COVER SHEET
For
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

2 0 0 5 0 8 6 1 7

COMPANY NAME

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

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

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS		

COMPANY INFORMATION

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

CONTACT PERSON INFORMATION

The designated contact person *MUST* 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

CONTACT PERSON's ADDRESS

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

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AMALIA M. BONTERES
COLLECTION OFFICER

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

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management **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, 2017 and 2016, 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 form 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 auditors 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

Signature: ______________________
NELIA A. NAYVE – Director-Finance & Admin

Signed this day____ of April 2018

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AMALIA M. PONTERES
COLLECTION OFFICER

MAY 1 1 2018

SUBSCRIBED AND SWORN TO BEFORE ME this APR 1 8 2018 at MAKATI CITY
Affiants exhibiting the following:

MA. LUZ A. PLANAS	-	OSCA ID #2620957
FLORENCIA G. TARRIELA	-	OSCA ID#33431 PHIC ID# 19-051371152-6
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. JUANCHO DAVID R. TABLANG
Notary Public for Makati City
Commission No. M-63 until December 31, 2018
PTR No. 6629103 : 01/11/2018 / Makati City
IBP No. 021594 : 01/09/2018 / Makati City
Roll of Attorney: 42002
MCLE Compliance No. V-0024262
2016 Magsaysay St.,
Brgy. Guadalupe Nuevo, Makati City

Doc. No. 427;
Page No. 86;
Book No. CCIV;
Series of 2018

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

FINANCIAL STATEMENTS
December 31, 2017 and 2016

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
Email ph-inquiry@kpmg.com.ph

REPORT OF INDEPENDENT AUDITORS

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

Report on the Audit of the Financial Statements

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, 2017 and 2016, 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, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *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 PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 26 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

Vanessa P. Macamos

VANESSA P. MACAMOS
Partner
CPA License No. 0102309
IC Accreditation No. F-2017-017-O, valid until November 26, 2020
SEC Accreditation No. 1619-A, Group A, valid until March 15, 2020
Tax Identification No. 920-961-311
BIR Accreditation No. 08-001987-38-2016
Issued December 16, 2016; valid until December 15, 2019
PTR No. 6615139MD
Issued January 3, 2018 at Makati City

April 27, 2018
Makati City, Metro Manila

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AMALIA M. PONTERES
COLLECTION OFFICER

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

STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

Securities and Exchange Commission
Electronic Records Management Division
MAY 11 2018
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	Note	December 31 2017	2016
ASSETS			
Cash and cash equivalents	7	P45,314,459	P15,026,605
Short-term investments	8	3,192,525	3,166,857
Receivables	9	6,732,349	7,037,006
Due from related party	12	8,197,755	-
Available-for-sale (AFS) financial assets	10	751,173,471	761,178,427
Held-to-maturity (HTM) investments	11, 19	184,515,887	97,676,722
Property, equipment and computer software-net	13	5,872,085	4,281,852
Retirement asset	21	2,133,244	3,623,610
Other assets	14	1,135,417	2,135,085
		P1,008,267,192	P894,126,164
LIABILITIES AND FUND BALANCE			
Liabilities			
Accrued expenses and other liabilities	16, 18	P24,525,348	P39,860,632
Claims payable	15	106,813,789	4,154,358
Aggregate reserves	17	54,794,197	13,132,536
Equity value reserves	18	89,918,184	329,894,308
Due to related party	12	-	1,068,209
Total Liabilities		276,051,518	388,110,043
Fund Balance			
Guaranty fund reserves	19	104,458,625	90,136,823
General fund balance	20	58,085,811	74,122,967
Funds assigned for members' benefits	20	421,204,142	237,459,898
Funds assigned for capacity building	20	188,169,987	104,320,428
Remeasurement of retirement asset	21	(1,401,590)	556,694
Fair value reserve on AFS financial assets	10	(31,005,816)	(623,997)
Fair value reserve on HTM investments to be amortized in profit or loss	10	(7,295,485)	43,308
Total Fund Balance		732,215,674	506,016,121
		P1,008,267,192	P894,126,164

See Notes to the Financial Statements.

