Kazama Grameen (KGI) Mutual Benefit Association (KGI-MBA) Inc.
(A Nonstock, Not-for-profit Association)

Financial Statements
December 31, 2018 and 2017

and

Independent Auditor's Report

SGV
Building a better working world

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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
Kazama Grameen (KGI) Mutual Benefit Association (KGI-MBA) Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Kazama Grameen (KGI) Mutual Benefit Association (KGI-MBA) Inc. (a non-stock, not-for-profit association) ("the 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 balance 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 (PFRSs).

Basis for Opinion

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

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on the Supplementary Information Required Under Revenue Regulations 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 15-2010 in Note 24 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 Kazama Grameen (KGI) Mutual Benefit Association (KGI-MBA) 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.

Bernalette L. Ramos

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PTR No. 7332600, January 3, 2019, Makati City

April 12, 2019

KAZAMA GRAMEEN (KGI) MUTUAL BENEFIT ASSOCIATION (KGI-MBA) INC.
(A Nonstock, Not-for-Profit Association)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Cash (Notes 6 and 21)	**₱12,856,573**	₱22,056,821
Short-term investments (Notes 7 and 21)	**37,395,068**	34,005,878
Financial assets (Notes 8, 19 and 21)		
Held-to-maturity investments	**21,039,438**	10,151,249
Financial asset at fair value through profit or loss	**2,000,000**	–
Loans and receivables	**2,346,727**	469,806
Property and equipment - net (Note 9)	**78,780**	149,227
Intangible assets - net (Note 10)	**488,889**	755,556
Prepayments and other assets (Note 11)	**410,363**	306,427
Total Assets	**₱76,615,838**	₱67,894,964
LIABILITIES AND FUND BALANCE		
Liabilities		
Insurance contract liabilities (Note 12)	**₱41,279,967**	₱36,594,571
Accrued expenses and other liabilities (Notes 13 and 21)	**10,348,933**	14,201,544
Total Liabilities	**51,628,900**	50,796,115
Fund Balance		
Appropriated fund balance (Note 21)	**12,961,309**	11,605,721
Unappropriated fund balance	**12,025,629**	5,493,128
Total Fund Balance	**24,986,938**	17,098,849
	₱76,615,838	₱67,894,964

See accompanying Notes to Financial Statements.

KAZAMA GRAMEEN (KGI) MUTUAL BENEFIT ASSOCIATION (KGI-MBA) INC.
(A Nonstock, Not-for-Profit Association)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017
REVENUE		
Gross premiums on insurance contracts (Note 14)	**₱27,111,758**	₱24,340,554
Interest income (Note 15)	**802,735**	519,874
Other income (Note 16)	**3,882,499**	28,325
	31,796,922	24,888,753
BENEFITS, CLAIMS, AND EXPENSES (Note 12)		
Gross change in insurance contract liabilities	**4,439,307**	3,961,674
Collection fees	**1,160,128**	750,599
Gross insurance contract benefits and claims paid	**12,297,988**	10,833,319
Insurance benefits and claims	**17,897,423**	15,545,592
GENERAL AND ADMINISTRATIVE EXPENSES (Note 17)	**5,850,933**	7,228,720
	23,748,356	22,774,312
EXCESS OF REVENUE OVER EXPENSES BEFORE PROVISION FOR FINAL TAX	**8,048,636**	2,114,441
PROVISION FOR FINAL TAX (Note 19)	**(160,547)**	(103,975)
EXCESS OF REVENUE OVER EXPENSES	**7,888,089**	2,010,466
OTHER COMPREHENSIVE INCOME	**–**	–
TOTAL COMPREHENSIVE INCOME	**₱7,888,089**	₱2,010,466

See accompanying Notes to Financial Statements.

KAZAMA GRAMEEN (KGI) MUTUAL BENEFIT ASSOCIATION (KGI-MBA) INC.
(A Nonstock, Not-for-Profit Association)

STATEMENTS OF CHANGES IN FUND BALANCE

	Appropriated Fund Balance (Note 21)	Unappropriated Fund Balance	Total
At January 1, 2018	**₱11,605,721**	**₱5,493,128**	**₱17,098,849**
Excess of revenue over expenses	**–**	**7,888,089**	**7,888,089**
Appropriation during the year	**1,355,588**	**(1,355,588)**	**–**
At December 31, 2018	**₱12,961,309**	**₱12,025,629**	**₱24,986,938**
At January 1, 2017	₱10,388,693	₱4,699,690	₱15,088,383
Excess of expenses over revenue	–	2,010,466	2,010,466
Appropriation during the year	1,217,028	(1,217,028)	–
At December 31, 2017	₱11,605,721	₱5,493,128	₱17,098,849

See accompanying Notes to Financial Statements.

