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

Financial Statements
December 31, 2019 and 2018

and

Independent Auditor's Report

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

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
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, 2019 and 2018, 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, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on the Supplementary Information Required Under Revenue Regulations 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.

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PTR No. 8125286, January 7, 2020, Makati City

June 23, 2020

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

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Cash (Notes 6 and 21)	**₱32,676,253**	₱12,856,573
Short-term investments (Notes 7 and 21)	**29,381,661**	37,395,068
Financial assets (Notes 8, 19 and 21)		
Held-to-maturity investments	**10,735,944**	21,039,438
Financial asset at fair value through profit or loss	**5,162,145**	2,000,000
Loans and receivables	**2,123,870**	2,346,727
Property and equipment - net (Note 9)	**118,151**	78,780
Intangible assets - net (Note 10)	**222,222**	488,889
Prepayments and other assets (Note 11)	**436,981**	410,363
Total Assets	**₱80,857,227**	₱76,615,838
LIABILITIES AND FUND BALANCE		
Liabilities		
Insurance contract liabilities (Note 12)	**₱42,239,705**	₱41,279,967
Accrued expenses and other liabilities (Notes 13 and 21)	**5,565,480**	10,348,933
Total Liabilities	**47,805,185**	51,628,900
Fund Balance		
Appropriated fund balance (Note 21)	**14,342,927**	12,961,309
Unappropriated fund balance	**18,709,115**	12,025,629
Total Fund Balance	**33,052,042**	24,986,938
	₱80,857,227	₱76,615,838

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	
	2019	2018
REVENUE		
Gross premiums on insurance contracts (Note 14)	**₱24,428,852**	₱27,111,758
Investment and other income (Note 15)	**2,009,583**	802,735
Miscellaneous income (Note 16)	**5,105,124**	3,882,499
	31,543,559	31,796,922
BENEFITS, CLAIMS, AND EXPENSES (Note 12)		
Gross insurance contract benefits and claims paid	**13,938,185**	12,297,988
Gross change in insurance contract liabilities	**959,738**	4,439,307
Collection fees	**1,195,432**	1,160,128
Insurance benefits and claims	**16,093,355**	17,897,423
GENERAL AND ADMINISTRATIVE EXPENSES (Note 17)	**6,119,032**	5,850,933
	22,212,387	23,748,356
EXCESS OF REVENUE BEFORE PROVISION FOR FINAL TAX	**9,331,172**	8,048,636
PROVISION FOR FINAL TAX	**(321,988)**	(160,547)
EXCESS OF REVENUE OVER EXPENSES	**9,009,184**	7,888,089
OTHER COMPREHENSIVE INCOME	**-**	-
EXCESS OF REVENUE OVER EXPENSES	**₱9,009,184**	₱7,888,089

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, 2019	**₱12,961,309**	**₱12,025,629**	**₱24,986,938**
Excess of revenue over expenses	**–**	**9,009,184**	**9,009,184**
Appropriation during the year	**2,325,698**	**(2,325,698)**	**–**
Distribution to members	**(944,080)**	**–**	**(944,080)**
At December 31, 2019	**₱14,342,927**	**₱18,709,115**	**₱33,052,042**
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

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	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses before provision for final tax	**₱9,331,172**	₱8,048,636
Adjustments for:		
Reversal of provision for probable losses (Note 16)	**(5,099,945)**	(3,876,459)
Depreciation and amortization (Notes 9, 10 and 17)	**356,796**	355,226
Interest income (Note 15)	**(1,847,438)**	(802,735)
Fair value gain on financial assets through profit or loss (Note 15)	**(162,145)**	–
Cash generated from operations before changes in working capital	**2,578,440**	3,724,668
Increase (Decrease) in:		
Loans and receivables	**201,319**	(2,178,271)
Prepayments and other assets	**(26,619)**	(103,936)
Increase (decrease) in:		
Insurance contract liabilities	**959,738**	4,685,396
Accrued expenses and other liabilities	**316,493**	23,848
Distribution to members (Note 21)	**(944,080)**	–
Net cash generated from operations	**3,085,291**	6,151,705
Final taxes paid	**(321,988)**	(160,547)
Net cash flows provided by operating activities	**2,763,303**	5,991,158
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**1,551,032**	806,581
Acquisitions of:		
Property and equipment (Note 9)	**(129,500)**	(18,112)
Held-to-maturity investments (Note 8)	**(10,418,000)**	(20,741,934)
Short-term investments (Note 7)	**(6,348,299)**	(3,529,728)
Financial asset at FVPL (Note 8)	**(3,000,000)**	(2,000,000)
Maturities of:		
Short-term investments (Note 7)	**14,361,706**	140,538
Held-to-maturity investments (Note 8)	**21,039,438**	10,151,249
Net cash flows provided by (used in) investing activities	**17,056,377**	(15,191,406)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**19,819,680**	(9,200,248)
CASH AT THE BEGINNING OF THE YEAR	**12,856,573**	22,056,821
CASH AT THE END OF THE YEAR (Note 6)	**₱32,676,253**	₱12,856,573

