2019
FINANCIAL
STATEMENT

AFPMBAI
Buhay na Panatag.

2019 Financial Statement

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

BOA/PRC Accreditation No. 4782
October 4, 2018, valid until August 15, 2021
SEC Accreditation No. 0207-FR-3 (Group A)
August 29, 2019, valid until August 28, 2022

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees and Members
Armed Forces and Mutual Benefit Association, Incorporated (AFPMBAI)
AFPMBAI Building, Col Bonny Serrano Road corner Epifanio Delos Santos Avenue
Quezon City

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the accompanying separate financial statements of Armed Forces and Police Mutual Benefit Association, Incorporated (AFPMBAI) (the Association), which comprise the separate statement of financial position as at December 31, 2019, and the separate statement of comprehensive income, separate statement of changes in fund balance, and separate statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements present fairly, in all materials respects, the financial position of the Association as at December 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate 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 separate 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.

Other Matter

The separate financial statements of the Association as at and for the year ended December 31, 2018 were audited by another auditor, whose report dated April 11, 2019, expressed an unmodified opinion on those separate financial statements. The opinion of such auditor, however, does not include the restatement adjustments disclosed in Note 9 to the separate financial statements.

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

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

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

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

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

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

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

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

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

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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 audits.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue

Our audit was conducted for the purpose of forming an opinion on the basic separate financial statements taken as a whole. The supplementary information on taxes and licenses in Note 29 to the separate 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 the Association. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

REYES TACANDONG & CO.

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BIR Accreditation No. 08-005144-013-2020
Valid until January 1, 2023
PTR No. 8116481
Issued January 6, 2020, Makati City

June 10, 2020
Makati City, Metro Manila

ARMED FORCES AND POLICE MUTUAL BENEFIT ASSOCIATION, INCORPORATED (AFPMBAI)

SEPARATE STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019
(With Comparative Figures for 2018 and 2017)

	Note	December 31, 2019	December 31, 2018 (As Restated - Note 9)	January 1, 2018 (As Restated - Note 9)
ASSETS				
Cash and cash equivalents	4	**₱756,788,410**	₱1,494,589,309	₱1,421,581,114
Short-term investments	4	**2,252,598,556**	2,047,878,268	2,424,895,038
Loans receivables	5	**9,591,145,737**	9,516,483,082	8,502,282,915
Financial assets:	6			
Held-to-maturity (HTM) investments		**7,347,135,107**	4,400,369,567	2,599,679,021
Available-for-sale (AFS) financial assets		**2,181,712,447**	2,088,501,205	2,186,919,914
At fair value through profit or loss (FVPL)		**38,815,745**	23,447,846	28,673,297
Premiums receivable from members		**51,903,965**	4,568,647	406,772
Other receivables	7	**432,358,059**	358,630,501	281,464,506
Assets held for sale	8	**99,871,457**	116,051,809	169,098,049
Investment properties	9	**3,475,689,379**	3,271,887,655	3,163,411,940
Investments in a subsidiary and associates	10	**473,265,704**	473,265,704	473,265,704
Property and equipment	11	**247,810,715**	250,047,812	260,568,075
Other assets	12	**57,238,639**	66,618,612	105,215,046
		₱27,006,333,920	₱24,112,340,017	₱21,617,461,391
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued expenses	13	**₱573,953,474**	₱731,305,049	₱630,671,833
Legal policy reserves	14	**12,960,142,426**	11,555,659,658	10,299,678,676
Claims and benefits payable	15	**576,068,022**	499,095,051	462,140,196
Dividends payable	16	**383,513,751**	487,413,193	418,807,064
Reserve for members' refund	17	**3,028,501,444**	2,519,888,185	2,119,845,716
Net retirement liability	22	**233,540,238**	158,585,302	180,839,601
Deferred tax liability	24	**583,005,463**	546,530,863	529,772,263
Income tax payable		**16,518,462**	–	–
Other liabilities		**301,369,140**	397,884,940	455,671,365
Total Liabilities		**18,656,612,420**	16,896,362,241	15,097,426,714
Fund Balance				
Members' contribution	18	**80,717,163**	84,616,599	87,790,958
Cumulative fair value changes on AFS financial assets	6	**192,922,916**	103,259,108	176,979,228
Cumulative remeasurement reserves on retirement liability	22	**(80,947,815)**	(34,519,224)	(87,810,183)
Accumulated net income:	19			
Assigned		**336,719,289**	194,000,000	551,064,311
Unassigned		**7,820,309,947**	6,868,621,293	5,792,010,363
Total Fund Balance		**8,349,721,500**	7,215,977,776	6,520,034,677
		₱27,006,333,920	₱24,112,340,017	₱21,617,461,391

See Accompanying Notes to Separate Financial Statements.

ARMED FORCES AND POLICE MUTUAL BENEFIT ASSOCIATION, INCORPORATED (AFPMBAI)

SEPARATE STATEMENT OF CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2019
(With Comparative Figures for 2018)

	Note	2019	2018 (As Restated - Note 9
MEMBERS' CONTRIBUTION	18		
Balance at beginning of year		**₱84,616,599**	₱87,790,958
Contributions during the year		**602,903**	743,964
Transfer to reserve for members' refund		**(4,502,339)**	(3,918,323)
Balance at end of year		**80,717,163**	84,616,599
ASSIGNED ACCUMULATED INCOME	19		
Balance at beginning of year		**194,000,000**	551,064,311
Assignment of accumulated net income		**336,719,289**	194,000,000
Reversal of assigned accumulated net income		**(194,000,000)**	(551,064,311)
Balance at end of year		**336,719,289**	194,000,000
UNASSIGNED ACCUMULATED INCOME	19		
Balance at beginning of year, as previously stated		**7,415,152,156**	6,321,782,626
Prior period adjustment	9	**(546,530,863)**	(529,772,263)
Balance at beginning of year, as restated		**6,868,621,293**	5,792,010,363
Net income		**1,034,127,943**	779,826,619
Cancellation (declaration) of dividend	16	**60,280,000**	(60,280,000)
Assignment of accumulated net income		**(336,719,289)**	(194,000,000)
Reversal of assigned accumulated net income		**194,000,000**	551,064,311
Balance at end of year		**7,820,309,947**	6,868,621,293
OTHER COMPREHENSIVE INCOME			
Cumulative fair value changes on AFS financial assets			
Balance at beginning of year		**103,259,108**	176,979,228
Fair value changes on AFS financial assets		**89,663,808**	(73,720,120)
Balance at end of year		**192,922,916**	103,259,108
Cumulative remeasurement reserves on retirement liability			
Balance at beginning of year		**(34,519,224)**	(87,810,183)
Remeasurement loss (gain)		**(46,428,591)**	53,290,959
Balance at end of year		**(80,947,815)**	(34,519,224)
		111,975,101	68,739,884
		₱8,349,721,500	₱7,215,977,776

See Accompanying Notes to Separate Financial Statements.

ARMED FORCES AND POLICE MUTUAL BENEFIT ASSOCIATION, INCORPORATED (AFPMBAI)

SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2019
(With Comparative Figures for 2018)

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**₱1,090,524,607**	₱796,585,219
Adjustments for:			
Interest income	6	**(1,368,374,689)**	(1,331,543,853)
Increase in fair value of investment properties	9	**(203,801,724)**	(108,475,715)
Gain on sale of assets held for sale	8	**(157,699,883)**	(50,601,094)
Incremental benefit reserve	17	**124,591,674**	84,664,823
Dividends on participating policies	16	**104,905,746**	186,739,937
Allowance for impairment losses	21	**84,680,203**	64,009,658
Depreciation and amortization	11	**34,851,516**	41,641,786
Retirement benefit expense	22	**28,526,345**	31,036,660
Dividend income	6	**(11,506,371)**	(11,353,537)
Fair value changes of financial assets at FVPL	6	**(615,084)**	(2,772,312)
Gain on sale of AFS financial assets	6	**(395,941)**	(12,916,702)
Operating loss before working capital changes		**(274,313,601)**	(312,985,130)
Decrease (increase) in:			
Loans receivables		**(159,208,876)**	(1,075,133,238)
Other receivables		**140,827,018**	43,764,198
Premiums receivable from members		**(47,335,318)**	(4,161,875)
Other assets		**9,379,973**	38,596,434
Increase (decrease) in:			
Legal policy reserves		**1,404,482,768**	1,255,980,982
Claims and benefits payable		**76,972,971**	36,954,855
Accounts payable and accrued expenses		**(97,071,575)**	40,353,216
Other liabilities		**(96,515,800)**	(57,786,425)
Net cash provided by (used in) operations		**957,217,560**	(34,416,983)
Interest received		**903,057,512**	1,043,379,923
Dividends paid		**(208,805,188)**	(118,133,808)
Income tax paid		**(3,403,602)**	–
Net cash provided by operating activities		**1,648,066,282**	890,829,132

(Forward)

	Note	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**₱396,000,581**	₱228,474,605
Dividends received		**11,506,371**	11,353,537
Acquisitions of:			
Short-term investments		**(2,950,298,338)**	(3,283,337,440)
HTM investments	6	**(3,128,691,197)**	(1,798,413,618)
AFS financial assets	6	**(94,000,000)**	(225,930,900)
Financial assets at FVPL		**(51,840,387)**	(38,395,064)
Property and equipment	11	**(42,703,249)**	(35,040,511)
Proceeds from sale/maturities of:			
Short-term investments		**2,745,578,050**	3,660,354,210
HTM financial assets	6	**194,783,501**	–
AFS financial assets	6	**90,452,566**	250,629,489
Financial assets at FVPL		**37,087,572**	46,392,827
Property and equipment		**10,088,830**	3,918,988
Assets held for sale		**16,046,370**	49,969,653
Net cash used in investing activities		**(2,765,989,330)**	(1,130,024,224)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Reserve for members' refund of equity value	17	**468,636,977**	410,902,448
Members' contributions		**602,903**	743,964
Payment of refund on members' contributions	17	**(89,117,731)**	(99,443,125)
Net cash provided by financing activities		**380,122,149**	312,203,287
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(737,800,899)**	73,008,195
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,494,589,309**	1,421,581,114
CASH AND CASH EQUIVALENTS AT END OF YEAR		**₱756,788,410**	₱1,494,589,309

See Accompanying Notes to Separate Financial Statements.

ARMED FORCES AND POLICE MUTUAL BENEFIT ASSOCIATION, INCORPORATED (AFPMBAI)

NOTES TO SEPARATE FINANCIAL STATEMENTS

DECEMBER 31, 2019

(With Comparative Information for 2018 and 2017)

1. **Corporate Information**

Armed Forces and Police Mutual Benefit Association, Incorporated (AFPMBAI) (the Association) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 1, 1965 as a non-stock corporation with soldiers, police, fire, jail management, and coast guard personnel as members. On June 28, 2012, the SEC approved the extension of the Association's corporate life up to 2066.

On January 1, 2019, the Insurance Commission (IC) has approved the renewal of the Association's license to operate as a mutual benefit association that extends benefits and services for the welfare and financial security of its members and their families, which includes housing, calamity assistance, and educational and salary loans.

The IC also authorized the Association to act as a life insurance arm of the Armed Forces of the Philippines (AFP), Philippine National Police (PNP), Bureau of Fire Protection (BFP), Bureau of Jail Management and Penology (BJMP), Philippine Army (PA), Philippine Air Force (PAF), Philippine Navy (PN), Philippine Drug Enforcement Agency (PDEA) and Philippine Coast Guard (PCG) for another three (3) years, which is valid until December 31, 2021.

The Association also extends benefits and services to its associate members which include the members of the Reserve Officer Training Corps (ROTC), Reservists of the AFP, Citizen Armed Forces Geographical Unit Active Auxiliary (CAFGUAA), Special Armed Auxiliary (SCAA), Volunteer Fire Brigade, Bureau of Corrections, other uniformed service units, civilian employees of the Association, other AFP financial institutions, non-uniformed personnel of the PNP, other organizations and agencies connected with the uniformed services and major services bureaus, duly licensed private security guards, cadets and graduates of the Philippine Merchant Marine Academy (PMMA), Philippine National Police Academy (PNPA), Maritime Academy of Asia and the Pacific (MAAP) and other persons performing activities related to military, police, public safety, security, and defense services such as CAFGUAA, Special CAFGUAA, coast guard auxiliaries, and as the Association's Board of Trustees (BOT) may approve.

As provided in Section 30 (E) of the National Internal Revenue Code, as amended, the Association, as a non-stock organization, is exempted from the payment of income tax with respect to its transactions with and income received from members.

The Association's principal and registered office is located at Col. Bonny Serrano Road, corner EDSA, Quezon City.

<u>**Events After the Reporting Period**</u>

The country is currently experiencing a pandemic virus crisis resulting in a slowdown in the Philippine economy because of mandated lockdowns all over the country starting March 16, 2020. While the financial impact is considered a material non-adjusting subsequent event as at December 31, 2019, the effect on the Association operations and financial performance, however, cannot be reasonably determined as at report date.

Notwithstanding the situation, the Management believes that the Association has strong financial condition and has the ability to continue as a going concern.

Approval of the Separate Financial Statements
The separate financial statements as at and for the year ended December 31, 2019 were approved and authorized for issuance by the BOT on June 10, 2020.

2. **Summary of Significant Accounting Policies**

Basis of Preparation
The accompanying separate financial statements of the Association have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) issued by the Philippine Financial Reporting Standards Council (FRSC) and adopted by SEC. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from the International Financial Reporting Interpretations Committee (IFRIC) and SEC provisions.

Measurement Bases
The separate financial statements are presented in Philippine Peso, which is the Association's functional and presentational currency. All values are stated in absolute amounts unless otherwise stated.

The separate financial statements have been prepared on the historical cost basis of accounting, except for financial assets at FVPL, AFS financial assets, and investment properties which are stated at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for an asset and fair value of the consideration received in exchange for incurring a liability.

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

All assets and liabilities for which fair value is measured or disclosed in the separate financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

For assets and liabilities that are recognized in the separate financial statements on a recurring basis, the Association determines whether transfers have occurred between levels in the fair value hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Association has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Further information about the assumptions made in measuring fair value of assets is included in the following notes:

- Note 3: Significant Accounting Judgments, Accounting Estimates and Assumptions,
- Note 9: Investment Properties, and,
- Note 25: Insurance and Financial Risk Management Objectives and Policies.

Adoption of New and Amended PFRS
The accounting policies adopted are consistent with those of the previous reporting year, except for the adoption of the following new and amended PFRS which the Association adopted effective for annual periods beginning on or after January 1, 2019:

- PFRS 16, *Leases* – PFRS 16 replaced PAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases-Incentives,* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. PFRS 16 requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard provides two recognition exemptions for lessees from this PFRS – leases of low-value assets and short-term leases (i.e., leases with a lease term of 12 months or less).

  At the commencement date of a lease, the lessee shall recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The lessee is required to recognize the interest on the lease liability and to depreciate the right-of-use (ROU) asset.

  The lease liability shall be reviewed when there are changes in the lease term and other events affecting the lease, such as future lease payments resulting from a change in the index or rate used to determine those payments. The remeasurement of the lease liability should be recognized as an adjustment to the ROU asset.