KAZAMA GRAMEEN (KGI) MUTUAL BENEFIT ASSOCIATION (KGI-MBA) 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 before provision for final tax	**₱8,048,636**	₱2,114,441
Adjustments for:		
Provision (reversal of provision) for probable losses	**(3,876,459)**	2,330,482
Depreciation and amortization (Notes 9, 10 and 17)	**355,226**	150,404
Interest income (Note 15)	**(802,735)**	(519,874)
Cash generated from operations before changes in working capital	**3,724,668**	4,075,453
Decrease (increase) in:		
Loans and receivables	**(2,178,271)**	207,159
Prepayments and other assets	**(103,936)**	(50,584)
Increase (decrease) in:		
Insurance contract liabilities	**4,685,396**	4,065,287
Accrued expenses and other liabilities	**23,848**	(56,451)
Net cash generated from operations	**6,151,705**	8,240,864
Final taxes paid	**(160,547)**	(103,975)
Net cash flows provided by operating activities	**5,991,158**	8,136,889
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**806,581**	515,925
Acquisitions of:		
Property and equipment (Note 9)	**(18,112)**	(139,400)
Intangible asset (Note 10 and 23)	**–**	(140,000)
Availments of:		
Held-to-maturity investments (Note 8)	**(20,741,934)**	(10,020,000)
Short-term investments (Note 7)	**(3,529,728)**	(22,156,877)
Financial asset at FVPL (Note 8)	**(2,000,000)**	–
Maturities of:		
Short-term investments (Note 7)	**140,538**	20,439,382
Held-to-maturity investments (Note 8)	**10,151,249**	–
Net cash flows used in investing activities	**(15,191,406)**	(11,500,970)
NET DECREASE IN CASH	**(9,200,248)**	(3,364,081)
CASH AT THE BEGINNING OF THE YEAR	**22,056,821**	25,420,902
CASH AT THE END OF THE YEAR (Note 6)	**₱12,856,573**	₱22,056,821

See accompanying Notes to Financial Statements.

1. Corporate Information

Kazama Grameen (KGI) Mutual Benefit Association (KGI-MBA) Inc. (the Association) is a non-stock, not-for-profit organization registered with the Securities and Exchange Commission (SEC) on September 23, 2011, with SEC Reg. No. CN201117039, primarily to advance the interest and promote the welfare of its members in particular and the interest and welfare of the Philippines in general.

On March 14, 2012, the Association obtained its license to offer life and health insurance to all Kazama Grameen Inc.'s (KGI) members. Since its approval, the Association focused on the campaign and information dissemination of its insurance products to branches, members and employees.

On November 2, 2012, the Insurance Commission approved the Association's Implementing Rules and Regulations governing the benefits under the Certificate of Membership to members or his/her beneficiaries.

On January 1, 2016, the Association renewed its license with the Insurance Commission (IC) to operate as a mutual benefit association providing microinsurance benefits to all members of KGI. The Association's license with IC expired on December 31, 2018. Subsequently, the IC granted its license on January 1, 2019.

As a nonstock, not-for-profit and mutual benefit association, the Association is exempt from income tax with respect to income obtained as an incident to its operations 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.

The Association's registered office, which is also its principal place of business, is Block 12, Lot 25, Sta. Monica Subdivision, Matain, Subic, Zambales.

The financial statements of the Association were approved and authorized for issue by the Board of Trustees (BOT) on April 12, 2019.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation
The Association's financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss, which have been measured at fair value. The financial statements are presented in Philippine Peso (₱), which is the Association's functional and presentation currency. All amounts are rounded to the nearest peso, unless otherwise indicated.

Statement of Compliance
The financial statements of the Association have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

3. **Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year, except that the Association has adopted the following new accounting pronouncements starting January 1, 2018. Adoption of these pronouncements did not have any significant impact on the Association's financial position or performance unless otherwise indicated.

<u>*Amendments*</u>

- PAS 40, *Investment Property, Transfers of Investment Property*
- PAS 28*, Investment in Associate and Joint Venture - Measuring an associate or joint venture at fair value*
- PFRS 2, *Share-based Payment, Classification and Measurement of Share based Payment Transactions*
- PFRS 4, *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 contract 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 reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  During 2018, the Association performed an assessment of the amendments and reached the conclusion that as of December 31, 2018, its activities are predominantly connected with insurance. The Association opted to apply the temporary exemption from PFRS 9 and therefore continues to apply PAS 39, *Financial Instruments: Recognition and Measurement*, to its financial assets and liabilities until the Association applies the new standard on insurance contracts.

<u>*Philippine Interpretation*</u>

- IFRIC 22, *Foreign Currency Transaction and Advance Consideration*

<u>*New Standards*</u>

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Association's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Association's financial liabilities.

- Amendments to PFRS 4, *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 reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  Qualifying for temporary exemption from PFRS 9
  The Association applies the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4 *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*. The temporary exemption permits the Association to continue applying PAS 39 rather than PFRS 9 for annual periods beginning before 1 January 2022.

  The assessment for whether a reporting entity's activities are predominantly connected with insurance is based on the liabilities connected with insurance in proportion to the entity's total liabilities. An entity may elect the temporary exemption if, and only if:
  - The carrying amount of its liabilities arising from contracts within the scope of PFRS 4 is significant compared to the total carrying amount of all its liabilities; and
  - The percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all of its liabilities is:
    - Greater than 90 percent; or
    - Less than or equal to 90 percent but greater than 80 percent, and the insurer does not engage in a significant activity unconnected with insurance.

  Applying the requirements, the Association performed the predominance assessment using the statement of financial position as of December 31, 2015 and concluded that it qualified for the temporary exemption from PFRS 9. 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 of the Association as of December 31, 2018, as well as the corresponding change in fair value for the year then ended. 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	
	Fair value	Fair value change	Fair value	Fair value change
Cash and cash equivalents	₱12,856,573	₱–	₱–	₱–
Short-term investments	37,395,068	–	–	–
Held-to-maturity investments	21,039,438	–	–	–
Financial asset at fair value through profit or loss	–	–	2,000,000	–
Loans and receivables	2,346,727	–	–	–
	₱74,146,806	₱–	₱2,000,000	₱–

Credit risk disclosures
The following table shows the carrying amounts of the SPPI assets in accordance with PAS 39 categories by credit risk rating grades reported to key management personnel. The carrying amounts are measured in accordance with PAS 39. For assets measured at amortized cost, the carrying amount shown is before any allowance for impairment loss.

