# 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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*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.*

TSPI MUTUAL BENEFIT ASSOCIATION, INC.

## 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 as at and for the years ended December 31, 2018 and 2017, including the additional components attached therein, 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, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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 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.

**Ma. Luz A. Planas**-Chairman of the Board

**Florencia G. Tarriela**-Treasurer

**Atty. Leonarda D. Banasen**-Corporate Secretary
Officer in Charge

**Nelia A. Nayve**-Director, Finance & Admin
Officer in Charge

Signed this 8th day of April 2019

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

**FINANCIAL STATEMENTS**
**December 31, 2018 and 2017**

KPMG

R.G. Manabat & Co.
The KPMG Center, 9/F
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Philippines 1226
Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
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## REPORT OF INDEPENDENT AUDITORS

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

### Report on the Audit of the Financial Statements

*Opinion*

We have audited the accompanying financial statements of TSPI Mutual Benefit Association, Inc. (the "Association") which comprise the statements of assets, liabilities and fund balance as at December 31, 2018 and 2017, 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 financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended December 31, 2018 and December 31, 2017, 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.



PRC-BOA Registration No. 0003, valid until March 15, 2020
SEC Accreditation No. 0004-FR-5, Group A, valid until November 15, 2020
IC Accreditation No. F-2017/010-R, valid until August 26, 2020
BSP - Selected External Auditors, Category A, valid for 3-year audit period (2017 to 2019)

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

Management is responsible for the preparation and fair presentation of these 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 basic 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. MKT 7333621
Issued January 3, 2019 at Makati City

April 8, 2019
Makati City, Metro Manila

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

## STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

| | Note | December 31 2018 | 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 7 | P13,877,194 | P45,314,459 |
| Short-term investments | 8 | 3,218,401 | 3,192,525 |
| Receivables | 9 | 7,512,272 | 6,732,349 |
| Due from related party | 24 | - | 8,197,755 |
| Available-for-sale (AFS) financial assets | 10 | 796,723,700 | 751,173,471 |
| Held-to-maturity (HTM) investments | 11, 18 | 183,987,885 | 184,515,887 |
| Property, equipment and computer software - net | 12 | 4,157,244 | 5,872,085 |
| Investment property | 13 | 56,000,000 | - |
| Retirement asset | 20 | 3,080,023 | 2,133,244 |
| Other assets | | 967,344 | 1,135,417 |
| | | P1,069,524,063 | P1,008,267,192 |
| **LIABILITIES AND FUND BALANCE** | | | |
| **Liabilities** | | | |
| Accrued expenses and other liabilities | 14 | P30,763,625 | P24,525,348 |
| Claims payable | 15 | 134,912,396 | 106,813,789 |
| Aggregate reserves | 16 | 53,536,552 | 54,794,197 |
| Equity value reserves | 17 | 75,511,008 | 89,918,184 |
| Due to related party | 24 | 34,770,038 | - |
| **Total Liabilities** | | 329,493,619 | 276,051,518 |
| **Fund Balance** | | | |
| Guaranty fund reserves | 18 | 117,575,296 | 104,458,625 |
| General fund balance | 19 | 139,667,553 | 58,085,811 |
| Funds assigned for members' benefits | | 420,083,779 | 421,204,142 |
| Funds assigned for capacity building | | 188,169,987 | 188,169,987 |
| Remeasurement gain (loss) on retirement asset | 20 | 190,851 | (1,401,590) |
| Fair value reserve on AFS financial assets | 10 | (118,683,175) | (31,005,816) |
| Fair value reserve on HTM investments to be amortized in profit or loss | | (6,973,847) | (7,295,485) |
| **Total Fund Balance** | | 740,030,444 | 732,215,674 |
| | | P1,069,524,063 | P1,008,267,192 |

