TSPI MUTUAL BENEFIT ASSOCIATION, INC.

(A Nonstock, Nonprofit Organization)

FINANCIAL STATEMENTS
December 31, 2019 and 2018

With Independent Auditors' Report

KPMG

R.G. Manabat & Co.

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Website home.kpmg/ph
Email ph-inquiry@kpmg.com

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 Street, 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, 2019 and 2018, and the statements of comprehensive income (loss), 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, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Association in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of 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. 102309-IC, Group A, valid for 5-year audit
 period (2019 to 2023)
SEC Accreditation No. 1619-A, Group A, valid until June 30, 2020
Tax Identification No. 920-961-311
BIR Accreditation No. 08-001987-38-2019
 Issued September 25, 2019; valid until September 24, 2022
PTR No. MKT 8116770
 Issued January 2, 2020 at Makati City

June 9, 2020
Makati City, Metro Manila

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

STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

	Note	December 31 2019	2018
ASSETS			
Cash and cash equivalents	7, 23	**P39,247,294**	P13,877,194
Short-term investments	8, 23	**3,257,609**	3,218,401
Receivables	9, 23	**7,740,452**	7,512,272
Available-for-sale (AFS) financial assets	10, 23	**965,318,350**	796,723,700
Held-to-maturity (HTM) investments	11, 18, 23	**183,434,094**	183,987,885
Property, equipment and computer software - net	12, 23	**2,874,614**	4,157,244
Investment property - net	13, 23	**57,167,029**	56,000,000
Retirement asset	20, 23	**3,021,352**	3,080,023
Other assets	23	**607,366**	967,344
		P1,262,668,160	P1,069,524,063
LIABILITIES AND FUND BALANCE			
Liabilities			
Accrued expenses and other liabilities	14, 23	**P23,673,113**	P30,763,625
Claims payable	15, 23	**139,432,485**	134,912,396
Aggregate reserves	16, 23	**42,706,809**	53,536,552
Equity value reserves	17,23	**84,733,721**	75,511,008
Due to related party	23, 24	**9,457,645**	34,770,038
Total Liabilities		**300,003,773**	329,493,619
Fund Balance			
Guaranty fund reserves	18	**128,335,014**	117,575,296
General fund balance	19	**175,106,730**	139,667,553
Funds assigned for members' benefits		**449,844,457**	420,083,779
Funds assigned for capacity building		**201,300,100**	188,169,987
Remeasurement (loss) gain on retirement asset	20	**(861,015)**	190,851
Fair value reserve on AFS financial assets	10	**15,589,514**	(118,683,175)
Fair value reserve on AFS assets reclassified as HTM investments		**(6,650,413)**	(6,973,847)
Total Fund Balance		**962,664,387**	740,030,444
		P1,262,668,160	P1,069,524,063

See Notes to the Financial Statements.

TSPI MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Nonprofit Organization)
STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

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See Notes to the Financial Statements.

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

	Note	Years Ended December 31 2019	2018
NET MEMBERS' CONTRIBUTIONS AND PREMIUMS			
Members' contributions and premiums	24	**P216,303,687**	P262,333,419
Members' contributions and premiums ceded to reinsurers		**(204,750)**	(263,900)
		216,098,937	262,069,519
CLAIMS, BENEFITS AND OTHER COSTS			
Claims and benefits	15	**64,351,124**	68,304,718
Increase in equity value reserve	17	**30,034,505**	35,573,273
Decrease in aggregate reserves	16	**(10,829,743)**	(1,257,645)
Other direct costs	22	**51,150,598**	61,702,123
		134,706,484	164,322,469
GENERAL AND ADMINISTRATIVE EXPENSES			
Salaries and other employee benefits	21	**34,565,322**	39,936,840
Depreciation and amortization	12, 13	**3,170,334**	3,699,046
Planning, meetings and conferences		**3,284,178**	4,562,091
Repairs and maintenance		**2,588,940**	3,345,769
Office supplies		**1,723,057**	2,279,908
Communication, light and water		**1,408,986**	1,179,844
Professional fees		**885,989**	1,338,773
Marketing and sales		**615,600**	-
Transportation and travel		**485,595**	454,325
Dues and fees		**307,977**	185,519
Representation and entertainment		**84,925**	72,780
Taxes and licenses		**28,381**	112,878
Donation		**-**	10,000
Miscellaneous		**363,111**	245,480
		49,512,395	57,423,253
OPERATING INCOME		**31,880,058**	40,323,797
OTHER INCOME			
Interest income	7, 8, 9, 10, 11	**51,132,848**	42,727,221
Dividend income	10	**536,498**	488,723
Gain (loss) on sale of investments	10	**25,588**	(437,397)
Other expense - net		**(150)**	(4,046)
Interest expense	17	**(478,212)**	(398,401)
		51,216,572	42,376,100
NET INCOME		**83,096,630**	82,699,897