		Credit Rating				
	Total	AAA	AA/A	BBB	BB/B	Unrated
Cash and cash equivalents	₱12,856,573	₱12,856,573	₱–	₱–	₱–	₱–
Short-term investments	37,395,068	37,395,068	–	–	–	–
Held-to-maturity investments	21,039,438	21,039,438	–	–	–	–
Loans and receivables	2,346,727	2,346,727	–	–	–	–
	₱74,146,806	₱74,146,806	₱–	₱–	₱–	₱–

Financial assets that passed the SPPI test have low credit risk as of December 31, 2018.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 supersedes PAS 18, Revenue and related interpretations and it applies with limited exceptions, to all revenue from contracts with customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to customers.

  PFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customer. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

  The adoption of PFRS 15 did not have a significant impact on the Association's financial statements since majority of the Association's revenue consist of insurance premiums, which is outside the scope of PFRS 15 (scoped in under PFRS 4). In addition, the Association assessed that the revenue recognition requirements for other sources of income such as interest income is under the scope of PFRS 9.

Future Changes in Accounting Policies

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

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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

  Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  The Association is currently assessing the impact of adopting PFRS 16 and plans to adopt the new standard on the required effective date.

  - Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
  - 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 Tax Consequences of Payments on Financial Instruments Classified as Equity*
    - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Pronouncements issued but not yet effective are listed below. The Association intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Association's financial statements [unless otherwise indicated].

Effective beginning on or after January 1, 2020

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

Effective beginning on or after January 1, 2022

- 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, 2022, with comparative figures required. Early application is permitted. The Association is currently assessing the impact of adopting PFRS 17.

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.*

4. Summary of Significant Accounting Policies

Cash
Cash includes cash on hand and in banks. These are carried in the statements of financial position at face amount. Cash in banks earn interest based on the prevailing bank deposit rates.

Short-term Investments
Short-term investments are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three months but less than one year from dates of placement. These earn interests at the respective short-term investment rates.

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

Initial recognition
Financial instruments are classified as either financial assets or liabilities at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity investments (HTM) and available-for-sale (AFS) financial assets and other financial liabilities, as appropriate. The classification depends on the

purpose for which the investments were acquired and whether they are quoted in an active market. The Association determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

Financial instruments are recognized initially at fair value of the consideration given. The fair values of the consideration given are determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities. The initial measurement of financial instruments, except for those designated at FVPL, includes transaction costs.

As of December 31, 2018 and 2017, the Association's financial instruments are classified as loans and receivables, held-to-maturity investments, financial asset at fair value through profit or loss and other financial liabilities.

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.

Financial assets

The fair value for financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations, without any deduction for transaction costs. When current market prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

Non-financial assets

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.

Fair value hierarchy

The Association uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

In December 31, 2018, the Association recognized its investment in unit investment trust fund (UITF) as financial asset at fair value through profit or loss.

Day 1 profit
Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Association recognizes the difference between the transaction price and fair value (a Day 1 profit) in the statement of comprehensive income. 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 profit amount.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities 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.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest 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 effective interest rate. The amortization is included in "Interest income" in profit or loss. The losses arising from impairment of such loans and receivables are recognized in profit or loss. This accounting policy relates to the Association's statement of financial position captions "Cash", "Short-term investments" and "Loans and receivables".

Financial assets or financial liabilities at FVPL
Financial assets or financial liabilities at FVPL includes financial assets or financial liabilities held for trading designated upon initial recognition as at FVPL.

Financial assets or financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial assets or financial liabilities designated upon initial recognition at fair value through profit or loss are so designated only if the criteria of PAS 39 are satisfied. Gains or losses on assets or liabilities held for trading are recognized in profit or loss.

As of December 31, 2018, the Assocation's financial assets designated at FVPL include investments in unit investment trust fund. These financial assets are managed and their performances are evaluated on a fair value basis, in accordance with the investment strategy.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity. Where the company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. After initial measurement these investments are subsequently measured at amortized cost using the effective interest rate method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities. The substance of the contractual arrangement result in the Association having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by 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 effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that form an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of income.

As of December 31, 2018 and 2017, the Association's other financial liabilities consist of claims payable and accrued expenses and other liabilities.

Classification of Financial Instruments between Debt and Equity
A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Association; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares.

If the Association does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole, the amount separately determined as the fair value of the liability component on the date of issue.

Offsetting
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is 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 of default, and event of insolvency or bankruptcy of the Association and all of the counterparties.

Impairment of Financial Assets
An assessment is made at each reporting date as to whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of comprehensive income.

Financial assets carried at amortized cost
If there is an objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognized in the statement of comprehensive income.

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 it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in 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.

Financial assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

When the Association has transferred its right to receive cash flows from an asset 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 carrying amount of the asset and the maximum amount of consideration that the Association could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the Association's statement of comprehensive income.

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, including taxes and directly attributable cost to bring the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed using the straight-line method over the estimated useful lives (EUL) of the assets as follows:

	Years
Office equipment	3
Office furniture and fixtures	3

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made with respect to these assets.

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

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, an impairment loss is recognized in the statement of comprehensive income.

Intangible assets
Intangible asset pertains to software cost stated at acquisition cost less accumulated amortization and impairment in value, if any. This intangible asset is being amortized over its estimated useful life of three (3) years.

Impairment of Nonfinancial Assets
The Association assesses at each end of the reporting period whether there is an indication that property and equipment may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required, the Association makes an estimate of 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 assets or groups 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.

An assessment is made at each end of the reporting period 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 unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Fund Balance

Fund balance represents accumulated excess of revenue over expenses (expenses over revenue).

Revenue Recognition

Prior to January 1, 2018, under PAS 18, *Revenue*, revenue is recognized to the extent that it is probable that economic benefits will flow to the Association and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Association expects to be entitled in exchange for those services.