See accompanying Notes to Financial Statements.

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, 2019, 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, which is valid until December 31, 2021.

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 June 23, 2020.

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, 2019. Adoption of these pronouncements did not have any significant impact on the Association's financial position or performance unless otherwise indicated.

- PFRS 16, *Leases*

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

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Association is the lessor.

  The adoption of PFRS 16 has no significant impact on the Association's financial statement since the management applies the short-term lease recognition exemption to its short-term lease of office space (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term lease is recognized as expense on a straight-line basis over the lease term.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  The Association is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Association applied significant judgement in identifying uncertainties over income tax treatments.

  Upon adoption of the Interpretation, the Association considered whether it has uncertain tax positions.

The Association determined based on its assessment, that it is probable that its tax treatment will be accepted by the taxation authorities. The interpretation did not have an impact on the financial statements of the Association.

- 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*
- *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*

Standards Issued but Not Yet Adopted
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 consolidated financial statements. The Association intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2020

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

Effective beginning on or after January 1, 2021

- 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 reinsurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

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

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

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

The Association expects that the new standard will result in significant changes to accounting policies for insurance contract liabilities and is likely to have a significant impact on profit and total equity together with presentation and disclosure. The Association plans to adopt the new standard on the required effective date.

Deferred effectivity

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

Accounting Standard Effective but not yet Adopted

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

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information 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, 2019 and 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).

	2019			
	SPPI financial assets		**Other financial assets**	
	Fair value	**Fair value change**	**Fair value**	**Fair value change**
Cash and cash equivalents	**₱32,676,253**	**₱–**	**₱–**	**₱–**
Short-term investments	**29,381,661**	**–**	**–**	**–**
Held-to-maturity investments	**10,735,944**	**–**	**–**	**–**
Financial asset at fair value through profit or loss	**–**	**–**	**5,162,145**	**–**
Loans and receivables	**2,123,870**	**–**	**–**	**–**
	₱74,917,728	**₱–**	**₱5,162,145**	**₱–**

	2018			
	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	–	–	–
	₱73,637,806	₱–	₱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.

			2019			
			Credit Rating			
	Total	**AAA**	**AA/A**	**BBB**	**BB/B**	**Unrated**
Cash and cash equivalents	**₱32,676,253**	**₱32,676,253**	**₱–**	**₱–**	**₱–**	**₱–**
Short-term investments	**29,381,661**	**29,381,661**	**–**	**–**	**–**	**–**
Held-to-maturity investments	**10,735,944**	**10,735,944**	**–**	**–**	**–**	**–**
Loans and receivables	**2,123,870**	**2,123,870**	**–**	**–**	**–**	**–**
	₱74,917,728	**₱74,917,728**	**₱–**	**₱–**	**₱–**	**₱–**

	2018 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	–	–	–	–
	₱73,637,806	**₱73,637,806**	**₱–**	**₱–**	**₱–**	**₱–**

Financial assets that passed the SPPI test have low credit risk as of December 31, 2019.

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 marketplace 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, 2019 and 2018, 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, 2019, 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, 2019, the Association'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 association 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, 2019 and 2018, 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.

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

- the right to receive cash flows from the asset 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 of the Association.

Revenue Recognition
Revenue is recognized when the significant risks and rewards of ownership have been transferred or the services have been rendered to the customer, the amount of revenue can be measured reliably, and it is probable that the economic benefits will flow to the Association. Revenue is measured at the fair value of the consideration received, or receivable.

