

## 10. Available-for-Sale Financial Assets

As at December 31, this account consists of:

	Note	2019	2018
Government debt securities	5	P564,966,485	P466,075,487
Corporate debt securities	5	373,366,821	304,983,988
Equity securities	5	26,985,044	25,664,225
	4, 6, 23	P965,318,350	P796,723,700

The reconciliation of the carrying amount of the investments at the beginning and end of the year is shown below:

	Note	P2019	2018
Balance at beginning of year		P796,723,700	P751,173,471
Additions during the year		65,455,885	142,165,625
Disposals during the year		(35,300,298)	(8,952,375)
Accretion of discount during the year		6,635,873	745,453
Amortization of premium during the year		(2,469,499)	(731,115)
Net change in fair value reserve on AFS financial assets		134,272,689	(87,677,359)
Balance at end of year	5, 6, 23	P965,318,350	P796,723,700

In 2019 and 2018, the Association recognized interest income on AFS financial assets (net of final tax) amounting to P37.16 million and P35.72 million, respectively, with annual interest rate ranging from 4.00% to 6.80% for both years.

Dividend income earned from equity securities amounted to P0.54 million and P0.49 million for the years ended December 31, 2019 and 2018, respectively. Gain on sale amounted to P0.03 million in 2019 and loss on sale of AFS financial assets amounted to P0.44 million in 2018.

As at December 31, 2019 and 2018, the fair value reserve on AFS financial assets recognized in statements of assets, liabilities and fund balance amounted to gain of P15.59 million and losses of P118.68 million, respectively.

## 11. Held-to-Maturity Investments

As at December 31, 2019 and 2018, the reconciliation of the carrying amount of the Association's HTM investments are as follows:

	Note	2019	2018
Balance at beginning of year		P183,987,885	P184,515,887
Accretion of discount		57,350	54,640
Amortization of premium during the year		(611,141)	(582,642)
Balance at end of year	5, 18, 23	P183,434,094	P183,987,885

In 2019 and 2018, the Association recognized interest income on HTM investments (net of final tax) amounting to P13.74 million and P6.90 million, respectively, with annual interest rate ranging from 4.15% to 5.38% for both years.

This investment is in compliance with Section 405 of the Insurance Code and Insurance Memorandum Circular 9-2006 requiring all microinsurance mutual benefit associations to establish a Guaranty Fund and to deposit cash or government securities equivalent to the Guaranty Fund with the Bureau of Treasury to cover for any valid benefit claim of any of its members. The HTM investments will be re-invested in similar instruments upon maturity.

The contractual maturities of the Association's HTM investments as at December 31, 2019 and 2018 is more than five (5) years (see Notes 5 and 23).

In previous years, the Association reclassified certain AFS financial assets to HTM investments to comply with the requirement of the IC that the Association should maintain enough reserves in the form of government securities, which are to be held to maturity, to satisfy any valid benefit claim of its members.

Below are the information of the outstanding HTM investments reclassified out of AFS financial assets.

Date of Reclassification	Maturity Date	Effective Interest Rate as at Date of Reclassification	Estimated Cash Flows to be Recovered upon Maturity	Carrying Amount as at Date of Reclassification
August 23, 2013	March 1, 2027	4.01%	P10,966,000	P12,528,254
January 29, 2014	October 24, 2037	5.38%	10,150,500	11,167,681
October 7, 2015	February 2, 2032	4.63%	12,178,000	13,907,884
November 22, 2017	October 24, 2037	4.70%	75,000,000	79,683,080
			P108,294,500	P117,286,899

As at December 31, 2019 and 2018, the fair value of the reclassified investments amounted to P121.57 million and P91.03 million, respectively, and the unamortized fair value loss that would have been recognized in other comprehensive income if the AFS financial assets had not been reclassified amounted to P0.69 million and P31.77 million for the years ended December 31, 2019 and 2018, respectively.

The carrying amount of the reclassified financial assets amounted to P122.27 million and P122.80 million as at December 31, 2019 and 2018, respectively.

