>	4,200,440
	<b>1,084,732,234</b>	937,413,904
Less current portion	<b>270,633,043</b>	250,826,025
	<b>₱814,099,191</b>	₱686,587,879

The time deposits have interest rates ranging from 2.0% to 7.5% in 2016 and 2.0% to 8.5% in 2015. Interest expense incurred on members' deposits recognized as "Interest on members' deposits" in the statements of comprehensive income and distribution of net surplus which amounted to ₱40.7 million and ₱50.6 million as of December 31, 2016 and 2015, respectively.

The breakdown of time deposits as to their maturities follows:

	2016	2015
Below one year	<b>₱168,738,484</b>	₱178,916,218
One to two years	<b>186,517,884</b>	188,787,270
Over one year to two years	<b>587,263,923</b>	480,272,485
	<b>₱942,520,291</b>	₱847,975,973

ATM settlement deposits represent cash received from members as security bond upon subscriptions of the ATM facilities. The noninterest-bearing deposits shall be returned to the depositor upon termination of the contract.

Pooled funds are sourced from retirement and general reserve fund of member-cooperatives. These deposits have a minimum holding period of 5 years. A 1% management fee is charged by MASS-SPECC for the earnings produced by the investments. Any residual benefit would be eventually given to MASS-SPECC's member-cooperatives.

#### 15. Other Noncurrent Liabilities

	2016	2015
Deferred donations and grants	<b>₱1,456,019</b>	₱1,863,848
Others	<b>1,125,370</b>	1,108,512
	<b>₱2,581,389</b>	₱2,972,360

Deferred donations and grants include the donation of a building to MASS-SPECC in 2006 as well as 44 units of used ATM units and 40 units of used personal computers given by Rabobank to MASS-SPECC in 2010. The 44 units of used ATM units were recognized at ₱22.0 million based on the fair market value of refurbished ATM units at the time of donation (see Note 9).

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Others pertain to project subsidy fund payable and hospitalization fund.

## 16. Members' Equity

### Share Capital

The details of the common shares and preferred shares are presented below:

	Shares		Amount	
	2016	2015	2016	2015
Common shares - ₱1,000 par value Authorized - 750,000 shares				
Issued:				
Balance at beginning of year	218,003	194,087	₱218,002,794	₱194,086,773
Issuances	20,312	23,916	20,312,115	23,916,021
<b>Total common shares</b>	<b>238,315</b>	<b>218,003</b>	<b>238,314,909</b>	<b>218,002,794</b>
Preferred shares - ₱1,000 par value Authorized - 250,000 shares				
Issued:				
Balance at beginning of year	7,222	11,119	7,222,083	11,119,094
Issuances	-	120	-	120,386
Transfers from (to) time deposits	37	(4,017)	37,070	(4,017,397)
<b>Total preferred shares</b>	<b>7,259</b>	<b>7,222</b>	<b>7,259,153</b>	<b>7,222,083</b>
<b>Total share capital</b>	<b>245,574</b>	<b>225,225</b>	<b>₱245,574,062</b>	<b>₱225,224,877</b>

Preferred shares are for the associate members with no voting rights and cannot be voted upon. As stipulated in the Articles of Cooperation, the preferred shares should not be more than the share capital (authorized, subscribed and paid-up). The interest rate of the preferred shares is based on the market rate or 3% whichever is higher.

### Statutory Funds

The details of this account as of December 31, 2016 and 2015 follow:

	2016	2015
General reserve fund	₱60,066,989	₱53,923,478
Cooperative development fund	16,961,088	15,070,455
Community development fund	3,075,611	3,318,675
Cooperative education and training fund	1,363,227	1,013,568
	<b>₱81,466,915</b>	<b>₱73,326,176</b>

### Other Components of Equity

The details of this account as of December 31, 2016 and 2015 follow:

	2016	2015
Unrealized loss on available for sale securities	(₱14,566,374)	(₱8,396,565)
Remeasurement loss on defined benefit plan	(13,216,191)	(8,626,965)
Revaluation increment on land	14,194,905	14,194,905
	<b>(₱13,587,660)</b>	<b>(₱2,828,625)</b>

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Distribution of Net Surplus

MASS-SPECC’s Articles of Cooperation and By-Laws, together with a BOD Resolution, explicitly provide that its net surplus at the end of the year shall be distributed in the following manner:

- At least 10.0% shall be set aside as General Reserve Fund. This general fund shall be used for the stability of MASS-SPECC, and to absorb net losses, if any, in its business operations.
- At least 5.0% shall be set aside for Cooperative Education and Training Fund. One half of the fund shall provide for the training, development, and such other cooperative activities geared towards the growth of the Cooperative Movement; while the other half shall be credited to the cooperative education and training fund of any international and national federation, and other chosen organizations of which MASS-SPECC is a member, and is presented as cooperative education and training fund payable under the “Accounts payable and accrued expenses” account in the statements of financial position.
- At least 3.0% of the net surplus shall be set aside for the Community Development Fund, which shall be used for projects or activities that will benefit the community where MASS-SPECC operates.
- A land and building, and ICT Development/Expansion of services, the total of which shall not exceed 8.0%.
- The remaining net savings shall be made available to the members in the form of interest not to exceed the normal rate of return on investments and patronage refunds.

Capital Management Policies and Procedures

MASS-SPECC’s capital management objectives are to ensure MASS-SPECC’s ability to continue as a going concern and to provide an adequate return to members by pricing products commensurately with the level of risk.

MASS-SPECC sets the amount of capital in proportion to its overall financing structure (i.e., equity and financial liabilities). It manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, MASS-SPECC may adjust the amount of dividends paid to members or increase allocation of net surplus to reserve funds or obtain additional funding from interest bearing loans and borrowings.

	<b>2016</b>	2015
Total liabilities	<b>₱1,435,648,474</b>	₱1,278,838,000
Total members’ equity	<b>313,453,317</b>	295,722,428
Debt-to-equity ratio	<b>4.58:1</b>	4.32:1

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The table below pertains to the account balances that MASS-SPECC considers as its core economic capital:

	2016	2015
Members' deposits	<b>₱1,084,732,234</b>	₱937,413,904
Interest-bearing loans and borrowings	<b>220,983,420</b>	51,924,937
Members' equity	<b>313,453,317</b>	295,722,428
	<b>₱1,619,168,971</b>	₱1,285,061,269

No changes were made in the objectives, policies or processes during the years ended December 31, 2016 and 2015.

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#### 17. Consulting and Service Fees

	2016	2015
Installation and processing fees	<b>₱28,823,208</b>	₱29,448,554
Service fees	<b>7,706,365</b>	11,971,300
Training fees	<b>3,124,034</b>	3,491,600
	<b>₱39,653,607</b>	₱44,911,454

Installation and processing fees pertain to charges for ATM and MBWIN installations to various cooperatives. This account also includes charges for transactions made in MASS-SPECC ATMs of bank cardholders and member cooperatives of MASS-SPECC's Pinoy ATM Network.

Service fees pertain to loan charges ranging from 1% to 2% for every loan availment.

Training fees are generated from trainings provided to cooperatives related to CDA updates and other consultancy trainings.

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#### 18. Services Fees - Conditional Cash Transfer (CCT)

On June 2012, MASS-SPECC entered into a Memorandum of Agreement (MOA) with LBP wherein the former undertakes to deliver CCT grants to household beneficiaries, as determined by DSWD, in areas where LBP branches and ATMs are not available (see Note 22).

MASS-SPECC shall receive from DSWD the corresponding service fee per transaction (payout made to each CCT beneficiary) upon compliance of the liquidation requirements. MASS-SPECC's fee as LBP's conduit in the distribution of cash grants to household beneficiaries of the CCT 4Ps of the DSWD amounted to ₱21.3 million and ₱21.1 million in 2016 and 2015, respectively. MASS-SPECC was able to serve six payouts through 60 and 91 member-cooperatives in 185 and 208 municipalities in Regions 9, 10, 11, 12, ARMM and CARAGA in 2016 and 2015, respectively.