  Lessor accounting under PFRS 16 is substantially unchanged from accounting under PAS 17. The lessor shall continue to classify leases using the same classification principle as in PAS 17 to distinguish the two types of leases: operating and finance leases.

The Association has adopted PFRS 16 using the full retrospective approach.

Based on the assessment of the Management, the Association's lease agreements qualify as leases of low value assets or short-term leases under PFRS 16. Thus, the impact of adoption of PFRS 16 in the Association's financial statements is not significant. Accordingly, the Association's rental payments shall continue to be recognized as rent expense in profit or loss using the straight-line method.

- Philippine Interpretation IFRIC 23, *Uncertainty Over Income Tax Treatments* – The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under PAS 12, *Income Taxes,* in particular (i) matters to be considered in accounting for uncertain tax treatments separately, (ii) assumptions for taxation authorities' examinations, (iii) determinants of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) effect of changes in facts and circumstances.

- Amendments to PAS 19, *Employee Benefits - Plan Amendment, Curtailment or Settlement* – The amendments specify how companies remeasure a defined benefit plan when a change - an amendment, curtailment or settlement - to a plan takes place during a reporting period. It requires entities to use the updated assumptions from this remeasurement to determine current service cost and net interest cost for the remainder of the reporting period after the change to the plan.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures* – The amendments require entities to use PFRS 9 in accounting for its long-term interests (i.e., preference shares and long-term receivables or loans for which settlement is neither planned nor likely to occur in the foreseeable future) in an associate or joint venture in which the equity method under PAS 28 is not applied. The clarification is relevant because the expected credit loss model under PFRS 9 shall be applied to these long-term interests.

- Annual Improvements to PFRS 2015 to 2017 Cycle:

  - Amendments to PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements - Previously Held Interest in a Joint Operation* – The amendments to PFRS 3, *Business Combinations,* clarify that when an entity obtains control of a business that is a joint operation, the acquirer applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the joint operation at its acquisition-date fair value. The amendment to PFRS 11, *Joint Arrangements,* clarifies that when an entity obtains joint control of a business that is a joint operation, the previously held interests in that business are not remeasured.

  - Amendments to PAS 12, *Income Taxes - Income Tax Consequences of Payments on Financial Instruments Classified as Equity* – The amendments require entities to recognize the income tax consequences of dividends as defined in PFRS 9 when the liability to pay dividends are recognized. The income tax consequences of dividends are recognized either in profit or loss, other comprehensive income (OCI) or equity, consistently with the transactions that generated the distributable profits. This requirement applies to all income tax consequences of dividends, such as withholding taxes.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS did not have any material effect on the separate financial statements of the Association. Additional disclosures are included in the notes to separate financial statements, as applicable.

New and Amended PFRS Issued But Not Yet Effective

Relevant new and amended PFRS, which are not yet effective as at December 31, 2019 and have not been applied in preparing the separate financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2020:

- Amendments to References to the Conceptual Framework in PFRS – The amendments include a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance-in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurements uncertainty in financial reporting. The amendments should be applied retrospectively unless retrospective application would be impracticable or involve undue cost or effort.

- Amendments to PFRS 3 - *Definition of a Business* – This amendment provides a new definition of a "business" which emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. To be considered a business, 'an integrated set of activities and assets' must now include 'an input and a substantive process that together significantly contribute to the ability to create an output'. The distinction is important because an acquirer may recognize goodwill (or a bargain purchase) when acquiring a business but not a group of assets. An optional simplified assessment (the concentration test) has been introduced to help companies determine whether an acquisition is of a business or a group of assets.

- Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material* – The amendments clarify the definition of "material" and how it should be applied by companies in making materiality judgments. The amendments ensure that the new definition is consistent across all PFRS standards. Based on the new definition, an information is "material" if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

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* – The amendments address a conflicting provision under the two standards. It clarifies that a gain or loss shall be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

- Amendments to PFRS 4, *Insurance Contracts - Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts* – The amendments give all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before implementing the forthcoming new standards on insurance contracts (overlay approach). Also, entities whose activities are predominantly connected with insurance are given an optional temporary exemption from applying PFRS 9, thus continuing to apply PAS 39 instead, until the application of the forthcoming insurance contracts standard beginning January 1, 2023 (deferral approach). The Association opted for the deferral approach of PFRS 9.

Under the prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the separate financial statements of the Association except for PFRS 9. Additional disclosures will be included in the notes to separate financial statements, as applicable.

Current and Noncurrent Classification

The Association presents assets and liabilities in the statement of financial position based on liquidity.

An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when it is:

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

The Association classifies all other liabilities as noncurrent.

Insurance Contracts

Product Classification

Insurance contracts are defined as those contracts under which the Association (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Association defines significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

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

Underwriting Income

Premiums arising from insurance contracts are recognized as income when due. Premiums due and uncollected are recognized when due and measured on initial recognition at the fair value of the consideration expected to be received.

Benefits and Claims

Insurance benefits and claims are recorded when incurred. These are recorded when notices of claims have been received and dividends have been incurred or when policies reach maturity. For unpaid benefits, a provision is made for the estimated cost of all claims but not settled as of reporting date less reinsurance recoveries, if any. Provision is also made for the cost of claims incurred but not reported (IBNR) until after the reporting date based on the Association's experience and historical data. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are recognized in profit or loss. Unpaid benefits for life policies form part of "Claims and benefits payable" account in the separate statement of financial position.

Direct Costs and Expenses

Commissions and other expenses for the acquisition of insurance contracts are expenses as incurred.

Legal Policy Reserves

Legal policy reserves represent the accumulated total liability for policies in-force at the reporting dates. Such reserves are established at amounts adequate to meet the estimated future obligations of all life insurance policies in-force. The reserves are calculated using actuarial methods and assumptions as approved by the IC, subject to the liability adequacy test.

Dividends on Participating Policies

A number of life insurance contracts contains discretionary participating feature. This feature entitles policyholders to policy dividends whose amounts and timing of payments are contractually under the discretion of the Association. The Association's policy dividends are declared annually, the amounts of which are computed using actuarial methods and assumptions, and are included under "Dividends on participating policies" account in profit or loss. Outstanding dividends payable to policyholders are included under "Dividends payable" account in the separate statement of financial position.

Liability Adequacy Test

At each reporting date, liability adequacy test is performed for the insurance contract liabilities. In performing this test, the current best estimates of future expected contractual cash flows and related cash flows such as claims handling and administration expenses, as well as investment income from the asset backing such liabilities are used. Any deficiency is recognized in profit or loss.

Long-term insurance contracts are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

Reinsurance Contracts Held

Contracts entered into by the Association with reinsurers which compensate the Association for loss on one or more contracts that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

Financial Assets and Liabilities

The Association availed of the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*, issued in September 2016. The temporary exemption permits entities whose activities are predominantly connected with insurance to continue applying PAS 39 instead of PFRS 9 until the effectivity of the new insurance standards beginning January 1, 2023.

Based on the assessment made by the Management, the Association qualifies for the deferral of application of PFRS 9 since its activities are predominantly connected with insurance. Accordingly, the Company deferred the adoption of PFRS 9 and has continued to apply PAS 39.

To comply with the disclosure requirements of the amendments to PFRS 4, the table below presents the comparison of the classification of the Association's financial assets as at December 31, 2019 under PAS 39 and PFRS 9. The carrying amounts of these financial assets under PAS 39 remain unchanged under PFRS 9.

Financial Assets	Classification under PAS 39	Classification under PFRS 9
Cash and cash equivalents	Loans and receivables	Financial assets at amortized cost
Short-term investments	Loans and receivables	Financial assets at amortized cost
Loans receivables	Loans and receivables	Financial assets at amortized cost
HTM investments	HTM investments	Financial assets at amortized cost
AFS financial assets	AFS financial assets	Financial assets at fair value through other comprehensive income (FVOCI)
Financial assets at FVPL	Financial assets at FVPL	Financial assets at FVPL
Premiums receivable from members and other receivables	Loans and receivables	Financial assets at amortized cost

Date of Recognition. The Association recognizes a financial asset or a financial liability in the separate statement of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition and Measurement. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

Classification. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual agreement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are treated as owner-related and thus charged directly to fund balance.

The Association classifies its financial assets into the following categories: financial assets at FVPL, HTM investments, AFS financial assets, and loans and receivables. The Association classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities.

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

Financial Assets and Financial Liabilities at Fair Value through Profit or Loss. This category consists of financial assets that are held for trading or financial instruments designated by management as at FVPL on initial recognition.

After initial measurement, financial assets and financial liabilities at FVPL are recorded in the separate statement of financial position at fair value, with any changes in fair value recognized in profit or loss.

Financial assets or financial liabilities that are not held for trading but are classified under the FVPL category are allowed to be designated by management on initial recognition in this category when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be bifurcated.

The Association's financial assets at FVPL consist of equity securities. As at December 31, 2019 (and 2018), the Association does not have any financial liabilities classified as FVPL.

HTM Investments. HTM investments are non-derivative financial assets that are quoted in the market, with fixed or determinable payments and fixed maturities for which the Association's management has the positive intention and ability to hold to maturity. HTM investments are subsequently measured at amortized cost using the effective interest method, less any 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 (EIR). The amortization is included as part of "Interest income" account in the separate statement of comprehensive income. Gains and losses are recognized in profit or loss when the HTM investments are derecognized. Any impairment loss is also recognized in profit or loss.

When the Association sells or reclassifies other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified at fair value as AFS financial assets. The Association would then be unable to categorize financial instruments as HTM investments for the next two (2) years in the financial statements.

As at December 31, 2019 (and 2018), the Association's HTM investments consist of investments in government and corporate bonds (see Note 6).

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or do not qualify to be classified as financial assets at FVPL, HTM investments or loans and receivables. Financial assets may be designated at initial recognition as AFS financial assets if these are purchased indefinitely and may be sold in response to liquidity requirements or change in market conditions. These include debt and equity securities.

After the initial measurement, AFS financial assets are carried at fair value in the separate statement of financial position. Changes in the fair value, other than impairment loss, interest accretion and foreign currency differences on AFS financial assets classified as debt instruments (which are all recognized in profit or loss), are reported as part of OCI and accounted for in the fund balance under "Cumulative fair value changes on AFS financial assets" account.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of unobserved inputs such as in case of unquoted equity instruments, these financial assets are allowed to be carried as cost less impairment, if any. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is recognized in profit or loss.

Interest earned on holding AFS financial assets are reported as "Interest income" in profit or loss using the effective interest method. Dividends earned on holding AFS financial assets are recognized in the profit or loss when the right to receive payment has been established. The loss arising from impairment of such securities is recognized as impairment loss in profit or loss.

When AFS financial assets are derecognized, the cumulative gain or loss previously recognized in OCI and lodged under fund balance is transferred to profit or loss. Where the Association holds more than one investment in the same security, these are deemed to be disposed of on a weighted average basis.

As at December 31, 2019 (and 2018), the Association's AFS financial assets consist of equity securities (see Note 6).

Loans and Receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in the separate statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

This category includes cash and cash equivalents, short-term investments, loans receivables, premiums receivables from members, other receivables, and cash placements with closed local banks (presented under "Other Assets" account) (see Notes 4, 5, 7 and 12).

Cash includes cash on hand and in banks. Cash equivalents pertain to short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value. Cash and cash equivalents are measured at face amount.

Short-term investments are placements on time deposits and other money market instruments with original maturities of more than three months but less than one year.

Other Financial Liabilities. Financial liabilities which are not held for trading or are not designated at FVPL are classified as financial liabilities carried at amortized cost where the substance of the contractual arrangement results in the Association having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Other financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. Gains and losses are recognized in the separate statement of comprehensive income when the liabilities are derecognized and through the amortization process.

This category includes accounts payable and accrued expenses (excluding government payables), legal policy reserves, claims and benefits payable, dividends payable and reserve for members' refund (see Notes 13, 14, 15, 16 and 17).

Offsetting of Financial Assets and Liabilities
Financial assets and liabilities are offset and the net amount reported in the separate statement of financial position if, and only if, there is a currently enforceable right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, thus the related financial assets and financial liabilities are presented on a gross basis in the separate statements of financial position.

Impairment of Financial Assets
The Association assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence includes observable data that comes to the attention of the Association about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that borrower will enter bankruptcy or other financial reorganization.

Held-to-Maturity Investments. The Association assesses at each reporting date whether there is any objective evidence that its HTM investments are impaired. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

a. significant financial difficulty of the issuer or obligor;

b. breach of contract, such as default or delinquency in interest or principal payments;

c. the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; or

d. it becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Loans and Receivables. The Association first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If 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. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the assets' original effective interest rate. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset shall be reduced directly or through the use of an allowance account. The amount of loss shall be recognized in profit or loss.

If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

Where loans and receivables have been ascertained to be worthless, the related amount is written off against the corresponding allowance for impairment.

AFS Financial Assets Carried at Fair Value. In case of equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. When there is evidence of impairment, the cumulative loss which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss is removed from OCI and recognized in profit or loss. Recovery of impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in OCI.

The Association treats "significant" generally as 20% or more and "prolonged" as greater than six (6) months. In addition, the Association evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be appropriate also when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, changes in technology and operational and financing cash flows.

For a partial disposal, a proportionate share of the fair value gains and losses previously recognized in OCI is reclassified from equity to profit or loss. Such gains and losses include all fair value changes until the date of disposal.

AFS Financial Assets Carried at Cost. If there is an objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be measured reliably, the amount of the loss is measured as the difference between that 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 Financial Liabilities

Financial Asset. 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 financial 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 financial asset and either has transferred substantially all the risks and rewards incidental to ownership of the financial asset; or
- has neither transferred nor retained substantially all the risks and rewards incidental to ownership of the financial asset, but has transferred control of the financial asset.

When the Association has transferred its right to receive cash flows from a financial asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards incidental to ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Association's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Association could be required to repay.

Financial Liability. A financial liability is derecognized from the separate statement of financial position when the obligation under the financial liability is discharged, cancelled or has expired. When 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 derecognition of the original liability and the recognition of a new liability, with the difference in the respective carrying amounts recognized in profit or loss.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Association could raise debt with similar terms and conditions in the market. The difference between the carrying amount of the original liability and fair value of the new liability is recognized in the separate statement of comprehensive income.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

Assets Held-for-Sale

Assets held-for-sale include real and other properties developed and acquired through repossession or foreclosure which the Association intend to sell within one year from the date of classification. Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset from being classified as held-for-sale, if the delay is caused by events or circumstances beyond the Association's control and there is sufficient evidence that the Association remain committed to its plan to sell the asset. These are measured at the lower of their carrying amounts, immediately prior to their classification as held-for-sale, and their fair value less costs of disposal. Impairment loss is recognized for any initial or subsequent write-down of the asset to their fair value less costs of disposal. These assets are not subject to depreciation or amortization.

Assets held-for-sale are derecognized upon sale. The profit or loss arising from the sale of assets held for sale is included in the "Gain on sale of assets held-for-sale" account in profit or loss.

Investment Properties

Investment properties pertain to properties held for long-term yields, for capital appreciation or both.