Forward

		Years Ended December 31	
	Note	**2019**	2018
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that may be reclassified to profit or loss			
Net change in fair value of reserve on AFS financial assets	*10*	**P134,272,689**	(P87,677,359)
Item that will not be reclassified to profit or loss			
Remeasurement (loss) gain on retirement asset	*20*	**(1,051,866)**	1,592,441
		133,220,823	(86,084,918)
TOTAL COMPREHENSIVE INCOME (LOSS)		**P216,317,453**	(P3,385,021)

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, 2019 AND 2018

	Guaranty Fund Reserves (Note 18)	General Fund Balance (Note 19)	Funds Assigned for Members' Benefits	Funds Assigned for Capacity Building	Remeasurement Gain (Loss) of Retirement Asset (Note 20)	Fair Value Reserve on AFS Financial Assets (Note 10)	Fair Value Reserve on AFS assets reclassified as HTM investments	Total
Balance as at December 31, 2018	P117,575,296	P139,667,553	P420,083,779	P188,169,987	P190,851	(P118,683,175)	(P6,973,847)	P740,030,444
Net income for the year	-	83,096,630	-	-	-	-	-	83,096,630
Other comprehensive income (loss):								
Net change in fair value reserve of available for-sale financial asset	-	-	-	-	-	134,272,689	-	134,272,689
Remeasurement loss on retirement asset	-	-	-	-	(1,051,866)	-	-	(1,051,866)
Total comprehensive income (loss) for the year	-	83,096,630	-	-	(1,051,866)	134,272,689	-	216,317,453
Transfer to guaranty fund	10,759,718	(10,759,718)	-	-	-	-	-	-
Appropriations	-	(44,490,143)	31,143,100	13,347,043	-	-	-	-
Utilization of members' benefits fund	-	-	(1,382,422)	(216,930)	-	-	-	(1,599,352)
Amortization of fair value reserve to be amortized to profit or loss	-	-	-	-	-	-	323,434	323,434
Transfer of forfeited equity value and interest	-	7,592,408	-	-	-	-	-	7,592,408
	10,759,718	(47,657,453)	29,760,678	13,130,113	-	-	323,434	6,316,490
Balance as at December 31, 2019	P128,335,014	P175,106,730	P449,844,457	P201,300,100	(P861,015)	P15,589,514	(P6,650,413)	P962,664,387

Forward

	Guaranty Fund Reserves (Note 18)	General Fund Balance (Note 19)	Funds Assigned for Members' Benefits	Funds Assigned for Capacity Building	Remeasurement Gain (Loss) of Retirement Asset (Note 20)	Fair Value Reserve on Available-for-Sale Financial Assets (Note 10)	Fair Value Reserve on AFS assets reclassified as HTM investments	Total
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
Net income for the year	-	82,699,897	-	-	-	-	-	82,699,897
Other comprehensive income (loss):								
Net change in fair value reserve of available-for-sale financial assets	-	-	-	-	-	(87,677,359)	-	(87,677,359)
Remeasurement gain on retirement asset	-	-	-	-	1,592,441	-	-	1,592,441
Total comprehensive (loss) income 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	P139,667,553	P420,083,779	P188,169,987	P190,851	(P118,683,175)	(P6,973,847)	P740,030,444

See Notes to the Financial Statements.

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

		Years Ended December 31	
	Note	**2019**	2018
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.

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.

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.

Classification

The Association classifies its financial assets into the following categories: financial assets at FVPL, 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, 2019 and 2018, the Association has no financial assets and liabilities at FVPL.

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, 2019 and 2018, the Association's AFS financial assets amounted to P965.32 million and P796.72 million, respectively (see Notes 6, 10 and 23).