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**19. Other Operating Expenses**

	2016	2015
Meeting and conferences	<b>₱7,847,404</b>	₱7,225,877
Travel and transportation	<b>5,870,945</b>	3,936,992
Trainings and seminars	<b>3,344,369</b>	3,439,352
License fees (see Note 11)	<b>2,811,507</b>	1,862,704
Security services	<b>2,027,084</b>	2,117,144
Professional fees	<b>1,894,091</b>	1,930,924
Communication	<b>1,667,034</b>	1,788,737
Power, light and water	<b>1,236,429</b>	1,125,785
Staff development	<b>885,284</b>	1,647,496
Maintenance and repairs	<b>747,410</b>	712,228
Processing fees	<b>522,500</b>	385,000
Materials and supplies	<b>478,152</b>	475,763
Marketing and promotion	<b>446,621</b>	1,058,722
Rental	<b>296,511</b>	308,056
Collection and litigation	<b>237,790</b>	645,540
Insurance	<b>207,116</b>	103,356
Taxes and licenses	<b>17,977</b>	308,337
Miscellaneous	<b>1,184,924</b>	1,592,831
	<b>₱31,723,148</b>	₱30,664,844

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**20. Employee Benefits**

Salaries, Wages and Benefits

Expenses recognized for salaries, wages and benefits are presented below.

	2016	2015
Short term employee benefit	<b>₱31,730,534</b>	₱30,342,128
Post-employment net benefit (income) expense	<b>(1,441,206)</b>	916,794
	<b>₱30,289,328</b>	₱31,258,922

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Employee Retirement Benefit Obligation

MASS-SPECC has a funded, noncontributory defined benefit retirement plan covering all regular full-time employees. Benefits are dependent on the years of service and the respective employee's compensation. MASS-SPECC accrues for defined benefit cost equal to one month salary for every year of credited service. There was a plan curtailment during the year reducing the number of plan members from 75 to 44 in 2016.

The following tables summarize the components of retirement benefit costs recognized in the statement of comprehensive income and distribution of net surplus and the amounts recognized in the statements of financial position.

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The components of retirement benefit (income) costs recognized in profit or loss are as follows:

	<b>2016</b>	2015
Current service cost	<b>₱1,350,938</b>	₱1,285,980
Past service cost	<b>(2,286,195)</b>	–
Interest cost on benefit obligation	<b>(505,949)</b>	(369,186)
<b>Net benefit expense</b>	<b>(₱1,441,206)</b>	<b>₱916,794</b>

The components of retirement benefit costs recognized in OCI are as follows:

	<b>2016</b>	2015
Balance at beginning of year	<b>₱8,626,965</b>	₱3,645,974
Actuarial loss on defined benefit asset	<b>3,313,381</b>	2,071,022
Remeasurement loss on plan assets	<b>1,520,005</b>	756,967
Remeasurement (gain) loss on changes in the effect of the asset ceiling	<b>(244,160)</b>	2,153,002
<b>Net benefit expense</b>	<b>₱13,216,191</b>	<b>₱8,626,965</b>

Retirement benefit asset recognized in the statements of financial position follow:

	<b>2016</b>	2015
Present value of defined benefit obligation	<b>₱14,583,570</b>	₱12,492,359
Fair value of plan assets	<b>(24,865,055)</b>	(25,138,205)
Surplus	<b>(10,281,485)</b>	(12,645,846)
Effect of the asset ceiling recognized as remeasurement loss	<b>2,322,379</b>	2,445,254
<b>Retirement benefit asset</b>	<b>(₱7,959,106)</b>	<b>(₱10,200,592)</b>

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

	<b>2016</b>	2015
Balance at beginning of year	<b>(₱10,200,592)</b>	(₱3,277,729)
Retirement benefit (income) costs recognized in profit or loss	<b>(1,441,206)</b>	916,794
Remeasurement losses recognized in OCI	<b>4,589,226</b>	4,980,991
Contributions to the retirement fund	–	(10,000,000)
Benefits paid from operating fund	<b>(906,534)</b>	(2,820,648)
<b>Balance at end of year</b>	<b>(₱7,959,106)</b>	<b>(₱10,200,592)</b>

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Changes in the present value of the defined benefit obligation follow:

	2016	2015
Balance at beginning of year	<b>P12,492,359</b>	P11,445,534
Current and past service cost	<b>(935,257)</b>	1,285,980
Interest cost	<b>619,621</b>	510,471
Benefits paid from operating fund	<b>(906,534)</b>	(2,820,648)
Remeasurement losses		
Actuarial loss due to experience adjustments	<b>3,383,460</b>	2,134,576
Actuarial gain due to changes in financial assumption	<b>(70,079)</b>	(63,554)
<b>Balance at end of year</b>	<b>P14,583,570</b>	P12,492,359

