

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Quidan Pag-Inupdanay Mutual Benefit Association, Inc.
Rm. 320, 3rd Flr., VSB Bldg.
6th-Lacson St., Bacolod City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Quidan Pag-Inupdanay Mutual Benefit Association, Inc. (the Association), a nonstock, not-for-profit association, which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in fund balances and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying 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 (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's 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 the financial statements in accordance with PFRSs, 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.



Auditor's 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 auditor's 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 PSAs 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 PSAs, 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 auditor's 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 auditor's 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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 19 to the 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 information is the responsibility of the management of Quidan Pag-Inupdanay Mutual Benefit Association, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Djole S. Garcia

Partner

CPA Certificate No. 0097907

SEC Accreditation No. 1768-A (Group A),

September 3, 2019, valid until September 2, 2022

Tax Identification No. 201-960-347

BIR Accreditation No. 08-001998-102-2018,

October 18, 2018, valid until October 17, 2021

PTR No. 8125240, January 7, 2020, Makati City

June 26, 2020



QUIDAN PAG-INUPDANAY MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Not-for-Profit Association)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Cash (Note 4)	₱2,456,875	₱10,485,973
Short-term investments (Note 5)	12,950,651	11,006,665
Receivables (Note 6)	33,210,746	28,647,797
Financial assets (Note 8)		
Available-for-sale (AFS) financial assets	5,598,309	4,942,574
Held-to-maturity (HTM) investments	1,500,000	1,500,000
Property and equipment (Note 9)	27,610	32,645
Other assets (Note 7)	72,295	395,351
Total Assets	₱55,816,486	₱57,011,005
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts and other payables (Note 10)	₱267,429	₱348,539
Life reserve fund (Notes 11)	22,691,359	26,970,487
Retirement savings fund (Note 12)	15,329,926	15,113,606
Claims fund (Note 13)	510,006	314,225
Retirement fund balance	396,513	652,665
Total Liabilities	39,195,233	43,399,522
Fund Balance		
Guaranty fund (Note 14)	8,634,077	8,466,614
Unappropriated fund balance	3,207,558	4,897,809
Appropriated fund balance	4,508,795	95,710
Donated equity	163,776	163,776
Unrealized gain (loss) on AFS financial assets (Note 8)	107,047	(12,426)
Total Fund Balance	16,621,253	13,611,483
	₱55,816,486	₱57,011,005

See accompanying Notes to Financial Statements.



QUIDAN PAG-INUPDANAY MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Not-for-Profit Association)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2019	2018
REVENUE		
Gross premiums earned	₱3,349,255	₱7,290,000
Interest income (Notes 4, 5, 6 and 8)	1,365,075	802,082
Dividend income (Note 8)	223,151	140,698
Other income	304,754	511,555
	5,242,235	8,744,335
COSTS AND OPERATING EXPENSES		
Net insurance claims and reserves		
Increase (decrease) in aggregate reserves - net (Note 15)	(1,812,141)	3,738,032
Underwriting expense	290,714	628,708
	(1,521,427)	4,366,740
Operating expenses		
Salaries and allowances	1,657,962	1,575,047
Professional fees	517,238	509,605
Transportation and travel	348,090	303,747
Provision for doubtful accounts	227,318	—
Taxes and licenses	213,705	111,600
Representation and entertainment	196,656	216,854
Meeting and seminars	103,551	173,427
Program, monitoring and evaluation	100,680	104,000
Rent (Note 16)	97,650	51,500
Interest expense (Notes 11 and 12)	70,450	709,767
Communication and postage	61,356	38,634
Light and water	57,859	34,175
Repairs and maintenance	27,282	94,724
Depreciation (Note 9)	25,030	11,263
Supplies and materials	24,965	35,179
Vehicle insurance	5,942	7,686
Miscellaneous	127,031	86,775
	3,862,765	4,063,983
	2,341,338	8,430,723
EXCESS OF REVENUE OVER EXPENSES	2,900,897	313,612
OTHER COMPREHENSIVE INCOME		
<i>Other comprehensive loss that may be reclassified to profit or loss in subsequent years</i>		
Unrealized gain (loss) on AFS financial assets (Note 8)	119,473	(12,426)
TOTAL COMPREHENSIVE INCOME	₱3,020,370	₱301,186

See accompanying Notes to Financial Statements.



QUIDAN PAG-INUPDANAY MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Not-for-Profit Association)

STATEMENTS OF CHANGES IN FUND BALANCES

For the Year Ended December 31, 2019

	Guaranty Fund (Note 14 and 17)	Unappropriated Fund Balance	Appropriated Fund Balance (Note 17)	Donated Equity	Unrealized Gain (Loss) on AFS Financial Assets (Note 8)	Total
Balances at beginning of year	₱8,466,614	₱4,897,809	₱95,710	₱163,776	(₱12,426)	₱13,611,483
Excess of revenue over expenses	–	2,900,897	–	–	–	2,900,897
Appropriation during the year	167,463	(167,463)	–	–	–	–
Reclassification of Unappropriated fund	–	(4,423,685)	4,423,685	–	–	–
Utilization of appropriated fund balance	–	–	(10,600)	–	–	(10,600)
Unrealized gain on AFS financial assets	–	–	–	–	119,473	119,473
Balances at end of year	₱8,634,077	₱3,207,558	₱4,508,795	₱163,776	₱107,047	₱16,621,253

For the Year Ended December 31, 2018

	Guaranty Fund (Notes 14 and 17)	Unappropriated Fund Balance	Appropriated Fund Balance (Note 17)	Donated Equity	Unrealized Loss on AFS Financial Assets (Note 8)	Total
Balances at beginning of year	₱8,102,453	₱4,948,358	₱126,510	₱163,776	₱–	₱13,341,097
Excess of revenue over expenses	–	313,612	–	–	–	313,612
Appropriation during the year	364,161	(364,161)	–	–	–	–
Utilization of appropriated fund balance	–	–	(30,800)	–	–	(30,800)
Unrealized loss on AFS financial assets	–	–	–	–	(12,426)	(12,426)
Balances at end of year	₱8,466,614	₱4,897,809	₱95,710	₱163,776	(₱12,426)	₱13,611,483

See accompanying Notes to Financial Statements.



QUIDAN PAG-INUPDANAY MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Not-for-Profit Association)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	₱2,900,897	₱313,612
Adjustments for:		
Provision for impairment loss	227,318	–
Depreciation	25,030	11,263
Movement in aggregate reserves	(1,812,141)	3,738,032
Operating income before working capital changes	1,341,104	4,062,907
Decrease (increase) in:		
Receivables	(4,800,867)	(8,008,449)
Other assets	323,056	80,369
Increase (decrease) in:		
Accounts and other payables	(81,110)	(26,828)
Life reserve fund	(1,029,672)	(985,288)
Retirement savings fund	227,920	962,667
Claims fund	(1,253,134)	(1,287,656)
Retirement fund balance	(256,152)	–
Net cash used in operating activities	(5,528,855)	(5,202,278)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Short-term investments (Note 5)	(1,846,758)	(3,006,665)
AFS financial assets (Note 8)	(536,262)	(2,198,752)
HTM investments (Note 8)	(97,228)	(1,500,000)
Property and equipment (Note 9)	(19,995)	(31,498)
Cash used in investing activities	(2,500,243)	(6,736,915)
NET DECREASE IN CASH	(8,029,098)	(11,939,193)
CASH AT BEGINNING OF YEAR	10,485,973	22,425,166
CASH AT END OF YEAR (Note 4)	₱2,456,875	₱10,485,973

See accompanying Notes to Financial Statements.



