

For
AUDITED FINANCIAL STATEMENTS

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Company's email Address	Company's Telephone Number/s	Mobile Number
NA	632- 4038619	NA
No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
NA		December 31

The designated contact person <u>MUST</u> be an Officer of the Corporation			
Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Nelia Nayve	nanayve@tspi.org	632- 4038619	NA

3rd Floor, TSPI Building, 2363 Antipolo St. Guadalupe Nuevo, Makati City.

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

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

The management of **TSPI MUTUAL BENEFIT ASSOCIATION, INC.** (the "Association"), is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

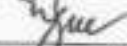
The Board of Trustees reviews and approves the financial statements including the schedules attached therein, and submits the same to the members.

R.G. Manabat & Co., the independent auditor appointed by the members, has audited the financial statements of the Association in accordance with Philippine Standards on Auditing, and in its report to the members, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signature 
MA. LUZ A. PLANAS - Chairman of the Board

Signature 
FLORENCIA G. TARRIELA - Treasurer

Signature 
EDUARDO A. MENDOZA - President & CEO

Signature 
NELIA A. NAYVE - Director - Finance & Admin

Signed this 19 day of April 2017

SUBSCRIBED AND SWORN TO BEFORE ME this APR 19 2017, at MAKATI CITY
affiants exhibiting the following:

MA. LUZ A. PLANAS	- SSS ID #03-1349190-8
FLORENCIA G. TARRIELA	- Passport #EB6620757 Manila 23 Oct 2012 to 22 Oct 2017
EDUARDO A. MENDOZA	- Passport #EC5036718 DFA NCR East 15 Aug 2015 to 14 Aug 2020
NELIA A. NAYVE	- Passport #EC0997445 Manila 05 May 2014 to 04 May 2019


ATTY. JUANCHITO DAVID R. TABLANG

Notary Public for Makati City
Commission No. 31-53 until December 31, 2018
PTR No. 5916053 : 01/06/2017 / Makati City
ISP No. 1051026 : 11/10/2016 / Makati City
Roll of Attorney: 42002
MCLE Compliance No. V-0024262
2016 Magsaysay St.,
Brgy. Guadalupe Nuevo, Makati City

Doc. No. 161
Page No. 33
Book No. CXXXII
Series of 2017.

TSPI MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Nonprofit Organization)

FINANCIAL STATEMENTS
December 31, 2016 and 2015



The Board of Trustees and Members
TSPI Mutual Benefit Association, Inc.
3rd Floor, Tulay sa Pag-unlad Inc. (TSPI) Building
2363 Antipolo St., Guadalupe Nuevo, Makati City

Opinion

We have audited the financial statements of TSPI Mutual Benefit Association, Inc. (the "Association"), which comprise the statements of assets, liabilities and fund balance as at December 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in fund balance and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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





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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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





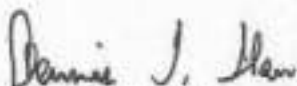
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 22 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.



DENNIS I. ILAN

Partner

CPA License No. 089564

IC Accreditation No. SP-2014/023-R, Group A, valid until August 26, 2017

SEC Accreditation No. 1182-AR-1, Group A, valid until April 30, 2018

Tax Identification No. 161-313-405

BIR Accreditation No. 08-001987-28-2014

Issued September 26, 2014; valid until September 25, 2017

PTR No. 5904928MD

Issued January 3, 2017 at Makati City

April 28, 2017

Makati City, Metro Manila



TSPI MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Nonprofit Organization)
STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE



December 31

	Note	2016	2015
ASSETS			
Cash and cash equivalents	7	P15,026,605	P13,876,076
Short-term investments	8	3,166,857	3,141,395
Available-for-sale (AFS) financial assets	9	761,178,427	713,700,414
Held-to-maturity (HTM) investments	10, 19	97,676,722	97,551,958
Receivables	11	7,037,006	14,032,715
Property, equipment and computer software - net	13	4,281,852	6,212,839
Retirement asset	21	3,623,610	2,807,191
Other assets	14	2,135,085	944,547
		P894,126,164	P852,267,135
LIABILITIES AND FUND BALANCE			
Liabilities			
Claims payable	15	P4,154,358	P5,010,457
Aggregate reserves	17	13,132,536	12,412,582
Equity value reserves	18	329,894,308	316,436,514
Accrued expenses and other liabilities	16	39,860,632	36,755,291
Due to related party	12	1,068,209	-
Total Liabilities		388,110,043	370,614,844
Fund Balance			
Guaranty fund reserves	19	90,136,823	82,573,455
General fund balance	20	74,122,967	67,985,334
Funds assigned for members' benefits	20	237,459,898	225,627,464
Funds assigned for capacity building	20	104,320,428	98,389,662
Employee benefit reserves		556,694	390,669
Fair value reserve on AFS financial assets	9	(623,997)	6,580,016
Fair value reserve on HTM investments to be amortized in profit or loss		43,308	105,691
Total Fund Balance		506,016,121	481,652,291
		P894,126,164	P852,267,135

See Notes to the Financial Statements.



