Quidan Pag-Inupdanay Mutual Benefit Association, Inc.

Financial Statements
December 31, 2018 and 2017 and

Independent Auditors' Report

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Quidan Pag-Inupdanay Mutual Benefit Association, Inc.

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, 2018 and 2017, 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, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (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 PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Association's financial reporting process.

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.

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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 18 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.

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PTR No. 7332555, January 3, 2019, Makati City

April 5, 2019

REVENUE DISTRICT NO. 77
BACOLOD CITY
APR 15 2019
REYNALDO C. GUEVARRA

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

	December 31	
	2018	2017
ASSETS		
Cash (Notes 4 and 17)	**₱10,485,973**	₱22,425,166
Short-term investments (Notes 5 and 17)	**9,000,000**	8,000,000
Receivables (Notes 6 and 17)	**28,647,797**	20,665,713
Financial assets (Notes 8 and 17)		
Available-for-sale (AFS) financial assets	**4,942,574**	2,756,248
Held-to-maturity (HTM) investments	**3,506,665**	–
Property and equipment (Note 9)	**32,645**	16,845
Other assets (Note 7)	**395,351**	475,720
Total Assets	**₱57,011,005**	₱54,339,692
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts and other payables (Notes 10 and 17)	**₱348,539**	₱375,367
Life reserve fund (Notes 11 and 17)	**26,970,487**	25,515,868
Retirement savings fund (Notes 12 and 17)	**15,113,606**	14,086,941
Claims fund (Notes 13 and 17)	**314,225**	367,754
Retirement fund balance	**652,665**	652,665
Total Liabilities	**43,399,522**	40,998,595
Fund Balance		
Guaranty fund (Notes 14 and 17)	**8,466,614**	8,102,453
Unappropriated fund balance	**4,897,809**	4,948,358
Appropriated fund balance (Note 17)	**95,710**	126,510
Donated equity	**163,776**	163,776
Unrealized loss on AFS financial assets (Note 8)	**(12,426)**	–
Total Fund Balance	**13,611,483**	13,341,097
	₱57,011,005	₱54,339,692

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	
	2018	2017
REVENUE		
Gross premiums earned	**₱7,290,000**	₱7,546,856
Interest income (Notes 4, 5, 6 and 8)	**802,082**	764,687
Dividend income (Note 8)	**140,698**	89,406
Other income (Note 11)	**511,555**	442,217
	8,744,335	8,843,166
COSTS AND OPERATING EXPENSES		
Net insurance claims and reserves		
Increase in aggregate reserves (Note 15)	**3,738,032**	3,704,068
Underwriting expense	**628,708**	725,376
	4,366,740	4,429,444
Operating expenses		
Salaries and allowances	**1,575,047**	1,147,697
Interest expense (Notes 11 and 12)	**709,767**	604,491
Professional fees	**509,605**	429,794
Transportation and travel	**303,747**	178,746
Representation and entertainment	**216,854**	129,027
Meeting and seminars	**173,427**	54,506
Taxes and licenses	**111,600**	111,900
Program, monitoring and evaluation	**104,000**	79,750
Repairs and maintenance	**94,724**	33,511
Rent (Note 16)	**51,500**	48,000
Supplies and materials	**35,179**	40,055
Communication and postage	**38,634**	20,496
Light and water	**34,175**	25,607
Depreciation (Note 9)	**11,263**	20,154
Vehicle insurance	**7,686**	3,626
Miscellaneous	**86,775**	90,433
	4,063,983	3,017,793
	8,430,723	7,447,237
EXCESS OF REVENUE OVER EXPENSES	**313,612**	1,395,929
OTHER COMPREHENSIVE INCOME		
Other comprehensive loss that may be reclassified to profit or loss in subsequent years		
Unrealized loss on AFS financial assets (Note 8)	**(12,426)**	–
TOTAL COMPREHENSIVE INCOME	**₱301,186**	₱1,395,929

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, 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**

