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Isla Lipana & Co.

Independent Auditor's Report

To the Board of Trustees of
CCT Mutual Benefit Association, Inc.
6th Floor, Joshua Center
1428 Taft Avenue
Ermita, Manila

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the statements of assets, liabilities and fund balance of CCT Mutual Benefit Association, Inc. (the "Association") as at December 31, 2017 and 2016 and its financial performance and its cash flows for the year ended December 31, 2017 and for the period from October 6, 2016 (date of establishment) to December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRSs).

What we have audited

The financial statements of the Association comprise:

- the statements of assets, liabilities and fund balance as at December 31, 2017 and 2016;
- the statements of total comprehensive income for the year ended December 31, 2017 and for the period from October 6, 2016 (date of establishment) to December 31, 2016;
- the statements of changes in fund balance for the year ended December 31, 2017 and for the period from October 6, 2016 (date of establishment) to December 31, 2016;
- the statements of cash flows for the year ended December 31, 2017 and for the period from October 6, 2016 (date of establishment) to December 31, 2016; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Association in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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Report on the Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 20 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

John-John Patrick V. Lim
Partner
CPA Cert. No. 83389
P.T.R. No. 0007706, issued on January 10, 2018, Makati City
SEC A.N. (individual) as general auditors 0050-AR-4, Category A; effective until January 6, 2019
SEC A.N. (firm) as general auditors 0009-FR-4, Category A; effective until July 15, 2018
TIN 112-071-386
BIR A.N. 08-000745-17-2016, issued on February 9, 2016; effective until February 8, 2019
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
March 19, 2018

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ASSESSMENT SECTION

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Statement Required by Section 8-A, Revenue Regulations No. V-1

To the Board of Trustees of
CCT Mutual Benefit Association, Inc.
6th Floor, Joshua Center
1428 Taft Avenue
Ermita, Manila

None of the partners of the firm has any financial interest in CCT Mutual Benefit Association, Inc. or any family relationships with its president or manager, or trustees.

The supplementary information on taxes and licenses is presented in Note 20 to the financial statements.

Isla Lipana & Co.

John-John Patrick V. Lim
Partner
CPA Cert. No. 83389
P.T.R. No. 0007706, issued on January 10, 2018, Makati City
SEC A.N. (individual) as general auditors 0050-AR-4, Category A; effective until January 6, 2019
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Makati City
March 19, 2018

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EDUARDO G. LIPANA
ASSESSMENT SECTION

CCT Mutual Benefit Association, Inc.
(A non-stock, non-profit association)

Statements of Assets, Liabilities and Fund Balance
December 31, 2017 and 2016
(All amounts in Philippine Peso)

	Notes	2017	2016
ASSETS			
Cash	2	29,605,345	631,838
Available-for-sale securities	3	17,734,164	-
Receivables	4	1,878,635	5,782
Due from related ministries	14	2,386,766	30,000
Guaranty deposit	5	5,000,000	5,000,000
Property and equipment, net	6	75,214	-
Total assets		56,680,124	5,667,620
LIABILITIES AND FUND BALANCE			
Accrued expenses and other liabilities	7	617,177	40,000
Claims and benefits payable	8	332,535	-
Legal policy reserves	8	1,331,931	-
Due to a related ministry	14	-	311,030
Reserve for refund of members' equity	9	20,349,241	-
Retirement savings fund	10	7,967,391	-
Retirement benefit obligation	11	22,304	-
Total liabilities		30,620,579	351,030
Retained surplus	12		
Appropriated		22,126,422	5,000,000
Unappropriated		3,818,819	316,590
Accumulated other comprehensive income		114,304	-
Total fund balance		26,059,545	5,316,590
Total liabilities and fund balance		56,680,124	5,667,620

(The notes on pages 1 to 29 are integral part of these financial statements.)

CCT Mutual Benefit Association, Inc.
(A non-stock, non-profit association)

Statements of Total Comprehensive Income
For the year ended December 31, 2017 and for the period
from October 6, 2016 (date of establishment) to December 31, 2016
(All amounts in Philippine Peso)