The Association assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Association has concluded that it is acting as principal in its revenue agreements.

Revenue outside the scope of PFRS 15

Gross premiums on insurance contracts

Premiums are recognized when collected. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue. The Association collects its premiums through the KGI-MBA that is considered as collecting institution.

Surrender charge

Surrender charge pertains to the fee imposed by the Association for the cancellation of the member's policy. This is intended for the administration costs incurred by the Association. Surrender charge is recognized when earned.

Interest income

Interest on interest-bearing placements is recognized based on the accrual accounting using the effective interest rate (EIR).

Other income

Income from other sources is recognized when earned.

Insurance Contract Liabilities

Life insurance contract liabilities

Life insurance contract 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 life operation.

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 immediately charged against the statement of comprehensive income initially by establishing a provision for losses arising from the liability adequacy tests.

Claim Costs
Liabilities for unpaid claim costs and loss adjustment expenses relating to insurance contracts are accrued when insured events occur. The liabilities for unpaid claims, including those for incurred but not reported losses, are based on the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense in the period when the estimates are changed or payments are made.

Expense Recognition
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants.

Benefits and claims
Life insurance claims reflect the cost of all claims arising during the year, including claims handling costs. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Benefits recorded are then accrued as liabilities.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general and administrative expenses directly attributable to the claims function.

General and administrative expenses
Expenses consist of costs of administering the business. These are recognized as expenses as incurred.

Leases
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 and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
b) a renewal option is exercised or an extension granted, unless that term of the renewal or 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 a substantial change to the asset.

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

The Association as lessee
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 as expense in the statement of comprehensive income on a straight-line basis over the lease term. Indirect costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognized over the lease term on the same basis as the lease income. Minimum lease payments are recognized on a

straight-line basis while the variable rent is recognized as an expense based on the terms of the lease contract.

Provisions
Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 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 assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingent Liabilities and Contingent Assets
Contingent liabilities are not recognized in the financial statements. They 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 date
Any post period year-end event that provides additional information about the Association's position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post year-end events that are not adjusting event, is disclosed in the notes to the financial statements when material.

5. **Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the financial statements in accordance with PFRS requires the Association to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgment

HTM investments
The Association classifies non-derivative financial assets with fixed or determinable payments and fixed maturities as HTM investments. This classification requires significant judgment. In making this judgment, the Association evaluates its intention and ability to hold such investments to maturity. If the Association fails to keep these investments to maturity other than in certain specific circumstances, the Association will be required to reclassify the entire portfolio as AFS financial assets and to measure these at fair value and not at amortized cost. The Association has held-to-maturity investments amounting to ₱21,039,438 and ₱10,151,249 and nil as of December 31, 2018 and 2017, respectively (see Note 8).

Operating lease - Association as lessee
The Association has entered into a lease agreement for its head office. The Association has determined that the lessor retains all significant risks and rewards of ownership of this property and thus accounts for this as operating lease.

Estimates

Estimation of basic contingent benefit reserves
The Association estimates basic contingent benefit reserves for payment of claims or obligations computed on the basis of a prudent prospective actuarial valuation method. The assumptions used are based on the 17.5% of total contribution for the month of December.

As of December 31, 2018 and 2017, the Association's basic contingent benefit reserves amounted to ₱200,261 and ₱171,108, respectively (see Note 12).

Estimation of credit life insurance reserves
In July 3, 2017, IC approved the Association's application for its new product under credit life insurance plan (CLIP). Credit life insurance reserves pertain to unearned premium reserves. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies at reporting date are accounted for as credit life insurance reserves and presented as part of "Insurance contract liabilities" in the liabilities section of the statement of financial position. The change in the credit life insurance reserves is taken to profit or loss in the order that revenue is recognized over the period of risk.

As of December 31, 2018 and 2017, the Association's credit life insurance reserves amounted to ₱261,838 and ₱36,462 (see Note 12).

Impairment of nonfinancial assets
The Association assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. 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.

The Association recognizes an impairment loss whenever the carrying amount of the asset exceeds its recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

In 2018 and 2017, no impairment loss has been recognized for the Association's property and equipment. As of December 31, 2018 and 2017, the carrying value of property and equipment amounted to ₱78,780 and ₱149,227 respectively (see Note 9).

6. Cash

This account consists:

	2018	2017
Cash on hand	**₱8,010,000**	₱10,000
Cash in banks	**4,846,573**	22,046,821
	₱12,856,573	₱22,056,821

Cash on hand includes petty cash fund and undeposited collections at year end.

Cash in banks earns interest at the prevailing bank deposit rates. Cash in banks earned interest ranging from 0.10% to 1.00% in 2018 and in 2017. Interest income earned from cash in banks amounted to ₱34,101 and ₱3,168 in 2018 and 2017, respectively (see Note 15).

7. Short-term Investments

The rollforward analysis of short-term investments follows:

	2018	2017
At January 1	**₱34,005,878**	₱32,288,383
Availments	**3,529,728**	22,156,877
Maturities	**(140,538)**	(20,439,382)
At December 31	**₱37,395,068**	₱34,005,878

Short-term investments are money market placements with maturity of more than 3 months to 1 year and bear annual interest at rates that ranged from 0.75% to 2.50% in 2018 and in 2017. Interest income earned from these investments amounted to ₱356,677 and ₱385,457 in 2018 and in 2017, respectively (see Note 15).