Investment properties are measured initially at cost. Cost includes the acquisition cost of the investment properties plus incidental costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects the prevailing market conditions as at report date. Gains or losses resulting from changes in fair value of the investment properties are recognized in profit or loss in the period in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the separate statement of comprehensive income in the year of retirement or disposal.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the end of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by the commencement of owner-occupation or commencement of development with a view to sell.

Investment in a Subsidiary

A subsidiary is an entity controlled by the Association. The Association controls an entity when it is expected to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the Subsidiary is included in the separate financial statements from the date on which the control commences until the date on which control ceases.

Investment in a subsidiary is carried in the separate statements of financial position at cost less any impairment in value. This includes the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary at the date of acquisition.

Investment in a subsidiary is derecognized upon sale or disposal. Any gain or loss arising from the derecognition is recognized in profit or loss. Gain or loss is computed as the difference between proceeds from the disposal and its carrying amount and is recognized in profit or loss at the time of sale or disposal.

Investments in Associates

Associates are entities in which the Association has significant influence and which are neither subsidiaries nor joint ventures. The Association's investments in associates are accounted in the separate financial statements using the cost method less any impairment in value.

Under the cost method, the Association recognizes income from the investment only to the extent that the Association received distributions from accumulated profits of the subsidiaries and an associate after the date of acquisition. Distributions received in excess of such profits are regarded as a reduction of the cost of the investment.

An associate is an entity in which the Association has significant influence but not control over the financial and operating policies. Significant influence is presumed to exist when the Association holds between 20% and 50% of the voting rights of the entity.

An assessment of the carrying value of the investment in associates is performed when there is an indication that these investments are impaired. The amount of impairment is calculated as the difference between the carrying amount of the investments and their recoverable amount.

Investments in associates are derecognized upon sale or disposal. Any gain or loss arising from the derecognition is recognized in profit or loss. Gain or loss is computed as the difference between proceeds from the disposal and its carrying amount and is recognized in profit or loss at the time of sale or disposal.

Property and Equipment

Property and equipment, except for land, are stated at cost less accumulated depreciation and amortization and any impairment losses. Land is stated at cost less accumulated impairment losses if any.

The cost of property and equipment consists of its purchase price and costs directly attributable to bringing the property and equipment to its working condition for its intended use. Expenditures incurred after the assets have been put into operations, such as repairs and maintenance, are normally charged to profit or loss in the year the cost 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 additional costs of the assets.

Depreciation and amortization is computed using the straight-line method over the estimated useful life of the assets. Leasehold improvements are amortized over the estimated useful life of the improvements or the term of the related lease, whichever is shorter.

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

Asset type	Number of Years
Buildings and land improvements	3 - 30
Computer equipment	3 - 5
Furniture, fixtures and other equipment	5
Transportation equipment	5
Computer software	5

Depreciation and amortization commence when the property and equipment is in its location or condition capable of being operated in the manner intended by management. Depreciation and amortization ceases at the earlier of the date that the property and equipment is classified as held-for-sale and the date the property and equipment is derecognized.

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

Construction in-progress (CIP) represents properties under construction and is stated at cost, including costs of construction, equipment and other direct costs. CIP is not depreciated until such time that the relevant assets are completed and ready for operational use.

Fully depreciated or amortized property and equipment are retained in the accounts until these are no longer in use and no further charge for depreciation and amortization is made in respect of those property and equipment.

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in profit or loss in the year the property and equipment is derecognized.

Other Assets

Other assets pertain to other resources controlled by the Association as a result of past events. These are recognized in the separate financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

Impairment of Nonfinancial Assets

At each reporting date, nonfinancial assets are reviewed to determine whether there is any indication that these nonfinancial assets may be impaired. If there is an indication of possible impairment, the recoverable amount of any asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in the separate statement of comprehensive income. The recoverable amount of an asset is the greater of its value in use or its fair value less cost to sell. Value in use is the present value of future cash flows expected to be derived from an asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

Fund Balance

Members' Contribution. Members' contribution represents amounts contributed by the members of the Association in addition to payments of premiums due on old basic policy insurance and is measured at the amount of contribution received.

Cumulative Fair Value Changes on AFS Financial Assets. The cumulative fair value changes on AFS financial assets comprise gains and losses arising from the revaluation of AFS financial assets at fair market values.

Cumulative Remeasurement Reserves on Retirement Liability. This pertains to the cumulative amount of remeasurement of retirement liability arising from actuarial gains and losses due to experience and demographic assumptions as well as gains and losses in the retirement fund.

Accumulated Net Income. Accumulated net income includes accumulated results of operations and impact of prior year adjustments as reported in the separate statements of changes in fund balance. The Association may assign a portion of the fund balance for revaluation of real estate, capital expenditure, and corporate social services.

Revenues

The following are the recognition criteria for revenues of the Association outside the scope of PFRS 15, *Revenues from Contracts with Customers.*

Premium Income. Premium income is the main source of revenue of the Association and represents the consideration given by the member for the promises of the Association to pay a stipulated sum in the event of a loss covered in the insurance contract. Premium income is recognized on the date from which the policy becomes effective and the date when payments are made.

Interest Income. For all interest-bearing financial instruments (except for short-term and long-term investments where interest income is recognized at coupon rate), interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as interest income.

Once the recorded value of financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Policy Income. Policy income pertains to fees charged by the Association to policyholders upon default on the latter's outstanding loan balances and processing fees from approved loan applications.

Dividend Income. Dividend income is recognized when the Association's right to receive payment is established on declaration date.

Gain (loss) on Sale of AFS Financial Assets. Realized gains and losses include gains and losses on the sale of AFS financial assets, which are calculated as the difference between net sales proceeds and its cost. Realized gains and losses recognized in [profit or loss when the sales transaction occurred.

Rental Income. Rental income is recognized as earned on a straight-line basis over the lease term.

The following are the recognition criteria for revenues of the Association within the scope of PFRS 15:

Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Association perform its obligations; (b) the Association's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Association's performance does not create an asset with an alternative use to the Association and the Association has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

The following specific recognition criteria must also be met before revenue is recognized:

Gain on Sale of Assets Held-for-sale. Income from real estate sales is recognized once the customer obtains control of the real estate property.

Other Income. Other income consists of miscellaneous income of the Association that are recognized at point in time once the performance of the related obligation is completed.

Benefits and Expenses Recognition

Death and Other Policy Benefits. Death and other policy benefits consist of benefits and claims incurred during the period and changes in incurred but not reported losses. These are recorded on the basis of notifications received and when due.

General and Administrative Expenses. General and administrative expenses constitute costs of administrating the business. These are expensed when incurred.

Commission Expense. Commissions are recognized when the insurance contracts are entered and the premiums are recognized.

Employee Benefits

Short-term Benefits. The Association provides short-term benefits to its employees in the form of basic salary, 13th month pay, bonuses, leave credits, employer's share on government contributions and other short-term benefits.

Short-term employee benefit liabilities are measured on an undiscounted basis and are expensed as the related service is provided.

Retirement Benefits. The Association has a funded, noncontributory defined benefit plan covering all permanent employees. The retirement expense is determined using the projected unit credit method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Association recognizes service costs, comprising of current service costs, past service costs, and net interest expense or income in the separate statement of comprehensive income. Net interest is calculated by applying the discount rate to the net retirement liability or plan asset.

Past service costs are recognized in the separate statement of comprehensive income on the earlier of the date of the plan amendment or curtailment and the date that the Association recognizes restructuring related costs.

Remeasurements comprising actuarial gains and losses and return on plan assets are recognized immediately in OCI in the year in which these arise. Remeasurements are not reclassified to profit or loss in subsequent years.

The net retirement liability is the aggregate of the present value of the retirement liability reduced by the fair value of plan assets on which the liabilities are to be settled directly. The present value of the retirement liability is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Plan assets are assets that are held in trust and managed by a trustee bank. Plan assets are not available to the creditors of the Association, nor can they be paid directly to the Association. The fair value of the plan assets is based on the market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the separate financial statements do not differ materially from the amounts that would be determined at the reporting date.

Income Taxes

Current tax. Current tax is the expected tax payable on the taxable income for the year, using tax rate enacted or substantively enacted at the reporting date.

Deferred tax. Deferred tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable income will allow the deferred tax assets to be recovered.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rate (and tax laws) in effect at the reporting date.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Related Party Relationships and Transactions
Related party transactions consist of transfers of resources, services or obligations between the Association and its related parties, regardless of whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes (a) individuals who, owning directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Association (b) associates and (c) individuals owning, directly or indirectly, an interest in the voting power of the Association that gives them significant influence over the Association and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on legal form.

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

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

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

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

The Association as a Lessor. Leases where the lessor retains substantially all the risks and rewards incidental to ownership of the leased asset are classified as operating leases. Operating lease receivable are recorded as income in profit or loss on a straight-line basis over the lease term.

The Association as a Lessee. At the commencement date, the Association recognizes ROU assets and lease liabilities for all leases, except for leases with lease terms of 12 months or less (short-term leases) and leases for which the underlying asset is of low value in which case the lease payments associated with those leases are recognized as an expense on a straight-line basis.

Provisions
Provisions are recognized when the Association has a present legal or constructive obligation as a result of past events, it is probable that a transfer of economic benefits will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the amount expected to be required to settle the obligation using a pre-tax rate that reflects market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Contingencies
Contingent liabilities are not recognized in the separate financial statements but are disclosed in the notes to separate financial statements unless the possibility of an outflow of resources embodying economic benefit is remote. Contingent assets are not recognized in the separate financial statements but are disclosed in the notes to separate financial statements when inflows of economic benefits are probable.

Events after the Reporting Date
Events after the reporting date that provide additional information about the Association's financial position as at the reporting date (adjusting events) are reflected in the separate financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to separate financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the separate financial statements requires management to exercise judgments, make estimates and use assumptions that affect the amounts reported in the separate financial statements and accompanying notes. The judgments, estimates and assumptions used in the separate financial statements are based upon management's evaluation of relevant facts and circumstances as at the reporting date. Actual results could differ from these estimates and assumptions used, and the effect of any change in estimates will be adjusted in the separate financial statements when these become reasonably determinable.

Judgments, estimates and assumptions 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.

The Association believes the following represent a summary of these significant judgments, estimates, assumptions and related impact and associated risks in the separate financial statements.

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

Classifying the Financial Instruments. The Association classifies a financial instrument on initial recognition as a financial asset, a financial liability, or equity in accordance with the substance of the contractual arrangement and its definitions. The substance of a financial instrument, rather than its legal form, governs its classification in the separate statement of financial position.

Determining the Fair Value of Financial Instruments. The fair values of investments that are actively traded in organized financial markets are determined by reference to quoted market prices at the close of business on the reporting date.

In accordance with the amendments to PFRS 7, *Financial Instruments: Disclosures*, disclosures about the level in the fair value hierarchy are required in which the fair value measurements are categorized for assets and liabilities measured in the separate statement of financial position. The Association uses judgment in assessing the significance of a particular input to the fair value measurements in its entirety, considering factors specific to the asset or liability.

The Association's financial assets at FVPL quoted in an active market amounted to ₱38.8 million as at December 31, 2019 (₱23.4 million as at December 31, 2018) (see note 6).

The Association's AFS financial assets quoted in an active market amounted to ₱2.2 billion as at December 31, 2019 (₱2.1 billion as at December 31, 2018) (see note 6).

Classifying and Determining the Fair Value of Assets Held-for-Sale. The Association classifies its acquired properties as assets held-for-sale if the Association expect that the properties will be recovered through sale rather than continuing use. At initial recognition, the Association determine the fair value of acquired properties through internally and externally-generated appraisal. The appraised value is determined based on current economic and market conditions as well as the physical condition of the property.

The fair value of assets held-for-sale amounted to ₱99.9 million as at December 31, 2019 (₱116.1 million as at December 31, 2018) (see Note 8).

Assessing the Distinction Between Investment Properties and Property and Equipment. The Association determines whether a property qualifies as investment property or property and equipment. In making its judgment, the Association considers whether the property is held for administrative purposes or is held for capital appreciation and to earn rentals, in which case the property shall be classified as property and equipment or investment property, respectively, as the case may be. The Association considers each property separately in making its judgment.

Classifying Leases - The Association as a Lessor. The Association has entered into contracts of lease with third parties and has determined that it retains all the significant risks and rewards incidental to ownership of the leased properties. The leases are therefore accounted for as operating leases.

Rental income amounted to ₱89.4 million in 2019 (₱105.4 million in 2018) (see Note 27).

Classifying Leases - The Association as a Lessee. The Association, as a lessee, has entered into commercial property leases for its branch offices. The Association availed the exemption for short-term leases with term of 12 months or less. Accordingly, lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Rent expense amounted to ₱9.2 million in 2019 (₱7.9 million in 2018) (see Note 27).

Estimates and Assumptions
The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting year are discussed in the succeeding paragraphs.

Estimating the Legal Policy Reserves. Reserves are set up as requirement pursuant to the provision and guidelines set by the IC, which pertain to future benefit payments. Estimates of future benefit payments depend on the expectations of contingencies covered, such as death and endowment benefits. The Association based these estimates on mortality and other contingency tables approved by the IC, as well as future investment earnings rate of the assets backing up these liabilities, subject to certain limitations and interest cap.

The carrying amount of legal policy reserves amounted to ₱13.0 billion as at December 31, 2019 (₱11.6 billion as at December 31, 2018) (see Note 14).

Estimating the Provision for Claims and Benefits. Provision is made for the cost of claims incurred as at reporting date based on the Company's experience and historical data. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in separate statements of comprehensive income of subsequent years.

Provision for outstanding claims and IBNR claims amounted to ₱576.1 million as at December 31, 2019 (₱499.1 million as at December 31, 2018) (see Note 15).

Assessing the Impairment Losses of AFS financial assets. The Association treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" and "prolonged" requires judgment. The Association treats "significant" generally as 20% or more of the original cost of investment, and "prolonged," as greater than six months. In addition, the Association evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows.

No impairment loss was recognized in 2019 (and 2018). The carrying amount of AFS financial assets amounted to ₱2.2 billion as at December 31, 2019 (₱2.1 billion as at December 31, 2018) (see Note 6).

Assessing the Impairment Losses of HTM Investments. The Association determines impairment of HTM investments based on its evaluation of the presence of objective evidence of impairment which includes observable data that comes to the attention of the Association such as but not limited to significant financial difficulty of the counterparty of the probability that the borrower will enter bankruptcy or other financial re-organization. In addition to the individual impairment assessment which takes into consideration the credit risk characteristics such as borrower type, payment history and past due status.

No impairment loss was recognized in 2019 (and 2018). The carrying amount of HTM investments amounted to ₱7.3 billion as at December 31, 2019 (₱4.4 billion as at December 31, 2018) (see Note 6).

Assessing the Impairment Losses of Loans and Receivables. The Association maintains an allowance for impairment losses on loans and receivables at a level considered adequate to provide for potential losses. The level of this allowance is determined by management using specific and collective impairment tests. The Association performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment losses.

The Association assesses specifically the significant receivables based on factors that affect its collectability. These factors include, but are not limited to, the length of the Association's relationship with the customer, the counterparties payment behavior and known market factors. The Association identifies and provides for specific accounts that are doubtful of collection and reviews the age and status of the remaining receivables and establishes a provision considering, among others, historical collection and write-off experience.

