

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 the 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 AFS Financial Assets Reclassified as HTM Investments

Fair value reserve on AFS financial assets reclassified as 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 PAS 39 and other revenue sources 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, 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

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 (Loss) 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. Similarly, a loss is incurred when the value of investment drops below its cost.

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 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.

4. Significant Accounting Judgments and Estimates

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

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

Judgments

In the process of applying the Association's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on amounts recognized in the financial statements.

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, 2019 and 2018, 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, 2019 and 2018, the Association's AFS financial assets carried at fair value are classified as Level 1 in the fair value hierarchy (see Note 6).

c) *Ability to Continue as Going Concern*

The financial statements have been prepared on a going concern basis. The validity of the going concern assumption is critical to the preparation of the financial statements of the Association as at and for the years ended December 31, 2019 and 2018 since the measurement bases applied were made on the assumption that the Association will continue to operate as a going concern for at least the next 12 months after reporting date.

Despite the volatile market in which the Association operates, the management deems this not sufficient to indicate the existence of a material uncertainty which may cast significant doubt on the Organization's ability to continue as a going concern.

On March 8, 2020, under Proclamation 922, the Office of the President has declared a state of public health emergency and subsequently on March 16, 2020, under Proclamation 929, a state of calamity throughout the Philippines due to the spread of the Corona Virus Disease 2019 (COVID-19). To manage the spread of the disease, the entire Luzon has been placed under an Enhanced Community Quarantine, effective from March 17, 2020 until April 30, 2020, which involved several measures including travel restrictions, home quarantine and temporary suspension or regulation of business operations, among others, limiting activities related to the provision of essential goods and services.

In view of the COVID-19 pandemic, the management made an assessment of the Association's ability to continue as going concern. Based on the evaluation, the Association's financials are expected to be affected by delayed or requests for extension of premium payments, and moratorium programs. The Association may scale down operations, as needed, to sustain long-term operations.

As such, the management believes that the consequences of the outbreak have not led to a material deterioration in operating results and financial position after the reporting date but before the financial statements are authorized for issue, that is so severe that the going concern basis of preparation is no longer considered appropriate. Furthermore, management deems that the outbreak does not constitute a material uncertainty that may cast significant doubt on the Association's ability to continue as a going concern. Therefore, the financial statements as at and for the year ended December 31, 2019 continue to be prepared on the going concern basis.

Estimates

Impairment of Financial Assets

(a) Loans and Receivables and HTM Debt Investments

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 loans and receivables and HTM debt investments were recognized in 2019 and 2018.

(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, 2019 and 2018, the carrying amount of AFS financial assets amounted to P965.32 million and P796.72 million, respectively (see Notes 6, 10 and 23). There was no impairment loss recognized in 2019 and 2018 on the Association's AFS financial assets.

(c) *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 P5.20 million and P3.50 million as at December 31, 2019 and 2018, respectively (see Note 15).

(d) *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. Accordingly, the recorded aggregate reserves as at December 31, 2019 and 2018 of P42.63 million and P53.54 million, respectively, are adequate using best estimate assumptions (see Note 16 and 23).

(e) *Estimating Aggregate Reserves*

The Association estimates the aggregate reserves for future contractual obligations for contributions paid by determining the forty percent (40%) of the unexpired portion of the 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, 2019 and 2018, aggregate reserves amounted to P42.63 million and P53.54 million, respectively (see Note 16 and 23).

(f) *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, 2019 and 2018, the Association has a retirement asset of P3.02 million and P3.08 million, respectively (see Note 20 and 23).

Retirement expense amounted to P0.16 million in 2019 and P0.65 million in 2018 while remeasurement gain (loss) on retirement asset amounted to (P0.86) million and P0.19 million as at December 31, 2019 and 2018, respectively (see Note 20).

(g) 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.

In 2019, the Association has ongoing tax assessment for taxable year 2016. In respect of the 2016 tax audit, the local tax authorities issued findings on July 25, 2019 and is currently at the Final Assessment Noticed (FAN) stage. The Association submitted all documentary evidence to contest the findings.

The management believes that as at December 31, 2019 and 2018, there is no probable ground that an outflow of resources will be required from 2016 tax audits. The Association also believes that there are merits to its objection or disagreement on the 2016 tax assessments. Consequently, no provision for tax liabilities arising from these open tax audits had been made by the Association as at and for the years ended December 31, 2019 and 2018.

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.