## 12. Property, Equipment and Computer Software - net

	Office Furniture and Fixtures	Transportation and Equipment	Office Equipment	Building and Improvements	Computer Software	Total (see Note 23)
<b>Cost</b>						
January 1, 2018	P4,592,267	P3,800,000	P12,735,992	P325,979	P6,696,801	P28,151,039
Additions	129,100	-	1,116,967	-	742,083	1,988,150
Disposals/retirements	(38,960)	(1,200,000)	(548,598)	-	(84,332)	(1,871,890)
December 31, 2018	4,682,407	2,600,000	13,304,361	325,979	7,354,552	28,267,299
Additions	176,100	-	925,960	-	292,606	1,394,666
Disposals/retirements	(95,588)	-	(604,125)	-	(157,139)	(856,852)
December 31, 2019	4,762,919	2,600,000	13,626,196	325,979	7,490,019	28,805,113
<b>Accumulated Depreciation and Amortization</b>						
January 1, 2018	4,264,376	1,973,331	10,418,545	235,188	5,387,514	22,278,954
Depreciation and amortization for the year	197,621	719,999	1,614,636	65,195	1,101,595	3,699,046
Disposals/retirements	(38,942)	(1,199,999)	(544,703)	-	(84,301)	(1,867,945)
December 31, 2018	4,423,055	1,493,331	11,488,478	300,383	6,404,808	24,110,055
Depreciation and amortization for the year	209,586	386,666	1,377,449	25,596	677,855	2,677,152
Disposals/retirements	(95,562)	-	(604,063)	-	(157,083)	(856,708)
December 31, 2019	4,537,079	1,879,997	12,261,864	325,979	6,925,580	25,930,499
<b>Net Carrying Amounts</b>						
December 31, 2018	P259,352	P1,106,669	P1,815,883	P25,596	P949,744	P4,157,244
December 31, 2019	P225,840	P720,003	P1,364,332	P -	P564,439	P2,874,614

The costs of fully depreciated property and equipment which are still in use as at December 31, 2019 and 2018 amounted to P21.10 million and P4.16 million, respectively.

As of December 31, 2019 and 2018, the Association's property, equipment and computer software were not pledged as security for liabilities.

### 13. Investment Property - net

In November 2018, the Association acquired land and building from Tulay Sa Pag-unlad, Inc. (A Microfinance NGO) amounting to P51.22 million and P4.78 million, inclusive of input VAT, respectively. The Association's intention to the property is to earn rental income in the future.

As at December 31, the movements of the account are as follows:

Note	2019			2018		
	Land	Building	Total	Land	Building	Total
Cost at beginning	P51,217,600	P4,782,400	P56,000,000	P51,217,600	P4,782,400	P56,000,000
Additions	1,510,792	149,419	1,660,211	-	-	-
Amortization during the year	-	(493,182)	(493,182)	-	-	-
23	P52,728,392	P4,438,637	P57,167,029	P51,217,600	P4,782,400	P56,000,000

As at December 31, 2018, the fair value of investment property amounted to P50.00 million based on latest appraisal report determined by an independent qualified appraiser. The fair value of the properties was arrived at using the market approach. In this approach, the value of the properties was based on sales and listings of comparable property registered within the vicinity. The properties used as bases of comparison are situated within the immediate vicinity of the subject properties. The comparison was premised on the factors of time, unit area or size, building age, unit improvements, building location, building features or amenities, bargaining allowance and others.

As at December 31, 2019 and 2018, no impairment is recognized for the Association's investment property.

In 2019 and 2018, no rental income was earned from investment properties.

### 14. Accrued Expenses and Other Liabilities

As at December 31, this account consists of:

	Note	2019	2018
Accrued expenses	5	P21,474,729	P25,919,803
Payables to government agencies		590,593	3,228,397
Accrued interest	5, 17	1,607,791	1,258,945
Advances from officers and employees	5	-	356,480
23		P23,673,113	P30,763,625

Accrued expenses pertains to liabilities on utilities and services incurred.