*See Notes to the Financial Statements.*

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

| | | Years Ended December 31 | |
|---|---|---|---|
| | *Note* | 2018 | 2017 |
| **NET MEMBERS' CONTRIBUTIONS AND PREMIUMS** | | | |
| Members' contributions and premiums | 24 | **P262,333,419** | P286,436,025 |
| Members' contributions and premiums ceded to reinsurers | | **(263,900)** | (291,449) |
| | | **262,069,519** | 286,144,576 |
| **CLAIMS, BENEFITS AND OTHER COSTS** | | | |
| Claims and benefits | 15 | **68,304,718** | 53,087,373 |
| Increase in equity value reserve | 17 | **35,573,273** | 43,498,336 |
| Increase (decrease) in aggregate reserves | 16 | **(1,257,645)** | 41,661,661 |
| Other direct costs | 22, 25 | **61,702,123** | 53,531,406 |
| | | **164,322,469** | 191,778,776 |
| **GENERAL AND ADMINISTRATIVE EXPENSES** | | | |
| Salaries and other employee benefits | 21, 25 | **39,936,840** | 41,411,160 |
| Planning, meetings and conferences | | **4,562,091** | 4,241,974 |
| Depreciation and amortization | 12 | **3,699,046** | 3,733,772 |
| Repairs and maintenance | | **3,345,769** | 2,830,382 |
| Office supplies | | **2,279,908** | 1,690,104 |
| Professional fees | | **1,338,773** | 662,978 |
| Communication, light and water | | **1,179,844** | 1,378,486 |
| Transportation and travel | | **454,325** | 474,373 |
| Dues and fees | | **185,519** | 186,511 |
| Taxes and licenses | | **112,878** | 20,819 |
| Representation and entertainment | | **72,780** | 87,861 |
| Donation | | **10,000** | 39,283 |
| Miscellaneous | | **245,480** | 669,449 |
| | | **57,423,253** | 57,427,152 |
| **OPERATING INCOME** | | **40,323,797** | 36,938,648 |
| **OTHER INCOME (EXPENSE)** | | | |
| Interest income | 7, 8, 9, 10, 11 | **42,727,221** | 35,768,598 |
| Dividend income | 10 | **488,723** | 480,601 |
| Gain (loss) on sale of investments | 10 | **(437,397)** | 86,997 |
| Other expense - net | | **(4,046)** | (12,918) |
| Interest expense | 17 | **(398,401)** | (762,473) |
| | | **42,376,100** | 35,560,805 |
| **NET INCOME** | | **82,699,897** | 72,499,453 |

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| | Note | 2018 | 2017 |
|---|---|---|---|
| | | Years Ended December 31 | |
| **OTHER COMPREHENSIVE INCOME** | | | |
| **Item that may be reclassified to profit or loss** | | | |
| Net change in fair value of reserve on AFS financial assets | *10* | **(P87,677,359)** | (P30,381,819) |
| **Item that will not be reclassified to profit or loss** | | | |
| Remeasurement gain (loss) of retirement asset | *20* | **1,592,441** | (1,958,284) |
| | | **(86,084,918)** | (32,340,103) |
| **TOTAL COMPREHENSIVE (LOSS) INCOME** | | **(P3,385,021)** | P40,159,350 |