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 accrued using the effective interest rate (EIR) method.

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 Association accumulates and maintains, out of the periodic member's contribution and premiums collected as equity value reserves of 50% of the total member's contributions collected thereon. Valuation standards for life insurance policy reserves, requiring all life insurance companies to calculate the reserves for traditional life insurance policies with a term of one year or less using unearned premium method.

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

Short-term leases and leases of low-value assets – policies applicable beginning January 1, 2019
The Association applies recognition exemption to lease payments on short-term lease of office space (i.e. lease term ends within 12 months). Lease payments on short-term leases assets are recognized as expense on a straight-line basis over the lease term.

Operating Lease – policies applicable prior to January 1, 2019
Lease in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating lease. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

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.

<u>Judgment</u>

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 ₱10,735,944 and ₱21,039,438 as of December 31, 2019 and 2018, respectively (see Note 8).

Leases
Beginning January 1, 2019
The Association did not apply PFRS 16 since it has entered into a short-term lease agreement for its head office. The renewal option for the existing lease is not included as part of the lease term because the renewal is subject to mutual agreement of both the lessor and the Association.

Prior to January 1, 2019
Operating lease – Association as lessee
The Association has entered into lease agreements related to its head office. Based on an evaluation of the terms and conditions of the lease agreements, there will be no transfer of ownership of assets to the Association at the end of the lease term. The lessors retain all significant risks and rewards of ownership of these properties and so the Association accounts for the agreements as operating leases.

<u>Estimates</u>

Estimation of member's equity value
The Association is required to put up a reserve liability not lower than the equity value of all in-force, active member certificates as at the end of each calendar year. Hence, the Association sets up the 50% of its gross premium collection as its reserves for member's equity.

Estimation of incurred but not reported claims
Incurred but not reported claims is the sum of individual claims on membership certificates that have already occurred but notice has not been received by the Association before reporting date. The Association computes the IBNR claims by getting the average number of days to settle the claim multiplied by the average actual claims paid during year.

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 each year. This is based on mortality, disability and morbidity rate assumptions.

As of December 31, 2019 and 2018, the Association's basic contingent benefit reserves amounted to ₱172,772 and ₱200,261, respectively (see Note 12).

Estimation of credit life insurance reserves
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, 2019 and 2018, the Association's credit life insurance reserves amounted to ₱267,046 and ₱261,838 (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 2019 and 2018, no impairment loss has been recognized for the Association's property and equipment and intangible asset. As of December 31, 2019 and 2018, the carrying value of property and equipment amounted to ₱118,151 and ₱78,780 respectively (see Note 9) and ₱222,222 and ₱488,889 for intangible asset in 2019 and 2018, respectively (see Note 10).

6. Cash

This account consists:

	2019	2018
Cash on hand	**₱13,901**	₱8,010,000
Cash in banks	**32,662,352**	4,846,573
	₱32,676,253	₱12,856,573

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 0.25% to 3.88% in 2019 and from 0.25% to 5.5% in 2018. Interest income earned from cash in banks amounted to ₱63,347 and ₱34,101 in 2019 and 2018, respectively (see Note 15).

7. Short-term Investments

The rollforward analysis of short-term investments follows:

	2019	2018
At January 1	**₱37,395,068**	₱34,005,878
Availments	**6,348,299**	3,529,728
Maturities	**(14,361,706)**	(140,538)
At December 31	**₱29,381,661**	₱37,395,068

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 1.125% to 0.875% in 2019 and 0.75% in 2018. Interest income earned from these investments amounted to ₱345,835 and ₱356,677 in 2019 and in 2018, respectively (see Note 15).

8. Financial assets

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

	2019	2018
Held-to-maturity investments	**₱10,735,944**	₱21,039,438
Financial asset at FVPL	**5,162,145**	2,000,000
Loans and receivables – net	**2,123,870**	2,346,727
	₱18,021,959	₱25,386,165

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

a) Held-to-maturity (HTM) investments

This consists of government securities amounting ₱10,735,944 and ₱21,039,438 as at December 31, 2019 and 2018, respectively, which earned interest at a nominal rate of 3.467% for 2019 and 3.00% to 5.62% for 2018.