Payables to regulatory agencies include payables to Bureau of Internal Revenue (BIR), Philhealth, Pag-Ibig Fund and Social Security System.

The Association accrued interest on equity value received from the members as required by IC, however, effective February 1, 2016, interest rate on equity value reserve was reduced from 2.00% to 0.50% as approved by the BOT. Accrued interest of inactive members amounting to P0.38 million as at December 31, 2018 were transferred to claims payable - equity value and interest under "Claims payable" in 2018.

Advances from officers and employees refers to amount collected from the Association's officers and employees as advance payment for premiums.

## 15. Claims Payable

As at December 31, this account consists of:

	Note	2019	2018
Claims payable - equity value and interest		<b>P133,165,819</b>	P130,424,288
IBNR claims	4, 5	<b>5,199,999</b>	3,500,000
Claims due and unpaid/resisted		<b>1,066,667</b>	988,108
	5, 23	<b>P139,432,485</b>	P134,912,396

As discussed in Note 3, the Association transferred equity value and interest of inactive members amounting to P20.82 million and P49.98 million (see Note 17) in 2019 and 2018, respectively. The entire amount is presented in claims payable - equity value and interest. Moreover, the equity value reserves transferred to the general fund balance amounted to P7.59 million and P12.00 million in 2019 and 2018, respectively (see Note 19).

Claims due and unpaid/resisted consists of claims payable for:

	2019	2018
Credit life	<b>P367,000</b>	P335,925
Life maximum	<b>345,800</b>	208,100
Life plus	<b>160,000</b>	180,000
Basic life	<b>157,667</b>	264,083
Mortgage redemption	<b>36,200</b>	-
	<b>P1,066,667</b>	P988,108

Movements in IBNR claims are as follows:

	2019	2018
Balance at beginning of year	<b>P3,500,000</b>	P4,522,059
Increase (decrease) in IBNR	<b>1,699,999</b>	(1,022,059)
Balance at end of year	<b>P5,199,999</b>	P3,500,000

Movements in claims due and unpaid/resisted are as follows:

	2019	2018
Balance at beginning of year	<b>P988,108</b>	P1,793,394
Claims and benefits incurred	<b>62,651,125</b>	69,326,777
Claims and benefits paid	<b>(62,572,566)</b>	(70,132,063)
Balance at end of year	<b>P1,066,667</b>	P988,108

Claims and benefits expense recognized in profit or loss for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Claims and benefits incurred	P62,651,125	P69,326,777
Increase (decrease) in IBNR	1,699,999	(1,022,059)
	P64,351,124	P68,304,718

#### 16. Aggregate Reserves

In compliance with Section 410 of the Insurance Code, the Association accumulates and maintains, out of the periodic members' contributions and premiums collected, sufficient reserves for future contractual obligations for which it holds funds in securities satisfactory to the Insurance Commissioner consisting of bonds of the Government of the Philippines, or any of its political subdivisions and instrumentalities, or other good securities as may be approved by the Insurance Commissioner. Moreover, the said reserve liability established in accordance with actuarial procedures is approved by the Insurance Commissioner.

The movement of the account is as follow:

	Note	2019	2018
Balance at beginning of the year		P53,536,552	P54,794,197
Increase during the year		(10,829,743)	(1,257,645)
	4, 23	P42,706,809	P53,536,552

Starting January 1, 2017, Circular Letter No. 2016-66, *Valuation Standards for Life Insurance Policy Reserves*, requiring all life insurance companies to calculate the reserves for traditional life insurance policies with a term of one year or less using the unearned premium method is implemented. The application of the new valuation standards for life insurance policy reserves have no significant impact since the Association's methodology of calculating aggregate reserves is consistent with the new regulatory requirement.

#### 17. Equity Value Reserves

In compliance with Section 409 of the Insurance Code, the Association maintains an equity value reserves of 50% of the total mandatory members' contributions collected thereon.