*See Notes to the Financial Statements.*

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

**STATEMENTS OF CHANGES IN FUND BALANCE**
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

| | Guaranty Fund Reserves (Note 18) | General Fund Balance (Note 19) | Funds Assigned for Members' Benefits | Funds Assigned for Capacity Building | Remeasurement of Retirement Asset (Note 20) | 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 | Total |
|---|---|---|---|---|---|---|---|---|
| Balance as at December 31, 2017 | P104,456,828 | P58,085,811 | P421,204,142 | P188,169,987 | (P1,401,590) | (P31,005,816) | (P7,295,485) | P732,216,674 |
| Net income for the year | - | 82,699,897 | - | - | - | - | - | 82,699,897 |
| Other comprehensive income: | | | | | | | | |
| Net change in fair value reserve of available-for-sale financial assets | - | - | - | - | - | (87,677,359) | - | (87,677,359) |
| Remeasurement of retirement asset | - | - | - | - | 1,592,441 | - | - | 1,592,441 |
| Total comprehensive income (loss) for the year | - | 82,699,897 | - | - | 1,592,441 | (87,677,359) | - | (3,385,021) |
| Transfer to guaranty fund | 13,116,671 | (13,116,671) | - | - | - | - | - | - |
| Utilization of members' benefits fund | - | - | (1,120,363) | - | - | - | - | (1,120,363) |
| Amortization of fair value reserve to be amortized to profit or loss | - | - | - | - | - | - | 321,638 | 321,638 |
| Transfer of forfeited equity value and interest | - | 11,998,516 | - | - | - | - | - | 11,998,516 |
| | 13,116,671 | (1,118,155) | (1,120,363) | - | - | - | 321,638 | 11,199,791 |
| **Balance as at December 31, 2018** | P117,575,296 | P139,667,563 | P420,083,779 | P188,169,987 | P190,851 | (P118,683,175) | (P6,973,847) | P740,030,444 |

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| | Guaranty Fund Reserves (Note 18) | General Fund Balance (Note 19) | Funds Assigned for Members' Benefits | Funds Assigned for Capacity Building | Remeasurement of Retirement Asset (Note 20) | 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 | 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 | - | - | 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 | - | 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 |

*See Notes to the Financial Statements.*

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

| | | Years Ended December 31 | |
|---|---|---|---|
| | *Note* | 2018 | 2017 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net income | | **P82,699,897** | P72,499,453 |
| Adjustments for: | | | |
| Interest income | *7, 8, 9, 10, 11* | **(42,727,221)** | (35,768,598) |
| Increase in equity value reserve | *17* | **35,573,273** | 43,498,336 |
| Depreciation and amortization | *12* | **3,699,046** | 3,733,772 |
| Decrease in aggregate reserves | *16* | **(1,257,645)** | 41,661,661 |
| Provision for claims incurred but not yet reported | *15* | **(1,022,059)** | 1,135,951 |
| Retirement expense | *20* | **645,662** | 457,082 |
| Dividend income | *10* | **(488,723)** | (480,601) |
| Loss (gain) on sale of investments | | **437,397** | (86,997) |
| Interest expense | *17* | **398,401** | 762,473 |
| Gain on sale of assets | | **3,945** | 13,046 |
| Operating income before working capital changes | | **77,961,973** | 127,425,578 |
| Decrease (increase) in: | | | |
| Due from related party | *24* | **8,197,755** | (8,197,755) |
| Other assets | | **168,073** | 999,668 |
| Receivables | | **37,287** | (6,034,896) |
| Short-term investments | *8* | **(25,876)** | (25,668) |
| Increase (decrease) in: | | | |
| Due to related party | *24* | **34,770,038** | (1,068,209) |
| Claims payable | | **(8,861,269)** | 17,620,076 |
| Accrued expenses and other liabilities | | **8,511,328** | (4,507,174) |
| Refund of equity value reserve | | **-** | (1,061,444) |
| Cash generated from operations | | **120,759,309** | 125,150,176 |
| Interest paid | | **(2,671,452)** | (4,816,471) |
| Contribution to retirement plan | *20* | **-** | (925,000) |
| Net cash provided by operating activities | | **118,087,857** | 119,408,705 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisitions of: | | | |
| Available-for-sale financial assets | *10* | **(142,165,625)** | (129,013,885) |
| Investment property | *13* | **(56,000,000)** | - |
| Property, equipment and computer software | *12* | **(1,988,150)** | (5,337,051) |
| Proceeds from: | | | |
| Disposal of available-for-sale financial assets | *10* | **8,514,978** | 21,357,928 |
| Interest income received | | **42,745,315** | 35,296,284 |
| Dividend received | *10* | **488,723** | 480,601 |
| Net cash used in investing activities | | **(148,404,759)** | (77,216,123) |

*Forward*

| | | Years Ended December 31 | |
|---|---|---|---|
| | *Note* | 2018 | 2017 |
| **CASH FLOWS FROM A FINANCING ACTIVITY** | | | |
| Utilization of members' benefit fund | | **(P1,120,363)** | (P11,904,728) |
| Net cash used in financing activity | | **(1,120,363)** | (11,904,728) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **(31,437,265)** | 30,287,854 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 7 | **45,314,459** | 15,026,605 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 7 | **P13,877,194** | P45,314,459 |

*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 1, 2019, the IC renewed the Association's license as a mutual benefit association until December 31, 2021.