	For the Year Ended December 31, 2017					
	Guaranty Fund (Notes 14 and 17)	Unappropriated Fund Balance	Appropriated Fund Balance (Note 17)	Donated Equity	Unrealized Loss on AFS Financial Assets (Note 6)	Total
Balances at beginning of year	₱7,725,110	₱3,929,772	₱168,910	₱163,776	₱–	₱11,987,568
Excess of revenue over expenses	–	1,395,929	–	–	–	1,395,929
Appropriation during the year	377,343	(377,343)	–	–	–	–
Utilization of appropriated fund balance	–	–	(42,400)	–	–	(42,400)
Balances at end of year	₱8,102,453	₱4,948,358	₱126,510	₱163,776	₱–	₱13,341,097

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	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	**P=313,612**	P=1,395,929
Adjustments for:		
Increase in aggregate reserves (Note 15)	**3,738,032**	3,704,068
Depreciation (Note 9)	**11,263**	20,154
Operating income before working capital changes	**4,062,907**	5,120,151
Decrease (increase) in:		
Receivables	**(8,008,449)**	136,661
Other assets	**80,369**	(30,370)
Increase (decrease) in:		
Accounts and other payables	**(26,828)**	(112,720)
Life reserve fund	**(985,288)**	(720,758)
Retirement savings fund	**962,667**	1,032,318
Claims fund	**(1,287,656)**	(1,432,990)
Net cash provided by (used in) operating activities	**(5,202,278)**	3,992,292
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
HTM investments (Note 8)	**(3,506,665)**	–
AFS financial assets (Note 8)	**(2,198,752)**	(563,693)
Short-term investments (Note 5)	**(1,000,000)**	–
Property and equipment (N ote 9)	**(31,498)**	(8,985)
Cash used in investing activities	**(6,736,915)**	(572,678)
NET INCREASE (DECREASE) IN CASH	**(11,939,193)**	3,419,614
CASH AT BEGINNING OF YEAR	**22,425,166**	19,005,552
CASH AT END OF YEAR (Note 4)	**P=10,485,973**	P=22,425,166

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 Infor mation

Quidan Pag-Inupdanay Mutual Benefit Association, Inc. (the Association) was duly registered with the 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, 2018, 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 April 5, 2019.

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 (=P), which is also the Association's functional 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 (PFRS).

The Association is exempted from applying PFRS for Small and Medium-sized Entities (PFRS for SMEs) as the Association is a holder of secondary license.

In March 2018, the SEC resolved to adopt PFRS for Small Entities (the PFRS for SEs) as part of its rules and regulations on financial reporting. PFRS for SEs was developed in response to feedback of small entities that PFRS for SMEs is too complex to apply. By reducing choices for accounting treatment, eliminating topics that are generally not relevant to small entities, simplifying methods for recognition and measurement, and reducing disclosure requirements, PFRS for SEs allows small entities to comply with the financial reporting requirements without undue cost or burden. Some of the key simplifications introduced by PFRS for SEs are presented below:

- For defined benefit plans, an entity is required to use the accrual approach in calculating benefit obligations in accordance with Republic Act (RA) No. 7641, The Philippine Retirement Pay Law, or company policy (if superior than RA No. 7641). Accrual approach is applied by calculating the expected liability as of reporting date using the current salary of the entitled employees and the employees' years of service, without consideration of future changes in salary rates and service periods.
- Investment properties can be carried either at cost or at fair value, depending on the policy choice made by the entity.
- There is no concept of "finance lease" under the PFRS for SEs. All lease receipts (payments) are recognized as income (expense) as earned (incurred).
- Inventories are to be subsequently valued at the lower of cost and market value (i.e., the probable selling price to willing buyers as of reporting date).
- Entities are given a policy choice of not recognizing deferred taxes in the financial statements.

PFRS for SEs is effective beginning January 1, 2019.

The Association met the definition of a small entity and is, therefore, covered by PFRS for SEs. However, the Association is exempted from the adoption of PFRS for SEs as the Association is a holder of secondary license. Accordingly, the Association will still adopt full PFRS instead of PFRS for SEs 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, 2018. Adoption of these pronouncements did not have any significant impact to the Association's financial position and performance:

- Amendments to PFRS 2, *Share-based Payment* - Classification and Measurement of Share-based Payment Transactions
- PFRS 9, *Financial Instruments*

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

  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.