Changes in the fair value of plan assets follow:

	2016	2015
Balance at beginning of year	<b>P25,138,205</b>	P15,003,037
Contributions	-	10,000,000
Interest income	<b>1,246,855</b>	892,135
Loss on return on assets excluding interest income	<b>(1,520,005)</b>	(756,967)
<b>Balance at end of year</b>	<b>P24,865,055</b>	P25,138,205

The fair values of plan assets by each class as of December 31 are as follows:

	2016	2015
Government securities	<b>P19,342,548</b>	P17,711,434
Unit investment trust funds	<b>5,280,410</b>	5,000,000
Others	<b>242,097</b>	2,426,771
<b>Total</b>	<b>P24,865,055</b>	P25,138,205

For determination of the retirement benefit obligation, the following actuarial assumptions were used:

	2016	2015
Discount rates used	<b>5.86%</b>	4.96%
Expected rate of salary increases	<b>7.00%</b>	7.00%

Assumptions regarding future mortality and disability are based on the 2001 CSO table-Generational and The Disability Study, Period 2, Benefit 5, respectively.

The sensitivity analysis below has been determined based on reasonable possible changes of each significant assumption on the defined benefit obligation as of December 31, 2016, assuming all other assumptions were held constant.

	Increase (Decrease)	Amount
Discount rate	+0.5%	P77,998
	-0.5%	(75,409)
Future salary increase rate	+0.3%	41,091
	-0.3%	(40,741)

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MASS-SPECC does not expect to contribute to the defined benefit pension plan in 2017. The average duration of the defined benefit obligation at the end of the reporting date is 2.4 years. Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2016.

	Amount
2017	P248,124
2018	406,808
2019	-
2020	-
2021-2025	19,783,752

## 21. Related Party Disclosures

Related party transactions are transfer of resources, services or obligations between MASS-SPECC and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with MASS-SPECC; (b) associates; and (c) individuals owning, directly or indirectly, an interest in the voting power of MASS-SPECC that gives them and any close family members such individuals significant influence over MASS-SPECC.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

MASS-SPECC's related parties include its directors, officers, employees, organizations under common control and key management as described below. None of the transactions incorporate special terms and conditions and no guarantee was given or received. Outstanding balances are usually settled in cash.

### Advances to Officers and Employees

MASS-SPECC provides cash advances for liquidation to certain employees, officers and directors, the outstanding balance of which amounting to P4.5 million and P4.1 million as of December 31, 2016 and 2015, is presented as part of "Loans and other receivables - net" (see Note 7).

### Key Management Compensation

The compensation of MASS-SPECC's key management personnel as of December 31, 2016, are as follows:

	2016	2015
Short-term benefits	<b>P12,599,452</b>	P11,457,596
Post-employment defined benefits	<b>758,284</b>	663,342
	<b>P13,357,736</b>	P12,120,938

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## 22. Income Tax

MASS-SPECC is exempt from taxes, including income tax, under the Philippine Cooperative Code of 2008, except for its transactions with non-members (see Note 1).

MASS-SPECC's tax expense as reported in profit or loss for 2016 pertains to regular corporate income tax (RCIT) on MASS-SPECC's transactions with non-members related to service fees earned by MASS-SPECC from distribution of CCT funds to beneficiaries (see Note 18).

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the statement of comprehensive income for the period ended December 31, 2016 and 2015 follows:

	2016	2015
Net surplus before income tax	<b>₱27,881,107</b>	₱21,825,462
Income tax computed at 30%	<b>6,402,206</b>	6,547,639
Income tax from exempt transactions	<b>(5,785,643)</b>	(4,993,538)
	<b>₱616,563</b>	₱1,554,101

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## 23. Supplementary Information Under Revenue Regulations (R.R.) No. 15-2010

In compliance with the requirements set forth by R.R. No. 15-2010, hereunder are the information on taxes and license fees paid or accrued during the taxable year 2016.

### Other Taxes and Licenses

Registration fees	₱10,988
Business tax	6,989
	<b>₱17,977</b>

The amounts of other taxes and licenses in 2016 are included as taxes and licenses under the "Other operating expenses" account in the statements of comprehensive income and distribution of net surplus.

### Withholding Taxes

Withholding taxes on compensation and benefits	₱2,935,268
Expanded withholding taxes	283,769
	<b>₱3,219,037</b>

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