The mandatory member's contributions collected amounting to P61.18 million and P71.15 million has a corresponding additional equity value reserve of P30.04 million and P35.56 million in 2019 and 2018, respectively.

The table below shows the rollforward analysis of the account as at December 31, 2019 and 2018.

	Note	2019	2018
Balance at beginning of the year		P75,511,008	P89,918,184
Increase in equity value		30,034,505	35,573,273
Reclassification to claims payable	15	(20,811,792)	(49,980,449)
	23	P84,733,721	P75,511,008



Interest expense on equity value reserves amounted to P0.48 million and P0.40 million for the years ended December 31, 2019 and 2018, respectively.

Accrued interest on equity value reserves presented as accrued interest under "Accrued expenses and other liabilities" in the statements of assets, liabilities and fund balance as at December 31, 2019 and 2018 amounted to P1.61 million and P1.26 million, respectively (see Note 14).

## 18. Guaranty Fund Reserves

As a microinsurance mutual benefit association, the Association is required to maintain a Guaranty Fund amounting to P5.00 million, and every year thereafter, increase its Guaranty Fund by an amount equivalent to 5.00% of gross premium collections until the amount of the Guaranty Fund reach 25.00% of the required networth for existing domestic life insurance companies.

As at December 31, 2019 and 2018, the guaranty fund reserves amounted to P128.34 million and P117.58 million, respectively.

The Guaranty fund shall be deposited with the IC in cash, or in government securities with a total value equal to such amount. As at December 31, 2019 and 2018, the Association has restricted investments of P183.43 million and P183.99 million, respectively, with the Bureau of Treasury to cover for any valid benefit claim of any of its members (see Notes 5, 11 and 23).

The amount transferred from general fund to guaranty fund reserves amounted to P10.76 million and P13.12 million in 2019 and 2018, respectively (see Note 19).

## 19. General Fund Balance

Section 408 of the Insurance Code requires a mutual benefit association to only maintain free and unassigned surplus of not more than twenty percent (20%) of its total liabilities as verified by the Insurance Commissioner. Any amount in excess shall be returned to the members by way of dividends, enhancing the equity value or providing benefits in kind and other relevant services. As at December 31, 2019 and 2018, the Association has an excess general fund balance amounting to P107.07 million and P73.84 million, respectively, which will be appropriated by the Association in the subsequent periods.

The rollforward analysis of the account as at December 31, 2019 and 2018 are as follows:

	Note	2019	2018
Beginning balance		P139,667,553	P58,085,811
Net income for the year		83,096,630	82,699,897
Transfer to guaranty fund	18	(10,759,718)	(13,116,671)
Transfer to funds assigned for members benefits		(31,143,100)	-
Transfer to funds assigned for capacity building		(13,347,043)	-
Transfer of equity value and interest from claims payable	15	7,592,408	11,998,516
		P175,106,730	P139,667,553

## 20. Retirement Benefit Cost

The Association has a funded, noncontributory defined benefit retirement plan covering all regular employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined by an independent actuary using the projected unit credit method. The actuarial valuation is made on an annual basis and the latest actuarial valuation was made as at December 31, 2019.

The Plan entitles a retired employee to receive a lump sum pension payment. Employees who retire at the normal age of 60 with at least five (5) years of credited service are entitled to receive payment equal to 100% of the latest monthly salary per year of service.

Employees may elect to retire with the consent of the Association prior to their normal retirement date provided he is at least 50 years old and has completed at least 10 years of credited service.

Employees who are allowed by the Association to continue to work on a yearly extension basis beyond their normal retirement age shall continue to be a member of the plan until they retire. However, the benefit shall be computed only up to the employee's normal retirement date.

The Plan is registered with the BIR as a tax-qualified plan under Republic Act No. 4917, an act providing that retirement benefits of employees of private firms shall not be subject to attachment, levy, execution or any tax whatsoever, as amended. The control and administration of the plan is vested in the BOT. The retirement plan is being administered by its trustee, BPI Asset Management and Trust Corporation.