8. Financial assets

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

	2018	2017
Held-to-maturity investments	**₱21,039,438**	₱10,151,249
Financial asset at FVPL	**2,000,000**	–
Loans and receivables - net	**2,346,727**	469,806
	₱25,386,165	₱10,621,055

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

a) Held-to-maturity investments

This consists of government securities amounting ₱21,039,438 and ₱10,151,249 as at December 31, 2018 and 2017, respectively, which earned interest at a nominal rate of 3.00% to 5.62% for 2018 and 2.62% for 2017.

The amortized costs of financial asset follows:

	2018	2017
Face value	**₱21,439,000**	₱10,187,000
Discount	**(697,066)**	(167,000)
Carrying value	**20,741,934**	10,020,000
Amortization of discount	**297,504**	131,249
At December 31	**₱21,039,438**	₱10,151,249

The rollforward analysis of HTM investments follows:

	2018	2017
At January 1	**₱10,151,249**	₱–
Acquisitions	**20,741,934**	10,020,000
Maturities	**(10,151,249)**	–
Amortization of discount	**297,504**	131,249
At December 31	**₱21,039,438**	₱10,151,249

Interest earned from this financial asset amounted to ₱411,957 and ₱131,249 in 2018 and 2017, respectively (see Note 15).

b) *Financial asset at FVPL*

On August 13, 2018, the Association entered into an Participating Trust Agreement with BPI as investment manager of Bayanihan balanced fund. As of December 31, 2018, the Association recognized the net assets of the Bayanihan balanced fund amounting to ₱2.00 million.

c) *Loans and receivables*

This account consists of:

	2018	2017
Due from microfinance institution (MFI) branches (Note 19)	**₱2,220,872**	₱403,049
Interest receivable	**62,910**	66,757
Others	**62,945**	–
	₱2,346,727	₱469,806

Due from MFI branches pertain to premiums collected by the branches of KGI from the Association's members. These are generally on 1-to-30 day terms.

9. Property and Equipment - net

The rollforward analyses of property and equipment follow:

	2018		
	Office Equipment	**Office Furniture and Fixtures**	**Total**
Cost			
At January 1	**₱1,509,019**	**₱178,660**	**₱1,687,679**
Additions	**–**	**18,112**	**18,112**
At December 31	**1,509,019**	**196,772**	**1,705,791**
Accumulated Depreciation			
At January 1	**1,419,071**	**119,381**	**1,538,452**
Depreciation (Note 17)	**44,937**	**43,621**	**88,559**
At December 31	**1,464,008**	**163,003**	**1,627,011**
Net Book Value	**₱45,011**	**₱33,769**	**₱78,780**

	2017		
	Office Equipment	Office Furniture and Fixtures	Total
Cost			
At January 1	₱1,400,619	₱147,660	₱1,548,279
Additions	108,400	31,000	139,400
At December 31	1,509,019	178,660	1,687,679
Accumulated Depreciation			
At January 1	1,361,564	70,928	1,432,492
Depreciation (Note 17)	57,507	48,453	105,960
At December 31	1,419,071	119,381	1,538,452
Net Book Value	₱89,948	₱59,279	₱149,227

Cost of fully depreciated assets still in use amounted to ₱1,490,591 and ₱1,331,346 as of December 31, 2018 and 2017, respectively.

10. Intangible Asset - net

Intangible asset pertains to computer software related to the Association’s Management Information System.

The rollforward analyses of intangible asset follow:

	December	
	2018	2017
Cost		
At January 1	**₱800,000**	₱–
Additions	**–**	800,000
At December 31	**800,000**	800,000
Accumulated Depreciation		
At January 1	**44,444**	–
Amortization (Note 17)	**266,667**	44,444
At December 31	**311,111**	44,444
Net Book Value	**₱488,889**	₱755,556

11. **Prepayments and Other Assets**

This account consists of:

	2018	2017
Guaranty fund	**₱222,663**	₱222,663
Supplies inventory	**96,800**	58,514
Prepaid expenses	**90,900**	25,250
	₱410,363	₱306,427

Guaranty fund pertains to mutual fund paid by the Association to Microinsurance MBA Association of the Philippines, Inc. This fund represents a claim reserve held and being managed by MIMAP that will be subsequently used to satisfy the claims of the Association's members in case of insolvency.

Supplies inventory consists of unused vouchers, official receipts and membership certificates.

Prepaid expenses pertain to payments made to the Insurance Commission for the renewal of the Association's license which is valid for three (3) years.

12. **Insurance Contract Liabilities**

This account consists of:

	2018	2017
Liability on individual equity value	**₱40,384,853**	₱36,144,091
Claims payable	**433,015**	242,910
Basic contingent benefit reserves	**200,261**	171,108
Credit life insurance reserves	**261,838**	36,462
	₱41,279,967	₱36,594,571

The rollforward analysis of liability on individual equity value follows:

	2018	2017
At January 1	**₱36,144,091**	₱32,099,315
Additions:		
50% of gross premiums on insurance contracts	**12,770,400**	12,158,453
Interest	**114,173**	103,613
Return of equity value	**(8,643,811)**	(8,217,290)
At December 31	**₱40,384,853**	₱36,144,091

This account represents entitlement of members for the 50% of total gross contributions paid. The contributions are invested and the interests thereon are credited to the equity value. Interest rate is determined by the BOT and in no case be less than the prevailing savings rate of the commercial banks. This equity value, inclusive of interest thereon, is payable upon termination of membership from MBA including death or total and permanent disability (as amended on June 23, 2016).