The amortized costs of HTM investments follow:

	2019	2018
Face value	**₱10,903,000**	₱21,439,000
Discount	**(485,000)**	(697,066)
Carrying value	**10,418,000**	20,741,934
Amortization of discount	**317,944**	297,504
At December 31	**₱10,735,944**	₱21,039,438

The rollforward analysis of HTM investments follows:

	2019	2018
At January 1	**₱21,039,438**	₱10,151,249
Acquisitions	**10,418,000**	20,741,934
Maturities	**(21,039,438)**	(10,151,249)
Amortization of discount	**317,944**	297,504
At December 31	**₱10,735,944**	₱21,039,438

Interest earned from HTM investments amounted to ₱1,200,756 and ₱411,957 in 2019 and 2018, respectively (see Note 15).

b) *Financial asset at FVPL*

On August 13, 2018, the Association entered into a Participating Trust Agreement with Bank of the Philippine Islands (BPI) as investment manager of Bayanihan balanced fund.

The Bayanihan balanced fund is a balanced Unit Investment Trust Fund (UITF) with 5% to 20% equities exposure that intends to achieve long term capital growth derived from a diversified portfolio of equity and fixed income securities.

The rollforward analysis of FVPL investments follows:

	2019	2018
At January 1	**₱2,000,000**	₱–
Acquisitions	**3,000,000**	2,000,000
Fair value gain (Note 15)	**162,145**	–
At December 31	**₱5,162,145**	₱2,000,000

c) *Loans and receivables*

This account consists of:

	2019	2018
Due from microfinance institution (MFI) branches (Note 20)	**₱2,026,403**	₱2,220,872
Interest receivable	**41,372**	62,910
Others	**56,095**	62,945
	₱2,123,870	₱2,346,727

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.

On June 28, 2019, the Association and Kazama Grameen Microfinance Inc. (KGMI) entered into a bridge loan agreement amounting to ₱9,500,000 with interest of 5% per annum. On December 27, 2019, the Association received the payment in full amounting to ₱9,737,500, including interest income of ₱237,500.

Other receivables include advances to officers and employees. These are collected through payroll deductions or through expense liquidations.

9. Property and Equipment – net

The rollforward analyses of property and equipment follow:

	2019		
	Office Equipment	**Office Furniture and Fixtures**	**Total**
Cost			
At January 1	**₱1,500,936**	**₱196,772**	**₱1,705,791**
Additions	**129,500**	**–**	**129,500**
At December 31	**1,638,519**	**195,772**	**1,768,624**
Accumulated Depreciation			
At January 1	**1,464,008**	**163,003**	**1,627,011**
Depreciation (Note 17)	**74,032**	**16,098**	**90,129**
At December 31	**1,538,040**	**179,101**	**1,650,474**
Net Book Value	**₱100,479**	**₱17,671**	**₱118,151**

	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

Cost of fully depreciated assets still in use amounted to ₱1,570,245 and ₱1,490,591 as of December 31, 2019 and 2018, respectively.

10. Intangible Asset – net

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

The rollforward analysis of intangible asset follow:

	December	
	2019	2018
Cost		
At January 1 and December 31	**₱800,000**	₱800,000
Accumulated Depreciation		
At January 1	**311,111**	44,444
Amortization (Note 17)	**266,667**	266,667
At December 31	**577,778**	311,111
Net Book Value	**₱222,222**	₱488,889

11. **Prepayments and Other Assets**

This account consists of:

	2019	2018
Guaranty fund	**₱296,615**	₱222,663
Prepaid expenses	**72,720**	90,900
Supplies inventory	**67,646**	96,800
	₱436,981	₱410,363

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:

	2019	2018
Liability on individual equity value	**₱41,505,348**	₱40,384,853
Claims payable	**294,539**	433,015
Credit life insurance reserves	**267,046**	261,838
Basic contingent benefit reserves	**172,772**	200,261
	₱42,239,705	₱41,279,967

The rollforward analysis of liability on individual equity value follows:

	2019	2018
At January 1	**₱40,384,853**	₱36,144,091
Additions:		
50% of gross premiums on insurance contracts	**11,163,431**	12,770,400
Interest	**123,424**	114,173
Return of equity value	**(10,166,360)**	(8,643,811)
At December 31	**₱41,505,348**	₱40,384,853