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, 2018, as well as the corresponding change in fair value for the year ended December 31, 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)

	SPPI Financial Assets		**Other Financial Assets**	
Financial Asset	**Fair Value**	**Fair Value Change**	**Fair Value**	**Fair Value Change**
Cash	**P=10,276,508**	**P=–**	**P=–**	**P=–**
Short-term investments	**9,000,000**	**–**	**–**	**–**
Receivables	**28,702,264**	**–**	**–**	**–**
AFS financial statements	**–**	**–**	**4,942,574**	**(12,426)**
HTM investments	**3,506,665**	**–**	**–**	**–**

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.

SPPI Financial Asset	**Investment Grade**	**Non-investment Grade: Satisfactory**	**Unrated**	**Total**
Cash	**P=10,276,508**	**P=–**	**P=–**	**P=10,276,508**
Short-term investments	**9,000,000**	**–**	**–**	**9,000,000**
Receivables	**28,702,264**	**–**	**–**	**28,702,264**
HTM investments	**3,506,665**	**–**	**–**	**3,506,665**

SPPI financial assets as of December 31, 2018 have low credit risk as determined by the Association.

- PFRS 15, *Revenue from Contracts with Customers*

  The Association does not render other services aside from its revenue under insurance contract. Therefore, the new standard does not have any impact on the Association's financial statements.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures* - Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property* - Transfers of Investment Property
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

Standards Issued but Not yet Effective
The Association will adopt, where applicable, the following new standards, amendments to existing standards and interpretations when these become effective. Unless otherwise stated, the adoption of these new standards, amendments thereto and interpretation is not expected to have significant impact on the Association's financial statements. Additional disclosures will be provided when these standards and amendments are adopted.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9 - Prepayment Features with Negative Compensation

- PFRS 16, *Leases*

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Association is currently assessing the impact of this standard and plans to adopt the new standard on the required effective date.

- Amendments to PAS 19, *Employee Benefits* - Plan Amendment, Curtailment or Settlement
- Amendments to PAS 28 - Long-term Interests in Associates and Joint Ventures
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- 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

Effective beginning on or after January 1, 2020
- Amendments to PFRS 3, *Business Combination* - 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

- 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, 2021, with comparative figures required. Early application is permitted.

  The Association is currently assessing the impact of PFRS 17 and will adopt the new standard on required effective date.

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

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
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Date of recognition
The Association recognizes financial instruments in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Initial recognition
All financial assets are initially recognized at fair value. Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Association classifies its financial assets in the following categories: financial assets at FVPL, HTM investments, AFS financial assets and loans and receivables. Management classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investment at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. As of December 31, 2018 and 2017, the Association's financial instruments are of the nature of loans and receivables, AFS financial assets, HTM investments and other financial liabilities.

"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.

Loans and receivables
Loans and receivables are nonderivative 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 effective interest rate (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.

HTM investments
HTM investments are nonderivative 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 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.

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.”

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.

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.

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 nonfinancial 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 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 input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 - Valuation techniques for which the lowest level 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 reassessing 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.

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.

Impair ment 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, 25% 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 2018 and 2017, 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.

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

Other income
Other income is recognized when earned.

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.

<u>Leases</u>
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets, or the arrangement conveys a right to use the asset or assets.

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 arrangement;
(b) a renewal option is exercised or extension granted, unless the term of the renewal and extension was initially included in the lease term;
(c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or,
(d) there is 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) above, and at the date of renewal or extension period for scenario (b).

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized in the statement of comprehensive income on a straight-line basis over the lease term.

<u>Provisions</u>
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.

<u>Contingencies</u>
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 PFRS 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 on 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.

Operating leases - Association as lessee
The Association has entered into commercial leases for certain property and equipment. The Association has determined, based on an evaluation of the terms and conditions of the arrangements, that all the significant risks and rewards incidental to ownership of the leased item are not transferred to the Association, and as such, accounted the contract as an operating lease.

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, 2018 and 2017, the carrying values of the Association's aggregate reserves are as follows:

	2018	2017
Life reserve fund (Note 11)	**P=26,970,487**	=P25,515,868
Retirement savings fund (Note 12)	**15,113,606**	14,086,941
Claims fund (Note 13)	**314,225**	367,754
	=P**42,398,318**	=P39,970,563

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.