	Notes	2017	2016
REVENUES			
Members' premium contributions		42,528,431	-
Membership fees		10,760,030	-
Donations and grants	14	280,000	5,590,000
Other income	2,5	195,716	5,620
Total revenues		53,764,177	5,595,620
BENEFITS AND CLAIMS EXPENSES			
Death and other policy benefits	8	6,154,966	-
Allocation for liability on members' equity value	9	20,346,382	-
Collection fees		796,112	-
Membership enrollment and marketing		289,907	-
Research and development		-	32,675
Total benefit and claims expense		27,587,367	32,675
EXCESS OF REVENUE OVER BENEFITS AND CLAIMS EXPENSES		26,176,810	5,562,945
GENERAL AND ADMINISTRATIVE EXPENSES	13	5,548,159	396,355
EXCESS OF REVENUE OVER EXPENSES FOR THE PERIOD		20,628,651	5,166,590
OTHER COMPREHENSIVE INCOME			
Item that may be subsequently reclassified to profit or loss			
Fair value gain on available-for-sale securities	4	68,001	-
Item that will not be reclassified to profit or loss			
Remeasurement gain on retirement benefit obligation	11	46,303	-
Total other comprehensive income		114,304	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		20,742,955	5,166,590

(The notes on pages 1 to 29 are integral part of these financial statements.)

CCT Mutual Benefit Association, Inc.
(A non-stock, non-profit association)

Statements of Changes in Fund Balance
For the year ended December 31, 2017 and for the period
from October 6, 2016 (date of establishment) to December 31, 2016
(All amounts in Philippine Peso)

	Retained surplus (Note 12)		Other comprehensive income (Note 3)	Total
	Unappropriated	Appropriated		
Balances at October 6, 2016	-	-	-	-
Contributions from incorporators	150,000	-	-	150,000
Comprehensive income				
Excess of revenue over expenses	5,166,590	-	-	5,166,590
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	5,166,590	-	-	5,166,590
Appropriation of surplus	(5,000,000)	5,000,000	-	-
Balances at December 31, 2016	316,590	5,000,000	-	5,316,590
Comprehensive income				
Excess of revenue over expenses	20,628,651	-	-	20,628,651
Other comprehensive income	-	-	114,304	114,304
Total comprehensive income for the year	20,628,651	-	114,304	20,742,955
Appropriation of surplus	(17,126,422)	17,126,422	-	-
Balance at December 31, 2017	3,818,819	22,126,422	114,304	26,059,545

(The notes on pages 1 to 29 are integral part of these financial statements.)

CCT Mutual Benefit Association, Inc.
(A non-stock, non-profit association)

Statements of Cash Flows
For the year ended December 31, 2017 and for the period
from October 6, 2016 (date of establishment) to December 31, 2016
(All amounts in Philippine Peso)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenue over expenses for the period		20,628,651	5,166,590
Adjustments for:			
Legal policy reserves	8	1,331,931	-
Interest expense	9,10	130,622	-
Retirement benefit expense	11	68,607	-
Depreciation	6	51,386	-
Interest income	2,5	(168,296)	(5,620)
Excess of revenue over expenses before working capital changes		22,042,901	5,160,970
Changes in working capital			
Increase in:			
Receivables		(1,872,853)	(5,782)
Due from related ministries		(2,356,766)	(30,000)
Increase (decrease) in:			
Retirement savings fund		7,930,068	-
Accrued expenses and other liabilities		577,177	40,000
Claims and benefits payable		332,535	-
Reserve for refund of members' equity		20,255,942	-
Due to a related ministry		(311,030)	311,030
Cash generated from operations		46,597,974	5,476,218
Interest received	2,5	168,296	5,620
Net cash from operating activities		46,766,270	5,481,838
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in available-for-sale securities	3	(17,666,163)	-
Acquisition of property and equipment	6	(126,600)	-
Deposit made for guaranty fund	5	-	(5,000,000)
Net cash used in investing activities		(17,792,763)	(5,000,000)
CASH FLOWS FROM FINANCING ACTIVITY			
Contributions from incorporators		-	150,000
NET INCREASE IN CASH		28,973,507	631,838
CASH			
Beginning of period		631,838	-
End of the period		29,605,345	631,838

(The notes on pages 1 to 29 are integral part of these financial statements.)

CCT Mutual Benefit Association, Inc.
(A non-stock, non-profit Association)

Notes to Financial Statements
As at December 31, 2017 and 2016 and for the year ended December 31, 2017 and for the period from October 6, 2016 (date of establishment) to December 31, 2016
(All amounts are shown in Philippine Peso unless otherwise stated)

1 General information

CCT Mutual Benefit Association, Inc., (the "Association") was registered with the Securities and Exchange Commission (SEC) as a non-stock, non-profit association on October 6, 2016 with SEC Registration No. CN201623341. The Association was incorporated to extend financial assistance to its members, spouse, children, and parents in the form of death benefits, sickness benefits, provident savings and loan redemption assistance.