Claims payable consist of the following:

	2018	2017
Claims incurred but not yet reported (IBNR)	**₱145,415**	₱120,310
Claims resisted	**127,700**	53,900
Claims due and unpaid	**125,000**	–
Claims in course of settlement	**34,900**	68,700
At December 31	**₱433,015**	₱242,910

The rollforward analysis of claims payable follows:

	2018	2017
At January 1	**₱242,910**	₱235,510
Arising during the year	**3,819,177**	2,622,329
Claims paid	**(3,654,177)**	(2,616,029)
Change in IBNR	**25,105**	1,100
At December 31	**₱433,015**	₱242,910

Basic contingent benefit reserves represent reserves for payment of claims or obligations computed on the basis of a prudent prospective actuarial valuation method where the assumptions used are based on 17.5% of total contribution for the month of December. Total contributions for the month of December in 2018 and 2017 amounted to ₱1,144,350 and ₱977,760, respectively. The increase (decrease) in basic contingent benefit reserves charged against profit or loss amounted to ₱29,153 and (₱23,351) in 2018 and 2017, respectively.

Credit life insurance reserves pertain to the proportion of written premiums attributable to subsequent periods or to risks that have not yet expired. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The change in the credit life insurance reserves is taken to profit or loss in the order that revenue is recognized over the period of risk. Total loans issued by MFI covered by credit life insurance premium amounted to ₱189,609,400 and ₱16,835,000 as of December 31, 2018 and 2017. The increase in credit life insurance reserves in the profit or loss amounted to ₱225,376 and ₱36,462 in 2018 and 2017, respectively.

Collection fees are those fees charged to the Association by KGI in exchange for collecting contribution from members. As of December 31, 2018 and 2017, collection fees amounted to ₱ 1,160,128 and ₱750,599, respectively.

13. Accrued Expenses and Other Liabilities

This account consists of:

	2018	2017
Accrued expenses and provisions	**₱10,161,465**	₱14,034,514
Payable to government agencies	**110,293**	68,038
Life insurance deposits	**77,175**	98,992
	₱10,348,933	₱14,201,544

Accrued expenses and provisions pertain to accrual of audit fee, other post-employment benefits and provisions recognized for estimated losses on claims by a third party. The information usually required by PAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments. Payable to government agencies consists mainly of withholding taxes on purchases from suppliers as well as statutory contribution of employees which are subsequently remitted within one month after the reporting date.

Life insurance deposits represent amounts received from members before their premiums become due. The amount of advance payment will be recognized as revenue on the premium due date.

14. **Gross Premiums on Insurance Contracts**

Under the Association's basic life insurance program, members and its 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. The member's contribution is ₱50 every week.

Additionally, a member shall be entitled to an equity value (equivalent to 50% of total gross contributions paid), inclusive of interest thereon, payable upon termination of membership from the Association. However, a surrender charge equal to 30% of equity value may be imposed by the association for member's termination occurring only within the first three years of membership

Under the Association's Credit life insurance program, debtor-members and the creditor-Association are entitled to receive the amount of loan insured upon death or permanent disability of the member duly approved by the Association after meeting certain conditions as stated in the policy certificate issued to members. The member's contribution is ₱10 per 1,000 of loan per year on a mode of a single payment and the length of coverage is base on the term of the loan.

Accordingly, gross premiums amounted to ₱27,111,758 and ₱24,340,554 in 2018 and 2017, respectively.

	2018	2017
Basic life insurance premiums (BLIP)	**₱25,540,800**	₱24,316,905
Credit life insurance premiums (CLIP)	**1,570,958**	23,649
	₱27,111,758	₱24,340,554

15. **Interest Income**

This account consists of:

	2018	2017
Interest income on:		
Held-to-maturity investments (Note 8)	**₱411,957**	₱131,249
Short-term investments (Note 7)	**356,677**	385,457
Cash in banks (Note 6)	**34,101**	3,168
	₱802,735	₱519,874

16. **Other income**

This account consists of income other than those related to premiums and investments.

In 2018, the Association reversed provision for probable losses amounting to ₱3.88 million since the Association believes that these are no longer valid.

17. **General and Administrative Expenses**

This account consists of:

	2018	2017
Salaries and allowances	**₱2,244,538**	₱2,061,712
Meetings and seminars	**1,079,909**	526,098
Technical and professional fees	**453,360**	556,381
Transportation and travel	**449,858**	908,722
Depreciation and amortization (Notes 9 and 10)	**355,226**	150,404
Membership dues	**272,330**	85,750
Social and community service expense	**264,662**	–
Rent (Note 18)	**240,000**	240,000
Taxes and licenses	**66,510**	57,090
Light and water	**58,488**	51,632
Supplies	**47,833**	40,047
Provision for probable losses	**–**	2,330,482
Miscellaneous	**318,219**	220,402
	₱5,850,933	₱7,228,720

18. **Significant Agreements**

Operating Leases - Association as Lessee

In 2014, the Association entered into an operating lease agreement for its office space for a period of seventeen (17) months commencing on August 1, 2014 and ended on December 31, 2015. This was subsequently renewed by the Association on a yearly basis. As of December 31, 2018, the Association renewed the lease agreement for a period of one year commencing on January 1, 2019 to December 31, 2019.

Rent expense pertaining to this lease agreement amounting to ₱240,000 is recorded under "General and Administrative Expenses" in 2018 and 2017 (see Note 17).

19. **Income Taxes**

Provision for income tax consists of final tax from interest income on cash in banks, short term investments and held-to-maturity investments amounting to ₱160,547 and ₱103,975 in 2018 and 2017, respectively (see Note 15).

20. **Related Party Transactions**

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The significant transactions of related parties consist of premium collections made by the branches of KGI on behalf of the Association. Details follow:

	Amount/Volume		Outstanding			
	2018	2017	**2018**	2017	**Terms**	**Conditions**
KGI						
Due from MFI branches	**₱27,111,758**	₱24,340,554	**₱2,220,872**	₱403,049	Noninterest-bearing, payable on demand	Unsecured

21. **Management of Insurance and Financial Risks**

<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 and reinsurance strategies to the corporate goals and specify reporting requirements.