In 2018 and 2017, provision for impairment losses on receivables amounted to nil. The carrying amount of receivables amounted to =P28.65 million and =P20.67 million as of December 31, 2018 and 2017, 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 2018 and 2017, no impairment loss was recognized on AFS financial assets. As of December 31, 2018 and 2017, AFS financial assets amounted to =4.94 million and =P2.76 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 2018 and 2017. The carrying amount of the nonfinancial assets of December 31, 2018 and 2017 amounted to:

	2018	2017
Other current assets (Note 7)	**P=395,351**	P=475,720
Property and equipment (Note 9)	**32,645**	16,845
	P=427,996	P=492,565

4. Cash

This account consists of:

	2018	2017
Petty cash fund	**P= 10,000**	P=10,000
Claims fund	**199,465**	100,000
Cash in banks	**10,276,508**	22,315,166
	P=10,485,973	P=22,425,166

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 =P0.06 million in 2018 and =0.05 million in 2017.

5. Short-term Investments

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

Short-term investment in a local bank bears annual interest rate of 1.50% to 2.00% in 2018 and 1.25% to 1.50% in 2017. Interest income from short-term investment in a local bank amounted to =0.12 million in 2018 and =P0.10 million in 2017.

Short-term investment in FPSDC earns annual interest rate of 4% in 2018 and 4.50% in 2017. Interest income from short-term investment in FPSDC amounted to =0.11 million in 2018 and =0.20 million in 2017.

6. Receivables

This account consists of:

	2018	2017
Trade receivables	**P=28,524,375**	P=20,453,795
Advances to officers and employees	**111,356**	224,518
Accrued interest	**66,533**	41,867
	28,702,264	20,720,180
Allowance for impairment loss	**(54,467)**	(54,467)
	P=28,647,797	P=20,665,713

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. Interest income from trade receivables amounted to =P0.51 million in 2018 and =0.42 million in 2017. These are collectible within one year.

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 for the short-term investment.

Provision for impairment loss amounted to nil in 2018 and 2017

7. **Other Assets**

This account consists of:

	2018	2017
Prepaid expenses	**P= 316,722**	
P=435,932		
Stationary and supplies	**54,522**	18,359
Nonrefundable rental deposits (Note 16)	**24,107**	21,429
	P=395,351	P=475,720

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

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.

8. **Financial Assets**

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

	2018	2017
AFS financial assets	**P=4,942,574**	
P=2,756,248		
HTM investments	**3,506,665**	–
	P=8,449,239	P=2,756,248

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

a) AFS financial assets

This account consists of:

	2018	2017
Unquoted equity securities	**P=3,455,000**	
P=2,756,248		
Unit investment trust fund (UITF)	**1,500,000**	–
	4,955,000	2,756,248
Unrealized loss on AFS financial assets - UITF	**(12,426)**	–
	P=4,942,574	P=2,756,248

- *Unquoted equity securities*
  Unquoted equity securities are investments in shares of stocks of FPSDC carried at cost. The Association owns 3,455 and 2,756 common shares of FPSDC as of December 31, 2018 and 2017, respectively.

  Dividend income earned from unquoted equity securities amounted to P=0.14 million in 2018 and =P0.09 million in 2017.

- *UITF*
  On July 25, 2018, the Association invested in unit investment trust fund of BPI Asset Management and Trust Corporation carried at fair value. Unrealized loss on this investment amounted to =P0.01 million in 2018 (nil in 2017).

b) HTM investments

- The Association has long-term investment on money market placement of Asia United Bank 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 =P1.50 million as of December 31, 2018 (nil in 2017) and earns an interest at a rate of 4% per annum.

  Interest earned from this investment amounted to =0.02 million in 2018 (nil in 2017).

- On December 5, 2018, the Association acquired treasury bills from the Land Bank of the Philippines amounting to =P1.97 million with a yield of 6.5% and a term of 364days.

  The amortized cost of the investment as of December 31, 2018 follows:

Face value	P=2,101,000
Discount	101,500
Carrying amount	1,999,500
Amortization of discount	7,165
	P=2,006,665

Interest earned from this investment amounted =P0.01 million in 2018 (nil in 2017).