		Years Ended December 31	
	Note	2016	2015
OTHER COMPREHENSIVE INCOME			
Item that will not be reclassified to profit or loss			
Remeasurement of employee benefit reserves	21	P166,025	(P1,813,186)
Item that may be reclassified to profit or loss			
Net change in fair value of reserve on AFS financial assets	9	(7,204,013)	(21,300,542)
TOTAL COMPREHENSIVE INCOME		P26,432,228	P13,203,806

See Notes to the Financial Statements.



TSPI MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Nonprofit Organization)
STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31			
	Note	2016	2015
NET MEMBERS' CONTRIBUTIONS AND PREMIUMS			
Members' contributions and premiums	12	P151,267,356	P164,259,193
Members' contributions and premiums ceded to reinsurers		(225,500)	(159,778)
		151,041,856	164,099,415
CLAIMS AND BENEFITS EXPENSES			
Claims and benefits	15	39,286,339	43,477,339
Increase (decrease) in equity value reserves		31,735,310	33,351,182
Increase in aggregate reserves		719,954	84,287
		71,741,603	76,912,808
GENERAL AND ADMINISTRATIVE EXPENSES			
Salaries and other employee benefits		48,043,133	45,549,927
Marketing and sales		16,671,160	19,164,323
Depreciation and amortization	13	4,085,036	5,121,928
Planning, meetings and conferences		2,895,507	1,074,799
Office supplies		1,676,057	1,758,716
Incentives		1,290,404	2,247,092
Repairs and maintenance		1,396,528	889,149
Communication, light and water		827,625	1,061,361
Professional fees		771,981	663,918
Transportation and travel		297,938	771,770
Advertising and promotion		271,122	743,520
Dues and fees		216,716	156,778
Representation and entertainment		67,376	124,732
Donation		50,000	12,000
Taxes and licenses		10,725	101,055
Miscellaneous		705,724	701,728
		79,277,031	80,142,796
OPERATING INCOME		23,222	7,043,811
OTHER INCOME (EXPENSE)			
Interest income	7, 8, 9, 10, 11	33,335,921	33,597,055
Dividend income	9	450,343	475,451
Gain on sale of investments		313,171	1,405,616
Other income		155,978	392,975
Interest expense	18	(808,419)	(6,597,374)
		33,446,994	29,273,723
NET INCOME		33,470,216	36,317,534

Forward



TSPI MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Nonprofit Organization)

**STATEMENTS OF CHANGES IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Guaranty Fund Reserves (Note 19)	General Fund Balance (Note 20)	Funds Assigned for Members' Benefits (Note 20)	Funds Assigned for Capacity Building (Note 20)	Employee Benefit Reserves (Note 21)	Fair Value Reserve on Available- for-Sale Financial Assets (Note B)	Fair Value Reserve on Held-to- Maturity Investments to be Amortized in Profit or Loss	Total
Balance as at December 31, 2015	P82,573,455	P67,985,334	P226,627,464	P98,389,662	P390,669	P6,580,016	P105,691	P481,652,291
Net income for the year	-	33,470,216	-	-	-	-	-	33,470,216
Other comprehensive income:								
Changes in fair value reserve of available-for-sale financial assets	-	-	-	-	-	(7,204,013)	-	(7,204,013)
Change in actuarial gain	-	-	-	-	166,025	-	-	166,025
Total comprehensive income for the year	-	33,470,216	-	-	166,025	(7,204,013)	-	26,432,228
Transfer to guaranty fund	7,563,368	(7,563,368)	-	-	-	-	-	-
Transfer to funds assigned for members' benefits	-	(13,838,449)	13,838,449	-	-	-	-	-
Transfer to funds assigned for capacity building	-	(5,930,766)	-	5,930,766	-	-	-	-
Utilization of members' benefits fund	-	-	(2,006,015)	-	-	-	-	(2,006,015)
Amortization of fair value reserve to be amortized to profit or loss	-	-	-	-	-	-	(62,383)	(62,383)
Balance as at December 31, 2016	P90,136,823	P74,122,967	P237,459,898	P104,320,428	P556,694	(P623,997)	P43,308	P606,016,121