<u>Regulatory 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).

Guaranty fund
As a mutual benefit association, the IC also requires the Association to possess a guaranty fund of ₱5.00 million. 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. As of December 31, 2018 and 2017, the Association has a total guaranty fund of ₱12,961,309 and ₱11,605,721, respectively, representing guaranty fund which is deposited with the IC. The guaranty fund is presented as "Appropriated fund balance" in the statements of financial position.

Risk-based capital requirements (RBC)
On December 8, 2006, the IC issued IMC NO. 11-2006 adopting the RBC framework for the mutual benefit associations to establish the required amounts of capital to be maintained by entities in relation to their investment and insurance risks. Every mutual benefit association is annually required

to maintain a minimum RBC ratio of 100.00% 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 member's 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.

The following table shows how the RBC ratio was determined by the Association based on its calculation:

	2018	2017
Member's equity	**₱25,620,345**	₱16,739,242
RBC requirement	**2,783,457**	2,182,431
RBC Ratio	**920%**	767%

The final amount of the RBC ratio can be determined only after the accounts of the Association have been examined by the IC specifically as to admitted and non-admitted assets as defined under the same Code.

The main risks arising from the Association's financial instruments 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.

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.

Investment return
The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments. An increase in investment return would lead to a reduction in expenditure and an increase in 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 and surrender rates
Lapses relate to the termination of policies due to nonpayment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on Association's experience and vary by product type, policy duration and sales trends.

An increase in lapse rates early in the life of the policy would tend to reduce the funds of the Association, but later increases are broadly neutral in effect.

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.

Sensitivities
The analysis below is performed for a reasonable possible movement in key assumptions with all other assumptions held constant, on the statement of revenue and expenses. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities. It should also be stressed that these assumptions are nonlinear and larger or smaller impacts cannot easily be gleaned from these results. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees.

2018

	Increase of 1.00% on discount rate and decrease of 25.00% on mortality rate	**Decrease of 1.00% on discount rate and increase of 25.00% on mortality rate**
Increase (decrease) on liabilities	**(₱11,628,688)**	**₱11,628,688**
Increase (decrease) on revenue	**11,628,688**	**(11,628,688)**

2017

	Increase of 1.00% on discount rate and decrease of 25.00% on mortality rate	Decrease of 1.00% on discount rate and increase of 25.00% on mortality rate
Increase (decrease) on liabilities	(₱15,254,723)	₱15,254,723
Increase (decrease) on revenue	15,254,723	(15,254,723)

The sensitivity analyses take into account upward movements in the discount rates and upward and downward movements in mortality and morbidity rates. These do not necessarily represent management's view of expected future rate changes.

Financial instruments
The Association's principal financial instruments are cash, short-term investments, loans and receivables, accrued expenses and other liabilities. The main purpose of these financial instruments is to finance their operations.

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities recognized as of December 31, 2018 and 2017:

	2018		2017	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Cash	**₱12,856,573**	**₱12,856,573**	₱22,056,821	₱22,056,821
Short-term investments	**37,395,068**	**39,395,068**	34,005,878	34,005,878
Loans and Receivables:				
Due from MFI branches	**2,220,872**	**2,220,872**	403,049	403,049
Interest receivable	**62,910**	**62,910**	66,757	66,757
Others	**62,945**	**62,945**	–	–
Financial asset at FVPL	**2,000,000**	**2,000,000**	–	–
Held-to-maturity investments	**21,039,438**	**21,039,438**	10,151,249	10,151,249
	₱75,637,806	**₱75,637,806**	₱66,683,754	₱66,683,754

(Forward)

Financial Liabilities				
Other liabilities				
Claims payable	**₱433,015**	**₱433,015**	₱242,910	₱242,910
Accrued expenses and other liabilities*	**205,583**	**205,583**	223,990	223,990
	₱638,598	**₱638,598**	₱466,900	₱466,900

**This excludes payable to government agencies and provisions*

Due to the short-term nature of transactions, the carrying amounts of financial instruments such as cash, short-term investments, loans and receivables, claims payable and accrued expenses and other liabilities approximate their fair values.

Financial Risks

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.

These risks arise from open positions in interest rate, currency and debt securities products, all of which are exposed to general and specific market movements.

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 non-payment 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. Reinsurance is placed with highly rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and update the reinsurance purchase strategy, ascertaining suitable allowance for impairment.
c. The Association sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long term credit ratings.

The table below shows the maximum exposure to credit risk for the components of the statements of financial position.

	2018	2017
Financial Assets		
Cash (excluding cash on hand)	**₱4,846,573**	₱22,046,821
Short-term investments	**37,395,068**	34,005,878
Loans and receivables		
Due from MFI branches	**2,220,872**	403,049
Interest receivable	**62,910**	66,757
Others	**62,945**	–
Financial asset at FVPL	**2,000,000**	–
Held-to-maturity investments	**21,039,438**	10,151,249
	₱67,627,806	₱66,673,754

The table below provides information regarding the credit risk exposure of the Association by classifying assets according to the Association's credit ratings of counterparties as of December 31, 2018 and 2017.