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:

	2019	2018
Claims incurred but not yet reported (IBNR)	**₱166,339**	₱145,415
Claims resisted	**79,300**	127,700
Claims in course of settlement	**37,400**	34,900
Claims due and unpaid	**11,500**	125,000
At December 31	**₱294,539**	₱433,015

The rollforward analysis of claims payable follows:

	2019	2018
At January 1	**₱433,015**	₱242,910
Arising during the year	**3,612,425**	3,819,177
Claims paid	**(3,771,825)**	(3,654,177)
Change in IBNR	**20,924**	25,105
At December 31	**₱294,539**	₱433,015

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 2019 and 2018 amounted to ₱987,267 and ₱1,144,350, respectively. The increase (decrease) in basic contingent benefit reserves charged against profit or loss amounted to (₱27,490) and ₱29,153 in 2019 and 2018, 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 ₱166,482,000 and ₱189,609,400 as of December 31, 2019 and 2018. The increase in credit life insurance reserves in the profit or loss amounted to ₱5,208 and ₱225,376 in 2019 and 2018, respectively.

Collection fees are those fees charged to the Association by KGI in exchange for collecting contributions from members. This is 3% of gross basic life insurance premiums and 25% of credit life insurance gross premiums. As of December 31, 2019 and 2018, collection fees amounted to ₱1,195,432 and ₱1,160,128, respectively.

13. **Accrued Expenses and Other Liabilities**

This account consists of:

	2019	2018
Accrued expenses and provisions	**₱5,078,109**	₱10,161,465
Payable to government agencies	**405,895**	110,293
Life insurance deposits	**81,476**	77,175
	₱5,565,480	₱10,348,933

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 single payment and the length of coverage is based on the term of the loan.

Gross premiums for Basic life and Credit life insurance amounted to a total of ₱24,428,852 and ₱27,111,758 in 2019 and 2018, respectively. Breakdown follows:

	2019	2018
Basic life insurance premiums (BLIP)	**₱22,326,863**	₱25,540,800
Credit life insurance premiums (CLIP)	**2,101,989**	1,570,958
	₱24,428,852	₱27,111,758

15. Investment and other income – net

This account consists of:

	2019	2018
Fair value gain on financial assets at FVPL (Note 7)	**₱162,145**	₱–
Interest income from:		
Cash in banks (Note 6)	**63,347**	34,101
Short-term investments (Note 7)	**345,835**	356,677
Held-to-maturity investments (Note 8)	**1,200,756**	411,957
Loans and receivables (Note 8)	**237,500**	–
	₱2,009,583	₱802,735

16. Miscellaneous income

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

The Association reversed provision for probable losses amounting to ₱5.10 million in 2019 and ₱3.88 million in 2018. These pertain to provisions for prior years that the Association believes are no longer valid.

17. General and Administrative Expenses

This account consists of:

	2019	2018
Salaries and allowances	**₱2,662,256**	₱2,244,538
Meetings and seminars	**1,186,961**	1,079,909
Transportation and travel	**498,774**	449,858
Technical and professional fees	**451,815**	453,360
Depreciation and amortization (Notes 9 and 10)	**356,796**	355,226
Membership dues	**347,371**	272,330
Rent (Note 18)	**240,000**	240,000
Taxes and licenses	**86,035**	66,510
Social and community service expense	**74,712**	264,662
Light and water	**53,587**	58,488
Supplies	**20,090**	47,833
Miscellaneous	**140,635**	318,219
	₱6,119,032	₱5,850,933

18. Significant Agreements

<u>Association as Lessee</u>
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, 2019, the Association renewed the lease agreement for a period of one year commencing on January 1, 2020 to December 31, 2020.