Forward



TSPI MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Nonprofit Organization)
STATEMENTS OF CASH FLOWS

		Years Ended December 31	
	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		P33,470,216	P36,317,534
Adjustments for:			
Increase in equity value reserve		31,735,310	33,351,182
Interest income earned	7, 8, 9, 10, 11	(33,335,921)	(33,597,055)
Interest expense incurred	18	808,419	6,597,374
Retirement expense	21	249,606	226,626
Depreciation and amortization	13	4,085,036	5,121,928
Gain on sale of investments	9	(313,171)	(1,405,616)
Loss on sale of assets		4,623	723
Increase in aggregate reserves		719,954	84,287
Provision for claims incurred but not yet reported	15	(634,081)	1,520,189
Dividend income	9	(450,343)	(475,451)
Operating income before working capital changes		36,339,648	47,741,721
Decrease (increase) in:			
Receivables		1,765,084	3,627,957
Due from related party		5,197,277	2,145,824
Other assets		(1,190,538)	(202,122)
Increase (decrease) in:			
Claims payable		(222,018)	(141,276)
Accrued expenses and other liabilities		3,346,889	2,000,411
Due to related party		1,068,209	-
Refund of equity value reserve		(18,277,516)	(11,937,836)
Cash generated from operations		28,027,035	43,234,679
Interest paid		(1,049,967)	(786,155)
Net cash provided by operating activities		26,977,068	42,448,524
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income received		34,760,945	33,069,709
Dividend received	9	450,343	475,451
Increase in short-term investments		(25,462)	(25,257)
Contribution to retirement plan assets	21	(900,000)	(830,000)
Acquisitions of:			
Available-for-sale financial assets	9	(265,249,858)	(109,123,517)
Held-to-maturity investments	10	(46,936,510)	-
Property, equipment and computer software	13	(2,158,672)	(2,533,829)
Proceeds from:			
Disposal of available-for-sale financial assets	9	208,662,890	34,261,901
Disposal of held-to-maturity investments	10	47,576,000	-
Net cash used in investing activities		(23,820,524)	(44,201,482)

Forward



	Years Ended December 31		
	Note	2016	2015
CASH FLOWS FROM A FINANCING ACTIVITY			
Utilization of members' benefit fund		(P2,006,015)	(P3,948,423)
Net cash used in financing activities		(2,006,015)	(3,948,423)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
		1,150,529	(6,205,381)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
		13,876,076	20,081,457
CASH AND CASH EQUIVALENTS AT END OF YEAR			
	7	P15,026,605	P13,876,076

See Notes to the Financial Statements.



TSPI MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Nonprofit Organization)
NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity

TSPI Mutual Benefit Association, Inc. (the "Association") was registered with the Philippine Securities and Exchange Commission and was given license to operate as a mutual benefit association by the Insurance Commission (IC) on May 12, 2006 and December 22, 2006, respectively. The Association was organized primarily to extend financial assistance to the members and immediate members of their families in the form of death benefits, medical reimbursement, pension, loan redemption assistance, disability benefit and other services for the benefit of the members.

On January 25, 2016, the IC renewed the Association's license as a mutual benefit association until December 31, 2018.

As provided in Section 30 (e) of the National Internal Revenue Code, the Association is exempt from the payment of income tax with respect to income it receives as a nonstock, nonprofit organization.

The Association's registered address is at 3rd Floor, Tulay sa Pag-unlad Inc. (TSPI) Building, 2363 Antipolo St. Guadalupe Nuevo, Makati City.

2. Basis of Preparation

Statement of Compliance

These financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs are based on International Financial Reporting Standards issued by the International Accounting Standards Board. PFRSs which are issued by the Philippine Financial Reporting Standards Council, consist of PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretations.

Basis of Measurement

These financial statements have been prepared on the historical cost basis except for the following items, which are measured on another basis at each reporting date.