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, 2019 and 2018, this category includes the Association's accrued expenses and other liabilities (excluding amounts payable to government agencies), claims payable, equity value reserves and due to related party (see Note 5, 14, 15, 17, 23 and 24).

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.

When 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.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation, and impairment loss, if any.

The initial cost of property and equipment comprises its purchase price, including import duties, taxes, any directly attributable costs in bringing the asset to its working condition and location for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of replacing part of an item of property and equipment is recognized in the carrying value of the item if it is probable that the future economic benefits embodied within the part will flow to the Association and its cost can be measured reliably.

The costs of the day-to-day servicing of property and equipment are recognized as expense in the period in which they are incurred. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives of property and equipment are as follows:

	Number of Years
Office furniture and fixtures	5
Transportation and equipment	5
Office equipment	3 - 5
Building and improvements	5

The estimated useful lives, depreciation method, and residual values are reviewed periodically and adjusted, if appropriate, to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment. Changes in the estimated useful lives, depreciation method, and residual values of property and equipment are accounted for by changing the depreciation method, as appropriate, and treated as changes in accounting estimates.

When an asset is disposed of, or is permanently withdrawn from use or no future economic benefits are expected from its disposal, the cost and the related accumulated depreciation and impairment loss, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss.

Fully depreciated or amortized assets are retained until they are no longer in use and no further charge for depreciation or amortization is made in respect of those assets.

Computer Software
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 Property

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 economic useful life (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.

Insurance Contract Liabilities

Aggregate Reserves

Aggregate reserves represent the accumulated total liability for policies in-force as at the reporting date. Such reserves are established at amount adequate to meet the estimated future obligations to all members with in-force policy. The reserves are calculated using the actuarial methods and assumptions in accordance with statutory requirements and as approved by the IC.

The corresponding change in aggregate reserves is presented as "Increase (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 certificate. 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.

<u>Fund Balance</u>

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.

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:

	2019	2018
Total debt	**P300,003,773**	P329,493,619
Total equity	**962,664,387**	740,030,444
Debt-to-equity ratio	**31.16%**	44.52%

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, 2019 and 2018, 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:

	2019	2018
Property, equipment and computer software - net	**P945,843**	P1,391,615
Receivables	**503,764**	190,641
Other assets	**607,366**	967,344
	P2,056,973	P2,549,600

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

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

The following table shows how the RBC ratio at December 31, 2019 and 2018 were determined by the Association based on the Association's internal calculations:

	2019	2018
Net worth	**P949,376,472**	P634,626,570
Risk-based capital requirement	**26,660,999**	14,344,215
Risk-based capital ratio	**3,561%**	4,424%

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

As at December 31, 2019 and 2018, the Association is compliant with the required RBC ratio based on the Association's internal calculation.

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

The table below sets out the concentration of life insurance contract by type of contract as at December 31, 2019 and 2018.

	2019		2018	
Contract Type	Gross of Reinsurance (Note 24)	Net of Reinsurance	Gross of Reinsurance (Note 24)	Net of Reinsurance
Credit life	**P80,271,494**	**P80,211,224**	P108,834,166	P108,748,396
Basic life	**59,430,982**	**59,387,437**	70,190,371	70,129,911
Life maximum benefit	**52,532,964**	**52,482,549**	58,716,428	58,657,059
Life plus benefit	**19,397,987**	**19,353,257**	21,811,389	21,760,760
Mortgage redemption benefit	**1,730,295**	**1,724,505**	913,938	906,266
GLIP optional	**1,194,518**	**1,194,518**	910,952	910,952
Members' fees and dues	**1,109,320**	**1,109,320**	-	-
GLIP basic	**636,127**	**636,127**	956,175	956,175
	P216,303,687	**P216,098,937**	P262,333,419	P262,069,519

The Association's exposure to insurance risk as at December 31, 2019 and 2018 are as follows:

	Note	**2019**	2018
Aggregate reserves	*16, 23*	**P42,706,809**	P53,536,552
Equity value reserves	*17, 23*	**84,733,721**	75,511,008
		P127,440,530	P129,047,560

Key Assumptions

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

Sensitivity Analysis for Insurance Risk

As at December 31, 2019 and 2018, it is estimated that a general increase of one percent (1%) in aggregate and equity value reserves, with all other variables held constant, would decrease the Association's net income and equity by approximately P1.27 million and P1.29 million, respectively. An equal change in the opposite direction would have increased net income and equity by an equal but opposite amount.