9. **Property and Equipment**

The rollforward analyses of this account follow:

2018

	Transportation Equipment	Computer and Office Equipment	Office Furniture and Fixtures	Total
Cost				
At January 1	**P=890,000**	**P=538,910**	**P=146,765**	**P=1,575,675**
Additions	**–**	**–**	**31,498**	**31,498**
At December 31	**890,000**	**538,910**	**178,263**	**1,607,173**

(Forward)

	Transportation Equipment	**Computer and Office Equipment**	**Office Furniture and Fixtures**	**Total**
Accumulated Depreciation				
At January 1	**P=890,000**	**P=522,065**	**P=146,765**	**P=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= –**	**P=10,097**	**P=22,548**	**P=32,645**

2017

	Transportation Equipment	Computer and Office Equipment	Office Furniture and Fixtures	Total
Cost				
At January 1	P=890,000	P=529,925	P=146,765	P=1,556,690
Additions	–	8,985	–	8,985
At December 31	890,000	538,910	146,765	1,575,675
Accumulated Depreciation				
At January 1	890,000	488,305	140,218	1,518,523
Depreciation	–	16,880	3,274	20,154
Subsidized depreciation	–	16,880	3,273	20,153
At December 31	890,000	522,065	146,765	1,558,830
Net Book Value	P= –	P=16,845	P=–	P=16,845

Subsidized depreciation pertains to the fifty percent (50%) of the Association's depreciation expense shouldered by PI recorded as "Trade receivables" under "Receivables." In 2018, only the depreciation from months of January to May 2018 was subsidized by PI.

As of December 31, 2018 and 2017, the cost of fully-depreciated property and equipment still in use amounted to =P1.50 million.

10. Accounts and Other Payables

This account consists of:

	2018	2017
Accrued expenses	**P=147,228**	P=226,542
Trade payable	**74,723**	128,323
Others	**126,588**	20,502
	P=348,539	P=375,367

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:

	2018	2017
At January 1	**P=25,515,868**	P=23,971,381
Provision for the year (Note 15)	**2,439,907**	2,265,245
Amount refunded during the year	**(1,178,542)**	(789,372)
Release of equity value	**(370,044)**	(399,730)
Interest expense	**563,298**	468,344
At December 31	**P=26,970,487**	P=25,515,868

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, 2017, the BOT approved the release of equity value of resigned and lapsed members starting the following month and thereafter. Release of equity value amounted to =P0.37 million in 2018 and =P0.40 million in 2017. This was recorded under “Other income” in the statement of comprehensive income.

12. Retirement Savings Fund

The movements in this account follow:

	2018	2017
At January 1	**P=14,086,941**	P=13,055,250
Net contributions received during the year	**1,456,075**	1,330,516
Provisions (reversals) during the year (Note 15)	**63,998**	(627)
Refunds paid during the year	**(639,877)**	(434,345)
Interest expense	**146,469**	136,147
At December 31	**P=15,113,606**	P=14,086,941

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:

	2018	2017
Aggregate reserves for credit life insurance policies	**P=110,953**	P=224,833
Aggregate reserves for life policies and contracts	**78,610**	66,997
Policy and contract claims payable	**124,662**	75,924
	P=314,225	P=367,754

Movement in the claims fund as follows:

	2018	2017
At January 1	**P=367,754**	P=361,294
Provision for the year (Note 15)	**1,234,127**	1,439,450
Claims paid	**(1,287,656)**	(1,432,990)
At December 31	**P=314,225**	P=367,754

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

	2018	2017
Due and unpaid	**P=122,162**	P=–
Denied/resisted	**2,500**	15,000
Incurred but not reported	–	60,924
	P=124,662	P=75,924

14. Guaranty Fund

In accordance with Republic Act No. 10607 Sec. 405, this account must be maintained at a minimum of P=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 P=0.36 million in 2018 and P=0.38 million in 2017. Guaranty fund amounted to P=8.47 million and =P8.10 million as of December 31, 2018 and 2017, respectively.

15. Increase in Aggregate Reserves

This account consists of provisions (reversals) of:

	2018	2017
Life reserve fund (Note 11)	**P=2,439,907**	=P2,265,245
Retirement savings fund (Note 12)	**63,998**	(627)
Claims fund (Note 13)	**1,234,127**	1,439,450
	P=3,738,032	=P3,704,068

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, 2018, neither party has declared intent of terminating the lease arrangement.