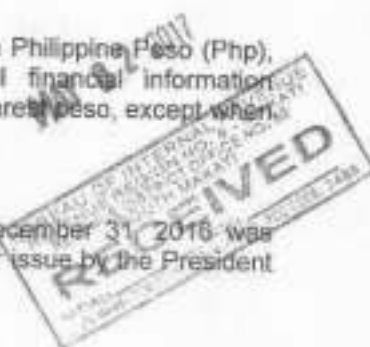
Items	Measurement Bases
Available-for-sale (AFS) financial assets	Fair value
Retirement asset	Present value of the defined benefit obligation less fair value of plan assets

Functional and Presentation Currency

The financial statements of the Association are presented in Philippine Peso (Php), which is also the Association's functional currency. All financial information presented in Philippine peso has been rounded off to the nearest peso, except when otherwise indicated.

Approval for Issuance of Financial Statements

The financial statements as at and for the year ended December 31, 2016 was approved by the Board of Trustees (BOT) and authorized for issue by the President and Chief Executive Officer on April 28, 2017.



Use of Judgments and Estimates

The preparation of financial statements in accordance with PFRSs requires the management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are readily apparent from other sources. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future period affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in Note 4 to the financial statements.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

Adoption of New or Revised Standards and Amendments to Standards

The Association has adopted the following amendments to standards starting January 1, 2016. The adoption of these amendments to standards did not have any significant impact on the Association's financial statements.

- *Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets)*. The amendments to PAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g., changes in sales volumes and prices.

- *Disclosure Initiative (Amendments to PAS 1, Presentation of Financial Statements)* addresses some concerns expressed about existing presentation and disclosure requirements and to ensure that entities are able to use judgment when applying PAS 1. The amendments clarify that:
 - Information should not be obscured by aggregating or by providing immaterial information.
 - Materiality considerations apply to all parts of the financial statements, even when a standard requires a specific disclosure.

- The list of line items to be presented in the statements of assets, liabilities and fund balance and statements of comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.
- An entity's share of other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

Standards Issued but Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2016. However, the Association has not applied the following new or amended standards in preparing these financial statements. The Association is assessing the potential impact on its financial statements resulting from the application of the new standards.

Effective January 1, 2017

- *Disclosure Initiative (Amendments to PAS 7, Statement of Cash Flows).* The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities 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 - e.g., by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

The amendments are effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted. When an entity first applies the amendments, it is not required to provide comparative information for preceding periods.

Effective January 1, 2018

- *PFRS 9, Financial Instruments (2014).* PFRS 9 (2014) replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018 with early adoption permitted.

- *Applying PFRS 9 with PFRS 4, Insurance Contracts (Amendments to PFRS 4).* The amendments provide a temporary exemption from PFRS 9, where an entity is permitted to defer application of PFRS 9 in 2018 and continue to apply PAS 39 if it has not applied PFRS 9 before and its activities are predominantly connected with insurance. A qualified entity is permitted to apply the temporary exemption for annual reporting periods beginning before January 1, 2021. The amendments also provide an overlay approach to presentation when applying PFRS 9 where an entity is permitted to reclassify between profit or loss and other comprehensive income the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39, for designated financial assets. A financial asset is eligible for designation if it is not held for an activity that is unconnected with contracts in the scope of PFRS 4, and if it is measured at fair value through profit or loss under PFRS 9, but would not have been under PAS 39. An entity is generally permitted to start applying the overlay approach only when it first applies PFRS 9, including after previously applying the temporary exemption.

The amendments permitting the temporary exemption is for annual periods beginning on or after January 1, 2018 and the amendments allowing the overlay approach are applicable when an entity first applies PFRS 9.

The standards was adopted by the FRSC on October 12, 2016 but currently subject to approval by the Board of Accountancy.

Classification of Insurance and Investment Contracts

The Association issues contracts that transfer insurance or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such risk includes the possibility of having to pay benefits on the occurrence of an insured event such as death, accident or disability. The Association may also transfer insurance risk in insurance contracts through its reinsurance arrangement to hedge a greater possibility of claims occurring than expected. Such contracts may also transfer financial risk. As a general guideline, the Association defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that is more than the benefits payable if the insured event did not occur. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Once a contract has been classified as an insurance contract, it remains as an insurance contract for the remainder of its life, even if the insurance risk reduces significantly during the period, unless all rights and obligations are extinguished or expired. Investment contracts can, however, be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Insurance Contracts

The Association issues membership certificates, governing rules and regulations, and application forms that transfer insurance risk.

Conventional Annual Insurance Contracts

These contracts insure events associated with human life (death or survival) over an annual duration. Members' contributions and premiums are recognized as revenue when paid by the certificate holder. Benefits are recognized as an expense when they are incurred.