The Association conducts impairment tests at a collective level for receivables that are not individually significant and for those that were already specifically tested but with no impairment losses determined. For collective impairment testing purposes, receivables are grouped according to their risks characteristics. The loss rate applied to each risk group to compute for the required allowance for impairment losses is determined based on the risk group's default or past due migration and loss history. Management's judgment is required in choosing the risk characteristics used in grouping the receivables as well as in selecting the periods over which the past due migration and loss history shall be obtained. In computing the loss rates for each group, management also makes certain assumptions over the available data on past due migration and loss history of the risk group that these reflect current relevant economic circumstances. Adjustments on the loss rates are made as deemed necessary by management to ensure that the loss rates properly reflect the incurred loss on the risks groups as of reporting date.

The amount and timing of recorded expenses for any year would differ if the Association made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

Provision for impairment loss recognized on loans receivables amounted to ₱84.5 million in 2019 (₱60.9 million in 2018). The carrying amount of loans receivables amounted to ₱9.6 billion as at December 31, 2019 (₱9.5 billion as at December 31, 2018). Allowance for impairment losses amounted to ₱383.4 million as at December 31, 2019 (₱298.8 million as at December 31, 2018) (see Note 5).

No impairment loss recognized on premium receivables from members in 2019 (and 2018). The carrying amount of premium receivables from members amounted to ₱51.9 million as at December 31, 2019 (₱4.6 million as at December 31, 2018).

No impairment loss was recognized on other receivables in 2019 (and 2018). The carrying amount of other receivables amounted to ₱432.4 million as at December 31, 2019 (₱358.6 million as at December 31, 2018). Allowance for impairment losses amounted to ₱3.9 million as at December 31, 2019 (and 2018) (see Note 7).

Determining the Fair Value of Investment Properties. Investment properties are carried at fair value, which has been determined based on arm's length transactions as at the reporting date and certified by an independent appraiser. In determining the appraised values of the investment properties, the Association hires an independent firm of appraisers. In order to arrive at a reasonable valuation, the appraisers personally inspected the properties, requested information from reputable sources and considered the following: (a) utility and market value of the land; (b) cost of reproduction of new replaceable property; (c) current prices for similar used property in the second hand market; (d) age, condition, past maintenance, and present and prospective serviceability in comparison with new assets of like kind; (e) accumulated depreciation; and (f) recent trend and development in the industry concerned.

Fair market value is defined as the highest price in terms of money which a property will bring if exposed for sale in the open market, allowing reasonable time to find a purchaser who buys with knowledge of all the uses to which it is adapted and for which it is capable of being used.

The appraiser also considered the concept of value in use which is based on the highest and most profitable continuous use or that which may reasonably be expected to produce the greatest net return over a given period of time.

The fair value of investment properties amounted to ₱3.5 billion as at December 31, 2019 (₱3.3 million as at December 31, 2018) (see Note 9).

Estimating the Useful Lives of Depreciable Property and Equipment. The Association estimates the useful lives of its depreciable property and equipment based on the period over which the assets are expected to be available for use. The Association reviews annually the estimated useful lives of depreciable property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental changes and anticipated use of the depreciable property and equipment. However, it is possible that future financial performance could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment would increase the recorded depreciation and amortization and decrease its carrying amounts.

There are no changes in the estimated useful lives of the Association's property and equipment in 2019 (and 2018). The carrying amount of depreciable property and equipment amounted to ₱160.3 million as at December 31, 2019 (₱162.5 million as at December 31, 2018) (see Note 11).

Assessing the Impairment of Nonfinancial Assets. The Association assesses impairment on its nonfinancial assets whenever events or changes in circumstances indicate that the carrying amounts of these assets 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 an asset exceeds it recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. Determining such amount requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets.

Provision for impairment loss on assets held for sale amounting to ₱0.1 million and ₱3.1 million was recognized in 2019 and 2018, respectively (see Note 8).

The carrying amounts of the nonfinancial assets as at December 31, 2019 and 2018 are as follows:

Asset Type	Note	2019	2018
Investment properties	9	**₱3,475,689,379**	₱3,271,887,655
Property and equipment	11	**247,810,715**	250,047,812
Assets held-for-sale	8	**99,871,457**	116,051,809
Other assets	12	**57,238,639**	66,618,612

Determining the Net Retirement Liability and Retirement Expense. The determination of the net retirement liability and retirement expense is dependent on management's selection of certain assumptions used by actuaries in calculating such amounts.

The assumptions for determining retirement expense are described in the Note 22 and include, among others, discount rate and expected rate of salary increase. Actual results that differ from certain assumptions are accumulated and are recognized as part of equity. While management believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in management assumptions may materially affect the retirement liability.

Retirement expense amounted to ₱28.5 million in 2019 (₱31.0 million in 2018). Net retirement liability amounted to ₱233.5 million as at December 31, 2019 (₱158.6 million as at December 31, 2018)(see Note 22).

4. Cash and Cash Equivalents and Short-term Investments

Cash and Cash Equivalents

This account consists of:

	2019	2018
Cash on hand	**₱560,000**	₱300,000
Cash in banks	**128,428,410**	328,089,309
Cash equivalents	**627,800,000**	1,166,200,000
	₱756,788,410	₱1,494,589,309

Cash in banks earns interest at prevailing bank deposit rates.

Cash equivalents pertain to short-term placements made in varying periods depending on the immediate cash requirements of the Association. Cash equivalents have maturity of up to 90 days and earn interest ranging from 1.78% to 5.40% in 2019 (0.25% to 6.00% in 2018).

Interest income earned from cash in banks and cash equivalents amounted to ₱44.8 million in 2019 (₱34.3 million in 2018) (see Note 6).

Short-term Investments

Short-term investments amounting to ₱2.3 billion as at December 31, 2019 (₱2.0 billion as at December 31, 2018) are investments in time deposits and treasury bills with maturity periods of more than three months but less than one year. These earn interests of 2.64% to 7.00% in 2019 (1.13% to 6.00% in 2018).

Interest income earned from short-term investments amounted to ₱118.1 million in 2019 (₱71.5 million in 2018) (see Note 6).

5. Loans Receivables

This account consists of:

	Note	2019	2018
Salary loans		**₱4,439,271,311**	₱4,508,805,208
Optional policy loans	15	**3,435,654,859**	3,270,954,075
Real estate mortgage loans		**1,275,543,240**	1,138,782,373
Real estate housing loans		**539,963,955**	593,975,441
Basic policy loans		**146,177,222**	107,664,552
Educational assistance loans		**85,364,068**	120,342,449
Calamity loans		**50,494,525**	71,393,343
Real estate contract		**2,040,813**	3,383,676
		9,974,509,993	9,815,301,117
Less allowance for impairment losses		**(383,364,256)**	(298,818,035)
		₱9,591,145,737	₱9,516,483,082

Loans receivables bear annual interest rates ranging from 6.00% to 12.00% per annum in 2019 (and 2018), except for real estate mortgage and housing loans which bear annual rates ranging from 5.50% to 11.00% per annum in 2019 (7.50% to 12.00% per annum in 2018).

Interest income earned from loans receivables amounted to ₱0.9 billion in 2019 (₱1.1 billion in 2018) (see Note 6).

Policy income earned from loan releases and penalties amounted to ₱127.5 million in 2019 (₱140.2 million in 2018).

Movements in allowance for impairment losses follow:

	Note	2019	2018
Balance at beginning of year		**₱298,818,035**	₱237,884,964
Provision for impairment losses	21	**84,546,221**	60,933,071
Balance at end of year		**₱383,364,256**	₱298,818,035

Allowance for impairment loss is broken down as follows:

	2019	2018
Specific	**₱331,854,863**	₱268,863,621
Collective	**51,509,393**	29,954,414
Balance at end of year	**₱383,364,256**	₱298,818,035

The table below shows the breakdown of loans receivables as to security:

	2019	%	2018	%
Secured loans:				
Cash surrender value	**₱3,581,832,081**	**36%**	₱3,378,618,627	**34%**
Real estate	**1,817,548,008**	**18%**	1,736,141,490	**18%**
	5,399,380,089	**54%**	5,114,760,117	**52%**
Unsecured loans	**4,575,129,904**	**46%**	4,700,541,000	**48%**
	₱9,974,509,993	**100%**	₱9,815,301,117	**100%**

The unearned interest relating to the loans are as follows:

	2019	2018
Basic policy loans	**₱1,433**	₱11,365
Optional policy loans	**301,294,353**	231,169,128
	₱301,295,786	₱231,180,493

Unearned interest on policy loans amounting to ₱301.3 million as at December 31, 2019 (₱231.2 million as at December 31, 2018) pertains to the interest deducted from the proceeds granted to the members and amortized over the term of the loan using the effective interest rate. This is presented under “Other liabilities” account in the separate statement of financial position.

6. **Financial Assets**

HTM Investments

HTM investments consist of:

	2019	2018
Government bonds	**₱5,787,886,037**	₱2,847,129,567
Corporate bonds	**1,559,249,070**	1,553,240,000
	₱7,347,135,107	₱4,400,369,567

HTM investments earn interest ranging from 3.25% to 7.38% per annum in 2019 (and 2018). Interest income earned from these investments amounted to ₱290.7 million in 2019 (₱159.2 million in 2018).

Movements of the HTM investments are as follows:

	2019	2018
Balance at beginning of year	**₱4,400,369,567**	₱2,599,679,021
Additions	**3,128,691,197**	1,798,413,618
Maturities	**(194,783,501)**	–
Amortization	**12,857,844**	2,276,928
Balance at end of year	**₱7,347,135,107**	₱4,400,369,567

The maturity profile of the above investments is as follows:

	2019	2018
Short-term (up to one year)	**₱709,389,704**	₱193,486,418
Medium-term (one year to five years)	**4,287,993,017**	3,254,542,535
Long-term (more than five years)	**2,349,752,386**	952,340,614
	₱7,347,135,107	₱4,400,369,567

In compliance with the capital investment requirement under Section 209 of the Amended Insurance Code, certain government debt securities earmarked as security for the benefit of policyholders and creditors of the Association are deposited with the Bureau of Treasury (BOT) under the Registry of Scripless Securities (RoSS) system. As at December 31, 2019 and 2018, the face value of these earmarked government debt securities amounted to ₱5.8 billion and ₱2.9 billion, respectively, while amortized costs amounted to ₱5.8 billion and ₱2.8 billion, respectively.

As at December 31, 2019 (and 2018), the Association has no HTM investments pledged as collateral.

AFS Financial Assets

AFS financial assets in equity securities follow:

	2019	2018
Quoted	**₱2,178,712,447**	₱2,085,501,205
Unquoted	**3,000,000**	3,000,000
	₱2,181,712,447	₱2,088,501,205

The Association’s AFS financial assets are composed of bond fund, equity fund, balanced fund, unit investment trust fund and equity securities. The fair values of AFS financial assets which are categorized at Level 1 are based on published bidding prices from active markets. Unquoted AFS are carried at cost less any impairment in value.

Movements of the AFS financial assets are as follows:

	2019	2018
Balance at beginning of year	**₱2,088,501,205**	₱2,186,919,914
Additions	**94,000,000**	225,930,900
Disposals	**(90,452,566)**	(250,629,489)
Fair value gain (loss)	**89,663,808**	(73,720,120)
Balance at end of year	**₱2,181,712,447**	₱2,088,501,205

Movements of the cumulative fair value changes on AFS financial assets are as follows:

	2019	2018
Balance at beginning of year	**₱103,259,108**	₱176,979,228
Net movement due to fair value changes and sale		
Fair value gain (loss)	**90,059,749**	(60,803,418)
Realized gain on sale transferred to profit or loss	**(395,941)**	(12,916,702)
	89,663,808	(73,720,120)
Balance at end of year	**₱192,922,916**	₱103,259,108

Financial Assets at FVPL

Financial assets at FVPL pertain to publicly traded equity instruments acquired for purposes of selling in the near future. The carrying amount of financial assets at FVPL amounted to ₱38.8 million as at December 31, 2019 (₱23.4 million as at December 31, 2018). Fair value loss recognized amounted to ₱0.6 million in 2019 (₱2.8 million in 2018). This amount is presented as part of "Other income - net" account in the separate statement of comprehensive income.

Dividend Income

Dividend income arises from the following:

	2019	2018
AFS financial assets	**₱11,141,643**	₱11,009,998
Financial assets at FVPL	**364,728**	343,539
	₱11,506,371	₱11,353,537

Interest Income

Interest income arises from the following:

	Note	2019	2018
Loan receivables	5	**₱914,201,849**	₱1,066,001,374
HTM investments		**290,717,144**	159,207,244
Short-term investments	4	**118,141,281**	71,544,289
Cash in banks and cash equivalents	4	**44,808,265**	34,303,446
Others		**506,150**	487,500
		₱1,368,374,689	₱1,331,543,853

7. Other Receivables

This account consists of:

	2019	2018
Accrued rental income	**₱230,875,148**	₱218,714,520
Accrued interest receivable	**174,408,298**	117,949,546
Due from officers and employees	**9,625,028**	15,276,368
Advances to agents	**4,562,965**	4,271,503
Others	**16,787,370**	6,319,314
	436,258,809	362,531,251
Allowance for impairment loss	**(3,900,750)**	(3,900,750)
	₱432,358,059	₱358,630,501

Accrued rental income represents rent accrued from lease of its investment properties.

Accrued interest receivable represents interest accrued from short-term and long-term investments, HTM investments and loans receivables.

Due from officers and employees consists of advances to employees, car loans, educational assistance loans, and salary loans which are collectible through salary deduction.

Others consist of non-trade loan receivables such as mortgage redemption insurance receivables and receivable from disposal of shares of AFS financial assets.

8. Assets Held-for-Sale

This account consists of:

	2019	2018
Real estate housing projects	**₱60,453,342**	₱77,544,168
Foreclosed properties	**39,418,115**	38,507,641
	₱99,871,457	₱116,051,809

The Association recognized gain on sale of assets held-for-sale amounting to ₱157.7 million in 2019 (₱50.6 million in 2018).

The Association recognized impairment loss on assets held for sale amounting to ₱0.1 million in 2019 (₱3.1 million in 2018).

9. Investment Properties

Investment properties comprise of properties held for long-term rental yields and capital appreciation. Details are as follows:

	2019	2018
Building	**₱100,690,000**	₱ 101,261,000
Land	**3,374,999,379**	3,170,626,655
Balance at end of year	**₱3,475,689,379**	₱3,271,887,655

Investment properties with fair values of ₱1.5 billion as at December 31, 2019 (₱1.1 billion as at December 31, 2018) are expected to be used as future site for an office building or such other purpose for the benefits of the members.

Movement in this account follows:

	2019	2018
Cost		
Balance at end and beginning of year	**₱706,406,116**	₱706,406,116
Cumulative Gain on Fair Value Changes		
Balance at beginning of year	**2,565,481,539**	2,457,005,824
Fair value gain	**203,801,724**	108,475,715
Balance at end of year	**2,769,283,263**	2,565,481,539
Carrying Amount	**₱3,475,689,379**	₱3,271,887,655

Rental income earned from investment properties amounted to ₱89.4 million in 2019 (₱105.4 million in 2018) (see Note 27).