QUIDAN PAG-INUPDANAY MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Not-for-Profit Association)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information and Authorization for Issue of the Financial Statements

Corporate Information

Quidan Pag-Inupdanay Mutual Benefit Association, Inc. (the Association) was duly registered with the Philippine Securities and Exchange Commission (SEC) as a nonstock, not-for-profit association on February 26, 2009 for the purpose of advancing the interest and promoting the welfare of the poor, in particular, and the welfare of the Philippines, in general. It specifically seeks to extend financial assistance to its members' spouses, children and parents in the form of death benefits, sickness/accident benefits and provident savings. It was granted a license by the Insurance Commission (IC) on January 12, 2010 to engage as a mutual benefit association and has started commercial operations thereafter. The Association actively involves the members in the direct management of the Association including the implementation of policies and procedures geared towards sustainability and improved services. The Board of Trustees (BOT) is responsible in making operational policies for the Association. The officers and the members of BOT are elected during the annual general membership assembly.

As a nonstock, not-for-profit mutual benefit association, the Association was granted tax exemption with respect to income and value-added taxes as provided under the National Internal Revenue Code (NIRC) of 1997 as amended by Republic Act (RA) 8424 known as the Comprehensive Tax Reform Program by the Bureau of Internal Revenue (BIR).

On July 22, 2013, the BIR issued Revenue Memorandum Circular No. 20-2013 which prescribes the policies and guidelines in the issuance of tax exemption rulings to qualified nonstock, non-profit corporations and associations under Section 30 of the NIRC of 1997. The Association submitted the application requirements to the BIR for tax exemption in previous years. As of December 31, 2019, the Association has not yet received the BIR approval for the tax exemption ruling.

The registered office address of the Association is at Rm. 320, 3rd Flr., VSB Bldg., 6th-Lacson St., Bacolod City.

Authorization for Issue of the Financial Statements

The accompanying financial statements of the Association were authorized for issue by the BOT on June 26, 2020.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets that have been measured at fair value. The Association's financial statements are presented in Philippine Peso (₱), which is also the Association's functional and presentation currency. All values are rounded to the nearest Peso, unless otherwise indicated.

Statement of Compliance

The financial statements of the Association have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).



The Association met the definition of a small entity under the PFRS for Small Entities and the Philippine SEC Notice dated March 26, 2018 and is, therefore, covered by PFRS for Small Entities. However, the Association is exempted from the adoption of PFRS for SEs as the Association is a holder of secondary license. Accordingly, the Association still adopted full PFRS instead of PFRS for Small Entities in 2019.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to existing PFRS and Philippine Accounting Standards (PAS) effective January 1, 2019 unless otherwise indicated. Additional disclosures have been included in the notes to financial statements, as applicable.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

The Association applied the short-term lease recognition exemption to its short-term leases of office space and continued to recognize the rent expense straight-line basis over the lease term.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- Amendments to PFRS 9, *Financial Instruments, Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Investment in Associates and Joint Ventures, Long-term Interests in Associates and Joint Ventures*
- *Annual Improvements to PFRSs 2015-2017 Cycle*
 - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
 - Amendments to PAS 12, *Income Taxes, Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
 - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. The Association does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements unless otherwise indicated. The Association intends to adopt the pronouncements in the next page when they become effective.



Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

Effective beginning on or after January 1, 2023

- PFRS 17, *Insurance Contracts*
PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted.

On March 17, 2020, the International Accounting Standards Board (IASB) has decided to further defer the effective date of IFRS 17 to annual reporting periods beginning on January 1, 2023. IASB expects to issue the amendments to IFRS 17 in the second quarter of 2020. SEC has yet to issue pronouncements related to effectivity of PFRS 17 as of reporting date.

On May 18, 2020, the IC released CL No. 2020-62 amending CL No. 2018-69 which defers the implementation of PFRS 17 for all insurance companies. The commission further deferred the implementation of the standard by two years after the effective date as decided by the IASB.

The Association is currently assessing the impact of PFRS 17 as of December 31, 2019.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Accounting Standard Effective but not yet Adopted

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments*, with *PFRS 4*.

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the



overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information with the overlay approach if, and only if, applying PFRS 9.

Qualifying for temporary exemption from PFRS 9

The Association applies the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4 Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts issued in September 2016. The temporary exemption permits the Association to continue applying PAS 39 rather than PFRS 9 for annual periods beginning before January 1, 2022. The Association concluded that it qualified for the temporary exemption from PFRS 9 because its activities are predominantly connected with insurance. As at December 31, 2015, the Association's gross liabilities arising from contracts within the scope of PFRS 4 represented 97% of the total carrying amount of all its liabilities. Since December 31, 2015, there has been no change in the activities of the Association that requires reassessment of the use of the temporary exemption.

Fair value disclosures

The table below presents an analysis of the fair value of classes of financial assets as of December 31, 2019 and 2018, as well as the corresponding change in fair value for the year ended December 31, 2019 and 2018. In the table below, the amortized cost of cash, short-term investments, receivables and HTM investments has been used as a reasonable approximation to fair value.

The financial assets are divided into two categories:

- Assets for which their contractual cash flows represent solely payments of principal and interest (SPPI), excluding any financial assets that are held for trading or that are managed and whose performance is evaluated on a fair value basis; and
- All financial assets other than those specified in SPPI above (i.e., those for which contractual cash flows do not represent SPPI, assets that are held for trading and assets that are managed and whose performance is evaluated on a fair value basis)

2019

Financial Asset	SPPI Financial Assets		Other Financial Assets	
	Fair Value	Fair Value Change	Fair Value	Fair Value Change
Cash	₱2,456,875	₱-	₱-	₱-
Short-term investments	12,950,651	-	-	-
Receivables	33,210,746	-	-	-
AFS financial statements	-	-	5,598,309	119,473
HTM investments	1,500,000	-	-	-

2018

Financial Asset	SPPI Financial Assets		Other Financial Assets	
	Fair Value	Fair Value Change	Fair Value	Fair Value Change
Cash	₱10,485,973	₱-	₱-	₱-
Short-term investments	11,006,665	-	-	-
Receivables	28,647,797	-	-	-
AFS financial statements	-	-	4,942,574	(12,426)
HTM investments	1,500,000	-	-	-



Credit risk disclosures

The table below shows the carrying amount of the SPPI assets included in the table above by credit risk rating grades reported to key management personnel. The carrying amount is measured in accordance with PAS 39. For assets measured at amortized cost, the carrying amount shown is before impairment allowance.

2019

SPPI Financial Asset	Investment Grade	Non-investment Grade:		Total
		Satisfactory	Unrated	
Cash	₱2,456,875	₱-	₱-	₱2,456,875
Short-term investments	12,950,651	-	-	12,950,651
Receivables	33,210,746	-	-	33,210,746
HTM investments	1,500,000	-	-	1,500,000

2018

SPPI Financial Asset	Investment Grade	Non-investment Grade:		Total
		Satisfactory	Unrated	
Cash	₱10,485,973	₱-	₱-	₱10,485,973
Short-term investments	11,006,665	-	-	11,006,665
Receivables	28,647,797	-	-	28,647,797
HTM investments	1,500,000	-	-	1,500,000

SPPI financial assets as of December 31, 2019 have low credit risk as determined by the Association.

The significant accounting policies that have been used in the preparation of the financial statements are summarized below. These accounting policies have been consistently applied to all the years presented, unless otherwise stated.

Current versus Noncurrent Classification

The Association presents assets and liabilities in the statement of financial position based on whether it is current and noncurrent classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.