The following table shows the reconciliation from the opening balances to the closing balances of the net defined benefit asset and its components.

	Defined Benefit Obligation		Fair Value of Plan Assets		Net Defined Benefit (Asset) Liability (see Notes 4 and 23)	
	2019	2018	2019	2018	2019	2018
Balance at January 1	P3,702,362	P5,974,705	P6,782,385	P8,107,949	(P3,080,023)	(P2,133,244)
Included in Profit or Loss						
Current service cost	405,359	695,495	(101,265)	(159,207)	506,624	854,702
Interest cost	282,361	310,713	629,980	519,753	(347,619)	(209,040)
	687,720	1,006,208	528,715	360,546	159,005	645,662
Included in other comprehensive income (loss)						
Remeasurement loss (gain):						
Actuarial loss (gain) arising from:						
Demographic assumptions	-	-	-	-	-	-
Financial assumptions	935,680	(929,708)	-	-	935,680	(929,708)
Experience adjustment	(796,859)	1,157	-	-	(796,859)	1,157
Return on plan assets excluding interest income	-	-	497,254	(1,228,907)	(497,254)	1,228,907
Changes in the effect of asset ceiling (movement in asset ceiling - interest expense on effect of asset ceiling)	-	-	(1,410,299)	1,892,797	1,410,299	(1,892,797)
	138,821	(928,551)	(913,045)	663,890	1,051,866	(1,592,441)
Others						
Contributions paid by the employer	-	-	1,152,200	-	(1,152,200)	-
Benefits paid	(851,750)	(2,350,000)	(851,750)	(2,350,000)	-	-
	(851,750)	(2,350,000)	300,450	(2,350,000)	(1,152,200)	-
Balance at December 31	P3,677,153	P3,702,362	P6,698,505	P6,782,385	(P3,021,352)	(P3,080,023)

The changes in the effect of asset ceiling are as follows:

	2019	2018
Balance at beginning of year	<b>P1,327,802</b>	P3,061,392
Remeasurement gain (loss) on the change in the effect of asset ceiling	<b>1,410,299</b>	(1,892,797)
Interest expense on effect of asset ceiling	<b>101,265</b>	159,207
Balance at end of year	<b>P2,839,366</b>	P1,327,802

The Association's plan assets consist of the following:

	2019	2018
Unit investment trust funds	<b>P9,537,804</b>	P6,737,761
Mutual funds	-	1,371,460
Cash	<b>67</b>	966
	<b>P9,537,871</b>	P8,110,187

The table below shows the rollforward analysis of remeasurement (loss) gain on retirement asset account presented under statements of assets, liabilities and fund balance as at December 31, 2019 and 2018.

	2019	2018
Beginning balance	<b>P190,851</b>	(P1,401,590)
Remeasurement (loss) gain of retirement asset	<b>(1,051,866)</b>	1,592,441
	<b>(P861,015)</b>	P190,851

The Association is not required to contribute to the defined benefit retirement plan for 2018. The following were the principal actuarial assumptions at the reporting date:

	2019	2018
Discount rate	<b>5.19%</b>	7.63%
Future salary growth	<b>5.00%</b>	5.00%

Assumptions regarding future mortality have been based on the 2001 CSO Table - Generational mortality table. The current members' longevity is at age 30.26 in 2018.

The weighted-average duration of the defined benefit obligation is 19.70 years and 11.96 years as at December 31, 2019 and 2018, respectively.

Maturity analysis of the benefit payments:

	2019				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	More than 5 Years
Defined benefit obligation	<b>P3,677,153</b>	<b>P2,063,779</b>	<b>P37,780</b>	<b>P697,269</b>	<b>P1,328,730</b>



#### Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	Defined Benefit Obligation	
	Increase	Decrease
Discount rate (1% movement)	(P429,513)	P509,263
Future salary growth (1% movement)	465,566	(402,838)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

These defined benefit plans expose the Association to actuarial risks, such as longevity risk, interest rate risk, and market (investment) risk.