Direct costs incurred related to the investment properties amounted to ₱9.9 million in 2019 (₱11.5 million in 2018).

The fair value of investment properties are based on a valuation made by an independent qualified appraiser as at December 31, 2019. These are determined using the sales comparison approach for land and modified quantity survey method for improvements. In arriving at the market value of the land, data are sought in the local market consisting of sales and offerings of similar properties.

Prior Period Adjustment

In 2019, the Association recognized deferred tax liability on the cumulative fair value gain of investment properties which are held to earn rental. The recognition of deferred tax liability was taken up as a prior period adjustment to the latest comparative figures presented.

The following is the summary of the financial impact of the prior period adjustment in the separate financial statements:

	December 31, 2018		
	As Previously Reported	Adjustment	As Restated
Deferred tax liability	₱–	₱546,530,863	₱546,530,863
Unassigned accumulated income	7,415,152,156	(546,530,863)	6,868,621,293
Net income	796,585,219	(16,758,600)	779,826,619

	January 1, 2018		
	As Previously Reported	Adjustment	As Restated
Deferred tax liability	₱–	₱529,772,263	₱529,772,263
Unassigned accumulated income	6,321,782,626	(529,772,263)	5,792,010,363

10. Investments in a Subsidiary and Associates

This account consists of investments in Armed Forces and Police General Insurance Corporation (AFPGEN), Aguinaldo Theater Enterprises, Inc. (ATEI), and Centennial Financing Corporation (CFC). The percentage of ownership and carrying amount of investments follow:

	Percentage of Ownership (%)		Cost		Accumulated Impairment		Carrying Amount	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
AFPGEN	100.00	100.00	**₱453,265,704**	₱453,265,704	**₱–**	₱–	**₱453,265,704**	₱453,265,704
ATEI	28.13	28.13	**67,500,000**	67,500,000	**(67,500,000)**	(67,500,000)	**–**	–
CFC	17.60	17.60	**20,000,000**	20,000,000	**–**	–	**20,000,000**	20,000,000
			₱540,765,704	₱540,765,704	**(₱67,500,000)**	(₱67,500,000)	**₱473,265,704**	₱473,265,704

No impairment loss was recognized on the Association's investments in AFPGEN, ATEI, and CFC in 2019 (and 2018).

Associates

ATEI is primarily engaged in theater management. Its registered principal office is De Jesus Avenue, Camp Aguinaldo, Quezon City.

CFC operates as a financing company. Its registered principal office is 9th Floor Unit 942 City and Land Mega Plaza, ADB Avenue, Ortigas Center, Pasig City.

The summary of the financial information of the associates is as follows:

	ATEI		CFC	
	2019*	2018*	**2019***	2018*
Current assets	**₱13,067,541**	₱10,111,021	**₱117,023,745**	₱102,640,197
Non-current assets	**78,610,786**	83,202,783	**7,181,088**	18,155,967
Total assets	**91,678,327**	93,313,804	**124,204,833**	120,796,164
Current liabilities	**3,641,901**	4,903,530	**191,538**	1,234,721
Non-current liabilities	**–**	–	**–**	935,627
Total liabilities	**3,641,901**	4,903,530	**191,538**	2,170,348
Total equity	**88,036,426**	88,410,274	**124,194,235**	118,625,816
Net income (loss)	**751,031**	2,584,263	**(1,392,423)**	1,377,505
Other comprehensive income	**–**	–	**–**	16,110
Total comprehensive income (loss)	**751,031**	2,584,263	**(1,392,423)**	1,393,615

**Balances are unaudited*

Subsidiary

AFPGEN operates as a nonlife insurance company. In 2019, AFPGEN applied with the IC for the conversion of its license as a servicing insurance company. IC approved the application and issued a license to AFPGEN as a servicing insurance company valid until December 31, 2021.

The summary of the financial information of the Subsidiary is as follows:

	2019	2018
Total assets	**₱831,821,384**	₱983,153,578
Total liabilities	**283,527,435**	375,704,918
Total equity	**548,293,949**	607,448,660
Total revenues	**101,425,593**	274,015,187
Net loss	**(66,102,292)**	(33,337,919)
Other comprehensive income	**6,946,581**	6,548,893
Total comprehensive loss	**(59,154,711)**	(26,789,026)

11. **Property and Equipment**

Movements of the account are as follows:

		2019						
	Note	**Land, Buildings and Land Improvements**	**Computer Equipment**	**Furniture, Fixtures and Other Equipment**	**Transportation Equipment**	**Computer Software**	**CIP**	**Total**
Cost								
Balance at beginning of year		**₱266,560,956**	**₱240,702,768**	**₱96,768,659**	**₱39,856,329**	**₱–**	**₱13,916,704**	**₱657,805,416**
Additions		**–**	**10,773,550**	**6,436,115**	**7,257,261**	**17,796,701**	**439,622**	**42,703,249**
Retirement/Disposals		**–**	**(1,694,411)**	**(538,419)**	**(58,600)**	**–**	**(9,851,199)**	**(12,142,629)**
Balance at end of year		**266,560,956**	**249,781,907**	**102,666,355**	**47,054,990**	**17,796,701**	**4,505,127**	**688,366,036**
Accumulated Depreciation								
Balance at beginning of year		**99,496,624**	**211,998,201**	**67,951,570**	**28,311,209**	**–**	**–**	**407,757,604**
Depreciation	21	**7,400,406**	**12,505,240**	**10,879,288**	**4,066,582**	**–**	**–**	**34,851,516**
Retirement/Disposals		**–**	**(1,623,654)**	**(371,545)**	**(58,600)**	**–**	**–**	**(2,053,799)**
Balance at end of year		**106,897,030**	**222,879,787**	**78,459,313**	**32,319,191**	**–**	**–**	**440,555,321**
Carrying Amount		**₱159,663,926**	**₱26,902,120**	**₱24,207,042**	**₱14,735,799**	**₱17,796,701**	**₱4,505,127**	**₱247,810,715**

		2018					
	Note	Land, Buildings and Land Improvements	Computer Equipment	Furniture, Fixtures and Other Equipment	Transportation Equipment	CIP	Total
Cost							
Balance at beginning of year		₱254,061,237	₱231,990,935	₱91,825,456	₱40,160,964	₱13,916,704	₱631,955,296
Additions		16,889,935	10,244,025	5,699,515	2,207,036	–	35,040,511
Retirement/Disposals		(4,390,216)	(1,532,192)	(756,312)	(2,511,671)	–	(9,190,391)
Balance at end of year		266,560,956	240,702,768	96,768,659	39,856,329	13,916,704	657,805,416
Accumulated Depreciation							
Balance at beginning of year		95,459,447	193,766,027	57,458,245	24,703,502	–	371,387,221
Depreciation	21	6,743,842	19,421,508	11,097,575	4,378,861	–	41,641,786
Retirement/Disposals		(2,706,665)	(1,189,334)	(604,250)	(771,154)	–	(5,271,403)
Balance at end of year		99,496,624	211,998,201	67,951,570	28,311,209	–	407,757,604
Carrying Amount		₱167,064,332	₱28,704,567	₱28,817,089	₱11,545,120	₱13,916,704	₱250,047,812

The carrying amount of the land amounted to ₱87.5 million in 2019 (and 2018).

12. **Other Assets**

This account consists of:

	2019	2018
Cash placements with closed local banks	**₱44,667,067**	₱44,667,067
Input VAT	**40,586,267**	51,661,892
Deposit for the acquisition of real estate property	**14,320,373**	14,320,373
Prepaid expenses	**9,380,350**	7,347,710
Unused supplies	**2,075,751**	3,655,635
Others	**5,762,565**	4,519,669
	116,792,373	126,172,346
Allowance for impairment losses	**(59,553,734)**	(59,553,734)
	₱57,238,639	₱66,618,612

The cash placements with closed local banks represent various deposits and money market placements which cannot be withdrawn due to banks' closure.

Input VAT pertains to the 12% input tax on expenses incurred such as professional fees and communication expenses.

Prepaid expenses consist of prepayments on insurance and subscriptions.

Others pertain to receivable from ceding companies for funds withheld and prepaid documentary stamp tax.

Allowance for impairment loss pertain to cash placements with closed local banks and deposit for the acquisition of real estate property amounting to ₱59.5 million as at December 31, 2019 (and 2018).

13. **Accounts Payable and Accrued Expenses**

This account consists of:

	Note	**2019**	2018
Accounts payable – refund		**₱249,298,687**	₱309,676,431
Accounts payable		**76,548,250**	124,885,958
Accrued expenses		**66,675,854**	57,184,439
Security deposits		**59,226,565**	24,354,381
Subscription payable	23	**47,250,000**	47,250,000
Statutory payables		**25,720,840**	111,310,170
Experience refund		**17,090,323**	14,380,913
Commission payable		**7,817,457**	26,729,341
Replenishment in transit		**2,522,230**	2,508,230
Loans payable		**2,078,697**	1,538,322
Retention fee payable		**843,319**	984,740
Others		**18,881,252**	10,502,124
		₱573,953,474	₱731,305,049

Accounts payable - refund refers to the excess remittances of premiums and loan payments to the Association, which are refunded to the members.

Accounts payable consists of unreleased checks, due to finance centers and others

Accrued expenses pertain to costs already incurred but not yet paid by the Association. These mainly include accrual of utilities, services and other employee benefits.

Accounts payable and accrued expenses are normally settled through out the subsequent period.

Security deposits pertain to the amount of money the Association holds on behalf of the tenant for protection in case of any unpaid rent or damage to the investment properties.

Subscription payable pertains to the outstanding liability of the Association in relation to the subscribed preferred shares of AFPGEN.

Statutory payables consist of withholding tax, VAT and other payables to different government agencies which settled in the subsequent month.

Commission payable refers to the amount to be paid to the Association's accredited agents and field area managers for promoting its insurance and loan products.

14. Legal Policy Reserves

As at December 31, 2019, the legal policy reserves amounted to ₱13.0 billion (₱11.6 billion as at December 31, 2018). Increase in legal policy reserves recognized in profit or loss amounted to ₱1.4 billion (₱1.3 billion in 2018). The legal policy reserves were certified by the Association's consulting actuary, who is duly accredited by the IC.

Sensitivity Analysis

The analysis below is performed for a reasonable possible movement in key assumptions with all other assumptions held constant. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumption changes are presented individually.

The assumptions that have the greatest effect on the amounts presented in the separate financial statements and its impact therein are as follows:

	2019				
	Change in Assumptions	**Increase/ (Decrease) in Gross Liabilities**	**Increase/ (Decrease) in Net Liabilities**	**Increase/ (Decrease) in Profit before Tax**	**Increase/ (Decrease) in Fund Balance**
Mortality/mobility	**+10%**	**₱28,923,003**	**₱28,923,003**	**(₱28,923,003)**	**(₱28,923,003)**
	-10%	**(1,302,315)**	**(1,302,315)**	**1,302,315**	**1,302,315**
Discount rate	**+1%**	**(380,089,547)**	**(380,089,547)**	**380,089,547**	**380,089,547**
	-1%	**486,809,095**	**486,809,095**	**(486,809,095)**	**(486,809,095)**

	2018				
	Change in Assumptions	Increase/ (Decrease) in Gross Liabilities	Increase/ (Decrease) in Net Liabilities	Increase/ (Decrease) in Profit before Tax	Increase/ (Decrease) in Fund Balance
Mortality/mobility	+10%	₱10,097,747	₱10,097,747	(₱10,097,747)	(₱10,097,747)
	-10%	(11,238,816)	(11,238,816)	11,238,816	11,238,816
Discount rate	+1%	(303,859,546)	(303,859,546)	303,859,546	303,859,546
	-1%	353,356,662	353,356,662	(353,356,662)	(353,356,662)

15. Claims and Benefits Payable

Movements in this account follow:

	2019	2018
Balance at beginning of year	**₱499,095,051**	₱462,140,196
Death and other policy benefits incurred:		
Claims and benefits	**1,771,547,390**	1,519,627,587
Increase in IBNR	**29,313,328**	15,221,333
	1,800,860,718	1,534,848,920
Claims and benefits paid	**(1,723,887,747)**	(1,497,894,065)
Balance at end of year	**₱576,068,022**	₱499,095,051

16. Dividends Payable

At the option of the BOT of the Association, dividends are provided to members with participating option policies which have been in-force for at least three (3) years.

The movements of the Association's dividends payable are as follows:

	2019	2018
Balance at beginning of year	**₱487,413,193**	₱418,807,064
Dividends declared during the year	**104,905,746**	186,739,937
Dividends paid during the year	**(208,805,188)**	(118,133,808)
Balance at end of year	**₱383,513,751**	₱487,413,193

On November 26, 2018, the BOT declared payment of cash dividends amounting to ₱60.3 million to the Association's members which is equivalent to 3% of the members' 2017 reserve for members' equity value fund. In 2019, the dividend declaration was cancelled as a result of the IC's examination of the Association's free and unassigned surplus which can be declared as dividend.

17. Reserve for Members' Refund

As at December 31, 2019, reserve for members' refund amounted to ₱3.0 billion (₱2.5 billion as at December 31, 2018). This account pertains to refund to members upon their retirement, which is equivalent to 50% of membership dues collected on basic policies which have been in-force for at least three (3) years, plus 6% interest per annum.

The movements of this account follows:

	2019		
	Refund of Equity Value	**Refund of Members' Contribution**	**Total**
Balance at beginning of year	**₱2,425,823,235**	**₱94,064,950**	**₱2,519,888,185**
Contributions received	**468,636,977**	**4,502,339**	**473,139,316**
Incremental benefit reserve	**124,591,674**	**–**	**124,591,674**
Refund paid	**(81,614,879)**	**(7,502,852)**	**(89,117,731)**
Balance at end of year	**₱2,937,437,007**	**₱91,064,437**	**₱3,028,501,444**

	2018		
	Refund of Equity Value	Refund of Members' Contribution	Total
Balance at beginning of year	₱2,025,611,799	₱94,233,917	₱2,119,845,716
Contributions received	410,902,448	3,918,323	414,820,771
Incremental benefit reserve	84,664,823	–	84,664,823
Refund paid	(95,324,865)	(4,118,260)	(99,443,125)
Balance at end of year	₱2,425,823,235	₱94,033,980	₱2,519,888,185

18. **Members' Contribution**

Members' contribution represents amounts contributed by the members of the Association pertaining to old basic insurance, which was a previous requirement to avail membership to the Association.

As at December 31, 2019, members' contribution amounted to ₱80.7 million (₱84.6 million as at December 31, 2018). In 2019, decrease in members' contribution amounted to ₱3.9 million (decrease in members' contribution amounted to ₱3.2 million in 2018). Transfer to reserve for members' refund amounted to ₱4.5 million in 2019 (₱3.9 million in 2018).

19. **Accumulated Net Income**

As at December 31, 2019, the fund balance of the Association amounted to ₱8.3 billion (₱7.2 billion as at December 31, 2018).