A liability for contractual benefits that is expected to be incurred in the future is recognized for policies that are in-force as at the reporting dates. The proportion of written members' contribution and premium attributable to subsequent periods or to risks that have not yet expired is deferred as "Aggregate reserves" in the statements of assets, liabilities and fund balance. The change in the provision for unearned members' contribution and premium is taken to profit or loss in the order that revenue is recognized over the period of risk. When the anticipated losses, loss adjustment expenses, incentives and other acquisition costs, and maintenance costs exceed the recorded aggregate reserves, and any future installment members' contributions and premiums on existing policies, a deficiency reserve shall be recognized by recording an additional liability for the deficiency, with a corresponding charge to profit or loss.

Liability Adequacy Tests

At each reporting date, liability adequacy tests are performed for policies with coverage that extend to beyond one year to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from assets backing such liabilities, are used. Any deficiency is immediately recognized in profit or loss.

As at December 31, 2016 and 2015, the Association does not have any policies with coverage of more than one year.

Reinsurance Contracts Held

Contracts entered into by the Association with reinsurer which compensates the Association for losses on one or more contracts issued by the Association and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

The benefits recoverable to which the Association is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of amounts due from reinsurers classified within insurance receivables. Reinsurance liabilities are primarily members' contributions and premiums payable for reinsurance contracts and are recognized as expense when due. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with terms of each reinsurance contract.

The Association assesses its reinsurance assets for impairment at least annually. If there is objective evidence that the reinsurance asset is impaired, the Association reduces the carrying amount of the reinsurance assets to its recoverable amount and recognizes that impairment loss in profit or loss. The Association gathers the objective evidence that a reinsurance asset is impaired using the same process for financial assets.

Financial Instruments

Date of Recognition

Financial instruments are recognized in the statements of assets, liabilities and fund balance when the Association becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date. The trade date is the date that an entity commits itself to purchase or sell an asset.

Initial Recognition

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs. The Association classifies its financial assets into the following categories: financial assets at FVPL, available for sale (AFS) financial assets, held-to-maturity (HTM) investments, and loans and receivables. The Association classifies its financial liabilities either as financial liabilities at FVPL or other financial liabilities.

The classification depends on the purpose for which the instruments were acquired or incurred and whether these are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As at December 31, 2016 and 2015, the Association has no financial assets and liabilities at FVPL.

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity. Where the Association sells or reclassifies other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified at fair value as AFS financial assets. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization, if any, is included as part of "Interest income" in profit or loss.

As at December 31, 2016 and 2015, the Association's HTM investments amounted to P97.68 million and P97.55 million, respectively (see Note 10).

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not held for trading.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment loss. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization, if any, is included as part of "Interest income" in profit or loss.

As at December 31, 2016 and 2015, the Association's cash and cash equivalents, short-term investments, receivables and cash held by investment manager/custodian under "Other assets" are classified under this category.

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

AFS Financial Assets. AFS financial assets are financial assets which are designated as such, or do not qualify to be classified or have not been classified under any other financial asset category. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value. Changes in fair value, other than impairment loss and foreign currency differences on AFS equity securities, are recognized in other comprehensive income as "Fair value reserve on AFS financial assets" and are presented within equity. The losses arising from the impairment of such securities are recognized in profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is transferred to profit or loss. The effective yield component of AFS debt securities is reported in profit or loss.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of unobserved inputs such as in the case of unquoted equity instruments, these financial assets are allowed to be carried at cost less impairment, if any.

As at December 31, 2016 and 2015, the Association's AFS financial assets amounted to P761.18 million and P713.70 million, respectively (see Note 9).

Other Financial Liabilities. Issued financial instruments or their component, which are not classified as at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Association having an obligation either to deliver cash or another financial asset to the holder or lender.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. The amortization is included as part of "Interest expense" in profit or loss.

As at December 31, 2016 and 2015, this category includes the Association's claims payable, claims payable - equity value and interest, equity value reserves, accrued expenses and other liabilities and due to related party excluding amounts payable to government agencies.

'Day 1' Difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Association recognizes the difference between the transaction price and fair value (a 'Day 1' Difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where an observable data is used, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Association determines the appropriate method of recognizing the 'Day 1' Difference amount.