Rent expense pertaining to this lease agreement amounting to ₱240,000 is recorded under "General and Administrative Expenses" in 2019 and 2018 (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 ₱321,988 and ₱160,547 in 2019 and 2018, 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 Microfinance Institution branches of KGI on behalf of the Association and bridge loan contract with Kazama Grameen Microfinance Inc. Details follow:

	Year	Amount/ Volume	Due from/to Related Parties	Terms	Conditions
Due from MFI branches	**2019**	**₱24,428,852**	**₱2,026,403**	**Non-interest bearing, payable on demand**	**Unsecured**
	2018	**27,111,758**	**2,220,872**	**Non-interest bearing, payable on demand**	**Unsecured**
Due from KGMI	**2019**	**₱9,500,000**	**–**	**Interest bearing, payable on demand**	**Unsecured**
	2018	**–**	**–**	**–**	**–**
Collection fee due to MFI Branches	**2019**	**₱1,195,432**	**–**	**–**	**–**
	2018	**–**	**–**	**–**	**–**

21. Management of Insurance and Financial Risks

Governance Framework

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

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

Regulatory Framework

Regulators are interested in protecting the rights of the members and maintain close vigil to ensure that the Association is satisfactorily managing affairs for the 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. The Association appropriated a guaranty fund amounting to ₱1,221,443 and ₱1,3,55,588 during 2019 and 2018, respectively.

As of December 31, 2019 and 2018, the Association has a total guaranty fund of ₱14,182,752 and ₱ 12,961,309, 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.

Distribution to Members
Per IC Circular Letter 2015-46, a mutual benefit association shall only maintain free and unassigned fund balance of not more than twenty percent (20%) of its total liabilities as verified by the IC. In September 2019, the Association appropriated ₱1,104,255 in 2019 and nil in 2018, which represents excess of required maintaining balance of free and unassigned fund balance from its 2018 balances.

The Association distributed dividends to members amounting to ₱900,000 and ₱44,080 in October and November 2019, respectively. The balance of appropriated fund balance for allocation to members amounted to ₱160,175 and nil as at December 31, 2019 and 2018, respectively.

Risk-based capital requirements (RBC2)
In 2016, the IC issued Circular Letter No. 2016-68, Amended Risk-Based Capital (RBC2) Framework, pursuant to Section 437 of the Amended Insurance Code. The RBC ratio shall be calculated as Total Available Capital (TAC) divided by the RBC requirement. TAC is the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits and determinations. Tier 1 Capital represents capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis (e.g. Capital Stock, Statutory Deposit, Capital Stock Subscribed, Contributed Surplus, etc.). Tier 2 Capital does not have the same high-quality characteristics of Tier 1 capital, but can provide an additional buffer to the insurer [e.g. Reserve for Appraisal Increment – Property and Equipment, Remeasurement Gains (Losses) on Retirement Pension Asset (Obligation), etc.]. Tier 2 Capital shall not exceed 50% of Tier 1 Capital.

The minimum RBC ratio is set at 100%. All insurance companies are required to maintain the minimum RBC ratio and not fail the Trend Test.

IC Circular Letter No. 2016-69, Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-Based Capital (RBC2) Framework, provides that the level of sufficiency for the RBC2 Framework shall be at 95% level in 2017, 97.50% in 2018 and 99.50% in 2019.

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

	2019	2018
Member's equity	**₱32,900,103**	₱25,620,345
RBC requirement	**1,003,413**	2,783,457
RBC Ratio	**1721%**	920%

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.

2019

	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) in liabilities	**₱15,517,380**	**(₱15,517,380)**
Increase (decrease) in revenue	**(15,517,380)**	**15,517,380**

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) in liabilities	(₱11,628,688)	₱11,628,688
Increase (decrease) in revenue	11,628,688	(11,628,688)

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, 2019 and 2018:

	2019		2018	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Cash	**₱32,676,253**	**₱32,676,253**	₱12,856,573	₱12,856,573
Short-term investments	**29,381,661**	**29,381,661**	37,395,068	37,395,068
Loans and Receivables:				
Due from MFI branches	**2,026,403**	**2,026,403**	2,220,872	2,220,872
Interest receivable	**41,372**	**41,372**	62,910	62,910
Others	**56,094**	**56,094**	62,945	62,945
Financial asset at FVPL	**5,162,145**	**5,162,145**	2,000,000	2,000,000
Held-to-maturity investments	**10,735,944**	**10,735,944**	21,039,438	21,039,438
	₱80,079,872	**₱80,079,872**	₱75,637,806	₱75,637,806
Financial Liabilities				
Other liabilities				
Claims payable	**₱294,539**	**₱294,539**	₱433,015	₱433,015
Accrued expenses and other liabilities*	**466,221**	**466,221**	205,583	205,583
	₱760,760	**₱760,760**	₱638,598	₱638,598