Assigned Accumulated Income
The composition of assigned accumulated net income, as approved by the BOT, follows:

	2019	2018
Corporate social responsibility	**₱110,000,000**	₱110,000,000
Capacity building	**74,924,289**	–
Member's equity dividend (3%)	**60,280,000**	–
Upgrading of systems, equipment and facilities	**50,000,000**	–
Capital expenditures	**36,000,000**	77,000,000
Trainings and seminars	**5,515,000**	7,000,000
	₱336,719,289	₱194,000,000

Unassigned Accumulated Income
Unassigned accumulated income pertains to free and unassigned surplus of the Association which can be distributed to the members in the form of dividend.

Unassigned accumulated income, excluding the amount of unrealized gains on fair value of investment properties and employee benefit reserve, shall not exceed the maximum limit specified in Section 408 of the Amended Insurance Code, which states that "A mutual benefit association shall only maintain free and unassigned surplus of not more than 20% of its total liabilities as verified by the Commissioner."

As at December 31, 2019, the Association has complied with the requirement on limit of unassigned accumulated income based on the Management's internal computation.

As at December 31, 2018, the Association has complied with the above requirement as verified by the IC.

20. **Premiums,** Net of Reinsurance

This account consists of:

	2019	2018
Gross premiums on:		
Permanent insurance plans	**₱3,134,200,569**	₱2,690,266,919
Basic policies	**447,933,623**	374,476,386
Group insurance	**137,776,412**	135,707,068
Special group term insurance	**26,253,806**	25,076,244
	3,746,164,410	3,225,526,617
Less reinsurance premiums ceded	**(558,099)**	(558,736)
	₱3,745,606,311	₱3,224,967,881

21. **General and Administrative Expenses**

This account consists of:

	Note	**2019**	2018
Salary and employee benefits		**₱404,197,327**	₱374,915,537
Donations and contributions		**102,427,848**	89,194,362
Taxes and licenses		**98,517,617**	52,839,630
Provision for impairment losses	5, 8	**84,680,203**	64,009,658
Promotional and business development		**55,554,268**	32,275,240
Transportation and travel		**35,871,255**	33,396,060
Depreciation and amortization	11	**34,851,516**	41,641,786
Repairs and maintenance		**22,632,438**	29,847,717
Communication		**16,572,163**	46,334,276
Representation and entertainment		**16,310,522**	16,335,018
Experience refund		**14,281,934**	13,402,509
Supplies		**12,847,434**	12,558,389
Collection incentive fee		**12,506,137**	9,434,152
Utilities		**9,789,203**	13,703,336
Meetings and conferences		**9,724,005**	11,131,506
Rent		**9,222,026**	7,915,816
Manpower service fees		**7,511,285**	22,692,012
Professional fees		**6,992,241**	14,230,544
Directors' fees		**6,718,287**	8,845,739
Interest		**5,285,676**	5,066,406
Seminar and training		**3,127,994**	2,782,452
Litigation		**848,711**	7,838,221
Brokers' fees		**258,218**	101,178
Others		**48,472,964**	62,129,526
		₱1,019,201,272	₱972,621,070

Others include service charges, professional fees, and other miscellaneous expenses.

Salaries and employee benefits consist of:

	Note	2019	2018
Salaries and allowances		**₱235,176,268**	₱216,196,365
Employee benefits		**140,494,714**	127,682,512
Retirement benefit	22	**28,526,345**	31,036,660
		₱404,197,327	₱374,915,537

22. **Net Retirement Liability**

The Association has a funded, noncontributory and defined benefit retirement plan covering all qualified officers and employees. Under this plan, normal retirement age is 60. Normal retirement benefit consists of a lump sum benefit equivalent to 150% of basic monthly salary at the time of retirement for each year of service provided that the employee has rendered at least five (5) years of service.

For early retirement, the benefit is equivalent to 50% of the employee's monthly basic salary for every year of service with the rate progressing to a maximum of 150% of basic monthly salary. Death and disability benefit on the other hand, shall be determined on the same basis as in normal retirement. The latest actuarial valuation date is as at December 31, 2019 which was performed by the Association's external actuaries.

The following tables summarize the components of retirement benefit expense recognized in the separate statement of comprehensive income, the movements and amounts recognized in the separate statement of financial position.

Retirement benefit expense recognized in the separate statement of comprehensive income and presented in "Salaries and employee benefit" account under "General and administrative expenses" for the years ended December 31 consists of:

	2019	2018
Current service cost	**₱16,883,893**	₱20,699,365
Net interest cost	**11,642,452**	10,337,295
	₱28,526,345	₱31,036,660

Net retirement liability recognized in the separate statement of financial position follows:

	2019	2018
Present value of defined benefit obligations	**₱360,546,013**	₱281,407,720
Fair value of retirement plan assets	**(127,005,775)**	(122,822,418)
	₱233,540,238	₱158,585,302

Changes in present value of defined benefits obligation are as follows:

	2019	2018
Balance at beginning of year	**₱281,407,720**	₱298,782,025
Remeasurement gain (loss) on defined benefits obligation	**50,335,432**	(52,090,699)
Current service cost	**16,883,893**	20,699,365
Interest cost	**20,520,601**	16,990,930
Benefits paid	**(8,601,633)**	(2,973,901)
Balance at end of year	**₱360,546,013**	₱281,407,720

Changes in fair value of retirement plan assets are as follows:

	2019	2018
Balance at beginning of year	**₱122,822,418**	₱117,942,424
Benefits paid	**(8,601,633)**	(2,973,901)
Interest income	**8,878,149**	6,653,635
Remeasurement gain on plan assets	**3,906,841**	1,200,260
Balance at end of year	**₱127,005,775**	₱122,822,418

The cumulative remeasurement gain (loss) on net retirement liability recognized in other comprehensive income as at December 31 follows:

	2019	2018
Balance at beginning of year	**(₱34,519,224)**	(₱87,810,183)
Remeasurement gain (loss)	**(46,428,591)**	53,290,959
Balance at end of year	**(₱80,947,815)**	(₱34,519,224)

There is no expected contribution to the defined benefit retirement plan of the Association in 2020.

The major categories of plan assets are as follows:

	2019	2018
Cash and cash equivalents	**₱1,416,135**	₱1,863,522
Short-term investments	**15,846,233**	12,190,743
AFS financial assets	**49,359,034**	44,433,150
Receivables - net	**61,374,389**	64,566,089
Accounts payable and accrued expenses	**(990,018)**	(231,086)
	₱127,005,775	₱122,822,418

The plan exposes Association to the following risks:

- *Salary risk* - any increase in the retirement plan participants' salary will increase the retirement plan's liability.

- *Longevity risk* - any increase in the plan participants' life expectancy will increase the retirement plan's liability.

- *Interest rate risk* - a decrease in the bond interest rate will increase the present value of the retirement liability. However, partially counterbalanced by an increase in the return on the plan assets.

- *Investment risk* - if the actual return on plan assets is below the discount rate used in calculating the present value of the retirement liability, a plan deficit will arise. However, the compositions of plan assets are balanced enough not to expose the School to significant concentrations of investment risk.

The principal assumptions used to determine the net retirement liability are as follows:

	2019	2018
Discount rates	**4.89%**	7.34%
Salary increase rate	**7.00%**	7.00%

Assumptions regarding future mortality and disability used by the Association have been based on the adjusted 1994 Group Annuity Table and 1952 Disability Study, period 2, Benefit 5, respectively.

Sensitivity analysis based on reasonably possible changes of the assumptions on net retirement liability as at December 31, 2019 are as follows:

	Change in Assumption	Effect on Net Retirement Liability	Present Value of Net Retirement Liability
Discount rate	+1.0%	(₱24,665,130)	₱335,880,883
	-1.0%	28,419,767	388,965,780
Salary increase rate	+1.0%	27,542,305	388,088,318
	-1.0%	(24,424,314)	336,121,699

The BOT reviews the level of funding required for the retirement fund. Such review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Association's ALM objective is to match maturities of the plan assets to the retirement obligation as they fall due. The Association monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation.

Maturity analysis of the benefit payments are as follows:

Period	**2019**	2018
Carrying Amount	**₱360,546,013**	₱281,407,720
Contractual Cash Flows	**1,481,682,139**	1,402,842,893
Within 1 Year	**19,264,805**	15,611,071
Within 1-5 Years	**169,095,318**	140,722,702
More than 5 Years	**1,293,322,017**	1,246,509,120
	₱3,323,910,292	₱3,087,093,506

The weighted average duration of the defined benefit obligation is 13 years.

23. **Related Party Transactions**

Related party relationships exist when one (1) party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the enterprise and its key management personnel (KMP), trustees, or its members. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

In the normal course of business, the Association has transactions with its related parties as follows:

Category/Transaction	**Year**	**Note**	**Amount of transaction**	**Outstanding Balance**	**Terms**	**Conditions**
Subsidiary						
Insurance expense	**2019**	**a**	**₱267,655**	**₱–**	–	–
	2018	a	3,831,279	–	–	–
Rental income	**2019**	**b**	**190,223**	–	–	–
	2018	b	424,639	–	–	–
Subscription payable (see Note 13)	**2019**	**c**	–	**47,250,000**	**On demand; non-interest bearing**	**Unsecured**
	2018	c	–	47,250,000	On demand; non-interest bearing	Unsecured
Total	**2019**			**₱47,250,000**		
Total	2018			₱47,250,000		

a.) The Association has a motor car and fidelity bond insurance agreement with its Subsidiary amounting to ₱0.3 million in 2019 (₱3.8 million in 2018).

In addition, the Association contracted the Subsidiary for a fire insurance agreement covering real estate properties of borrowers who were granted mortgage and housing loans. Monthly amortization for the fire insurance is shouldered by the borrowers.

b.) In 2018, the Subsidiary entered into a lease agreement with the Association for its extension office. Rental income included in the separate statements of comprehensive income amounted to ₱0.2 million in 2019 (₱0.4 million in 2018).

c.) In 2017, the Association entered a subscription agreement with its Subsidiary. The former subscribed for ₱275.0 million of the latter's redeemable preference shares and paid ₱227.5 million. The remaining subscription payable to the Subsidiary amounted to ₱47.3 million as at December 31, 2019 (and 2018).

<u>Compensation of Key Management Personnel</u>

The compensation of key management personnel pertaining to short-term employee benefits amounted to ₱6.4 million in 2019 (₱9.4 million in 2018).

24. **Income Tax**

The Association is a non-stock, non-profit corporation organized for mutual aid as contemplated under Section 30(C) of the Tax Code of 1997. As such, it is exempt from the payment of income tax on income received by it as such organization, including the premium income and interest income from loans extended to its members.

The current income tax expense in 2019 represents regular corporate income tax on rental and other income.

The Association's deferred tax liability pertaining to cumulative fair value gain on investment properties held to earn rental amounted to ₱583.0 million and ₱546.5 million as at December 31 2019 and 2018, respectively. Deferred tax expense recognized amounted to ₱36.5 million and ₱16.8 million in 2019 and 2018, respectively.

The reconciliation of provision for income tax computed using statutory tax rate and provision for income tax shown in the separate statement of comprehensive income follows:

	2019	2018
Provision for income tax at statutory tax rate	**₱327,157,382**	₱238,975,566
Tax relief availment on exempt activities	**(188,851,688)**	(190,316,788)
Income tax effects of:		
Interest income subjected to final tax	**(103,380,944)**	(70,976,836)
Nondeductible expenses	**86,219,699**	77,728,983
Nontaxable income	**(64,747,785)**	(38,652,325)
	₱56,396,664	₱16,758,600

25. **Insurance and Financial Risk Management Objectives and Policies**

Insurance Risk

Nature of Risk

The principal risk the Association faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differs from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid 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.

Insurance risk includes premium/benefits risk, actuarial reserve risk and reinsurance risk. Premium/benefits risk is the risk of having to pay, from a premium that may be fixed for a specific term, benefits that can be affected by uncontrollable event when they become due. Adequacy of the actuarial reserves is monitored by an in-house actuary on a regular basis in accordance with local regulations. Reinsurance risk arises from underwriting direct business or reinsurance business in relation to reinsurers and brokers.

Monitoring and Controlling

The Association regularly assesses the reserving methodology in accordance with local regulations. Underwriting guidelines and limits for insurance and reinsurance contracts have been well established to clearly regulate responsibility and accountability.

Frequency and Severity of Claims

The frequency and severity of claims is dependent on the type of contracts as follows:

a. For contracts where death is the insured risk, the most significant factor would be epidemics that result in earlier or more claims than expected;

b. For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted; and

c. For contracts with discretionary participating feature, the participating nature of these insurance contracts results in a portion of the insurance risk being shared with the insured party.

The Association manages these risks through its underwriting strategy and reinsurance program. However, the risk is also dependent on the policyholders' right to pay reduced or no future premiums, or to terminate the contract completely.

The following represents the Association's concentration of insurance risk as at December 31:

	2019		2018	
	Exposure, Net of Reinsurance	**Concentration**	Exposure, Net of Reinsurance	Concentration
Individual	**₱36,467,611,784**	**98.55%**	₱27,771,887,059	98.11%
Group	**534,850,000**	**1.45%**	535,700,000	1.89%
	₱37,002,461,784	**100%**	₱28,307,587,059	100.00%

Classification by Attained Age (Based on 2019 Data of In-force Policies)

The tables below present the concentration of risk across the 14 age brackets. For individual insurance, exposure is concentrated on age brackets less than 20 and from 25-29 to 40-44. For group insurance, exposure is concentrated on age brackets from 25-29 to 35-39 and from 45-49 to 55-59.

	Individual			
	Gross of Reinsurance		**Net Reinsurance**	
Attained Age	**Exposure**	**Concentration (%)**	**Exposure**	**Concentration (%)**
<20	**₱6,179,079,708**	**16.94%**	**₱6,179,079,708**	**16.94%**
20-24	**2,404,033,733**	**6.59%**	**2,404,033,733**	**6.59%**
25-29	**7,413,758,867**	**20.33%**	**7,413,758,867**	**20.33%**
30-34	**6,902,481,246**	**18.93%**	**6,902,481,246**	**18.93%**
35-39	**4,846,863,986**	**13.29%**	**4,846,863,986**	**13.29%**
40-44	**4,124,618,219**	**11.31%**	**4,124,618,219**	**11.31%**
45-49	**2,583,536,107**	**7.08%**	**2,583,536,107**	**7.08%**
50-54	**1,515,859,848**	**4.16%**	**1,515,859,848**	**4.16%**
55-59	**345,496,765**	**0.95%**	**345,496,765**	**0.95%**
60-64	**85,558,344**	**0.23%**	**85,558,344**	**0.23%**
65-69	**32,526,482**	**0.09%**	**32,526,482**	**0.09%**
70-74	**17,077,500**	**0.05%**	**17,077,500**	**0.05%**
75-79	**7,480,490**	**0.02%**	**7,480,490**	**0.02%**
80+	**9,240,489**	**0.03%**	**9,240,489**	**0.03%**
Total	**₱36,467,611,784**	**100.00%**	**₱36,467,611,784**	**100.00%**

	Group			
	Gross of Reinsurance		**Net Reinsurance**	
Attained Age	**Exposure**	**Concentration (%)**	**Exposure**	**Concentration (%)**
<20	**₱–**	**–**	**₱–**	**–**
20-24	**31,000,000**	**5.80%**	**31,000,000**	**5.80%**
25-29	**64,650,000**	**12.09%**	**64,650,000**	**12.09%**
30-34	**71,950,000**	**13.45%**	**71,950,000**	**13.45%**
35-39	**50,550,000**	**9.45%**	**50,550,000**	**9.45%**
40-44	**51,550,000**	**9.64%**	**51,550,000**	**9.64%**
45-49	**71,450,000**	**13.36%**	**71,450,000**	**13.36%**
50-54	**90,700,000**	**16.96%**	**90,700,000**	**16.96%**
55-59	**90,550,000**	**16.93%**	**90,550,000**	**16.93%**
60-64	**11,700,000**	**2.19%**	**11,700,000**	**2.19%**
65-69	**750,000**	**0.14%**	**750,000**	**0.14%**
70-74	**–**	**0.00%**	**–**	**0.00%**
75-79	**–**	**0.00%**	**–**	**0.00%**
80+	**–**	**0.00%**	**–**	**0.00%**
Total	**₱534,850,000**	**100.00%**	**₱534,850,000**	**100.00%**

Classification by Attained Age (Based on 2018 Data of In-force Policies)

The tables below present the concentration of risk across the 14 age brackets. For individual insurance, exposure is concentrated on age brackets less than 20 and from 25-29 to 40-44. For group insurance, exposure is concentrated on age brackets from 25-29 to 35-39 and from 45-49 to 55-59.