The Association classifies all other liabilities as noncurrent.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Association.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Association uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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 of input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level of input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level of input that is significant to the fair value measurement is unobservable

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 categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Association analyses the movements in the values of assets and liabilities which are required to be remeasured or reassessed as per the Association's accounting policies. For this analysis, the Association verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, 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.

Product Classification

Insurance contracts are those contracts when the Association (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general



guideline, the Association determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Cash

Cash includes cash on hand and in banks. Cash in banks are stated at face amount and earn interest at the prevailing bank deposit rates.

Short-term Investments

Short-term investments are short-term placements with maturities of more than three months but less than one year from the date of acquisition and are carried in the statement of financial position at nominal amount. These earn interest at the prevailing short-term investment rates.

Financial Instruments

The Association applies the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4 Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts issued in September 2016. The temporary exemption permits the Association to continue applying PAS 39 rather than PFRS 9 for annual periods beginning before January 1, 2022. The Association concluded that it qualified for the temporary exemption from PFRS 9 because its activities are predominantly connected with insurance.

The Association recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs, if any, are included in the initial measurement of all financial assets and financial liabilities, except for financial instruments measured at Fair Value through Profit or Loss (FVPL).

The Association classifies its financial assets as financial assets at FVPL, HTM financial assets, loans and receivables, or AFS financial assets, as appropriate. Financial liabilities, on the other hand are classified as either financial liabilities at FVPL or other financial liabilities, as appropriate. The classification depends on the purpose for which the financial instruments were acquired or originated. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

As at December 31, 2019 and 2018, the Association's financial instruments consist of loans and receivables, AFS financial assets, HTM investments and other financial liabilities.

Financial Assets at FVPL

Financial assets at FVPL include financial assets held-for-trading purposes or designated by management as financial asset at FVPL at initial recognition. Derivative instruments, except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term.



Financial assets are designated as at FVPL by management on initial recognition when any of the following is met:

- i. The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the financial assets or recognizing gains or losses on them on a different basis;
- ii. The financial assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or
- iii. The financial asset contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

These financial assets are subsequently measured at fair market value. Realized and unrealized gains and losses arising from changes in fair market value of financial assets at FVPL are recognized in the statements of income. Interest earned on debt securities is recognized as the interest accrues. Dividend income on equity securities is recognized according to the terms of the contract or when the right to receive payment has been established.

Held-to-Maturity investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Association has the positive intention and ability to hold to maturity. These investments are initially recognized at cost, including all transaction costs, being the fair value of the consideration paid for the acquisition of investment. Where the Association sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The effective interest amortization is included in "Interest income" in the statement of comprehensive income. Gains and losses are recognized in the statement of comprehensive income when the HTM investments are derecognized and impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. This accounting policy relates to "Cash," "Short-term investments" and "Receivables."

After initial measurement, loans and receivables are subsequently measured at amortized cost using the EIR method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR and transaction costs. The amortization is included in "Interest income" in the statement of comprehensive income. The losses arising from impairment of such loans and receivables are recognized under "Provision for impairment losses" in the statement of comprehensive income.

AFS financial assets

AFS financial assets include equity investments. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at FVPL.



When the fair value of the AFS financial assets cannot be measured reliably because of lack of reliable estimation of future cash flows and discount rates necessary to calculate the fair value of computed equity instruments, these investments are carried at cost less allowance for impairment losses.

Financial assets may be designated at initial recognition as AFS financial assets if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial measurement, AFS financial assets are subsequently measured at fair value. The unrealized gains or losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported as “Unrealized gain (loss) on AFS financial assets” in the equity section of the statement of financial position.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of comprehensive income under the “Other income” account or “Miscellaneous expense” account. Where the Association holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. The losses arising from impairment of such investments are recognized in the statement of comprehensive income under the “Miscellaneous expenses” account.

The Association evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Association is unable to trade these financial assets due to inactive markets, the Association may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future.

Impairment of Financial Assets

The Association assesses at each reporting date whether there is an objective evidence that 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 has 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 arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Association first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Association determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor’s ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of the estimated



future cash flows (excluding future credit losses that have not been incurred) discounted, generally, at the financial assets' original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account, and the amount of loss is charged to "Provision for impairment losses" in the statement of comprehensive income. Interest income continues to be recognized based on the original EIR of the asset.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment has been recognized, the previously recognized impairment loss is recovered. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as payment history, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Association to reduce any differences between loss estimates and actual loss experience.

AFS financial assets

For AFS financial assets, the Association assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognized in the statement of comprehensive income is removed from equity and recognized in the statement of comprehensive income in the "Miscellaneous expenses" account. Impairment losses on equity investments are not reversed through statement of comprehensive income. Increases in fair value after impairment are recognized directly in equity through other comprehensive income.

Other financial liabilities

Other financial liabilities pertain to issued financial instruments that are not classified or designated at FVPL and contain contractual obligations to deliver cash or other financial asset to the holder, or to settle the obligation other than through the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method.

Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are integral parts of the EIR. This accounting policy relates to "Accounts and other payables," "Life reserve fund," "Retirement savings fund," and "Claims fund."

"Day 1" difference

Where the transaction price in a non-active market is different from the fair value of 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” difference) in the statement of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income 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” difference amount.

Derecognition of Financial Assets and Liabilities

Financial asset

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

- the right to receive cash flows from the assets has 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 (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained the risks and rewards of the asset, but has transferred control of the asset.

Where the Association has transferred its rights to receive cash flows from an asset or has entered into a “pass-through” arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is 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 repay.

Financial liability

A financial liability is derecognized when the obligation under the liability are 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 the statement of comprehensive income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position 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.

The Association assesses that it has a currently enforceable right of offset if the right is not contingent on a future event and is legally enforceable in the normal course of business, event or default, and event of insolvency or bankruptcy of the Association and all of the counterparties.

Other Assets

Other assets are carried at cost less the amortized portion. These typically comprise prepayments for insurance, rental deposit, and other expenses. These assets are expensed as consumed or when the related goods and services are provided to the Association.



Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are capitalized as property and equipment only when it is probable that future economic benefits associated with the item will flow to the Association and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation of property and equipment is computed using the straight-line basis over estimated useful lives as follows:

	Years
Transportation equipment	5
Computer and office equipment	3
Office furniture and fixtures	3

The useful life and depreciation method are reviewed periodically to ensure that the period and method of depreciation is consistent with the expected pattern of economic benefits from items of property and equipment.

When property and equipment are retired or otherwise disposed of, the cost, and the related accumulated depreciation and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Impairment of Nonfinancial Assets

The Association assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Association estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other current assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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 assessments of the time value of money and the risks specific to the asset.

Impairment losses of continuing operations are recognized in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

In determining fair value less cost to sell, recent market transactions are taken into account. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses 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. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in statement of comprehensive income.



Insurance Contract Liabilities

Life insurance contract liabilities

Life insurance liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserve for life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing in each contract. This accounting policy pertains to "Life reserve fund" in the statement of financial position.

Liability adequacy test

Liability adequacy tests are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is charged to "Provision for impairment losses" in the statement of comprehensive income arising from the liability adequacy tests.

Life Reserve Fund

Under the Association's life insurance program, members and their qualified dependents are entitled to receive a minimum amount of benefit upon death or permanent disability duly approved by the Association after meeting certain conditions as stated in the certificate of membership issued to members. A member who withdraws membership from the Association shall be entitled to an equity value of at least 50% of the total membership contribution payable upon termination of his/her membership from the Association, provided the member has been an active member for two (2) consecutive years.