Financial Risks

The Association has significant exposure to the following financial risks and from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

There has been no change to the Association's exposure to financial risks (i.e. credit risk, liquidity risk and market risk) or the manner in which it manages and measures the risks since prior financial year.

(a) *Credit Risk*

Credit risk is the risk of financial loss to the Association if the counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Association's financial assets.

Except for HTM and AFS investments which mature on various dates, all of the Association's financial assets are current. Thus, the credit risk relating to these financial assets is considered small due to the short settlement period involved. The Association's HTM and AFS investments consist primarily of government debt securities. Since these are backed by the full faith and credit of the Philippine Government, these are generally considered to be free of credit risk.

The carrying amounts financial assets represent the maximum credit exposure. The maximum exposure to credit risk at the reporting dates are as follows:

	Note	2019	2018
Cash and cash equivalents*	*7*	**P38,820,296**	P13,847,036
Short-term investments	*8, 23*	**3,257,609**	3,218,401
Receivables	*9, 23*	**7,740,452**	7,512,272
AFS financial assets**	*10*	**938,333,306**	771,059,475
HTM investments	*11, 18, 23*	**183,434,094**	183,987,885
Other assets***	*23*	**58,149**	330,778
		P1,171,643,906	P979,955,847

**Excluding cash on hand.*
***Excluding equity securities.*
****Excluding prepaid expenses and fidelity bond deposits.*

The Association's concentration of credit risk arises from its investments in government debt securities since the said investments amounted to P748.40 million and P650.06 million which represent 63.88% and 66.36% of its total financial assets as at December 31, 2019 and 2018, respectively (see Notes 10 and 11).

The table below provides information regarding the credit risk exposure of the Association as at December 31, 2019 and 2018 by classifying assets according to the Association's credit grading of counterparties.

	2019				
	Neither Past Due nor Impaired				
	Investment High-grade	Non-investment Grade - Satisfactory	Total Financial Assets Neither Past Due nor Impaired	Past Due and Impaired	Total
Cash and cash equivalents*	P38,820,296	P -	P38,820,296	P -	P38,820,296
Short-term investments	3,257,609	-	3,257,609	-	3,257,609
Receivables	-	7,740,452	7,740,452	-	7,740,452
AFS financial assets**	938,333,306	-	938,333,306	-	938,333,306
HTM investments	183,434,094	-	183,434,094	-	183,434,094
Other assets***	-	58,149	58,149	-	58,149
	P1,163,845,305	P7,798,601	P1,171,643,906	P -	P1,171,643,906

**Excluding cash on hand.*
***Excluding equity securities.*
****Excluding prepaid expenses and fidelity bond deposits.*

	2018				
	Neither Past Due nor Impaired				
	Investment High-grade	Non-investment Grade - Satisfactory	Total Financial Assets Neither Past Due nor Impaired	Past Due and Impaired	Total
Cash and cash equivalents*	P13,847,036	P -	P13,847,036	P -	P13,847,036
Short-term investments	3,218,401	-	3,218,401	-	3,218,401
Receivables	-	7,512,272	7,512,272	-	7,512,272
AFS financial assets**	771,059,475	-	771,059,475	-	771,059,475
HTM investments	183,987,885	-	183,987,885	-	183,987,885
Other assets***	-	330,778	330,778	-	330,778
	P972,112,797	P7,843,050	P979,955,847	P -	P979,955,847

**Excluding cash on hand.*
***Excluding equity securities.*
****Excluding prepaid expenses and fidelity bond deposits.*

The Association has no past due and impaired financial assets as at December 31, 2019 and 2018.

The Association uses a credit grading system based on the borrowers and counterparties overall credit worthiness, as described below:

Investment High - Grade - This pertains to accounts with a very low probability of default as demonstrated by the borrower's strong financial position and reputation. The borrower has the ability to raise substantial amounts of funds through credit facilities with financial institutions. The borrower has a strong debt service record and a moderate use of leverage.

Non-investment Grade - Satisfactory - This pertains to current accounts with no history of default or which may have defaulted in the past, but the conditions and circumstances directly affecting the borrower's ability to pay has abated already. The borrower is expected to be able to adjust to the cyclical downturns in its operations. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues. The use of leverage may be above industry or credit standards but remains stable.