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AMALIA M. PONTERES
COLLECTION OFFICER

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

		Years Ended December 31	
	Note	**2017**	2016
NET MEMBERS' CONTRIBUTIONS AND PREMIUMS			
Members' contributions and premiums	*12*	**P286,436,025**	P151,267,356
Members' contributions and premiums ceded to reinsurers		**(291,449)**	(225,500)
		286,144,576	151,041,856
CLAIMS AND BENEFITS EXPENSES			
Claims and benefits	*15*	**53,087,373**	39,286,339
Increase in aggregate reserves	*17*	**41,661,661**	719,954
Increase in equity value reserves	*18*	**43,498,336**	31,735,310
		138,247,370	71,741,603
GENERAL AND ADMINISTRATIVE EXPENSES			
Salaries and other employee benefits	*12, 21, 22*	**50,963,049**	48,043,133
Marketing and sales	*12, 23, 25*	**43,667,989**	17,961,564
Planning, meetings and conferences		**4,241,974**	2,895,507
Depreciation and amortization	*13*	**3,733,772**	4,085,036
Repairs and maintenance		**2,830,382**	1,396,528
Office supplies		**1,690,104**	1,676,057
Communication, light and water		**1,378,486**	827,625
Professional fees		**662,978**	771,981
Transportation and travel		**474,373**	297,938
Advertising and promotion		**311,528**	271,122
Dues and fees		**186,511**	216,715
Representation and entertainment		**87,861**	67,376
Donation		**39,283**	50,000
Taxes and licenses		**20,819**	10,725
Miscellaneous		**669,449**	705,724
		110,958,558	79,277,031
OPERATING INCOME		**36,938,648**	23,222
OTHER INCOME (EXPENSE)			
Interest income	*7, 8, 9, 10, 11*	**35,768,598**	33,3[illegible]6,921
Dividend income	*10*	**480,601**	450,343
Gain on sale of investments	*10*	**86,997**	313,[illegible]71
Other income (expense) - net		**(12,918)**	155,[illegible]
Interest expense	*18*	**(762,473)**	(808,41[illegible])
		35,560,805	33,446,994
NET INCOME		**72,499,453**	33,470,216

Forward

		Years Ended December 31	
	Note	2017	2016
OTHER COMPREHENSIVE INCOME			
Item that may be reclassified to profit or loss			
Net change in fair value of reserve on AFS financial assets	*10*	**(P30,381,819)**	(P7,204,013)
Item that will not be reclassified to profit or loss			
Remeasurement gain (loss) of retirement asset	*21*	**(1,958,284)**	166,025
		(32,340,103)	(7,037,988)
TOTAL COMPREHENSIVE INCOME		**P40,159,350**	P26,432,228

See notes to the Financial Statements.

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COLLECTION OFFICER

TSPI MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Nonprofit Organization)
STATEMENTS OF CHANGES IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Guaranty Fund Reserves (Note 19)	General Fund Balance (Note 20)	Funds Assigned for Members' Benefits (Note 20)	Funds Assigned for Capacity Building (Note 20)	Remeasurement of Retirement Asset (Note 21)	Fair Value Reserve on Available-for-Sale Financial Assets (Note 10)	Fair Value Reserve on Held-to-Maturity Investments to be Amortized in Profit or Loss (Note 11)	Total
Balance as at December 31, 2016	P90,136,823	P74,122,967	P237,459,898	P104,320,428	P556,694	(P623,997)	P43,308	P506,016,121
Net income for the year	-	72,499,453	-	-	-	-	-	72,499,453
Other comprehensive income:								
Net change in fair value reserve of available-for-sale financial assets	-	-	-	-	-	(30,381,819)	-	(30,381,819)
Remeasurement of retirement asset	-	-	-	-	(1,958,284)	-	-	(1,958,284)
Total comprehensive income for the year	-	72,499,453	-	-	(1,958,284)	(30,381,819)	-	40,159,350
Transfer to guaranty fund	14,321,802	(14,321,802)	-	-	-	-	-	-
Appropriation of equity value and interest (Notes 16 and 18)	-	-	123,219,556	52,808,381	-	-	-	176,027,937
Transfer to funds assigned for members benefits and for capacity building	-	(103,470,594)	72,429,416	31,041,178	-	-	-	-
Transfer of forfeited equity value and interest (Notes 16 and 18)	-	29,255,787	-	-	-	-	-	29,255,787
Utilization of members' benefits fund	-	-	(11,904,728)	-	-	-	-	(11,904,728)
Amortization of fair value reserve to be amortized to profit or loss	-	-	-	-	-	-	(7,338,793)	(7,338,793)
	14,321,802	(88,536,609)	183,744,244	83,849,559	-	-	(7,338,793)	186,040,203
Balance as at December 31, 2017	P104,458,625	P58,085,811	P421,204,142	P188,169,987	(P1,401,590)	(P31,005,816)	(P7,295,485)	P732,215,674