**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.

	2019	2018
Financial Assets		
Cash (excluding cash on hand)	**₱32,662,352,253**	₱4,846,573
Short-term investments	**29,381,661**	37,395,068
Loans and receivables		
Due from MFI branches	**2,026,403**	2,220,872
Interest receivable	**41,372**	62,910
Others	**56,094**	62,945
Financial asset at FVPL	**5,162,145**	2,000,000
Held-to-maturity investments	**10,735,944**	21,039,438
	₱80,065,971	₱67,627,806

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, 2019 and 2018.

2019

	Neither Past-Due nor Impaired			
	Investment Grade	**Non-investment Grade**	**Past Due and Impaired**	**Total**
Financial Assets				
Cash	**₱32,662,352**	**₱–**	**₱–**	**₱32,662,352**
Short-term investments	**29,381,661**	–	–	**29,381,661**
Loans and receivables				
Due from MFI branches	**2,026,403**	–	–	**2,026,403**
Interest receivable	**41,372**	–	–	**41,372**
Others	**56,094**	–	–	**56,094**
Financial asset at FVPL	**5,162,145**	–	–	**5,162,145**
Held-to-maturity investments	**10,735,944**	–	–	**10,735,944**
	₱80,065,971	**₱–**	**₱–**	**₱80,065,971**

2018

	Neither Past-Due nor Impaired			
	Investment Grade	Non-investment Grade	Past Due and Impaired	Total
Financial Assets				
Cash	₱4,846,573	₱–	₱–	₱4,846,573
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
	₱67,627,806	₱–	₱–	₱67,627,806

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:

2019

	Up to one year	**1-3 years**	**3-5 years**	**Over 5 years**	**No term**	**Total**
Financial assets						
Cash	**₱32,676,253**	**₱–**	**₱–**	**₱–**	**₱–**	**₱32,676,253**
Short-term investments	**29,381,661**	–	–	–	–	**29,381,661**
Loans and receivables						
Due from MFI branches	**2,026,403**	–	–	–	–	**2,026,403**
Interest receivable	**41,372**	–	–	–	–	**41,372**
Others	**56,094**	–	–	–	–	**56,094**
Financial asset at FVPL	–	–	–	–	**5,162,145**	**5,162,145**
Held-to-maturity investments	**10,735,944**	–	–	–	–	**10,735,944**
	₱74,917,772	**₱–**	**₱–**	**₱–**	**₱5,162,145**	**₱80,079,872**
Financial liabilities						
Other financial liabilities						
Claims payable	**₱294.539**	**₱–**	**₱–**	**₱–**	**₱–**	**₱294.539**
Accrued expenses	**466,221**	–	–	–	–	**466,221**
	₱760,760	**₱–**	**₱–**	**₱–**	**₱–**	**₱760,760**

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

22. Commitment and Contingencies

As of December 31, 2019 and 2018, 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. Supplementary Tax Information Required Under Revenue Regulations 15-2010

The Association reported and/or paid the following types of taxes in 2019:

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	₱6,220
License and permit fees	10,110
	16,330
National tax	
Filing fees	50,025
License fees	18,180
Others	1,500
	69,705
	₱86,035

Withholding Taxes
Details consist of the following:

Withholding taxes on compensation and benefits	₱5,033
Expanded withholding taxes	12,000
	₱17,033

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.

24. Events After the End of the Reporting Period

COVID-19 outbreak
In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of

six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020, unless earlier lifted or extended.

On April 7, 2020 a Memorandum from the Office of the Executive Secretary was released, extending the enhanced community quarantine throughput the island of Luzon until April 30, 2020. On April 29, 2020, Executive Order No. 112 was issued, imposing an enhanced community quarantine in high- risk geographic areas of the Philippines and a general community quarantine in the rest of the country until May 15, 2020. This was extended further with some modifications until May 30, 2020. These measures have caused disruption to businesses and economic activities, and its impact on business continue to evolve.

The Association considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Association cannot determine at this time the impact to its financial position, performance and cash flows. The Association will continue to monitor the situation.