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 (IASB). 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 (FVPA) less the present value of the defined benefit obligation (DBO) |

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.

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Approval for Issuance of Financial Statements
The financial statements as at and for the year ended December 31, 2018 were approved by the Executive Committee as authorized by the Board of Trustees (BOT) on April 8, 2019.

## 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all the years presented in the financial statements, except for the changes in accounting policies as explained below.

Certain comparative accounts in the statements of comprehensive income have been reclassified or re-presented as a result of changes in the presentation and classification of certain items (see Note 25).

Adoption of New or Revised Standards, Amendments to Standards
The Association has adopted the following new standards and amendments to standards starting January 1, 2018 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption did not have any significant impact on the Association's financial statements.

- 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, *Financial Instruments: Recognition and Measurement* 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, 2022.

  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.

  As permitted by the standard, the Association availed of the temporary exemption and deferred application of PFRS 9.

- PFRS 15, *Revenue from Contracts with Customers* replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretations Committee-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new and more comprehensive 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.

PFRS 15 requires a contract with a customer to be legally enforceable and to meet certain criteria to be within the scope of the standard and for the general model to apply. It introduces detailed guidance on identifying performance obligations which requires entities to determine whether promised goods or services are distinct. It also introduces detailed guidance on determining transaction price, including guidance on variable consideration and consideration payable to customers. The transaction price will then be generally allocated to each performance obligation in proportion to its stand-alone selling price. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the entity'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 PFRS. 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 adoption of PFRS 15 did not result to any changes in the performance obligation and the timing of revenue recognition of the Association's non-revenue streams. Thus, the impact of the adoption to the financial statements of the Association is immaterial.

- *Transfers of Investment Property* (*Amendments to* PAS 40, *Investment Property*) amends the requirements on when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use - i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

Classification of Insurance and Investment Contracts

Insurance contracts are defined as those contracts under which the Association (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. 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. 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. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk, but not significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

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.

In 2018 and 2017, the Association did not enter into any investment contracts.

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.

*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 timeframe established by regulation or convention in the marketplace are recognized on the settlement date. Settlement date accounting refers to: (a) the recognition of an asset on the day it is received by the Association, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Association.

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, 2018 and 2017, 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 effective interest rate (EIR). The amortization, if any, is included as part of "Interest income" in profit or loss.

As at December 31, 2018 and 2017, 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.

*Held-to-Maturity (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 EIR. The amortization, if any, is included as part of "Interest income" in profit or loss.

As at December 31, 2018 and 2017, the Association's HTM investments amounted to P183.99 million and P184.52 million, respectively (see Notes 11 and 18).

*Available-for-Sale (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 recognition, AFS financial assets are subsequently measured at fair value, with unrealized gains or losses recognized in other comprehensive income in the "Fair value reserve on AFS financial assets" in fund balance until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss, or until the investment is determined to be impaired, where the cumulative loss is reclassified to 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, 2018 and 2017, the Association's AFS financial assets amounted to P796.72 million and P751.17 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 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.

Financial Liabilities
*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, 2018 and 2017, 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 Measurements

*Determination of Fair Values*

The fair values of financial instruments traded in active markets at reporting date are based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair values are determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flows method, price comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

*Fair Value Hierarchy*

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices); and

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Association determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For purposes of the fair value disclosure, the Association has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

"Day 1" Profit
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" profit) in profit or loss, unless it qualifies for recognition as some other type of asset. In cases where data used as inputs in a valuation model are not observable, 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" profit.

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

- the 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 Liabilities*
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.