	Individual			
	Gross of Reinsurance		Net Reinsurance	
Attained Age	Exposure	Concentration (%)	Exposure	Concentration (%)
<20	₱6,266,766,910	18.36%	₱6,266,766,910	18.36%
20-24	2,887,976,956	8.46%	2,887,976,956	8.46%
25-29	6,737,966,064	19.74%	6,737,966,064	19.74%
30-34	5,844,991,038	17.13%	5,844,991,038	17.13%
35-39	4,742,075,722	13.89%	4,742,075,722	13.89%
40-44	3,583,052,010	10.50%	3,583,052,010	10.50%
45-49	2,298,709,839	6.74%	2,298,709,839	6.74%
50-54	1,356,626,480	3.98%	1,356,626,480	3.98%
55-59	278,561,137	0.82%	278,561,137	0.82%
60-64	73,145,261	0.21%	73,145,261	0.21%
65-69	30,548,252	0.09%	30,548,252	0.09%
70-74	13,617,428	0.04%	13,617,428	0.04%
75-79	7,409,170	0.02%	7,409,170	0.02%
80+	8,370,107	0.02%	8,370,107	0.02%
Total	₱34,129,816,374	100.00%	₱34,129,816,374	100.00%

	Group			
	Gross of Reinsurance		Net Reinsurance	
Attained Age	Exposure	Concentration (%)	Exposure	Concentration (%)
<20	₱–	–	₱–	–
20-24	37,150,000	6.95%	37,150,000	6.95%
25-29	76,550,000	14.32%	76,550,000	14.32%
30-34	59,450,000	11.12%	59,450,000	11.12%
35-39	56,900,000	10.64%	56,900,000	10.64%
40-44	44,750,000	8.37%	44,750,000	8.37%
45-49	80,800,000	15.11%	80,800,000	15.11%
50-54	94,300,000	17.64%	94,300,000	17.64%
55-59	77,500,000	14.50%	77,500,000	14.50%
60-64	7,200,000	1.35%	7,200,000	1.35%
65-69	–	0.00%	–	0.00%
70-74	–	0.00%	–	0.00%
75-79	–	0.00%	–	0.00%
80+	–	0.00%	–	0.00%
Total	₱534,600,000	100.00%	₱534,600,000	100.00%

Source of Uncertainty in the Estimation of Future Claim Payment

Estimation of future claim payments and premium receipts is subject to unpredictability of changes in mortality and morbidity levels. The Association adopts standard industry data in assessing future benefit payments and premium receipts as approved by the IC. Adjustments are made, if necessary, according to the experience of the Association.

For individual life insurance, no adjustment is made by the Association to the standard mortality table. For group life, accident and health insurance, the mortality table is adjusted to reflect the Association's actual and projected experiences which are given weights or credibility depending on the amount and length of exposure under consideration. The Association currently monitors its actual experience on individual business on a per policy basis and on an aggregate basis, and reporting the same to management.

The liability for these contracts comprises the IBNR provision, a provision for reported claims not yet paid and a provision for unexpired risk at reporting dates. The IBNR provision is based on historical experience and is subject to a degree of uncertainty.

Financial Risk Management Objectives and Policies

The Association's risk management program is a continuing, proactive and systematic process that focuses on the identification and assessment of risks. To enable management to make strategic and informed decisions, the Association recognizes the importance of an effective financial risk management program.

The BOT adopted a number of policies to address these financial risks and their effects on financial performance. Risk management is carried out by the Finance Department and significant exposures are discussed in the BOT meetings.

The Association is exposed to financial risk through its financial assets and financial liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations to the Association's members and policyholders. The most important components of this financial risk are credit risk, liquidity risk and market risk.

Credit Risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Association manage the level of credit risk it accepts through a comprehensive credit risk setting out the assessment and determination of what constitutes credit risk for the Association; setting up of exposure limits by each counterparty or group of counterparties; right of offset where counterparties are both debtors and creditors; reporting of credit risk exposures; monitoring compliance with credit policy; and review of credit risk policy for pertinence and changing environment.

In respect of investment securities, the Association secures satisfactory credit quality by setting maximum limits of portfolio securities with a single or group of issuers, excluding those secured on specific assets and setting the minimum ratings for the issuer.

The Association set the maximum amounts and limits that may be advanced to/placed with individual corporate counterparties which are set by reference to their long term ratings.

Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties. Commissions due to intermediaries are netted off against amounts receivable from them to reduce the risk of doubtful debts. The credit risk in respect of member balances, incurred on nonpayment of fees, will only persist during the grace period specified in the agreement.

The Association strictly monitors the status of the financial assets and regularly evaluate the financial condition of the counterparties, provide the necessary allowance to the extent of the amount deemed unrecoverable.
The table below summarizes the Association's maximum exposure to credit risk for each class of financial assets as at December 31:

	2019	2018
Cash in banks and cash equivalents	**₱756,228,410**	₱1,494,289,309
Short-term investments	**2,252,598,556**	2,047,878,268
HTM investments	**7,347,135,107**	4,400,369,567
Loan receivables*	**9,591,145,737**	9,516,483,082
Premium receivables from members	**51,903,965**	4,568,647
Other receivables**	**432,358,059**	358,630,501
	₱20,431,369,834	₱17,822,219,374

**Net of allowance for impairment losses amounting to ₱383.3 million and ₱298.8 million as at December 31, 2019 and 2018, respectively.*
***Net of allowance for impairment losses amounting to ₱3.9 million as at December 31, 2019 and 2018.*

The Association's concentration of credit risk arises from its loan receivables and its investments in corporate and government debt securities. Loan receivables which amounted to ₱9.6 billion and ₱9.5 billion represent 35.51% and 39.47% of its total assets as at December 31, 2019 and 2018, respectively, while investments in corporate and government debt securities which amounted to ₱7.3 billion and ₱4.4 billion represents 27.21% and 18.25% of its total assets as at December 31, 2019 and 2018, respectively.

The amount of secured loans amounted to ₱5.4 billion as at December 31, 2019 (₱5.1 billion as at December 31, 2018) (see Note 5).

The table below provides information regarding the credit quality of the Association by classifying assets according to the Association's credit ratings of counterparties:

	December 31, 2019			
	Neither Past Due nor Impaired			
	Investment High Grade	**Non-investment Grade Satisfactory**	**Past Due**	**Total**
Cash in banks and cash equivalents	**₱756,228,410**	**₱–**	**₱–**	**₱756,228,410**
Short-term investments	**2,252,598,556**	**–**	**–**	**2,252,598,556**
HTM investments	**7,347,135,107**	**–**	**–**	**7,347,135,107**
Loans receivables	**8,431,267,804**	**–**	**1,543,242,189**	**9,974,509,993**
Premium receivables from members	**51,903,965**	**–**	**–**	**51,903,965**
Other receivables	**432,358,058**	**–**	**3,900,751**	**436,258,809**
Total	**₱19,271,491,900**	**₱–**	**₱1,547,142,940**	**₱20,818,634,840**

	December 31, 2018			
	Neither Past Due nor Impaired			
	Investment High Grade	Non-investment Grade Satisfactory	Past Due	Total
Cash in banks and cash equivalents	₱1,494,289,309	₱–	₱–	₱1,494,289,309
Short-term investments	2,047,878,268	–	–	2,047,878,268
HTM investments	4,400,369,567	–	–	4,400,369,567
Loan receivables	8,346,185,279	–	1,469,115,838	9,815,301,117
Premium receivables from members	4,568,647	–	–	4,568,647
Other receivables	358,630,501	–	3,900,750	362,531,251
Total	₱16,651,921,571	₱–	₱1,473,016,588	₱18,124,938,160

The Association use a credit rating concept based on the borrowers and counterparties' overall creditworthiness, as described below:

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

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

Past Due but not Impaired
These are financial assets where contractual interest or principal repayment are past due but the Association believe impairment is not appropriate on the basis of the level of collateral available or status of collection of amounts owed to the Association.

Past Due and Impaired
These are financial assets which the Association determine that it is probable that it will be unable to collect all principal and interest due based on the contractual terms of the instruments agreement.

In accordance with the foregoing credit rating framework, the Association has arrived at the following analysis of financial assets that are past due:

	December 31, 2019						
	Age Analysis of Financial Assets past Due but not Impaired				Total Past Due but not Impaired	Past Due and Impaired	Total
	7 to 12 Mos	13 to 24 Mos	25 to 36 Mos	>36 Mos			
Financial assets:							
Loan receivables	₱259,586,704	₱344,167,320	₱155,758,399	₱400,365,510	₱1,159,877,933	₱383,364,256	₱1,543,242,189
Other receivables	–	–	–	–	–	3,900,750	3,900,750
Total	**₱259,588,704**	**₱344,167,320**	**₱155,758,399**	**₱400,365,510**	**₱1,159,877,933**	**₱387,265,006**	**₱1,547,142,939**

	December 31, 2018						
	Age Analysis of Financial Assets past Due but not Impaired				Total Past Due but not Impaired	Past Due and Impaired	Total
	7 to 12 Mos	13 to 24 Mos	25 to 36 Mos	>36 Mos			
Financial assets:							
Loan receivables	₱261,920,743	₱347,259,179	₱157,157,669	₱403,960,212	₱1,170,297,803	₱298,818,035	₱1,469,115,838
Other receivables	–	–	–	–	–	3,900,750	3,900,750
Total	₱261,920,743	₱347,259,179	₱157,157,669	₱403,960,212	₱1,170,297,803	₱302,718,786	₱1,473,016,588

Liquidity Risk

Liquidity of funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparties failing on repayment of contractual obligations; or liabilities failing due for payments earlier than expected; or inability to generate cash inflows as anticipated.

The Association manages liquidity risks through specifying a minimum proportion of funds to meet operational requirements; specifying the sources of funding; concentration of funding sources; reporting of liquidity risk exposures; monitoring compliance with liquidity risk policy; and reviewing the liquidity risk policy for pertinence and changing environment.

The tables below present the financial assets and liabilities of the Association into their relevant maturity groups using contractual undiscounted amounts based on the remaining period at the reporting dates to their contractual maturities or based on the estimated timing of the net cash outflows:

	December 31, 2019			
	Due and Demandable and within one (1) year *	**1-5 Years**	**Over 5 Years**	**Total**
Cash and cash equivalents	**₱756,228,410**	**₱–**	**₱–**	**₱756,228,410**
Short-term investments	**2,252,598,556**	**–**	**–**	**2,252,598,556**
Financial assets at FVPL	**38,815,745**	**–**	**–**	**38,815,745**
AFS financial assets	**2,181,712,447**	**–**	**–**	**2,181,712,447**
HTM investments	**563,051,611**	**4,306,392,704**	**2,477,690,792**	**7,347,135,107**
Loan receivables	**9,591,145,737**	**–**	**–**	**9,591,145,737**
Premium receivables from members	**51,903,965**	**–**	**–**	**51,903,965**
Other receivables	**432,358,059**	**–**	**–**	**432,358,059**
Total Financial Assets	**15,867,814,530**	**4,306,392,704**	**2,477,690,792**	**22,651,898,026**

(Forward)

	December 31, 2019			
	Due and Demandable and within one (1) year *	**1-5 Years**	**Over 5 Years**	**Total**
Claims and benefits payable	**576,068,022**	**–**	**–**	**576,068,022**
Accounts payable and accrued expenses*	**548,232,634**	**–**	**–**	**548,232,634**
Dividends payable	**383,513,751**	**–**	**–**	**383,513,751**
Reserve for members' refund	**3,028,501,444**	**–**	**–**	**3,028,501,444**
Total Financial Liabilities	**4,536,315,851**	**–**	**–**	**4,536,315,851**
Net Liquidity	**₱11,331,498,679**	**₱4,306,392,704**	**₱2,477,690,792**	**₱18,115,582,175**

**Excluding government payable amounting to ₱25.7 million.*

	December 31, 2018			
	Due and Demandable and within one (1) year*	1-5 Years	Over 5 Years	Total
Cash and cash equivalents	₱1,494,589,309	₱–	₱–	₱1,494,589,309
Short-term investments	2,047,878,268	–	–	2,047,878,268
Financial assets at FVPL	23,447,846	–	–	23,447,846
AFS financial assets	2,088,501,205	–	–	2,088,501,205
HTM investments	143,819,634	3,083,919,320	1,172,630,613	4,400,369,567
Loan receivables	8,608,106,022	908,377,060	–	9,516,483,082
Premium receivables from members	4,568,647	–	–	4,568,647
Other receivables	358,630,501	–	–	358,630,501
Total Financial Assets	14,769,541,432	3,992,296,380	1,172,630,613	19,934,468,425
Claims and benefits payable	499,095,051	–	–	499,095,051
Accounts payable and accrued expenses*	619,994,879	–	–	619,994,879
Dividends payable	487,413,193	–	–	487,413,193
Reserve for members' refund	2,519,888,185	–	–	2,519,888,185
Total Financial Liabilities	4,126,391,308	–	–	4,126,391,308
Net Liquidity	₱10,643,150,124	₱3,992,296,380	₱1,172,630,613	₱15,808,077,117

**Excluding government payable amounting to ₱111.3 million.*

Market Risk

Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

Market risk is the risk to an institution's financial condition from volatility in the price movements of the assets contained in a portfolio. Market risk represents what the Association would lose from price volatilities. Market risk can be measured as the potential loss in a position or portfolio that is associated with a price movement of a given probability over a specified time horizon.

The Association manages market risk by evenly distributing capital among investment instruments and sectors.

The Association structure levels of market risk it accepts through a sound market risk policy based on specific guidelines set by an Investment Committee. This policy constitutes certain limits on exposure of investments mostly with top-rated banks, which are selected on the basis of the bank's credit ratings, capitalization and quality servicing being rendered to the Association. Also, the said policy includes diversification benchmarks of investment portfolio to different investment types duly approved by the IC, asset allocation reporting and portfolio limit structure. Moreover, control of relevant market risks can be addressed through compliance reporting of market risk exposure to the IC, regular monitoring and review of the Association's investments performance and upcoming investment opportunities for pertinent and changing environment.