Retirement Savings Fund

Under the Association's mutual benefit plan, 20% of the contribution received from a member represents the members' savings in the Association, which is directly reported as additions to "Retirement savings fund." According to the policy given to members, interest shall be credited to the accumulated fund every anniversary at a rate to be determined by the BOT. As stipulated in the revised Implementing Rules Regulations of the Association duly approved by the IC on October 23, 2013, the interest rate of the fund should not be lower than the prevailing interest rate on savings deposit of any commercial bank. In 2019 and 2018, the members' savings fund earned interest at 1% per Board Resolution Number 11 S2014. The interest expense is charged to statement of comprehensive income, while the retirement savings fund balance is shown as liabilities in the statement of financial position.

Claims Fund

This account is set up to cover all contractual benefits in the insurance plan. The fund is set up from the total gross premiums collected and is adjusted at year-end, such that the remaining balance of the fund pertains only to the actuarial valuation of the Association's (a) required reserves for life policies and contracts, and its (b) incurred policy and contract claims that remain unpaid at the end of the period. The amount of the claims fund set up from the total gross premiums collected should not exceed 33% of the said premiums as mandated by the IC.

Retirement Fund Balance

This represents funds set aside as a matter of prudence for the retirement and other benefits granted to the Association's permanent employees. Pursuant to RA 7641 or "The Retirement Pay Law," the Association is not required to set up fund and accrue for the retirement benefits of its employees.



Fund Balance

Fund balance represents guaranty fund, donated equity, appropriated fund balance and unappropriated fund balance.

Guaranty fund

Guaranty fund represents the appropriation of 5% from the gross premiums earned for the current year as mandated by the IC.

Unappropriated fund balance

Unappropriated fund balance results from revenue, gains and other supports that are derived from the Association's regular operations unless the receipts are limited by donor-imposed restrictions. Association's expenses are reported as decreases in the unappropriated fund balance.

Appropriated fund balance

Appropriated fund balance consists of funds appropriated and managed by the Association for specific purposes and are subject to certain restrictions.

Donated equity

Donated equity pertains to the gift of assets given by Pag-Inupdanay Inc. (PI) to the Association at the start of its operations.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Association and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Association assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Association has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognized:

Gross premiums earned

Premiums are recognized as earned when collected from members by the Association's collection agents.

Interest

Interest income is recognized as the interest accrues using EIR method.

Dividend

Dividend income is recognized when the right to receive dividend is established.

Other income

Other income is recognized when earned.

Other Comprehensive Income

OCI are items of income and expense that are not recognized in the profit or loss for the year in accordance with PFRSs. The Association's OCI in 2019 and 2018 pertains to gains or loss on fair value changes of their AFS investments which cannot be recycled to profit or loss.

Cost and Expense Recognition

Cost and expenses are recognized in the statements of comprehensive income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be



measured reliably. The following specific recognition criteria described below must also be met before cost and expenses are recognized:

Increase in aggregate reserves

Increase in aggregate reserves are recorded on the basis of actuarial valuation and reasonable actuarial assumptions.

Claims

Claims consist of claims paid to members, which includes excess benefit claims. Death claims and surrenders are recorded on the basis of notifications received.

Underwriting expense

Underwriting expense are the fees charged by Association's agents for collecting premiums from members. Amounts charged are 4% of the collection for life insurance and retirement savings fund and 20% for the collection for credit life insurance policy.

Interest expense

Interest expense on accumulated policyholders' dividends and premium deposit fund is recognized as it accrues.

Operating expenses

Operating expenses constitute cost of administering the business. These are recognized as expenses when incurred.

Leases

Short-term Leases (Effective beginning January 1, 2019)

The Association applies the short-term lease recognition exemption in applying PFRS 16 to its short-term leases of office space. Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Association as Lessee (Effective prior to January 1, 2019)

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

- (a) There is a change in contractual terms, other than a renewal or extension of the agreement;
- (b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) There is a change in the determination of whether the fulfillment is dependent on a specified asset;
or,
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and the date of renewal or extension period for scenario (b).



Operating Leases (Effective prior to January 1, 2019)

Leases which do not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the profit or loss on a straight-line basis over the lease term.

Provisions

Provisions are recognized when the Association has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimates.

Contingencies

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Events After the Reporting Period

Post year-end events up to the date of when the financial statements are authorized for issue that provide additional information about the Association's position 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 financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the accompanying financial statements in conformity with PFRSs requires the Association to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions used in accompanying financial statements are based on the management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from the estimates and assumptions used. Uncertainty about these judgments and estimates could result in outcomes that require material adjustments to the carrying amount of assets or liabilities affected in future periods.

Judgments

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

Product classification

The Association has determined that the insurance policies it issues have significant insurance risk and therefore meet the definition of an insurance contract and should be accounted for as such.

The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. 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 are at least 10% more than the benefits payable if the insured event did not occur.



Classification of Financial Instruments

The Association exercises judgment in classifying financial instruments. The Association classifies a financial instrument, or its component, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Association's statements of financial position.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Association's business model for managing them. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Association commits to purchase or sell the asset.

Operating lease – Association as lessee (Effective prior to January 1, 2019)

The Association has entered into lease agreements related to its office space. Based on an evaluation of the terms and conditions of the lease agreements, there will be no transfer of ownership of assets to the Association at the end of the lease term. The lessors retain all significant risks and rewards of ownership of these properties and so the Association accounts for the agreements as operating leases.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are described below. The Association based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Association. Such changes are reflected in the assumptions when they occur.

Estimation of aggregate reserves

Previous experience and trends are fundamentally considered in determining the liability. In determining the provision for reserves, estimates are made as to the expected number of deaths, illness, or injury, among others, for each of the years in which the Association is exposed to risk.

These estimates are based on standard industry and national mortality and morbidity tables. These estimates determine the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Estimates are also made on future investment income arising from the assets backing life insurance contracts. These estimates are based on weighted average rate of return arising from the assets backing the insurance contracts.

As of December 31, 2019 and 2018, the carrying values of the Association's aggregate reserves are as follows:

	2019	2018
Life reserve fund (Note 11)	₱22,691,359	₱26,970,487
Retirement savings fund (Note 12)	15,329,926	15,113,606
Claims fund (Note 13)	510,006	314,225
	₱38,531,291	₱42,398,318



Estimating allowance for impairment losses on receivables

The Association reviews its receivables portfolio to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Association makes judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from receivables.

Provision for impairment losses on receivables in 2019 amounted to ₱0.23 million (nil in 2018). The carrying amounts of receivables amounted to ₱33.21 million and ₱28.65 million as at December 31, 2019 and 2018, respectively (see Note 6).

Impairment of AFS financial assets

The Association treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires judgment. The Association treats “significant” generally as 20% or more, and “prolonged” as greater than 12 months. In addition, the Association evaluates other factors, including future cash flows and the discount factors for unquoted equities.

In 2019 and 2018, no impairment loss was recognized on AFS financial assets. As of December 31, 2019 and 2018, AFS financial assets amounted to ₱5.60 million and ₱4.94 million, respectively (see Note 8).

Impairment of nonfinancial assets

The Association assesses impairment of nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Association recognizes an impairment loss whenever the carrying amount of the asset exceeds its recoverable amount. Recoverable amount is estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

The factors that the Association considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

No provision for impairment loss on nonfinancial assets was recognized in 2019 and 2018. The carrying amount of property and equipment amounted to ₱0.03 million in December 31, 2019 and 2018.