<u>Property and Equipment</u>
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.

Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business or for administrative purposes.

Investment properties, except land, are measured at cost, less accumulated depreciation and any impairment in value. Land is stated at cost less any impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

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

Depreciation is computed using the straight-line method over the EUL of ten (10) years. The estimated useful life and depreciated method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from items of investments property.

The EUL and the depreciation methods are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from items of investment properties.

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

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

Impairment of Non-financial Assets

At each reporting date, the Association assesses whether there is any indication that its non-financial assets such as investment property, property and 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.

<u>Insurance Contract Liabilities</u>

*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 (decrease) 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 three (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.

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 net worth 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 Gain (Loss) on Retirement Asset*

Remeasurement gain (loss) on 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 to be Amortized in Profit or Loss*

Fair value reserve on HTM investments pertain to the net unrealized gain (loss) of the investments reclassified from AFS financial assets to HTM investments 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

The Association recognizes revenue from contracts with customers when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Association expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties.

The Association's revenue streams arising from insurance contracts falls under PFRS 4 while interest income falls under PFRS 9 and other income under PFRS 15.

*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 which are recognized at point in time.

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.

*Other Direct Costs*

Other direct costs pertain to all costs incurred by the Association that are directly related to the Association's insurance business such as marketing expenses and fees paid for collection services.

*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, amendments to standards and interpretation are effective for annual periods beginning after January 1, 2019. However, the Association has not applied the following new or amended standards and interpretation in preparing these financial statements. The Association is assessing the potential impact on these on its financial statements, and has yet to reasonably estimate the impacts, unless otherwise stated.

*Effective January 1, 2019*

- PFRS 16, *Leases supersedes* PAS 17, *Leases and the related Philippine Interpretations*. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

  Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were also introduced.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019 with several transition approaches and individual options and practical expedients that can be elected independently of each other. Earlier application is permitted for entities that apply PFRS 15 Revenue from Contracts with Customers at or before the date of initial application of PFRS 16.

- *Philippine Interpretation* IFRIC-23, *Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Association's chosen tax treatment. If it is not probable that the tax authority will accept the Association's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value.

  The interpretation also requires the reassessment of judgments and estimates estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

  The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The interpretation can be initially applied retrospectively applying PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, if possible without the use of hindsight, or retrospectively with the cumulative effect recognized at the date of initial application without restating comparative information.

- *Plan Amendment, Curtailment or Settlement (Amendments to* PAS 19, *Employee Benefits*). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

  The amendments apply for plan amendments, curtailments or settlements that occur on or after the beginning of the first annual reporting period that begins on or after January 1, 2019. Earlier application is permitted.

- *Annual Improvements to PFRSs 2015 - 2017 Cycle*. This cycle of improvements contains amendments includes:

  - Income tax consequences of payments on financial instruments classified as equity (Amendments to PAS 12). The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits, i.e. in profit or loss, other comprehensive income or equity.

  The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. When an entity first applies those amendments, it shall apply them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

*Effective January 1, 2020*

- Amendments to References to Conceptual Framework in PFRS sets out amendments to PFRS, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes:

  - a new chapter on measurement;
  - guidance on reporting financial performance;
  - improved definitions of an asset and a liability, and guidance supporting these definitions; and
  - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

  Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

  These amendments are effective for annual reporting periods beginning on or after January 1, 2020.

- *Definition of Material (Amendments to* PAS 1, *Presentation of Financial Statements* and PAS 8). The amendments refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:

  (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence';

  (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;

  (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;

  (d) clarifying the explanatory paragraphs accompanying the definition; and

  (e) aligning the wording of the definition of material across PFRS and other publications.

  The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

  The amendments apply prospectively for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

*Effective January 1, 2022*

- *PFRS 9, Financial Instruments (2014).* PFRS 9 (2014) replaces PAS 39 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.