Past Due and Impaired - This pertains to the allowance for impairment loss that the Association recognizes due to the uncertainty of the collectability of the Association's receivables.

(b) *Liquidity Risk*

Liquidity risk is the risk that the Association will not be able to meet its financial obligations as they fall due. The Association's approach in managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Association's reputation.

The Association prepares weekly cash position report and weekly check disbursement forecast, which assists in monitoring cash flow requirements. Typically, the Association ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot be predicted.

The maturity profile of the Association's financial liabilities has contractual maturities of one year or less as at December 31, 2019 and 2018 are as follows:

		2019	
	Note	**Carrying Amount**	**Contractual Cash Flow**
Accrued expenses and other liabilities*	*14, 23*	**P23,082,520**	**P23,082,520**
Claims payable	*15, 23*	**139,432,485**	**139,432,485**
Equity value reserves	*17, 23*	**84,733,721**	**84,733,721**
Due to related party	*23, 24*	**9,457,645**	**9,457,645**
		P256,706,371	**P256,706,371**

**Accrued expenses and other liabilities shown above exclude payables to government agencies amounting to P0.59 million and P3.23 million as at December 31, 2019 and 2018, respectively.*

		2018	
	Note	Carrying Amount	Contractual Cash Flow
Accrued expenses and other liabilities*	*14, 23*	P27,535,228	P27,535,228
Claims payable	*15, 23*	134,912,396	134,912,396
Equity value reserves	*17, 23*	75,511,008	75,511,008
Due to related party	*23, 24*	34,770,038	34,770,038
		P272,728,670	P272,728,670

**Accrued expenses and other liabilities shown above exclude payables to government agencies amounting to P0.59 million and P4.23 million as at December 31, 2018 and 2017, respectively.*

(c) *Market Risk*

Market risk is the risk that causes changes in market prices, such as interest rate and equity price risks. This will affect the Association's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market exposures within acceptable parameters, while optimizing the return. The Association's exposure to currency risk was assessed by management to be insignificant.

Interest Rate Risk

There are two types of interest rate risk:

- *Fair Value Interest Rate Risk* - the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and

- *Cash Flow Interest Rate Risk* - the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Significant portion of the Association's investments is composed of interest-bearing debt instruments carried at fair value. As a result, the Association is exposed to fair value interest rate risk. The Association's interest-bearing financial instruments as at December 31, 2019 and 2018 are as follows:

	Note	2019	2018
Cash and cash equivalents*	7	**P38,820,296**	P13,847,036
Short-term investments	*8, 23*	**3,257,609**	3,218,401
AFS financial assets**	*10*	**938,333,306**	771,059,475
HTM investments	*11, 18, 23*	**183,434,094**	183,987,885
		P1,163,845,305	P972,112,797

Excluding cash on hand.
***Excluding equity securities.*

The following table demonstrates Association's best estimate of the sensitivity to reasonable possible change in interest rates, with all other variables held constant, to the Association's net income and equity as at December 31:

	Change in Basis Points (bps)	Effect on Net Income/Equity
2019	Increase by 13 bps	**P1,512,999**
	Decrease by 13 bps	**(1,512,999)**
2018	Increase by 13 bps	1,263,747
	Decrease by 13 bps	(1,263,747)

The Association does not carry debt instrument with variable interest rate and, thus, is not exposed to cash flow interest rate risk.

Interest rate risk is mitigated by the Association's BOT by constructing a portfolio of debenture instruments with diversified maturities. Any excess cash of the Association are temporarily invested in time deposits with the term to maturity of 35 days up to 3 months and later placed in instruments with longer tenors.

The Association believes that the analysis above is considered to be representative of the interest rate risk.

(d) *Equity Price Risk*

Equity price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

The Association's equity price risk exposure relates to equity securities designated as AFS financial assets with carrying amount of P26.99 million and P25.66 million as at December 31, 2019 and 2018, respectively (see Note 10). The value of these equity securities will fluctuate with changes in market conditions.

An average of 5.01% increase (2018: 2.84% decrease) in stock prices would have increased (decreased) equity by P1.35 million as at December 31, 2019 (2018: P0.73 million), with all variables remaining constant. An equal change in the opposite direction would have increased equity by an equal but opposite amount.