Currency Risk
Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Association having no material transaction in foreign currency and financial assets or liabilities denominated in foreign currency is not significantly exposed to currency risk.

Interest Rate Risk
The management of interest rate risk involves maintenance of appropriate blend of financial instruments with consideration of its maturity profile. Exposures to interest rate risk comprise the following:

	December 31, 2019				
		Due in			
	Interest Rate	1 Year	2-5 Years	Beyond 5 Years	Total
Financial Assets					
Cash in banks and cash equivalents	**1.78% to 4.36%**	**₱756,228,410**	**₱–**	**₱–**	**₱756,228,410**
Short-term investments	**2.64% to 7.00%**	**2,252,598,556**	**–**	**–**	**2,252,598,556**
HTM investments	**3.25% to 7.38%**	**563,051,611**	**4,306,392,704**	**2,477,690,792**	**7,347,135,107**
Loans receivables					
Salary and other loans	**6.00% to 10.00%**	**7,181,878,714**	**704,309,245**	**270,774,026**	**8,156,961,985**
Real estate loans	**6.00% to 12.00%**	**1,817,548,008**	**–**	**–**	**1,817,548,008**
		₱12,571,305,299	**₱5,010,701,949**	**₱2,748,464,818**	**₱20,330,472,066**

	December 31, 2018				
		Due in			
	Interest Rate	1 Year	2-5 Years	Beyond 5 Years	Total
Financial Assets					
Cash in banks and cash equivalents	0.40% to 6.00%	₱1,494,289,309	₱–	₱–	₱1,494,289,309
Short-term investments	1.13% to 6.00%	2,047,878,268	–	–	2,047,878,268
HTM investments	3.25% to 7.38%	143,819,634	3,083,919,320	1,172,603,613	4,400,342,567
Loan receivables					
Salary and other loans	6.00% to 10.00%	7,113,376,850	697,591,435	268,191,342	8,079,159,627
Real estate loans	6.00% to 12.00%	1,494,729,171	210,785,626	30,626,693	1,736,141,490
		12,294,093,232	3,992,296,381	1,471,421,648	17,757,811,261

The Association is not significantly affected by changes in interest rates because of its immaterial exposure on the revaluation of financial assets subject to interest rate risk.

Price Risk
The Association's price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, listed equity securities classified as FVPL and AFS financial assets.

Such investment securities are subject to price risk due to changes in market values of instruments arising from factors specific to individual instruments of their issuers or factors affecting all instruments traded in the market.

The Association's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plan, and limits on investments in each sector and market.

A 5% increase in stock prices would have increases carrying values of the investments of the Association by ₱111.9 million as at December 31, 2019 and (₱105.5 million as at December 31, 2018). An equal change in the opposite direction would have decreased the carrying values of these investments by an equal but opposite amount.

The Association determined the reasonably possible change in Philippine Stock Exchange Index based on the historical fluctuation of equity securities the Association hold as at the reporting date in 2019 (and 2018).

Fair Value of Financial Instruments
The table below presents a comparison by category of carrying amounts and fair values of all the Association's financial instruments that are carried in the separate financial statements as at December 31, 2019 and 2018:

	2019		2018	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**₱756,788,410**	**₱756,788,410**	₱1,494,589,309	₱1,494,589,309
Short-term investments	**2,252,598,556**	**2,252,598,556**	2,047,878,268	2,047,878,268
Financial assets at FVPL	**38,815,745**	**38,815,745**	23,447,846	23,447,846
AFS financial assets	**2,181,712,447**	**2,181,712,447**	2,088,501,205	2,088,501,205
HTM investments	**7,347,135,107**	**7,494,974,814**	4,400,369,567	4,408,558,205
Loan receivables	**9,591,145,737**	**9,591,145,737**	9,516,483,082	9,516,483,082
Premium receivables from members	**51,903,965**	**51,903,965**	4,568,647	4,568,647
Other receivables	**432,358,059**	**432,358,059**	358,630,501	358,630,501
	₱22,652,458,026	**₱22,800,297,733**	₱19,934,468,425	₱19,942,657,063
Financial Liabilities				
Claims and benefits payable	**₱576,068,022**	**₱576,068,022**	499,095,051	499,095,051
Accounts payable and accrued expenses*	**548,232,634**	**548,232,634**	619,994,879	619,994,879
Dividends payable	**383,513,751**	**383,513,751**	487,413,193	487,413,193
Reserve for members' refund	**3,028,501,444**	**3,028,501,444**	2,519,888,185	2,519,888,185
	₱4,536,315,851	**₱4,536,315,851**	₱4,126,391,308	₱4,126,391,308

**Excluding government payables amounting to ₱45.7 million in 2019 (₱111.3 million in 2018).*

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- Cash and cash equivalents, short-term investments, loan receivables (current), premium receivables from members, and other receivables and other financial liabilities - carrying amount approximate fair values at reporting dates due to the relative short-term maturities of these financial assets and liabilities.

- Financial assets at FVPL and AFS financial assets - fair values are based on quoted market prices. Investments in unquoted equity investments for which no reliable basis for fair value measurement are available are carried at cost, net of any allowance for impairment losses.

- HTM investments and loans receivables (non-current) - the fair values are determined by computing the present value of expected future cash flows of the loans using the predetermined market rate for similar instrument as discount rate.

Fair Value Hierarchy
The table below analyzes financial instruments carried at fair value, by valuation method as at December 31, 2019 and 2018.

	Level 1	Level 2	Level 3	Total
Financial assets at FVPL				
2019	**₱38,815,745**	**₱–**	**₱–**	**₱38,815,745**
2018	23,447,846	–	–	23,447,846
AFS financial assets				
2019	**2,178,712,447**	**–**	**3,000,000**	**2,181,712,447**
2018	2,085,501,205	–	3,000,000	2,088,501,205

There has been no transfer between levels in 2019 (and 2018).

AFS Financial Assets
Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology. The market price reference in determining the market values is derived from Bloomberg Valuation as at December 27, 2019 (and as at December 29, 2018).

26. **Capital Management Objectives, Policies and Procedures**

The Association has developed an internal risk management framework for identifying risks to which the Association as a whole is exposed, quantifying their impact on economic capital. The internal framework estimates how much capital is needed to mitigate the risk of insolvency to a selected remote level of risks applied to a number of tests (both financial and non-financial) on the capital position of the business.

The Association's capital management objectives are:

- to ensure the Association's ability to continue as a going concern; and
- to provide an adequate return to shareholders by complying with the capital requirements and limitation enforced by the IC and by aligning the Association's operational strategy to its corporate goals.

The Association considers the following as fund balance as at December 31:

	2019	2018
Members' contribution	**₱80,717,163**	₱84,616,599
Cumulative fair value changes on AFS financial assets	**192,922,916**	103,259,108
Accumulated net income	**8,157,029,236**	7,062,621,293
	₱8,430,669,315	₱7,250,497,000

The capital requirements and limitation are as follows:

Risk-Based Capital Requirements
As per IC memorandum Circular No. 11-2006, every mutual benefit entity is annually required to maintain a minimum Risk Based Capital (RBC) ratio of 100% and not to fail the trend test. RBC ratio is computed using the formula prescribed by the IC. The RBC requirement is determined after considering the admitted value of certain financial statement accounts whose final amounts can be determined only after the examination by the IC. Failure to meet the minimum RBC ratio shall subject the insurance Association to the corresponding regulatory intervention which has been defined at various levels.

On December 16, 2019, the Association's BOT declared payment of cash dividends to its members equivalent to 3% of the members' 2018 reserve for members' equity value fund aggregating to ₱220.1 million. The Association is still awaiting IC's approval as at the reporting date.

As at December 31, 2019, the Association has complied with the RBC ration requirements based on the examination of IC.

As at December 31, 2019, the Association has complied with the RBC ration requirements based on their internal computation.

Minimum Members' Equity Requirement
On March 10, 2017, the IC issued CL No. 2017-14 which discusses the minimum members' equity requirements for mutual benefit companies.

All mutual benefit companies duly licensed by the IC must have a total members' equity which shall remain unimpaired at all times as follows:

Minimum Total Members' Equity	Compliance Date
₱550,00,000	December 31, 2016
990,000,000	December 31, 2019
1,300,000,000	December 31, 2022

As at December 31, 2019 (and 2018), the Association is compliant with the minimum members' equity requirement.

27. **Lease Commitments**

a. Operating Leases - the Association as Lessors

The Association has entered into various lease agreements on its investment properties which it considers as operating lease. These have lease terms ranging from one (1) to 25 years. The lease may be renewed under mutually acceptable terms and conditions.

Future minimum rental income as at December 31, 2019 and 2018 are as follows:

	2019	2018
Not later than one year	**₱61,592,658**	₱61,592,658
Later than one year and not later than five years	**319,366,265**	319,366,265
More than five years	**1,196,983,285**	1,258,575,943
Total	**₱1,577,942,208**	₱1,639,534,866

Rental income amounted to ₱89.4 million in 2019 (₱105.4 million in 2018).

b. Operating Leases - the Association as Lessees

The Association leases the premises of its regional offices with various maturities that are renewable under certain terms and conditions. In 2019, total rent expense amounted to ₱9.2 million (₱7.9 million in 2018).

The basic lease period ranges from one (1) to five (5) years. Most of the lease agreements contain renewal options which provide for the right to extend the lease for varying periods at terms agreeable with the lessors.

The future minimum lease payments under non-cancellable operating leases are as follows:

	2019	2018
Not later than one year	**₱2,427,316**	₱3,350,899
Later than one year and not later than five years	**288,000**	2,427,316
More than five years	**–**	288,000
Total	**₱2,715,316**	₱6,066,215

28. **Maturity Profile of Assets and Liabilities**

The following table presents all assets and liabilities of the Association as at December 31, 2019 and 2018 analyzed according to when they are expected to be recovered or settled (based on contractual maturity).

	December 31, 2019			
	Within One Year	**Beyond One Year**	**No Term**	**Total**
Assets				
Cash and cash equivalents	**₱756,788,410**	**₱–**	**₱–**	**₱756,788,410**
Short-term investments	**2,252,598,556**	**–**	**–**	**2,252,598,556**
Financial assets at FVPL	**38,815,745**	**–**	**–**	**38,815,745**
AFS financial assets	**2,181,712,447**	**–**	**–**	**2,181,712,447**
HTM investments	**563,051,611**	**6,784,083,496**	**–**	**7,347,135,107**
Loans receivables	**8,675,641,901**	**915,503,836**	**–**	**9,591,145,737**
Premium receivables from members	**51,903,965**	**–**	**–**	**51,903,965**
Other receivables	**432,358,059**	**–**	**–**	**432,358,059**
Investment properties	**–**	**–**	**3,475,689,379**	**3,475,689,379**
Assets held-for-sale	**99,871,457**	**–**	**–**	**99,871,457**
Investments in a subsidiary and associates	**–**	**–**	**473,265,704**	**473,265,704**
Property and equipment	**–**	**247,810,715**	**–**	**247,810,715**
Other assets	**60,642,241**	**–**	**–**	**60,642,241**
	15,113,384,392	**7,947,398,047**	**3,948,955,083**	**27,009,737,522**
Liabilities				
Claims and benefits payable	**576,068,022**	**–**	**–**	**576,068,022**
Accounts payable and accrued expenses	**573,953,474**	**–**	**–**	**573,953,474**
Legal policy reserves	**1,080,806,783**	**11,572,530,778**	**126,804,865**	**12,780,142,426**
Dividends payable	**383,513,751**	**–**	**–**	**383,513,751**
Reserve for members' refund	**3,028,501,444**	**–**	**–**	**3,028,501,444**
Retirement liability	**–**	**233,540,238**	**–**	**233,540,238**
Other liabilities	**301,369,140**	**–**	**–**	**301,369,140**
	5,944,212,614	**11,806,071,016**	**126,804,865**	**17,877,088,495**
Net Assets	**₱9,169,171,778**	**(₱3,858,672,969)**	**₱3,822,150,218**	**₱9,132,649,027**

	December 31, 2018			
	Within One Year	Beyond One Year	No Term	Total
Assets				
Cash and cash equivalents	₱1,494,589,309	₱–	₱–	₱1,494,589,309
Short-term investments	2,047,878,268	–	–	2,047,878,268
Financial assets at FVPL	23,447,846	–	–	23,447,846
AFS securities	2,088,501,205	–	–	2,088,501,205
HTM investments	143,819,634	4,256,549,933	–	4,400,369,567
Loan receivables	8,608,106,022	908,377,060	–	9,516,483,082
Premium receivables from members	4,568,647	–		4,568,647
Other receivables	358,630,501	–	–	358,630,501
Investment properties	–	–	3,271,887,655	3,271,887,655
Assets held-for-sale	116,051,809	–	–	116,051,809
Investments in a subsidiary and associates – net	–	–	473,265,704	473,265,704
Property and equipment	–	250,047,812	–	250,047,812
Other assets	66,618,612	–	–	66,618,612
	14,952,211,853	5,414,974,805	3,745,153,359	24,112,340,017
Liabilities				
Claims and benefits payable	499,095,051	–	–	₱499,095,051
Accounts payable and accrued expenses	731,305,049	–	–	731,305,049
Legal policy reserves	972,407,589	10,421,793,810	161,458,259	11,555,659,658
Dividends payable	487,413,193	–	–	487,413,193
Reserve for members' refund	2,519,888,185	–	–	2,519,888,185
Retirement liability	–	158,585,302	–	158,585,302
Other liabilities	397,884,940	–	–	397,884,940
	5,607,994,007	10,580,379,112	161,458,259	16,349,831,378
Net Assets	₱9,344,217,846	(₱5,165,404,307)	₱3,583,695,100	₱7,762,508,639

29. **Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue**

Revenue Regulations No. 15-2010

VAT

a. Output VAT

Output VAT is based on gross receipts while the amount of revenue presented in the separate statement of comprehensive income is based on accrual method.

b. Input VAT

Balance at beginning of year	₱49,948,411
Current year's domestic purchases of goods	291,192
Current year's domestic purchases of services	205,019
Allowable input VAT	50,444,622
Applied against output VAT	(9,858,357)
Balance at end of year	₱40,586,267

All Other Local and National Taxes

The Association's local and national taxes for the year ended December 31, 2019 consist of:

Final tax	₱82,843,750
Percentage tax	8,126,278
Real estate taxes	5,753,708
License and permit fees	1,270,268
Documentary stamp tax	449,281
Others	74,332
	₱98,517,617

Withholding Taxes

Withholding taxes paid, accrued and/or withheld by the Association for the year ended December 31, 2019 consist of:

	Paid	Accrued	Total
Withholding taxes on compensation	₱33,517,802	₱6,410,257	₱39,928,059
Expanded withholding taxes	18,744,497	3,214,059	21,958,556
Final withholding taxes	1,723,206	10,845	1,734,051
	₱53,985,505	₱9,635,161	₱63,620,666

Documentary Stamp Tax

On loan instruments	₱8,714,808
On lease and service contracts	5,374
	₱8,720,182

Tax Assessment and Case

The Association has no pending tax assessment and tax case as at and for the year ended December 31, 2019.

AFPMBAI Armed Forces and Police Mutual Benefit Association, Inc.

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