*Effective January 1, 2023*

- PFRS 17, *Insurance Contracts.* The replaces the interim standard, PFRS 4. Reflecting the view that an insurance contract combines features of both a financial instrument and a service contract, and considering the fact that many insurance contracts generate cash flows with substantial variability over a long period, PFRS 17 introduces a new approach that:

  (a) combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract;

  (b) presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and

  (c) requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in other comprehensive income.

  Under PFRS 17, groups of insurance contracts are measured based on fulfilment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policy holders, and a contractual service margin, which represents the unearned profit the entity will recognize as it provides services over the coverage period. Subsequent to initial recognition, the liability of a group of insurance contracts represents the liability for remaining coverage and the liability for incurred claims, with the fulfilment cash flows remeasured at each reporting date to reflect current estimates.

  Simplifications or modifications to the general measurement model apply to groups of insurance contracts measured using the 'premium allocation approach', investment contracts with discretionary participation features, and reinsurance contracts held.

  PFRS 17 brings greater comparability and transparency about the profitability of new and in-force business and gives users of financial statements more insight into an insurer's financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings.

PFRS 17 is effective for annual periods beginning on or after January 1, 2023. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. Early application is permitted for entities that apply PFRS 9 and PFRS 15 on or before the date of initial application of PFRS 17.

## 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, 2018 and 2017, 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 of Financial Instruments*
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, 2018 and 2017, the Association's financial instruments carried at fair value are classified as Level 1 in the fair value hierarchy (see Note 6).

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 was no impairment loss on financial assets at amortized cost were recognized in 2018 and 2017.

*(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, 2018 and 2017, the carrying amount of AFS financial assets amounted to P796.72 million and P751.17 million, respectively (see Note 10). There was no impairment loss recognized in 2018 and 2017 on the Association's AFS financial assets.

*(c) Determining Fair Value of Investment Property*

The fair value of the investment property is based on its selling price on the date of acquisition. The selling price was used as the basis for the fair value measurement after consideration of the market participants' ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

As at December 31, 2018, the carrying amount of the investment property amounted to P56.00 million (see Note 13). No impairment losses have been recognized on the Association's investment property for the year ended December 31, 2018.

*(d) 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 P3.50 million and P4.52 million as at December 31, 2018 and 2017, respectively (see Note 15).

*(e) Liability Adequacy Test*

At each reporting period, the Association ensures that the assumptions used are best estimates, taking into consideration the current experience to determine whether liabilities are adequate in accordance with the provisions of PFRS 4.

In 2017, the Association did not issue insurance policies with coverage period of more than one year. While in 2018, the Association issued Golden Life Insurance Plan (GLIP) which has a policy term of more than one year. As at December 31, 2018, the aggregate set up for GLIP is adequate using the best estimate assumptions.

*(f) 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, 2018 and 2017, aggregate reserves amounted to P53.54 million and P54.79 million, respectively (see Note 16).

*(g) 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, 2018 and 2017, the Association has a retirement asset of P3.08 million and P2.13 million, respectively (see Note 20).

Retirement expense amounted to P0.65 million in 2018 and P0.46 million in 2017 while remeasurement gain (loss) on retirement asset amounted to P0.19 million and (P1.40) million as at December 31, 2018 and 2017, respectively (see Note 20).

*(h) 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.

## 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.

The operations of the Association are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions [e.g. net worth requirements and risk-based capital (RBC) requirements].

Such restrictive provisions minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise.

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:

| | 2018 | 2017 |
|---|---|---|
| Total debt | **P329,493,619** | P276,051,518 |
| Total equity | **740,030,444** | 732,215,674 |
| Debt-to-equity ratio | **44.52%** | 37.70% |

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.

*Net Worth 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 net worth requirement.

As at December 31, 2018 and 2017, the Association is compliant with the required net worth requirement based on the Association's calculations. However, the final amount of the net worth 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:

| | 2018 | 2017 |
|---|---|---|
| Property, equipment and computer software - net | **P1,391,615** | P2,245,350 |
| Receivables | **190,641** | 189,770 |
| Other assets | **967,344** | 1,135,417 |
| | **P2,549,600** | P3,570,537 |