In 2019 and 2018, the Association determined the reasonably possible change in Philippine Stock Exchange (PSE) Index based on the historical fluctuation of equity securities the Association holds as of the reporting date.

6. Fair Value Measurements and Disclosures

A number of the Association's accounting policies and disclosures require the determination of fair values, for both financial assets and financial liabilities.

Fair values have been determined for measurement and/or disclosure purposes based on the methods as described below. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes to the financial statements specific to the assets or liability.

The carrying amounts of the Association's financial instruments such as cash and cash equivalents (excluding cash on hand), short-term investments, receivables, other assets (excluding prepaid expenses and fidelity bond deposits), accrued expenses and other liabilities (excluding government payables to agencies), claims payable, equity value reserves and due to related party approximate fair value at year-end due to the relatively short-term maturities of these financial assets and liabilities.

AFS financial assets is measured at fair value. The fair values of quoted equity securities were determined by reference to quoted market prices published by PSE. While for debt securities, the market price reference in determining the market value is derived from PHP Bloomberg Valuation Services (BVAL) and Philippine Dealings and Exchange (PDEX) as at December 27, 2019 and December 28, 2018, respectively.

If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Investments in unquoted equity instruments for which no reliable basis for fair value measurement is available are carried at cost, net of any allowance for impairment losses.

The carrying amount of the Association's HTM investments approximate its fair value at year end. Management believes that the effect of discounting and future cash flows for these instruments using the prevailing market is not significant.

The recurring fair value of AFS financial assets are determined by reference to quoted market prices, at the close of business on the reporting date.

The fair value of AFS financial assets using Level 1 inputs is P965.32 million and P796.72 million as at December 31, 2019 and 2018, respectively (see Notes 4, 10 and 23).

The Association has no financial instruments measured at fair value that are categorized under Level 2 and 3. There has been no transfer between levels in 2019 and 2018.

7. Cash and Cash Equivalents

As at December 31, this account consists of:

	Note	**2019**	2018
Cash on hand		**P426,998**	P30,158
Cash in banks	5	**17,583,017**	13,611,753
Cash equivalents	5	**21,237,279**	235,283
	23	**P39,247,294**	P13,877,194

The Association's cash in bank earns annual interest at 0.75% to 1.25% in 2019 and 2018. Short-term placements represent a 90-day time deposit with an average annual interest rate of one percent (1%) in 2019 and 2018.

Interest income, net of final tax, recognized in profit or loss which is presented under "Interest income", amounted to P0.21 million and P0.06 million for the years ended December 31, 2019 and 2018.

8. Short-term Investments

Short-term investments amounting to P3.26 million and P3.22 million as at December 31, 2019 and 2018, respectively, represents certificate of deposit with local bank with 180-day maturity and earns interest of one percent (1%) per annum in 2019 and 2018 (see Notes 5 and 23).

Interest income on short-term investments amounted to P0.01 million and P0.02 million for the years ended December 31, 2019 and 2018, respectively.

9. Receivables

As at December 31, this account consists of:

	Note	**2019**	2018
Interest receivables		**P7,236,688**	P7,201,664
Advances to officers and employees		**458,951**	-
Others		**44,813**	310,608
	5, 23	**P7,740,452**	P7,512,272

Interest receivables pertain to accrued interest of debt instrument classified as AFS financial assets and HTM investments. Advances to officers and employees refers to receivables from loans and advances granted to the Association's officers and employees.

Interest income earned on advances to officers and employees amounted to P0.01 million and P0.03 million for the years ended December 31, 2019 and 2018, respectively.

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)
Cost						
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**
Accumulated Depreciation and Amortization						
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**
Net Carrying Amounts						
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, W2019 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:

		2019			2018		
	Note	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		**P133,165,819**	P130,424,288
IBNR claims	*4, 5*	**5,199,999**	3,500,000
Claims due and unpaid/resisted		**1,066,667**	988,108
	5, 23	**P139,432,485**	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	**P367,000**	P335,925
Life maximum	**345,800**	208,100
Life plus	**160,000**	180,000
Basic life	**157,667**	264,083
Mortgage redemption	**36,200**	-
	P1,066,667	P988,108

Movements in IBNR claims are as follows:

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

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

	2019	2018
Balance at beginning of year	**P988,108**	P1,793,394
Claims and benefits incurred	**62,651,125**	69,326,777
Claims and benefits paid	**(62,572,566)**	(70,132,063)
Balance at end of year	**P1,066,667**	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	P1,327,802	P3,061,392
Remeasurement gain (loss) on the change in the effect of asset ceiling	1,410,299	(1,892,797)
Interest expense on effect of asset ceiling	101,265	159,207
Balance at end of year	P2,839,366	P1,327,802

The Association's plan assets consist of the following:

	2019	2018
Unit investment trust funds	P9,537,804	P6,737,761
Mutual funds	-	1,371,460
Cash	67	966
	P9,537,871	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	P190,851	(P1,401,590)
Remeasurement (loss) gain of retirement asset	(1,051,866)	1,592,441
	(P861,015)	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	5.19%	7.63%
Future salary growth	5.00%	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	P3,677,153	P2,063,779	P37,780	P697,269	P1,328,730

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
		P34,565,322	P39,936,840

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
		P51,150,598	P61,702,123

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:

		2019		
	Note	Due Within One Year	Due Beyond One Year	Total
Financial Assets				
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
		50,303,504	1,148,752,444	1,199,055,948
Non-financial Assets				
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
		549,217	63,062,995	63,612,212
		P50,852,721	P1,211,815,439	P1,262,668,160
Financial Liabilities				
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
		256,706,371	-	256,706,371
Non-financial Liabilities				
Accrued expenses and other liabilities	14	590,593	-	590,593
Aggregate reserves	4, 5, 16	42,706,809	-	42,706,809
		43,297,402	-	43,297,402
		P300,003,773	P -	P300,003,773

	Note	2018 Due Within One Year	2018 Due Beyond One Year	2018 Total
Financial Assets				
Cash and cash equivalents	*7*	P13,877,194	P -	P13,877,194
Short-term investments	*5, 8*	3,218,401	-	3,218,401
AFS financial assets	*4, 5, 6, 10*	-	796,723,700	796,723,700
HTM investments	*5, 11, 18*	-	183,987,885	183,987,885
Receivables	*5, 9*	7,512,272	-	7,512,272
Other assets	*5*	330,778	-	330,778
		24,938,645	980,711,585	1,005,650,230
Non-financial Assets				
Property, equipment and computer software - net	*12*	-	4,157,244	4,157,244
Investment property - net	*13*	-	56,000,000	56,000,000
Retirement asset	*4, 20*	-	3,080,023	3,080,023
Other assets	*5*	636,566	-	636,566
		636,566	63,237,267	63,873,833
		P25,575,211	P1,043,948,852	P1,069,524,063
Financial Liabilities				
Accrued expenses and other liabilities	*14*	P27,535,228	P -	P27,535,228
Claims payable	*15*	134,912,396	-	134,912,396
Due to related party	*24*	34,770,038	-	34,770,038
Equity value reserves	*5, 17*	75,511,008	-	75,511,008
		272,728,670	-	272,728,670
Non-financial Liabilities				
Accrued expenses and other liabilities	*14*	3,228,397	-	3,228,397
Aggregate reserves	*4, 5, 16*	53,536,552	-	53,536,552
		56,764,949	-	56,764,949
		P329,493,619	P -	P329,493,619

24. Related Party Transactions

Parties are considered related party if one party has control, joint control, or significant influence over the other party in making financial and operating decisions. The key management personnel of the Association are also considered to be related parties. The Association's key management personnel are composed of the senior management and directors.

Category/Transaction	Year	Note	Amount of the Transaction	Outstanding Balance Due from (to) Related Parties	Terms	Conditions
Entity under Common Key Management						
▪ Members' contributions and premiums collected	**2019**	*24a*	**P216,303,687**	**P10,000,754**	**Payable on demand; non-interest bearing**	**Unsecured; no impairment**
	2018	*24a*	262,333,419	14,598,767	Payable on demand; non-interest bearing	Unsecured; no impairment
▪ Claims and benefits paid	**2019**	***24b***	**62,572,566**	**(19,458,399)**	**Payable on demand; non-interest bearing**	**Unsecured**
	2018	*24b*	70,132,063	(14,368,805)	Payable on demand; non-interest bearing	Unsecured
▪ Collection fees	**2019**	***24c, 22***	**32,010,476**	**-**		
	2018	*24c, 22*	39,509,035	-		
▪ Acquisition of investment property	**2019**		**-**	**-**		
	2018	*13*	56,000,000	(35,000,000)	Payable on demand; non-interest bearing	Unsecured
	2019	*5, 23*		**(P9,457,645)**		
	2018	*5, 23*		(P34,770,038)		

Outstanding receivables from and payables to related parties are expected to be settled in cash.