Rent expense amounted to =P0.05 million in 2018 and 2017. Rental deposits recorded under "Other current assets" pertain to deposits for leased office space amounted to P=0.02 million as of December 31, 2018 and 2017 (see Note 7).

The future minimum rentals payable under noncancellable operating lease within one year amounted to =P0.05 million as of December 31, 2018 and 2017.

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

<u>Governance Framework</u>
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.

<u>Regulator y Framework</u>
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 member's benefit. At the same time, the regulators are also interested in ensuring that the Association maintains appropriate solvency position to meet liabilities arising from claims and that the 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., margin of solvency 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).

<u>Guaranty Fund</u>
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, 2018 and 2017, the Association has a total of =P8.47 million and P=8.10 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 life insurance, the Association has 32,196 numbers of policies with =P562.64 million amount of insurance. On the other hand, the credit life insurance has 14,874 policies with =253.82 million 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:

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

Surrender rates
Same as lapse rates, where surrender benefit is one-half (½) 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 - carried at cost less allowance for impairment losses due to the lack of suitable methods for arriving at a reliable fair value;

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

As of December 31, 2018 and 2017, 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, 2018 and 2017, 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. There were no amounts subject to an enforceable master netting arrangement or similar agreement as of December 31, 2018 and 2017.

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

2018

	Neither Past due Nor Impaired				
	Investment Grade	Non-investment Grade	Past Due but Not Impaired	Impaired	Total
Loans and receivables					
Cash in banks	**P=10,276,508**	**P=–**	**P=–**	**P=–**	**P=10,276,508**
Short-term investment	**9,000,000**	–	–	–	**9,000,000**
Receivables					
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**
AFS financial assets - UITF	**1,487,574**	–	–	–	**1,487,574**
HTM investments	**3,506,665**	–	–	–	**3,506,665**
	P=52,918,544	**P=–**	**P=–**	**P=54,467**	**P=52,973,011**

** Excluding cash on hand amounting to =P0.21 million.*

*SGVBAC0

2017

	Neither Past due Nor Impaired				
	Investment Grade	Non-investment Grade	Past Due but Not Impaired	Impaired	Total
Loans and receivables					
Cash in banks	P=22,315,166	P=–	P=–	P=–	P=22,315,166
Short-term investment	8,000,000	–	–	–	8,000,000
Receivables					
Trade receivables	20,453,795	–	–	–	20,453,795
Advances to officers and employees	170,051	–	–	54,467	224,518
Accrued interest	41,867	–	–	–	41,867
	P=50,980,879	P=–	P=–	P=54,467	P=51,035,346

** Excluding cash on hand amounting to =P0.11 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.

2018

	Up to One Year*	**1-3 Years**	**3-5 Years**	**Over 5 Years**	**No Term**	**Total**
Financial assets						
Cash	**P=10,485,973**	**P=–**	**P=–**	**P=–**	**P=–**	**P=10,485,973**
Short-term investments	**9,064,000**	**–**	**–**	**–**	**–**	**9,064,000**
Receivables	**28,647,797**	**–**	**–**	**–**	**–**	**28,647,797**
AFS financial statements	**–**	**–**	**–**	**–**	**4,942,574**	**4,942,574**
HTM investments	**2,006,665**	**–**	**1,500,000**	**–**	**–**	**3,506,665**
	P=50,204,435	**P=–**	**P=1,500,000**	**P=–**	**P=4,942,574**	**P=56,647,009**
Financial liabilities						
Accounts and other payables	**P=221,951**	**P=–**	**P=–**	**P=–**	**P=–**	**P=221,951**
Life reserve fund	**–**	**–**	**–**	**–**	**26,970,487**	**26,970,487**
Retirement savings fund	**–**	**–**	**–**	**–**	**15,113,606**	**15,113,606**
Claims fund	**–**	**–**	**–**	**–**	**314,225**	**314,225**
	P=221,951	**P=–**	**P=–**	**P=–**	**P=42,398,318**	**P=42,620,269**