Fair Value Measurement

A number of the Association's accounting policies and disclosures require the measurement of fair value for both financial and non-financial assets and liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price), regardless of whether that price is directly observable or estimated using another valuation technique. Where applicable, the Association 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.

When measuring the fair value of an asset or a liability, the Association uses market observable data as far as possible. Fair value is categorized in different levels in a fair value hierarchy based on the inputs used in the valuation technique (see Note 6).

Impairment of Financial Assets

The Association assesses at each reporting date whether a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults.

AFS Financial Assets Carried at Fair Value. In case of equity securities classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of the investments below cost. Where there is objective evidence of impairment, the cumulative loss in equity, measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized, is recorded in profit or loss. Subsequent increase in the fair value of an impaired AFS equity security is recognized in other comprehensive income.

Financial Assets at Amortized Cost. The Association first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Association determines that no objective evidence of impairment exists for individually assessed accounts, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective assessment for impairment. For the purpose of a collective evaluation of impairment, loans and receivables are grouped on the basis of credit risk characteristics such as type of borrower, payment status and term.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the excess of loan's carrying amount over its net realizable value, based on the present value of the estimated future cash flows from the asset. The present value of the estimated future cash flows is discounted at the loan's original EIR. Time value is generally not considered when the effect of discounting is not material. The carrying amount of an impaired loan is reduced to its net realizable value through the use of an allowance account and the accrual of interest is discontinued. If, in a subsequent period, the amount of the allowance for impairment loss decreases because of an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed to profit or loss to the extent that the resulting carrying amount of the asset does not exceed its amortized cost had no impairment loss been recognized.

The Association performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment loss. The Association writes off its long-outstanding receivable accounts from deceased, unlocated, or migrated debtors, where they have exhausted all efforts to collect.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of assets, liabilities and fund balance if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is generally not the case with master netting agreements, thus, the related assets and liabilities are presented on a gross basis in the statements of assets, liabilities and fund balance. Income and expenses are presented on a net basis only when permitted under PFRSs, such as in the case of any realized gains or losses arising from the Association's trading activities.

Derecognition of Financial Assets and Liabilities

Financial Asset

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

- the right to receive cash flows from the asset have expired;
- the Association 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
- the Association has transferred its right 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.

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

Financial Liability

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where 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 profit or loss.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization, and impairment loss, if any.

The initial cost of property and equipment comprises its purchase price, including import duties, taxes, any directly attributable costs in bringing the asset to its working condition and location for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of replacing part of an item of property and equipment is recognized in the carrying value of the item if it is probable that the future economic benefits embodied within the part will flow to the Association and its cost can be measured reliably.

The costs of the day-to-day servicing of property and equipment are recognized as expense in the period in which they are incurred. Depreciation and amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the assets.

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

	Number of Years
Office furniture and fixtures	5
Transportation and equipment	5
Office equipment	3 - 5
Building and improvements	5

The estimated useful lives, depreciation method, and residual values are reviewed periodically and adjusted, if appropriate, to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment. Changes in the estimated useful lives, depreciation method, and residual values of property and equipment are accounted for by changing the depreciation method, as appropriate, and treated as changes in accounting estimates.

When an asset is disposed of, or is permanently withdrawn from use or no future economic benefits are expected from its disposal, the cost and the related accumulated depreciation and impairment loss, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss.

Computer Software

Computer software is initially measured at cost which is comprised of costs incurred to acquire the computer software (not an integral part of its related hardware) and bring it to its intended use. All other costs of developing and maintaining computer software are recognized as expense when incurred.

Subsequently, computer software is measured at cost less amortization and impairment, if any. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the computer software, from the date that they are available for use, not to exceed three (3) years.

Gains or losses arising from the derecognition of the computer software are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss.

Impairment of Non-financial Assets

At each reporting date, the Association assesses whether there is any indication that its non-financial assets such as property, equipment and computer software may be impaired. When an indicator of impairment exists, the Association estimates the recoverable amount of the impaired assets. The recoverable amount is the higher of the fair value less costs of disposal and value in use. Fair value less costs of disposal is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties less costs of disposal while value in use is the present value of future cash flows expected to be derived from an asset.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

Where the carrying amount of an asset exceeds its recoverable amount, the impaired asset is written down to its recoverable amount. An impairment loss is recognized in profit or loss in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal can be made only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Employee Benefits

Retirement Benefits

The Association's net obligation in respect of the defined benefit plan is calculated by estimating the amount of the future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligation is performed on a periodic basis by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Association, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Remeasurements of the retirement asset, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Association determines the net interest expense (income) on the retirement asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the retirement asset, taking into account any changes in the retirement asset during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss.