Forward

	Guaranty Fund Reserves (Note 19)	General Fund Balance (Note 20)	Funds Assigned for Members' Benefits (Note 20)	Funds Assigned for Capacity Building (Note 20)	Remeasurement of Retirement Asset (Note 21)	Fair Value Reserve on Available-for-Sale Financial Assets (Note 10)	Fair Value Reserve on Held-to-Maturity Investments to be Amortized in Profit or Loss (Note 11)	Total
Balance as at December 31, 2015	P82,573,455	P67,985,334	P225,627,464	P96,389,662	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)
	7,563,368	(27,332,583)	11,832,434	5,930,766	-	-	(62,383)	(2,068,398)
Balance as at December 31, 2016	P90,136,823	P74,122,967	P237,459,898	P104,320,428	P556,694	(P623,997)	P43,308	P506,016,121

See Notes to the Financial Statements.

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

	Note	Years Ended December 31 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		P72,499,453	P33,470,216
Adjustments for:			
Increase in equity value reserve	18	43,498,336	31,735,310
Increase in aggregate reserves	17	41,661,661	719,954
Interest income	7, 8, 9, 10, 11	(35,768,598)	(33,335,921)
Depreciation and amortization	13	3,733,772	4,085,036
Provision for claims incurred but not yet reported	15	1,135,951	(634,081)
Interest expense	18	762,473	808,419
Dividend income	10	(480,601)	(450,343)
Retirement expense	21	457,082	249,606
Gain on sale of investments	10	(86,997)	(313,171)
Loss on sale of assets		13,046	4,623
Operating income before working capital changes		127,425,578	36,339,648
Decrease (increase) in:			
Receivables		(6,034,896)	1,765,084
Due from related party	12	(8,197,755)	5,197,277
Other assets	14	999,668	(1,190,538)
Increase in short-term investments		(25,668)	(25,462)
Increase (decrease) in:			
Claims payable		17,620,076	(222,018)
Accrued expenses and other liabilities		(4,507,174)	3,346,889
Due to related party	12	(1,068,209)	1,068,209
Refund of equity value reserve	18	(1,061,444)	(18,277,516)
Cash generated from operations		125,150,176	28,001,573
Interest paid		(4,816,471)	(1,049,967)
Contribution to retirement asset	21	(925,000)	(900,000)
Net cash provided by operating activities		119,408,705	26,051,606
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Available-for-sale financial assets	10	(129,013,885)	(265,249,858)
Held-to-maturity investments	11		(46,936,510)
Property, equipment and computer software	13	(5,337,051)	(2,158,672)
Proceeds from:			
Disposal of available-for-sale financial assets	10	21,357,928	208,662,690
Disposal of held-to-maturity investments	11		47,576,000
Interest income received		35,296,284	24,760,945
Dividend received	10	480,601	450,343
Net cash used in investing activities		(77,216,123)	(22,895,062)

Forward

	Note	Years Ended December 31 2017	2016
CASH FLOWS FROM A FINANCING ACTIVITY			
Utilization of members' benefit fund		**(P11,904,728)**	(P2,006,015)
Net cash used in financing activity		**(11,904,728)**	(2,006,015)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**30,287,854**	1,150,529
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7	**15,026,605**	13,876,076
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	**P45,314,459**	P15,026,605

See Notes to the Financial Statements.

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AMALIA M. PONTERES
COLLECTION OFFICER

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 (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board. PFRS which are issued by the Philippine Financial Reporting Standards Council, consist of PFRS, Philippine Accounting Standards (PAS), 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	Fair value of plan assets less the present value of the defined benefit obligation

Functional and Presentation Currency
The financial statements of the Association are presented in Philippine Peso, 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, 2017 was approved by the Executive Committee as authorized by the Board of Trustees on April 27, 2018.

Use of Judgments and Estimates
The preparation of financial statements in accordance with PFRS 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, except for the changes in accounting policies as explained below.