4. Cash

This account consists of:

	2019	2018
Petty cash fund	₱ 10,000	₱ 10,000
Claims fund	102,811	199,465
Cash in banks	2,344,064	10,276,508
	₱2,456,875	₱10,485,973



Claims fund represents cash on hand set aside for claim payments.

Cash in banks earns interest at the prevailing bank deposit rates. Interest income from cash in banks amounted to ₱0.01 million in 2019 and ₱0.04 million in 2018.

5. Short-term Investments

This account consists of a short-term investment in major local banks and in Federation of Peoples' Sustainable Development Cooperative (FPSDC).

- Short-term investment in one local bank – Bank of the Philippine Islands (BPI), which bears annual interest rate of 2.00% to 3.50% in 2019 and 1.50% to 2.00% in 2018, amounted to ₱9.0 million in 2019 and ₱9.0 million in 2018. Interest income from short-term investment in a local bank amounted to ₱0.21 million in 2019 and ₱0.12 million in 2018.
- Another short-term investment was made on December 9, 2019 when the Association acquired treasury bills from the Land Bank of the Philippines (LBP) amounting to ₱2.09 million with a yield of 3.315% and a term of 177 days. In 2018, the Association acquired the same amounting to ₱2.00 million with a yield of 6.500% and a term of 364 days maturing on December 4, 2019.

The amortized cost of the investment as of December 31, 2019 follows:

	2019	2018
Face value	₱2,127,000	₱2,101,000
Discount	(27,289)	(101,500)
Carrying amount	2,099,711	1,999,500
Amortization of discount	4,182	7,165
	₱2,103,893	₱2,006,665

Interest earned from this investment amounted ₱0.10 million in 2019 and ₱0.01 million in 2018.

- Short-term investment in FPSDC which bears annual interest rates of 4.50 to 5.00% in 2019 and 4% in 2018, amounted to ₱4.0 million and ₱1.85 million in 2019 and ₱4.5 million in 2018. The balance of the investment amounted to ₱1.85 and nil as of December 31, 2019 and 2018, respectively. Interest income from short-term investment in FPSDC amounted to ₱0.10 million in 2019 and ₱0.11 million in 2018.

6. Receivables

This account consists of:

	2019	2018
Trade receivables	₱33,257,779	₱28,524,375
Accrued interest	115,233	66,533
Advances to officers and employees	65,052	111,356
	33,438,064	28,702,264
Allowance for impairment loss	(227,318)	(54,467)
	₱33,210,746	₱28,647,797



Trade receivables represent unremitted premiums and contributions pertaining to life insurance and provident savings fund, and loans to the Microfinance Institution (MFI) for the maintenance of its operations. These are collectible within one year. Interest income from trade receivables amounted to ₱0.90 million in 2019 and ₱0.51 million in 2018.

Advances to officers and employees represent advances for business expenses of the Association and advances for emergencies and medical assistance. These are settled through salary deduction.

Accrued interest represents the interest recognized from short-term investments.

Movements in the allowance for impairment losses are as follows:

	2019	2018
Balance at beginning of year	₱54,467	₱54,467
Provisions during the year (Note 17)	227,318	–
Accounts written off	(54,467)	–
Balance at end of year	₱227,318	₱54,467

7. Other Assets

This account consists of:

	2019	2018
Stationary and supplies	₱46,982	₱54,522
Nonrefundable rental deposits (Note 16)	25,313	24,107
Prepaid expenses	–	316,722
	₱72,295	₱395,351

Stationary and supplies are office supplies used in daily operations.

Nonrefundable rental deposits pertain to the three-month security deposit for the lease of office space.

Prepaid expenses include insurance premiums and other prepayments that will expire within one year.

8. Financial Assets

The Association's financial assets are summarized by measurement categories as follows:

	2019	2018
AFS financial assets	₱5,598,309	₱4,942,574
HTM investments	1,500,000	1,500,000
	₱7,098,309	₱6,442,574



The assets included in each of the categories above are detailed below:

a) *AFS financial assets*

This account consists of:

	2019	2018
Unquoted equity securities	₱3,991,262	₱3,455,000
Unit investment trust fund (UITF)	1,500,000	1,500,000
	5,491,262	4,955,000
Unrealized gain (loss) on AFS financial assets UITF	107,047	(12,426)
	₱5,598,309	₱4,942,574

- *Unquoted equity securities*

Unquoted equity securities are investments in shares of stocks of FPSDC carried at cost. The Association owns 3,911 and 3,455 common shares of FPSDC as of December 31, 2019 and 2018, respectively.

Dividend income earned from unquoted equity securities amounted to ₱0.22 million in 2019 and ₱0.14 million in 2018.

- *UITF*

In July 2018, the Association invested in unit investment trust fund of BPI Asset Management and Trust Corporation carried at fair value. Unrealized gain (loss) on this investment amounted to ₱0.12 million for 2019 and (₱0.01) million in 2018.

b) *HTM investments*

The Association has long-term investment on money market placement of Asia United Bank (AUB) which will mature on July 26, 2023. The Association has no plans to terminate the investment in the near future and will continue to rollover the investment after maturity.

The investment amounted to ₱1.50 million as of December 31, 2019 and 2018 and earns an interest at a rate of 4% per annum.

Interest earned from this investment amounted to ₱0.05 million in 2019 and ₱0.02 million in 2018.

The carrying values of AFS financial assets and HTM investments have been determined as follows:

	AFS	HTM
At January 1, 2018	₱2,756,248	₱-
Additions	2,198,752	₱1,500,000
Fair value loss recognized in OCI	(12,426)	-
At December 31, 2018	₱4,942,574	₱1,500,000
Additions	536,262	-
Fair value gain recognized in OCI	119,473	-
At December 31, 2019	₱5,598,309	₱1,500,000



9. Property and Equipment

The rollforward analyses of this account follow:

2019

	Transportation Equipment	Computer and Office Equipment	Office Furniture and Fixtures	Total
Cost				
At January 1	P890,000	P538,910	P178,263	P1,607,173
Additions	-	19,995	-	19,995
At December 31	890,000	558,905	178,263	1,627,168
Accumulated Depreciation				
At January 1	890,000	528,813	155,715	1,574,528
Depreciation	-	15,492	9,538	25,030
At December 31	890,000	544,305	165,253	1,599,558
Net Book Value	P-	P14,600	P13,010	P27,610

2018

	Transportation Equipment	Computer and Office Equipment	Office Furniture and Fixtures	Total
Cost				
At January 1	P890,000	P538,910	P146,765	P1,575,675
Additions	-	-	31,498	31,498
At December 31	890,000	538,910	178,263	1,607,173
Accumulated Depreciation				
At January 1	890,000	522,065	146,765	1,558,830
Depreciation	-	6,748	4,515	11,263
Subsidized depreciation	-	-	4,435	4,435
At December 31	890,000	528,813	155,715	1,574,528
Net Book Value	P-	P10,097	P22,548	P32,645

Subsidized depreciation pertains to the fifty percent (50%) of the Association’s depreciation expense shouldered by PI recorded as “Trade receivables” under “Receivables.” Starting January 2019, PI stopped subsidizing the depreciation expenses of the Association while in 2018, only the depreciation expenses from months of January to May 2018 were subsidized by PI.

10. Accounts and Other Payables

This account consists of:

	2019	2018
Accrued expenses	P148,600	P147,228
Trade payable	74,723	74,723
Others	44,106	126,588
	P267,429	P348,539

Accrued expenses include accruals for professional fees, employee benefits, and other miscellaneous expenditures. These are noninterest-bearing and are to be settled on the following month.



Trade payable pertains to outstanding obligation to Grassroot Community of Educators and Leaders for the services rendered as a coordinator between the Association and its collection agent, and fund held in trust for educational assistance. These are noninterest-bearing and are to be settled within one year.

