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

		Years Ended December 31	
	Note	**2019**	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		**P83,096,630**	P82,699,897
Adjustments for:			
Interest income	*7, 8, 9, 10, 11*	**(51,132,848)**	(42,727,221)
Increase in equity value reserve	*17*	**30,034,505**	35,573,273
Decrease in aggregate reserves	*16*	**(10,829,743)**	(1,257,645)
Depreciation and amortization	*12, 13*	**3,170,334**	3,699,046
Provision for claims incurred but not yet reported	*15*	**1,699,999**	(1,022,059)
Dividend income	*10*	**(536,498)**	(488,723)
Interest expense	*17*	**478,212**	398,401
Retirement expense	*20, 21*	**159,005**	645,662
Loss (gain) on sale of investments		**(25,588)**	437,397
Loss on sale of assets		**144**	3,945
Operating income before working capital changes		**56,114,152**	77,961,973
Decrease (increase) in:			
Receivables		**(193,155)**	37,287
Short-term investments		**(39,208)**	(25,876)
Other assets		**359,978**	168,073
Increase (decrease) in:			
Accrued expenses and other liabilities		**(7,439,358)**	8,511,328
Claims payable		**(10,399,294)**	(8,861,269)
Due to related party		**(25,312,393)**	42,967,793
Cash generated from operations		**13,090,722**	120,759,309
Interest paid		**(129,366)**	(2,671,452)
Contribution to retirement plan	*20*	**(1,152,200)**	-
Net cash provided by operating activities		**11,809,156**	118,087,857
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
AFS financial assets	*10*	**(65,455,885)**	(142,165,625)
Investment property	*13*	**(1,660,211)**	(56,000,000)
Property, equipment and computer software	*12*	**(1,394,666)**	(1,988,150)
Proceeds from disposal of AFS financial assets		**35,325,886**	8,514,978
Interest income received		**47,808,674**	42,745,315
Dividend received	*10*	**536,498**	488,723
Net cash provided by (used in) investing activities		**15,160,296**	(148,404,759)

Forward

	Note	2019	2018
		Years Ended December 31	
CASH FLOWS FROM FINANCING ACTIVITIES			
Utilization of client's benefits fund		**(P1,382,422)**	(P1,120,363)
Utilization of capital building fund		**(216,930)**	-
Net cash used in financing activities		**(1,599,352)**	(1,120,363)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**25,370,100**	(31,437,265)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**13,877,194**	45,314,459
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	**P39,247,294**	P13,877,194

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 on May 12, 2006 and was given license to operate as a mutual benefit association by the Insurance Commission (IC) on December 22, 2006. 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 the 3rd Floor, Tulay sa Pag-unlad Inc. (TSPI) Building, 2363 Antipolo Street, 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
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
These financial statements of the Association are presented in Philippine Peso, which is the Association's functional currency. All financial information presented in Philippine peso has been rounded off to the nearest peso, unless otherwise indicated.

Presentation of Financial Statements
The Association presents its statements of assets, liabilities and fund balance in order of liquidity. An analysis regarding recovery or settlement within twelve (12) months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 23.

Approval for Issuance of Financial Statements
The financial statements as at and for the year ended December 31, 2019 were approved by the Executive Committee as authorized by the Board of Trustees (BOT) on April 29, 2020.

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.

Adoption of New Standard, Amendments to Standard and Interpretation
The FRSC approved the adoption of a number of new standard, amended standard and interpretation as part of PFRS. The Association has adopted the following new standard, amendments to standards and interpretation starting January 1, 2019 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these new standard, amendments to standard and interpretation did not have any significant impact on the Association's financial statements.

- 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.

  The adoption of PFRS 16 on January 1, 2019 has no significant impact in the Association's financial statements as the Association does not have any lease agreement that contain a specified asset under the provisions of PFRS 16.

  The details of accounting policies under PAS 17 and International Financial Reporting Interpretations Committee (IFRIC) 4 *Determining whether an arrangement contains a lease* are disclosed separately if they are different from those under PFRS 16. As a result, the Association has changed its accounting policy for lease contracts as detailed below:

  Definition of a Lease
  Previously, the Association determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under PFRS 16, the Association assesses whether a contract is or contains a lease based on the definition of a lease as explained in the significant accounting policies on leases.

Lease liabilities are measured at the present value of the remaining lease payments, discounted based on the rate explicit to the contract or the Association's incremental borrowing rate. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

As a Lessee
As a lessee, the Association previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Association. Under PFRS 16, the Association recognizes right-of-use assets and lease liabilities for most leases i.e. these leases are on the statements of financial position.

- *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 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 Association adopted IFRIC 23 on January 1, 2019. The adoption has no significant impact to the Association's financial position, results of operation or cash flows since there was no identified uncertainty over income tax.

- Amendments to PAS 19 *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 Association adopted the Amendments to PAS 19 on January 1, 2019 and the adoption did not have a material impact to the Association's financial position, results of operation or cash flows since the Association does not have any plans on changing their defined benefit pension plans.

New and Amended Standards Not Yet Adopted

A number of new and amended standards are effective for annual periods beginning after January 1, 2019 and have not been applied in preparing these financial statements. Unless otherwise indicated, none of these are expected to have a significant effect on the Association's financial statements.

The Association will adopt the following new and amended standards on the respective effective dates:

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'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.

  The Association is currently assessing the potential impact on its financial statements resulting from the application of the amendments to standards and has yet to reasonably estimate the impact.

- Definition of Material (Amendments to PAS 1 *Presentation of Financial Statements* and PAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). 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, 2023

- 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.

  The Association availed the temporary exemption in the implementation of PFRS 9 as allowed by PFRS 4 below as the Associations has not previously applied PFRS 9 and its activities are predominantly connected with insurance.

- PFRS 17, *Insurance Contracts*. PFRS 17 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 *Revenue from contracts with customers* on or before the date of initial application of PFRS 17.

Given the nature of most of the insurance contracts issued, the Association is assessing if the simplified approach is applicable. The Association is currently performing detailed assessment on the impact of the adoption of the new standard in its financial statements.

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 2019 and 2018, 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.