** Includes due and demandable accounts*

2017

	Up to One Year*	1-3 Years	3-5 Years	Over 5 Years	No Term	Total
Financial assets						
Cash	P=22,425,166	P=–	P=–	P=–	P=–	P=22,425,166
Short-term investments	8,006,667	–	–	–	–	8,006,667
Receivables	20,665,713	–	–	–	–	20,665,713
AFS financial assets	–	–	–	–	2,756,248	2,756,248
	P= 51,097,546	P=–	P=–	P=–	P=2,756,248	P=53,853,794
Financial liabilities						
Accounts and other payables	=354,865	=P –	=P –	=P –	=P–	=354,865
Life reserve fund	–	–	–	–	25,515,868	25,515,868
Retirement savings fund	–	–	–	–	14,086,941	14,086,941
Claims fund	–	–	–	–	367,754	367,754
	P=354,865	P=–	P=–	P=–	P=39,970,563	P=40,325,428

** Includes due and demandable accounts*

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, 2018 and 2017, 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, 2018 and 2017, the Association has fully complied with the externally imposed capital requirements.

The Association considers the following as capital:

	2018	2017
Guaranty fund	**P=8,466,614**	P=8,102,453
Unappropriated fund balance	**4,897,809**	4,948,358
Appropriated fund balance	**95,710**	126,510
Donated equity	**163,776**	163,776
Unr ealized loss on AFS financial assets	**(12,426)**	–
	P=13,611,483	P=13,341,097

Appropriated Fund Balance

On May 31, 2013, the BOT approved the appropriation of =P1.10 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 2018 and 2017, =P0.03 million and =P0.04 million were utilized from the fund, respectively. Appropriated fund balance amounted to =P0.10 million and P=0.13 million as of December 31, 2018 and 2017, respectively.

Regulator y 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 P=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, 2018 and 2017, the Association's MOS based on its calculations amounted to =P13.07 million and =P12.65 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:

	2018	2017
Admitted assets	**P=56,469,686**	P=53,652,054
Admitted liabilities	**(43,399,522)**	(40,998,595)
Net worth	**P=13,070,164**	P=12,653,459

As of December 31, 2018 and 2017, the estimated non-admitted assets of the Association's life operations, as defined under the Code, which are included in the statement position follows:

	2018	2017
Advances to officers and employees	**P=56,888**	P=170,051
Accrued interest	**66,533**	41,867
Other assets	**395,351**	475,720
Office furniture and fixtures	**22,548**	–
	P=541,320	P=687,638

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, 2017.

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, 2018 and 2017 was determined by the Association:

	2018	2017
Members' equity	P=**12,798,663**	P=12,653,459
RBC requirement	**5,330,953**	3,233,242
RBC Ratio	**240%**	391.36%

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, 2017, the RBC ratio was determined to be 207%, which is compliant with the ratio prescribed by the relevant regulations.

Unimpaired capital requirement
IC Circular Letter (CL) No. 2015-02-A which supersedes IC CL No. 22-2008 was issued to ensure compliance with the minimum capitalization and networth requirements set in Sections 194, 197, 200 and 289 of Republic Act No. 10607. It says that all domestic life and non-life insurance companies duly licensed by the IC must have a networth of at least two hundred and fifty million pesos (=P250,000,000) by December 31, 2013 and the minimum networth of these companies shall remain unimpaired at all times and shall increase to the following amounts:

Networth	Compliance Date
P=550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

As of December 31, 2018 and 2017, the Association has complied with the unimpaired capital requirement.

If an insurance company failed to meet the RBC requirements and unimpaired capital 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. **Supplementary Information Required Under Revenue Regulations No. 15-2010**

The Association reported and paid the following taxes in 2018:

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 2018 the Association has no importations; thus, no custom duties and tariff fees were paid or accrued.

Excise Tax
In 2018, the Association has no excise taxes paid or accrued.

Documentary Stamp Tax
In 2018, the Association has no documentary stamp taxes paid or accrued.

Taxes and Licens es
Details of taxes and licenses are as follows:

IC supervision fee	=P90,900
IC filing of annual statement	20,200
Other permits	500
	P=111,600

Withholding Taxes
The amount of withholding taxes paid/accrued for the year ended December 31, 2018 amounted to:

Withholding tax on compensation and benefits	=P–
Expanded withholding taxes	4,554
	P=4,554

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, 2018.