Others consist of payable to various government agencies. These are noninterest-bearing and are to be settled on the following month.

11. Life Reserve Fund

The movements in this account follow:

	2019	2018
At January 1	₱26,970,487	₱25,515,868
Provision for the year (Note 15)	1,494,653	2,439,907
Reversal for the year (Note 15)	(4,744,109)	-
Amount refunded during the year	(1,069,581)	(1,178,542)
Interest expense	39,909	563,298
Release of equity value	-	(370,044)
At December 31	₱22,691,359	₱26,970,487

This account represents provisions for reserve liabilities for life insurance computed on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing in each life operation. Life reserve fund accumulates 50% of life premium contributions of its members.

On April 7, 2018, the BOT approved the release of equity value of resigned and lapsed members starting the following month and thereafter. This was recorded under "Other income" in the statement of comprehensive income. Total released equity value amounted to ₱0.37 million in 2018 (nil in 2019).

In 2019, the Association through the recommendation of their actuary reclassified ₱4.74 million from Life reserve fund to Appropriated fund balance and Unappropriated fund balance amounting to ₱4.23 million and ₱0.32 million, respectively. The reclassification pertains to pre-termination charges from members with membership of less than 2 years and the time of for reinstatement has also lapsed or resigned or died.

12. Retirement Savings Fund

The movements in this account follow:

	2019	2018
At January 1	₱15,113,606	₱14,086,941
Net contributions received during the year	744,740	1,456,075
Provisions during the year (Note 15)	-	63,998
Reversals during the year (Note 15)	(11,600)	-
Refunds paid during the year	(547,361)	(639,877)
Interest expense	30,541	146,469
At December 31	₱15,329,926	₱15,113,606



This account represents retirement contributions of members of the Association including interest accruals. It is used to finance the retirement obligations in the event of resignation and termination of coverage. Upon reaching the termination age of sixty-five (65) or if a member resigns from the Association prior to age 65, the member shall be entitled to payment of 100% of the total retirement savings fund contributions plus interest credits during his/her period of membership. Interest shall be credited to the accumulated fund every anniversary at a rate to be determined by the BOT but in no case less than the prevailing interest rate on savings deposit of any commercial bank.

13. Claims Fund

This account consists of:

	2019	2018
Aggregate reserves for credit life insurance policies	₱16,236	₱110,953
Aggregate reserves for life policies and contracts	25,609	78,610
Policy and contract claims payable	468,161	124,662
	₱510,006	₱314,225

Movement in the claims fund as follows:

	2019	2018
At January 1	₱314,225	₱367,754
Provision for the year (Note 15)	1,448,915	1,234,127
Claims paid	(1,253,134)	(1,287,656)
At December 31	₱510,006	₱314,225

The components of policy and contract claims payable are as follows:

	2019	2018
Due and unpaid	₱2,500	₱2,500
Denied/resisted	30,000	-
Incurred but not reported	435,661	122,162
	₱468,161	₱124,662

14. Guaranty Fund

In accordance with Republic Act No. 10607 Sec. 405, this account must be maintained at a minimum of ₱5,000,000. In accordance with Insurance Memorandum Circular (IMC) No. 9-2006, every year thereafter, it is increased by an amount equivalent to 5% of gross premium collections. The appropriation for guaranty fund amounted to ₱0.17 million in 2019 and ₱0.36 million in 2018. Guaranty fund amounted to ₱8.63 million and ₱8.47 million as of December 31, 2019 and 2018, respectively.



15. Increase (Decrease) in Aggregate Reserves - net

This account consists of the net provisions (reversals) of:

	2019	2018
Life reserve fund (Note 11)	(P3,249,456)	P2,439,907
Retirement savings fund (Note 12)	(11,600)	63,998
Claims fund (Note 13)	1,448,915	1,234,127
	(P1,812,141)	P3,738,032

16. Leases

The Association entered into an operating lease agreement for its office space. The lease term is for a period of one year and renewable at the end of the lease term upon mutual consent of the parties. As of December 31, 2019, neither party has declared intent of terminating the lease arrangement.

On January 1, 2019, upon adoption of PFRS 16, the Association applied the ‘short-term lease’ recognition exemption on its lease commitment with remaining lease term of less 12 months.

Rent expense amounted to P0.10 million and 0.05 million in 2019 and 2018, respectively. These are included in “Rent” under “Operating expenses” section of the Association’s statement of comprehensive income. Rental deposits recorded under “Other current assets” pertain to deposits for leased office space amounted to P0.03 million as at December 31, 2019 and P0.02 million in 2018 (see Note 7).

17. Management of Insurance and Financial Risks, Capital Management and Regulatory Requirements

Governance Framework

The Association has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risk. It also supports the effective implementation of policies at the overall association and individual business unit levels.

The policies define the Association’s identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting strategies to the corporate goals and specify reporting requirements.

Guaranty Fund

As a mutual benefit association, the IC requires the Association to possess a guaranty fund of P5,000,000. This minimum amount shall be maintained at all times and it must be increased by an amount equivalent to 5% of the Association’s gross premium collections until the guaranty fund reaches 12.5% of the minimum paid up capital for domestic life insurance companies.

As of December 31, 2019 and 2018, the Association has a total of P8.63 million and P8.47 million, respectively, representing guaranty fund which is deposited with the IC.



The main risks arising from the Association's insurance contracts follow:

Insurance Risk

The principal risk the Association faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated and subsequent development of long term claims. Therefore, the objective of the Association is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines.

The Association determines its concentration of insurance risk based on sum insured. It has two (2) types of insurance contracts, namely, term life insurance and credit life insurance. For term life insurance, the Association has 31,903 numbers of policies with ₱296.84 million in total amount of insurance. On the other hand, the credit life insurance has 3,740 policies with ₱8.31 million in total amount of insurance.

Underwriting risk

Underwriting risk represents the exposure to loss resulting from actual policy experience adversely deviating from assumptions made in the product pricing. Underwriting risks are brought about by a combination of the following:

- *Mortality risk* - risk of loss arising due to policyholder death experience being different than expected.
- *Morbidity risk* - risk of loss arising due to policyholder health experience being different than expected.
- *Investment return risk* - risk of loss arising from actual returns being different than expected.
- *Expense risk* - risk of loss arising from expense experience being different than expected.
- *Policyholder decision risk* - risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

These risks do not vary significantly in relation to the location of the risk insured by the Association, type of risk insured and by industry. Undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Association's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Association has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the Association to pursue third parties for payment of some or all cost. The Association further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Association.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

Mortality and morbidity rates

Assumptions are based on standard industry and national tables, according to the type of contract written, reflecting recent historical experience and which are adjusted where appropriate to reflect the Association's own experiences. An appropriate but not excessive prudent allowance is made for expected future improvements.



An increase in rates will lead to a larger number of claims and claims could occur sooner than anticipated, which will increase the expenditure and decrease the funds of the Association.

Expenses

Operating expenses assumptions reflect the projected costs of maintaining and servicing in force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation adjustments if appropriate.

An increase in the level of expenses would result in an increase in expenditure thereby reducing the funds of the Association.

Lapse rates

The following lapse rates were assumed in preparing the projections:

<u>Policy Year</u>	<u>Lapse Rate</u>
1	20%
2	12%
3-5	5%
6 and over	4%

Surrender rates

Same as lapse rates, where surrender benefit is one-half (1/2) of all paid contributions.

Discount rate

Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on current industry risk rates, adjusted for the Association's own risk exposure.