Certain comparative amounts in the statements of comprehensive income have been reclassified as a result of change in the classification of certain accounts in 2017 (see Note 25).

Adoption of Amendments to Standard
The Association has adopted the following amendments to standard starting January 1, 2017 and accordingly, changed its accounting policies.

- *Disclosure Initiative (Amendments to PAS 7 Statement of 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. On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

  The Association has no financing activity that involves liabilities. The Association's financing activity in 2017 is merely related to the utilization of the funds assigned for members' benefits.

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, 2017 and 2016, 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, 2017 and 2016, the Association has no financial assets and liabilities at FVPL.

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, 2017 and 2016, the Association's cash and cash equivalents, short-term investments, receivables, due from related party 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.

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, 2017 and 2016, the Association's HTM investments amounted to P184.52 million and P97.68 million, respectively (see Note 11).

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 fund balance. 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 unobservable 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, 2017 and 2016, the Association's AFS financial assets amounted to P751.17 million and P761.18 million, respectively (see Note 10).

Reclassification of AFS Financial Assets to HTM Investments
For a financial asset reclassified out of the AFS financial assets category to loans and receivables or HTM investments, it shall reclassify the financial asset at its fair value on the date of reclassification which becomes its new amortized cost. Any previous gain or loss on that asset that has been recognized in other comprehensive income and any difference between the new amortized cost and maturity amount is amortized in profit or loss over the remaining life of the investments using the effective interest method similar to the amortization of a premium and a discount. If the financial asset is subsequently impaired, any gain or loss that has been recognized in other comprehensive income is reclassified from fund balance to profit or loss.

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, 2017 and 2016, this category includes the Association's claims payable, equity value reserves, accrued expenses and other liabilities (excluding amounts payable to government agencies) and due to related party.

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).

'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 case 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.

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.

Loans and Receivables and HTM Investments. 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.

AFS Financial Assets Carried at Fair Value. In case of quoted 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. A decline in excess of twenty percent (20%) should generally be regarded as significant while a decline in a quoted market price that persists for nine months should generally be considered to be prolonged.

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.

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 PFRS, 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 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 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.

<u>Computer Software</u>
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.

Insurance Contract Liabilities

Aggregate Reserves

Aggregate reserves represent the accumulated total liability for policies in-force as at the reporting date. 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.

The corresponding change in aggregate reserves is presented as "Increase in aggregate reserves" in profit or loss.

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. The increase in equity value reserves as a result of the collection of membership contribution is presented as "Increase in equity value reserves" in profit or loss.

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.

On October 10, 2016, the IC approved the transfer of equity value reserves in the fund balance based on its letter to the Microinsurance Mutual Benefit Association of the Philippines and accounted as follows:

- equity value reserves for delinquent members beyond the prescribed three (3) years reinstatement period should be transferred to assigned surplus for the benefit of the members provided that the Association initiate at least two (2) actions to locate and inform the delinquent members. However, the Association should maintain a schedule in case any of the members will make a claim in the future.

- unreturned equity value reserves of deceased members and equity value reserves of resigned members (forfeited equity value) before the effectivity of the amended Insurance Code with less than 3 years of membership are transferred to general fund balance.

As required by the IC, this change in accounting policy will be applied prospectively. The Association adopted the accounting policy in 2017 since aforementioned actions required by the IC has to be performed including the validation of the delinquent and resigned members in 2016.

Moreover, the Association reclassified inactive members' equity value reserves and its corresponding interest to claims payable – equity value and interest under "Claims payable" to segregate inactive from active members starting 2017.

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 networth 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.

Remeasurement of Retirement Asset

Remeasurement of retirement assets pertain to the accumulated actuarial gains and losses arising from experience and demographic assumptions of the defined benefit obligation and gain (loss) in the plan assets.

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 net unrealized gain (loss) 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.

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.

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

Members' Contributions and Premiums
Members' contributions and premiums are recognized when due. The annual members' contribution of two hundred forty pesos is for mandatory life insurance cover while premiums include the following:

- One peso weekly for every thousand pesos of loan availed for credit life;
- Ten pesos annually for every thousand pesos loan availed for mortgage redemption insurance;
- Two hundred forty pesos annually for life plus insurance plan cover; and
- Six hundred fifty pesos annually for life maximum insurance cover.

Members' contributions 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.