24a. TSPI, an entity with the same key management as the Association, is a nonstock, nonprofit organization, whose mission is to provide individuals and communities the opportunity to experience fullness of life through small and micro-enterprise development. Effective January 1, 2007, TSPI collects members' contributions and premiums from the Association's members. As at December 31, 2019 and 2018, the outstanding balance owed to TSPI amounted to P10.00 million and P14.60 million, respectively.

24b. TSPI also settles claims to the beneficiaries of members on behalf of the Association using the members' contributions and premiums collected. In instances where the claims to be settled exceeds the amount of members' contributions and premiums collected, TSPI advances the payment of claims to the beneficiaries. As at December 31, 2019 and 2018, the outstanding balance of P19.42 million and P14.37 million, respectively, represents the settlement claims paid in advance by TSPI.

24c. TSPI provides the promotion and marketing of the Association's products to the TSPI's microfinance clients including collection of members' contributions and premiums for the said products of the Association. The Association reimburses the marketing and sales expenses incurred by TSPI on behalf of the Association. Effective September 27, 2017, TSPI charges the Association 15% service fee based on members' contributions and premiums collected for the services rendered for the Association.

In 2019 and 2018, marketing and sales expenses amounting to P32.01 million and P39.51 million, respectively, were recognized as part of "Collection fees" in Other direct costs account in profit or loss (see Notes 22).

<u>Compensation of Key Management Personnel</u>
Total short-term remuneration of the Association's key management personnel amounted to P6.70 million and P5.80 million for the years ended December 31, 2019 and 2018, respectively and are recorded under "Salaries and other employee benefits" in profit or loss. Post-employment benefits amounted to P1.54 million and P3.87 million for the years ended December 31, 2019 and 2018, respectively.

25. Events After the Reporting Period

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 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 May 15, 2020, that is subject for further extension 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.

Management is cognizant of the significant impact of COVID-19 pandemic. Extension of insurance premium payments and claims processing pay-out shall be provided to Association's members and their beneficiaries in accordance with the laws, rules and regulations recently issued by the IC to address concerns brought about by the COVID-19 pandemic. The Association's financial statements are expected to be affected by delayed insurance premium payments and requests for extension of renewal for maturing contracts. In addition to customer, people and operational considerations, volatile markets may also affect the Association's investment portfolios. Stock markets have declined in value and bond yields are at record lows which might result to possible impairment in investment portfolios.

The effect to the financial statements cannot be made at this time. As this pandemic is unprecedented, the Association will rely upon future guidance and issuances of the IC. The Association is also a member of the Microinsurance Mutual Benefit Association of the Philippines which work closely with the IC and various government agencies.

26. Supplementary Information Required by the Bureau of Internal Revenue (BIR) Based on Revenue Regulations (RR) No. 15-2010

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such supplementary information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS.

The following is the tax information required for the taxable year ended December 31, 2019:

A. Withholding Taxes

Expanded withholding taxes	**P122,784**
Tax on compensation and benefits	**974,804**
	P1,097,588

B. All Other Taxes (Local and National)

Other taxes paid during the year recognized under "Taxes and licenses" account under General and Administrative Expenses	
License and permit fees	**P28,381**

C. Tax Contingencies

The Association has 2016 tax assessment which involved alleged income tax, percentage tax, withholding tax on compensation, expanded withholding tax, final withholding tax, tax deficiencies and compromise penalty. The BIR issued Final Assessment Notice in 2019 for the said tax assessment. The Association submitted Formal Protest Letter for the assessments together with documents in support thereof, in compliance with the sixty (60) day period to submit the same, pursuant to the Tax Code. The Association is yet to receive response from the tax authorities.

D. Tax Cases

As at December 31, 2019, aside from the ongoing tax assessments, the Association is not a party to any outstanding tax case that is under investigation, litigation and/or prosecution in courts or bodies outside the BIR.

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R.G. Manabat & Co.

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