The Association recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Association has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Insurance Contract Liabilities

Aggregate Reserves

Aggregate reserves represent the accumulated total liability for policies in-force as at the reporting dates. Such reserves are established at amount adequate to meet the estimated future obligations to all members with in-force policy. The reserves are calculated using the actuarial methods and assumptions in accordance with statutory requirements and as approved by the IC.

Equity Value Reserves

Equity value reserves represent the accumulated reserve for remittance to members. In accordance with Section 409 of the Insurance Code, as Amended (the "Insurance Code"), equity value reserves are established at fifty percent (50%) of the total mandatory membership contributions collected from every outstanding membership certificates.

Effective December 1, 2014, the twenty percent (20%) surrender charge was no longer imposed on equity value for certificates paid for less than three (3) continuous years. Upon death or withdrawal of the member, equity value reserves contributed and interest thereon are refunded to its members. Effective February 1, 2016, interest rate on equity value reserve was reduced from 2.00% to 0.50% as approved by the BOT.

Fund Balance

Guaranty Fund Reserves

Guaranty fund reserves represent required fund amounting to P5.00 million, and every year thereafter increased by an amount equivalent to five percent (5%) of gross members' contribution and premium collections until its amount has reached twenty-five percent (25%) of the required network for existing domestic life insurance companies.

General Fund Balance

General fund balance account represents the free and unassigned surplus of the Association.

Funds Assigned for Members' Benefits

The account pertains to the amount appropriated for members' benefits such as community development, transformation and microenterprise projects.

Funds Assigned for Capacity Building

The account pertains to the amount appropriated for capacity building such as training of members and employees and investment in new systems.

Employee Benefit Reserves

Employee benefit reserves pertain to the accumulated actuarial gains and losses from the remeasurement of the net pension liability.

Fair Value Reserve on AFS Financial Assets

Fair value reserve on AFS financial assets pertain to the cumulative amount of gains and losses due to the revaluation of AFS financial assets.

Fair Value Reserve on HTM Investments

Fair value reserve on HTM investments pertain to the change in fair value of the investments reclassified from AFS to HTM at date of reclassification. This reserve is amortized to profit or loss with the unamortized premium or discount of the reclassified investments through the effective interest method.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Association and the revenue can be measured reliably. The following specific recognition criteria must be met before revenue is recognized:

Members' Contributions and Premiums

Members' contributions and premiums are the insurance premium income and are recognized when received. Premiums include weekly cash collection of one peso for every one thousand pesos of the loan availed for credit life cover while the annual members' contribution of two hundred forty pesos is for life insurance cover.

Members' contributions ceded to reinsurers and premiums ceded to reinsurers are recognized as expense when the policy becomes effective.

Interest Income

Interest income for all interest-bearing financial instruments is recognized in profit or loss using effective interest method.

Dividend Income

Dividend income is recognized when the shareholder's right to receive payment is established.

Other Income

Other income arises mainly from surcharge fees due to the early termination of the policy and recovery of marketing and selling expenses for Microhealth products.

Determining whether the Association is Acting as Principal or an Agent

The Association assesses its revenue arrangements against the following criteria to determine whether it is acting as a principal or an agent:

- whether the Association has primary responsibility for providing the services;
- whether the Association has discretion in establishing prices; and
- whether the Association bears the credit risk.

If the Association has determined it is acting as a principal, the Association recognizes revenue on gross basis with the amount remitted to the other party being accounted as part of cost and expenses. If the Association has determined it is acting as an agent, only the net amount retained is recognized as revenue.

The Association has determined that it is acting as principal in its revenue arrangements.

Claims, Benefits, and Expenses Recognition

Claims and Benefits

Claims consist of benefits and claims paid and unpaid to members, denied and resisted claims and incurred but not reported (IBNR) claims. Provision for IBNR is made for the cost of claims incurred as of each reporting date but not reported until after the reporting date based on the Association's experience and historical data. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in profit or loss of subsequent years. Death claims and surrenders are recorded on the basis of notifications received.

General and Administrative Expenses

Expenses are recognized when the decrease in future economic benefits related to a decrease in an asset or increase of a liability has arisen that can be measured reliably. Expenses are recognized when incurred.

Interest Expense

Interest expense on accumulated equity value reserves of active members are recognized in the profit or loss when it accrues.