A decrease in the discount rate will increase the value of the liability.

Fair Value Information

The methods and assumptions used by the Association in estimating fair value of the financial instruments are:

Cash, short-term investments, receivables, HTM investments, accounts and other payables (except statutory payables) - carrying amounts approximate fair values due to the relative short-term nature of these transactions;

AFS financial assets

Investments in unquoted equity securities - carried at cost less allowance for impairment losses due to the lack of suitable methods for arriving at a reliable fair value;

Investments in UITFs - fair values are determined with reference to the published net asset value of the underlying funds.

Aggregate reserves (life reserve fund, retirement savings fund, claims fund) - determined based on generally accepted actuarial methodologies.

As of December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.



Financial Risk Management Objectives and Policies

The Association is exposed to financial risk through its financial assets, financial liabilities and insurance liabilities. In particular, the key financial risk that the Association is exposed to is that the proceeds from its financial assets may not be sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk, and market risk.

The main objectives of the Association's financial risk management are as follows:

- To identify and monitor such risks on an ongoing basis;
- To minimize and mitigate such risks; and
- To provide a degree of certainty about costs.

Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the Association's exposure to credit risk:

- a. The credit risk in respect of customer balances, incurred on nonpayment of premiums or contributions will only persist during the grace period specified in the policy document or when the policy is either paid up or terminated.
- b. The Association sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long-term credit ratings.

As of December 31, 2019 and 2018, the carrying values of the Association's financial instruments represent maximum exposure to credit risk at reporting date. The Association's credit risk is concentrated on its receivables.

The gross maximum exposure to credit risk of the Association approximates its net maximum exposure. There were no amounts that are set-off in accordance with PAS 32, *Financial instrument - presentation*. There were no amounts subject to an enforceable master netting arrangement or similar agreement as of December 31, 2019 and 2018.

The tables in the next page provide information regarding the credit risk exposure of the Association by classifying assets according to the Association's credit ratings of counterparties.

2019

	<u>Neither Past due Nor Impaired</u>		<u>Past Due but Not Impaired</u>	<u>Impaired</u>	<u>Total</u>
	<u>Investment Grade</u>	<u>Non-investment Grade</u>			
Loans and receivables					
Cash in banks	₱2,344,064	₱-	₱-	₱-	₱2,344,064
Short-term investment	12,950,651	-	-	-	12,950,651
Receivables					
Trade receivables	33,030,461	-	-	227,318	33,257,779
Advances to officers and employees	65,052	-	-	-	65,052
Accrued interest	115,233	-	-	-	115,233
HTM investments	1,500,000	-	-	-	1,500,000
	₱50,005,461	₱-	₱-	₱227,318	₱50,232,779

* Excluding cash on hand amounting to ₱0.11 million.



2018

	Neither Past due Nor Impaired		Past Due but Not Impaired	Impaired	Total
	Investment Grade	Non-investment Grade			
Loans and receivables					
Cash in banks	₱10,276,508	₱-	₱-	₱-	₱10,276,508
Short-term investment Receivables	11,006,665	-	-	-	11,006,665
Trade receivables	28,524,375	-	-	-	28,524,375
Advances to officers and employees	56,889	-	-	54,467	111,356
Accrued interest	66,533	-	-	-	66,533
HTM investments	1,500,000	-	-	-	1,500,000
	₱51,430,970	₱-	₱-	₱54,467	₱51,485,437

* Excluding cash on hand amounting to ₱0.21 million.

The Association uses a credit rating concept based on the borrowers and counterparties' overall credit worthiness, as follows:

Investment grade - Rating given to borrowers and counterparties who possess strong to very strong capacity to meet its obligations.

Non-investment grade - Rating given to borrowers and counterparties who possess above average capacity to meet its obligations.

Trade receivables represent mostly of collections of Pag-Inupdanay Inc. pertaining to contributions for premiums for life insurance and provident fund unremitted to the Association. Trade receivables are neither past due nor impaired.

Liquidity risk

This is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

The following policies and procedures are in place to mitigate the Association's exposure to liquidity risk:

- a. The Association liquidity risk policy sets out the assessment and determines what constitutes liquidity risk for the Association. Compliance with the policy is monitored and exposures and breaches are reported to the management. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- b. Set guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance and investment contracts obligations.

The tables on the next page show an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from reporting date.



2019

	Up to One Year*	1-3 Years	4-5 Years	Over 5 Years	No Term	Total
Financial assets						
Cash	P2,456,875	P-	P-	P-	P-	P2,456,875
Short-term investments	12,950,651	-	-	-	-	12,950,651
Receivables	33,210,746	-	-	-	-	33,210,746
AFS financial statements	-	-	-	-	5,598,309	5,598,309
HTM investments*	-	144,000	1,527,090	-	-	1,671,090
	P48,618,272	P144,000	P1,527,090	P-	P5,598,309	P55,887,671
Financial liabilities						
Accounts and other payables**	P255,235	P-	P-	P-	P-	P255,235
Life reserve fund	-	-	-	-	22,691,359	22,691,359
Retirement savings fund	-	-	-	-	15,329,926	15,329,926
Claims fund	-	-	-	-	510,006	510,006
	P255,235	P-	P-	P-	P38,531,291	P38,786,526

*Includes interest to maturity amounting to P0.17 million.

**Net of taxes payable to government agencies amounting to P12,194.

2018

	Up to One Year*	1-3 Years	4-5 Years	Over 5 Years	No Term	Total
Financial assets						
Cash	P10,485,973	P-	P-	P-	P-	P10,485,973
Short-term investments	11,006,665	-	-	-	-	11,006,665
Receivables	28,647,797	-	-	-	-	28,647,797
AFS financial statements	-	-	-	-	4,942,574	4,942,574
HTM investments*	-	144,000	1,575,090	-	-	1,719,090
	P50,140,435	P144,000	P1,575,090	P-	P4,942,574	P56,802,099
Financial liabilities						
Accounts and other payables**	P337,289	P-	P-	P-	P-	P337,289
Life reserve fund	-	-	-	-	26,970,487	26,970,487
Retirement savings fund	-	-	-	-	15,113,606	15,113,606
Claims fund	-	-	-	-	314,225	314,225
	P337,289	P-	P-	P-	P42,398,318	P42,735,607

* Includes interest to maturity amounting to P0.21 million.

**Net of taxes payable to government agencies amounting to P11,250.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks:

- *Foreign currency risk* - Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
- *Price risk* - Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices
- *Interest rate risk* - Interest rate risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The following policies and procedures are in place to mitigate the Association's exposure to market risk:

- a. The market risk policy sets out the assessment and determines what constitutes market risk for the Association. Compliance with the policy is monitored and exposures and breaches are reported



to the BOT. The policy is reviewed regularly for pertinence and for changes in the risk environment.

- b. Set asset allocation and portfolio limit structure, to ensure that assets back specific member liabilities and that assets are held to deliver income and gains for members which are in line with expectations of the members.
- c. Stipulated diversification benchmarks by type of instrument, as the Association is exposed to guaranteed bonuses, cash and annuity options when interest rates falls.

As of December 31, 2019 and 2018, the Association is not exposed to significant foreign currency, price and interest rate risk.

Capital

The primary objective of the Association's capital management is to comply with the statutory requirements on Margin of Solvency (MOS) and Risk-Based Capital (RBC) for Mutual Benefit Associations (MBA).

As of December 31, 2019 and 2018, the Association has fully complied with the externally imposed capital requirements.