Gain on Sale of Investments
This pertains to the amount in excess of the selling price against the carrying amount of the AFS financial assets in a sale transaction.

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.

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.

Employee Benefits
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.

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.

Provisions and Contingencies
Provisions are recognized when the Association has a present legal or constructive obligation as a result of a past event when 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 a 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.

Standards Issued but Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017. However, the Association has not applied the following new or amended standards in preparing these financial statements. Except as indicated below, the Association expects that the impact of the new and amendments to standards will not be material to the financial statements.

Effective January 1, 2018

- *Applying PFRS 9 Financial Instruments 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 Association availed the temporary exemption.

- *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.

  The Association availed the temporary exemption in the implementation of PFRS 9 as allowed by PFRS 4 above.

- *PFRS 15 Revenue from Contracts with Customers replaces PAS 11 Construction Contracts, PAS 18 Revenue, International Financial Reporting Interpretatios Committee (IFRIC) 13 Customer Loyalty Programmes, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue - Barter Transactions Involving Advertising Services.* The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

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

  The Association believes that the new revenue recognition model will have no significant impact on its financial statements since the Company's main revenue stream is accounted under PFRS 4.

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:

Judgment

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, 2017 and 2016, the Association's financial instruments are classified as loans and receivables, HTM investments, AFS financial assets and other financial liabilities.

b) *Determination of Fair Value*

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, 2017 and 2016, the Association's financial instruments carried at fair value are classified as Level 1 in the fair value hierarchy (see Note 6).

c) *Provisions and Contingencies*

The Association, in the ordinary course of business, sets up appropriate provisions for its present legal or constructive obligations, if any, in accordance with its policies on provisions and contingencies. In recognizing and measuring provisions, management takes risk and uncertainties into account.

The Association is under an ongoing tax review for taxable year 2016. However, management believes that as of date it is not probable that an outflow of resources will be required given that there is no result of the tax review yet.

Estimates

Impairment of Financial Assets

(a) *Financial Assets at Amortized Cost*

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.

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.

There were no impairment loss on financial assets at amortized cost were recognized in 2017 and 2016.

(b) *AFS Financial Assets*
The Association considers that investments are impaired when there has been a significant or prolonged decline in the fair value below their cost. 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.

As at December 31, 2017 and 2016 the carrying amount of AFS financial assets amounted to P751.17 million and P761.18 million, respectively (see Note 10). There were no impairment loss recognized in 2017 and 2016 on the Association's AFS financial assets.

Liabilities 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 P4.52 million and P3.39 million as at December 31, 2017 and 2016, respectively (see Note 15).

(a) *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 member contributions collected each month on per week, month, quarter, semi-annual and annual basis. For premium, credit life and other optional products 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, 2017 and 2016, aggregate reserves amounted to P54.79 million and P13.13 million, respectively (see Note 17).

(b) *Estimating Retirement 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, 2017 and 2016, the Association has a retirement asset of P2.13 million and P3.62 million, respectively (see Note 21).

Retirement expense amounted to P0.46 million in 2017 and P0.25 million in 2016 while remeasurement of retirement asset amounted to P1.40 million and P0.56 million as at December 31, 2017 and 2016 respectively (see Note 21).

5. Management of Insurance and Financial Risks

The Association's activities expose it to a variety of risks such as financial and insurance risks. The overall objective of risk management is to focus on the unpredictability of financial and insurance contingencies to minimize potential adverse effects on the financial condition of the Association.

Governance
The BOT of the Association has overall responsibility for the establishment and oversight of the Association's risk management framework. The BOT has delegated to the management the responsibility of developing and monitoring the Association's risk management policies.

The Association's risk management policies are established to identify and analyze the risks faced by the Association, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Association's activities. The Association, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Management is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Association.

Regulatory Framework
Regulators are interested in protecting the rights of the members and maintain close observation to ensure that the Association is satisfactorily managing its affairs for the benefit of members. At the same time, the regulators are also interested in ensuring that the Association maintains appropriate solvency position to meet liabilities arising from claims and that the risks are at acceptable levels.

Capital Management
The Association's objective in managing fund balance is to maintain high growth by applying free cash flow to selective investments that would preclude the Association's need of additional financing. The Association sets strategies with the objective of establishing a versatile and resourceful financial management and fund balance structure. Management has overall responsibility for monitoring of fund balance in proportion to risk. Profiles for ratios are set in the light of changes in the Association's external environment and the risks underlying the Association's business operations and industry.