The Association is not required to pre-fund the future defined benefits payable under the Retirement Plan before they become due. For this reason, the amount and timing of contributions to the plan assets are at the Association's discretion. However, in the event a benefit claim arises and the plan assets is insufficient to pay the claim, the shortfall will then be due and payable from the Association to the plan assets.

#### **21. Salaries and Other Employee Benefits**

The account consists of:

	Note	2019	2018
Salaries		P23,187,396	P25,049,095
Bonuses		3,935,612	7,901,219
Contributions to SSS, Philhealth and Pag-ibig		2,206,443	2,240,220
Employees' leave conversion		1,835,195	1,183,048
Staff training expenses		418,725	341,072
Retirement expense	20	159,005	645,662
Others		2,822,946	2,576,524
		<b>P34,565,322</b>	<b>P39,936,840</b>

Salaries pertain to the basic salaries of employees not directly related to underwriting of policies and claims handling activities (support employees) of the Association.

Bonuses consist of the 13th month pay and other bonuses paid to the support employees.

Others includes other benefits granted to support employees.

## 22. Other Direct Costs

This account consists of:

	Note	2019	2018
Collection fees	24	P32,010,476	P39,509,035
Membership enrollment and marketing fees		9,826,461	11,593,015
Direct salaries and benefits expenses		9,313,661	10,600,073
		<b>P51,150,598</b>	<b>P61,702,123</b>

Collection fees represent the amount paid to TSPI for collection services as stated in the Memorandum of Agreement between the two (2) parties (see Note 24).

Membership enrollment and marketing fees pertain to the amount paid to insurance officers in marketing the product, including member mobilization, and production of policy forms and promotional materials of the Association.

Direct salaries and benefits expenses represent the salaries of officers and employees directly related to the underwriting of policies and claims handling activities of the Association.

## 23. Maturity Analysis of Financial and Non-financial Assets and Liabilities

The tables below show an analysis of assets and liabilities as at December 31, 2019 and 2018 analyzed according to when they are expected to be recovered or settled within one year and beyond one year from the reporting date:

	Note	2019		Total
		Due Within One Year	Due Beyond One Year	
<b>Financial Assets</b>				
Cash and cash equivalents	7	P39,247,294	P -	P39,247,294
Short-term investments	5, 8	3,257,609	-	3,257,609
AFS financial assets	4, 5, 6, 10	-	965,318,350	965,318,350
HTM investments	5, 11, 18	-	183,434,094	183,434,094
Receivables	5, 9	7,740,452	-	7,740,452
Other assets	5	58,149	-	58,149
		<b>50,303,504</b>	<b>1,148,752,444</b>	<b>1,199,055,948</b>
<b>Non-financial Assets</b>				
Property, equipment and computer software - net	12	-	2,874,614	2,874,614
Investment property - net	13	-	57,167,029	57,167,029
Retirement asset	4, 20	-	3,021,352	3,021,352
Other assets	5	549,217	-	549,217
		<b>549,217</b>	<b>63,062,995</b>	<b>63,612,212</b>
		<b>P50,852,721</b>	<b>P1,211,815,439</b>	<b>P1,262,668,160</b>
<b>Financial Liabilities</b>				
Accrued expenses and other liabilities	14	P23,082,520	P -	P23,082,520
Claims payable	15	139,432,485	-	139,432,485
Due to related party	24	9,457,645	-	9,457,645
Equity value reserves	5, 17	84,733,721	-	84,733,721
		<b>256,706,371</b>	<b>-</b>	<b>256,706,371</b>
<b>Non-financial Liabilities</b>				
Accrued expenses and other liabilities	14	590,593	-	590,593
Aggregate reserves	4, 5, 16	42,706,809	-	42,706,809
		<b>43,297,402</b>	<b>-</b>	<b>43,297,402</b>
		<b>P300,003,773</b>	<b>P -</b>	<b>P300,003,773</b>