2018

	Neither Past-Due nor Impaired			
	Investment Grade	**Non-investment Grade**	**Past Due and Impaired**	**Total**
Financial Assets				
Cash	**₱12,856,573**	**₱–**	**₱–**	**₱12,856,573**
Short-term investments	**37,395,068**	**–**	**–**	**37,395,068**
Loans and receivables				
Due from MFI branches	**2,220,872**	**–**	**–**	**2,220,872**
Interest receivable	**62,910**	**–**	**–**	**62,910**
Others	**62,945**	**–**	**–**	**62,945**
Financial asset at FVPL	**2,000,000**	**–**	**–**	**2,000,000**
Held-to-maturity investments	**21,039,438**	**–**	**–**	**21,039,438**
	₱75,637,806	**₱–**	**₱–**	**₱75,637,806**

2017

	Neither Past-Due nor Impaired			
	Investment Grade	Non-investment Grade	Past Due and Impaired	Total
Financial Assets				
Cash	₱22,056,821	₱–	₱–	₱22,056,821
Short-term investments	34,005,878	–	–	34,005,878
Loans and receivables				
Due from MFI branches	403,049	–	–	403,049
Interest receivable	66,757	–	–	66,757
Held-to-maturity investments	10,151,249	–	–	10,151,249
	₱66,683,754	₱–	₱–	₱66,683,754

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

Investment grade financial assets are assets which have strong capacity to meet the Association's financial commitments and are unsusceptible to adverse effects of changes in economic conditions.

Non-investment grade financial assets are assets which are vulnerable to impairment due to the assets' significant speculative characteristics. Adverse economic conditions will likely impair non-investment grade financial assets.

The Association trades only with members who are also members of the related parties. The receivables represent mostly collections of the related parties pertaining to contributions for premiums for life insurance, loan redemption assistance and provident fund unremitted to the Association. Receivables are generally on a 1-30 days terms and are all current. All receivables are neither past due nor impaired.

The Association conducts periodic review of allowance for credit losses each financial year through examining the financial position of the related party and the market in which the related party operates.

Liquidity risk
This risk 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's liquidity risk policy sets out the assessment and determination of 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 following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one (1) year and beyond one (1) year from reporting date:

2018

	Up to one year	**1-3 years**	**3-5 years**	**Over 5 years**	**No term**	**Total**
Financial assets						
Cash	**₱12,856,573**	**₱–**	**₱–**	**₱–**	**₱–**	**₱12,856,573**
Short-term investments	**37,395,068**	**–**	**–**	**–**	**–**	**37,395,068**
Loans and receivables						
Due from MFI branches	**2,220,872**	**–**	**–**	**–**	**–**	**2,220,872**
Interest receivable	**62,910**	**–**	**–**	**–**	**–**	**62,910**
Others	**62,945**	**–**	**–**	**–**	**–**	**62,945**
Financial asset at FVPL	**2,000,000**	**–**	**–**	**–**	**–**	**2,000,000**
Held-to-maturity investments	**21,039,438**	**–**	**–**	**–**	**–**	**21,039,438**
	₱75,637,806	**₱–**	**₱–**	**₱–**	**₱–**	**₱75,637,806**
Financial liabilities						
Other financial liabilities						
Claims payable	**₱433,015**	**₱–**	**₱–**	**₱–**	**₱–**	**₱433,015**
Accrued expenses	**128,408**	**–**	**–**	**–**	**–**	**128,408**
	₱561,423	**₱–**	**₱–**	**₱–**	**₱–**	**₱561,423**

2017

	Up to one year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets						
Cash	₱22,056,821	₱–	₱–	₱–	₱–	₱22,056,821
Short-term investments	34,005,878	–	–	–	–	34,005,878
Loans and receivables						
Due from MFI branches	403,409	–	–	–	–	403,409
Interest receivable	66,757	–	–	–	–	66,757
Held-to-maturity investments	10,151,249	–	–	–	–	10,151,249
	₱66,684,114	₱–	₱–	₱–	₱–	₱66,684,114
Financial liabilities						
Other financial liabilities						
Claims payable	₱242,910	₱–	₱–	₱–	₱–	₱242,910
Accrued expenses	223,990	–	–	–	–	223,990
	₱466,900	₱–	₱–	₱–	₱–	₱466,900

22. Commitment and Contingencies

As of December 31, 2018 and 2017, there were no commitments, guarantees and contingent liabilities that arose in the normal course of the Association's operations which are not reflected in the Association's financial statements.

23. Note to Statements of Cash flows

In 2017, the noncash investing activity pertains to the acquisition of an intangible asset amounting to ₱660,000. The amount was previously lodged under ‘Advances to MIMAP’ and was subsequently reclassified to ‘Intangible asset’ as the related services were delivered.

24. Supplementary Tax Information Required Under Revenue Regulations 15-2010

The Association reported and/or paid the following types of taxes in 2018:

Value Added Tax (VAT)
As a nonstock, not-for-profit and 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 of 1997 as amended by Republic Act 8424 known as the Comprehensive Tax Reform Program by the Bureau of Internal Revenue (Note 1).

a. Net Sales/Receipts and Output VAT

   The Association is exempt from VAT.

b. Details of Input VAT follow:

   The Association is exempt from VAT.

Information on the Association’s importations
The Association does not undertake importation activities.

Taxes and Licenses
This includes all other taxes, local and national, including real estate taxes, license and permit fees lodged under the caption ‘Taxes and Licenses’ under the ‘General and Administrative Expenses’ section in the Association’s statements of income.

Details consist of the following:

Local tax	
Notary fees	₱4,190
License and permit fees	12,830
	17,020
National tax	
Filing fees	20,200
License fees	25,250
Others	4,040
	49,490
	₱66,510

Withholding Taxes
Details consist of the following:

Withholding taxes on compensation and benefits	₱5,100
Expanded withholding taxes	12,000
	₱17,100

Tax Assessments and Cases
The Association has not been involved in any tax case under preliminary investigation, litigation and/or prosecution in courts or bodies outside the Bureau of Internal Revenue.