The Association's capital includes guaranty fund reserves, general fund balance, funds assigned for members' benefits and for capacity building.

The Association monitors fund balance on the basis of the debt-to-equity ratio which is calculated as total debt divided by total fund balance. Total debt is equivalent to claims payable, accrued expenses and other liabilities, due to related party, aggregate reserves and equity value reserves. Total equity comprises the fund balance.

Debt-to-equity ratio as at December 31 is as follows:

	2017	2016
Total debt	P276,051,518	P388,110,043
Total equity	732,215,674	506,016,121
Debt-to-equity ratio	37.70%	76.70%

There were no changes in the Association's approach to fund balance management during the year.

The Association is subject to imposed capital requirements set by IC. Compliance with these requirements is discussed below.

Networth Requirement
Under the Insurance Code, mutual benefit associations must have available total member's equity in an amount to be determined by the IC above all liabilities for losses reported as networth requirement.

As at December 31, 2017 and 2016, the Association is compliant with the required networth requirement based on the Association's calculations. However, the final amount of the networth requirement can be determined only after the accounts of the Association have been examined by the IC, specifically as to admitted and non-admitted assets as defined in the Insurance Code.

The estimated amounts of non-admitted assets as defined in the Insurance Code included in the Association's statements of assets, liabilities and fund balance, which are subject to final determination by the IC are as follows:

	2017	2016
Property, equipment and computer software - net	P2,245,350	P1,353,037
Receivables	189,770	780,433
Other assets	1,135,417	2,135,085
	P3,570,537	P4,268,555

Risk-Based Capital (RBC) Requirements
As per IC's Memorandum Circular (IMC) No. 6-2006, every mutual benefit entity is annually required to maintain an RBC ratio of at least one hundred percent (100%) and not to fail the trend test. RBC ratio is computed using the formula prescribed by the IC. The RBC requirement is determined after considering the admitted value of certain financial statement accounts whose final amounts can be determined only after the examination by the IC.

Failure to meet the minimum RBC ratio shall subject the Association to regulatory intervention which could be at various levels depending on the degree of the violation.

The following table shows how the RBC ratio at December 31, 2017 and 2016 were determined by the Association based on the Association's internal calculations:

	2017	2016
Networth	P715,699,940	P498,123,958
Risk-based capital requirement	15,526,708	11,717,956
Risk-based capital ratio	4,609%	4,251%

On December 28, 2016, the IC released Circular Letter No. 2016-69, *Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves, and Amended Risk-based Capital (RBC2) Framework*, which provides, among other things, that the level of sufficiency for the amended RBC 2 shall be at 95th percentile level of sufficiency for the year 2017, 97.5th percentile for the year 2018, and 99.5th percentile for the year 2019. RBC 2 Framework shall be made effective January 1, 2017.

As at December 31, 2017 and 2016, the Association is compliant with the required RBC ratio based on the Association's internal calculation.

Insurance Risk

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. The principal risk that the Association faces under its insurance contracts are that the actual claims and benefit payments exceed the carrying value of the insurance liabilities, which was the estimates, established using certain assumptions.

The table below sets out the concentration of life insurance contract by type of contract as at December 31, 2017 and 2016.

	2017		2016	
Contract Type	Gross of Reinsurance	Net of Reinsurance	Gross of Reinsurance	Net of Reinsurance
Credit life	P108,259,678	P108,107,554	P87,796,736	P87,667,551
Basic life	86,996,671	86,902,690	63,470,620	63,374,305
Life maximum benefit	65,466,874	65,445,501	-	-
Life plus benefit	24,477,016	24,464,450	-	-
Mortgage redemption benefit	1,235,786	1,224,381	-	-
	P286,436,025	P286,144,576	P151,267,356	P151,041,856

The Association's exposure to insurance risk as at December 31, 2017 and 2016 are as follows:

	Note	2017	2016
Aggregate reserves	17	P54,794,197	P13,132,536
Equity value reserves	18	89,918,184	329,894,308
		P144,712,381	P343,026,844

Key Assumptions

The principal assumption underlying the estimates is the Association's past claims development experience. This includes assumptions in respect of average claim costs and claim numbers for each year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future. For example, one off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.