Provisions and Contingencies

Provisions are recognized when the Association has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

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

Related Party Transactions

Related party relationships exist when one (1) party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the enterprise and its key management personnel, trustees, or its members.

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

Events After the Reporting Date

Post year-end events that provide additional information about the Association's assets, liabilities and fund balance at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

4. Significant Accounting Judgments and Estimates

The Association makes judgment and key estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are as follows:

Judgments

(a) Classification of Financial Instruments

The Association exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of assets, liabilities and fund balance. In addition, the Association classifies assets by evaluating among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available and whether those prices represent actual and regularly occurring market transactions on an arm's length basis. As at December 31, 2016 and 2015, the Association's financial instruments are classified as HTM investments, loans and receivables, AFS financial assets and other financial liabilities.

(b) Impairment of Financial Assets

Financial Assets at Fair Value

The Association considers that investments are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Association evaluates among other factors, the normal volatility in share/market price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Financial Assets at Amortized Cost

The Association determines that investments carried at amortized cost are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event") and which has an impact on the estimated future cash flows of the financial asset. The Association makes judgments as to whether there is objective evidence of impairment which may include assessment of data indicating the lender or issuer's financial difficulties, and consideration of national or economic conditions that correlate with defaults on the asset.

Receivables

The Association reviews its receivables to assess impairment at least on an annual basis, or as the need arises due to significant movements on certain accounts. Receivables that are individually significant are assessed to determine whether objective evidence of impairment exists on an individual basis, while those that are not individually significant are assessed for objective evidence of impairment either on an individual or on collective basis. In determining whether an impairment loss should be recorded in the profit or loss, the Association makes judgment as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio.

As at December 31, 2016 and 2015, the Association has not recognized any impairment loss on its financial assets.

Estimates

(a) Estimating Allowance for Impairment Loss on Receivables

If there is an objective evidence that an impairment loss on receivables has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of loss shall be recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

No impairment loss on financial assets carried at amortized cost was recognized in 2016 and 2015.

(b) Fair Value Estimation

The fair value of financial instruments traded in active markets is based on quoted market prices or quoted prices for similar assets or liabilities at the reporting date. If the financial instrument is not traded in an active market, the fair value is determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

As at December 31, 2016 and 2015, the Association's financial instruments carried at fair value are classified as Level 1 in the fair value hierarchy (see Note 6).

(c) *Estimated Useful Lives of Property, Equipment and Computer Software*

The Association estimates useful lives of property, equipment and computer software based on the period over which the assets are expected to be available for use and are updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence. The useful lives, and depreciation and amortization methods are reviewed periodically to ensure that the method and periods of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment, and computer software.

As at December 31, 2016 and 2015, the carrying amounts of property and equipment and computer software amounted to P4.28 million and P6.21 million, respectively (see Note 13).

(d) *Liability Arising from Claims made under Insurance Contracts*

The ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Association will ultimately pay for such claims. The major sources of uncertainties are the frequency of claims due to contingencies covered and the timing of benefit payments.

Claims estimation by the Association considers many factors such as industry average mortality or morbidity experience, with adjustments to reflect the Association's historical experience. These liabilities form part of the Association's IBNR which amounted to P3.39 million and P4.02 million as at December 31, 2016 and 2015, respectively (see Note 15).

(e) *Estimating Aggregate Reserves*

The Association estimates the aggregate reserves for future contractual obligations for contributions paid by determining the forty percent (40%) of the unexpired portion of the mandatory premiums collected each month on per quarter, semi-annual and annual basis. For loan availment premium, eighty percent (80%) of the unexpired portion is set-up. The assumption is based on a number of factors determined by an actuary including the unearned premium factor.

As at December 31, 2016 and 2015, aggregate reserves amounted to P13.13 million and P12.41 million, respectively (see Note 17).

(f) *Retirement and Other Employee Benefits*

The determination of the obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary increase rates.

While the Association believes that the assumptions are reasonable and appropriate, significant differences between actual experience and assumptions may materially affect the cost of employee benefits and related obligations.

As at December 31, 2016 and 2015, the Association has a retirement asset of P3.62 million and P2.81 million, respectively (see Note 21).

Retirement expense amounted to P0.25 million in 2016 and P0.23 million in 2015 while employee benefit reserves amounted to P0.56 million and P0.39 million as at December 31, 2016 and 2015, respectively (see Note 21).