The Association considers the following as capital:

	2019	2018
Guaranty fund	₱8,634,077	₱8,466,614
Unappropriated fund balance	3,207,558	4,897,809
Appropriated fund balance	4,508,795	95,710
Donated equity	163,776	163,776
Unrealized gain/(loss) on AFS financial assets	107,047	(12,426)
	₱16,621,253	₱13,611,483

Limit to Unappropriated Balance

Per IC Circular Letter 2015-46, a mutual benefit association shall only maintain free and unassigned fund balance of not more than twenty percent (20%) of its total liabilities as verified by the IC. As of December 31, 2019 and 2018 the Association has not exceeded the limit.

Appropriated Fund Balance

On May 31, 2013, the BOT approved the appropriation of ₱1.10 million from the Association's unappropriated fund balance for the educational and calamity fund assistance of the members, and the retirement and employee benefits fund of the employees. The purpose of the educational fund is to give education support as help to its members and to reward members for their continuous membership in the Association. The purpose of the calamity fund is to give immediate aid to its members who may be victims of catastrophic events. The purpose of the retirement and employee benefits fund is to set aside funds for the retirement and other benefits granted to permanent employees in case of termination or resignation from the Association.

In 2014, retirement and employee benefits fund was pulled out from the appropriated fund and was shown as a liability under "Retirement fund balance."



The appropriated fund may already be utilized as long as the provisions of the guidelines provided by the BOT are adhered to. In 2019 and 2018, ₱0.01 million and ₱0.03 million were utilized from the fund, respectively. In 2019, the Association though the recommendation of their actuary appropriated ₱4.23 million. The appropriation pertains to income from pre-termination charges from members with membership of less than 2 years and the time of for reinstatement has also lapsed (see note 11). Appropriated fund balance amounted to ₱4.51 million and ₱0.10 million as of December 31, 2019 and 2018, respectively.

Regulatory Framework

Regulators are interested in protecting the rights of the members and maintain close vigil to ensure that the Association is satisfactorily managing affairs for the members' benefit. The regulators are also interested in ensuring that the Association maintains an appropriate solvency position to meet liabilities arising from claims and that the risk levels 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., MOS to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise, minimum guaranty fund, risk-based capital requirements).

Margin of solvency (MOS)

The Association is required to maintain at all times, an MOS equal to ₱5.00 million or 10% of the total amount of its net premiums written during the preceding year, whichever is higher. The MOS shall be the excess of the value of its admitted assets (as defined under the Code), exclusive of its paid-up capital, over the amount of its liabilities, unearned premiums and reinsurance reserves.

As of December 31, 2019 and 2018, the Association's MOS based on its calculations amounted to ₱16.36 million and ₱13.07 million, respectively. The final amount of the MOS can only be determined after the accounts of the Association have been examined by the IC specifically as to admitted and non-admitted assets as defined under the same Code.

The surplus available for MOS for the Association follows:

	2019	2018
Admitted assets	₱55,550,895	₱56,469,686
Admitted liabilities	(39,195,233)	(43,399,522)
Net worth	₱16,355,662	₱13,070,164

As of December 31, 2019 and 2018, the estimated non-admitted assets of the Association's life operations, as defined under the Code, which are included in the statement position follows:

	2019	2018
Advances to officers and employees	₱65,052	₱56,888
Accrued interest	115,233	66,533
Other assets	72,296	395,351
Office furniture and fixtures	13,010	22,548
	₱265,591	₱541,320



If an insurance Association failed to meet the minimum required MOS, the IC is authorized to suspend or revoke all certificates of authority granted to such companies, its officers and agents, and no new business shall be done by and for such Association until its authority is restored by the IC.

Risk-based capital (RBC)

In October 2006, the IC issued IMC No. 6-2006 adopting the RBC framework for the life insurance industry to establish the required amounts of capital to be maintained by entities in relation to their investment and insurance risks. Every life insurance entity is annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance entity to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as Members' equity divided by the RBC requirement. Whereas, Members' equity is defined as admitted assets minus all liabilities inclusive of actuarial reserves and other policy obligations.

On December 28, 2016, IC CL No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework* was issued to supersede IC CL No. 2015-30, *Risk-Based Capital (RBC2) Quantitative Impact Study (QIS)*. This circular provides solvency requirements based on accepted solvency frameworks, requires insurance companies that at all times shall hold the RBC requirement determined in accordance with the rules and guidelines set forth by the circular plus any additional supervisory adjustments that may be required by the IC, and requires the satisfaction of the minimum statutory ratio. The new CL took effect on January 1, 2018.

IC has adopted a three-pillar risk-based approach to solvency. This is a quantitative requirement in relation to the calculation of capital requirements and recognition of eligible capital, governance and risk management requirement, and disclosure requirements. The risk-based capital ratio is calculated as the total available capital divided by the RBC requirement. The RBC requirement takes into account various risks such as credit, insurance liability, market, operational, catastrophic and surrender risks. The minimum statutory RBC ratio required is set at 100%. In addition, all insurance companies are required to maintain the minimum RBC ratio and to not fail the trend test. The trend test is the same as the previous circular.

The following table shows how the RBC ratio as of December 31, 2019 and 2018 was determined by the Association:

	2019	2018
Members' equity	12,295,414	₱12,798,663
RBC requirement	6,098,384	5,330,953
RBC Ratio	202%	240%

The final amount of the RBC ratio can only be determined after the accounts of the Association have been examined by the IC.

Based on the examination made by the IC for the Association's balances as of December 31, 2018, the RBC ratio was determined to be 233%, which is compliant with the ratio prescribed by the relevant regulations.

If an insurance company failed to meet the RBC requirements, the IC is authorized to suspend or revoke all certificates of authority granted to such companies, its officers and agents, and no new business shall be done by and for such company until its authority is restored by the IC.



18. Subsequent Event - COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 virus as a global pandemic. On March 13, 2020, in a move to contain the COVID-19 outbreak, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine in Bacolod City from March 31, 2020 until May 15, 2020 and imposed general community quarantine from May 16, 2020 until May 30, 2020. On May 31, 2020, Executive Order No. 38, s. 2020 was signed placing the city under modified general community quarantine (MGCQ) from June 1, 2020 to June 25, 2020. These events temporarily halted the operations of the Association which resulted to late collections of insurance premiums.

The Association considers the events surrounding the outbreak as non-adjusting subsequent events, accordingly, no adjustments have been made to the financial statements as of and for the year ended December 31, 2019 for the impact of COVID-19. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Association cannot determine at this time the impact to its financial position, performance and cash flows. The Association will continue to monitor the situation.

19. Supplementary Information Required Under Revenue Regulations No. 15-2010

The Association reported and paid the following taxes in 2019:

Value-Added Tax (VAT)

As a nonstock, not-for-profit mutual benefit association, the Association was granted tax exemption with respect to value-added taxes as provided under the National Internal Revenue Code of 1997 as amended by Republic Act 8424 known as the Comprehensive Tax Reform Program by the Bureau of Internal Revenue.

Landed Cost

In 2019 the Association has no importations; thus, no custom duties and tariff fees were paid or accrued.

Excise Tax

In 2019, the Association has no excise taxes paid or accrued.

Documentary Stamp Tax

In 2019, the Association has no documentary stamp taxes paid or accrued.

Taxes and Licenses

Details of taxes and licenses are as follows:

IC supervision fee	₱90,900
Renewal of license	90,900
IC filing of annual statement	20,200
Other permits	11,705
	<hr/>
	₱213,705



Withholding Taxes

The amount of expanded withholding taxes paid/accrued for the year ended December 31, 2019 amounted to ₱4,922.

Tax Contingencies

The Association has no tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR as of December 31, 2019.