In 2016, the Insurance Commission (IC) granted the Association a license to transact business as a mutual benefit association (MBA) which is valid until December 31, 2018. The Association commenced with its MBA operations in February 2017.

As a non-stock, not-for-profit entity, the Association is exempt from paying income taxes as set forth in Section 30 (C) of the National Internal Revenue Code.

As at December 31, 2017, the Association has 3 employees (2016 - nil).

The Association's registered office address is 6th Floor, Joshua Center, 1428 Taft Avenue, Ermita, Manila.

The accompanying financial statements were approved and authorized for issue on March 19, 2018 by the Association's Board of Trustees.

2 Cash

Details of the account as at December 31 consists of:

	2017	2016
Cash in banks	29,600,345	631,838
Cash on hand	5,000	-
	29,605,345	631,838

Cash in banks earn interest at the prevailing bank deposit rate of 0.25% per annum. Interest income earned from cash in banks amounts to 30,796 for the year ended December 31, 2017 (2016 - P1,853) and is included as part of other income in the statement of total comprehensive income.

Cash is classified as current.

3 Available-for-sale securities

This account represents investments in various Unit Investment Trust Funds (UITFs) at December 31, 2017 in which the portfolio primarily consists of short-term fixed income instruments.

Details of the UITFs as at December 31, 2017 are as follows:

	Amount
Cost	17,666,163
Unrealized gain on available-for-sale securities	68,001
Fair value	17,734,164

The fair value of the securities is based on the published net asset value per unit (NAVPU). NAVPU is computed as total assets of the fund less total liabilities over the total units outstanding as at reporting date. The unrealized gain is presented under other comprehensive income in the statement of total comprehensive income.

Available-for-sale securities are classified as current.

4 Receivables

Details of the account at December 31 follow:

	2017	2016
Members' contributions due and uncollected	1,835,667	-
Advances and other receivables	42,968	5,782
	1,878,635	5,782

The members of the Association contribute on a weekly basis. Any member who fails to pay the weekly contribution shall be given a grace period of 45 days from the date of default of contributions. When the grace period lapses, membership will be terminated, but in can be reinstated within three (3) years from the date the policy lapsed. The reinstatement requires payment of at least one weekly contribution in arrears.

Advances and other receivables include advances to employees which are either subject to liquidation or through salary deduction.

No allowance for impairment is provided on these receivables as the accounts are deemed to be fully collectible.

All receivables are classified as current.

5 Guaranty deposit

This account pertains to a five-year time deposit certificate placed in a local bank representing the Association's guaranty fund in compliance with the licensure requirement of the IC following Section 408 of Republic Act No. 10607, an Act Strengthening the Insurance Industry, Further Amending Presidential Decree No. 612, otherwise known as "The Insurance Code". The Insurance Code which was approved on August 15, 2013, provides that no mutual benefit association shall be issued a license to operate as such unless it has constituted and established a guaranty fund with an initial amount of P5,000,000 to answer for any valid claim of any of its members.

Guaranty deposit earns interest at the prevailing bank deposit rate of 2.75% per annum. Interest income earned from guaranty fund amounts to P137,500 for the year ended December 31, 2017 (2016 - P3,767) and is included as part of other income in the statement of total comprehensive income.

Guaranty deposit is classified as non-current.

6 Property and equipment, net

Details of the account at December 31, 2017 follow:

	Computer equipment	Furniture and fixtures	Total
Cost			
At January 1, 2017	-	-	-
Additions	10,800	115,800	126,600
At December 31, 2017	10,800	115,800	126,600
Accumulated depreciation			
At January 1, 2017	-	-	-
Depreciation	4,500	46,886	51,386
At December 31, 2017	4,500	46,886	51,386
Net book value	6,300	68,914	75,214

Depreciation for the year is presented as part of general and administrative expenses in the statement of total comprehensive income.

7 Accrued expenses and other liabilities

Details of the account at December 31 follow:

	2017	2016
Accrued expenses	613,920	40,000
Other liabilities	3,257	-
	617,177	40,000

Accrued expenses pertain to accrual of various expenses such professional and membership fees.

Other liabilities include payables to government for withholding taxes.

Accrued expenses and other liabilities are classified as current.

8 Insurance contract liabilities

The reconciliation of the Association's claims payable and legal policy reserves as at December 31, 2017 is as follows:

	Claims and benefits payable			Legal policy	
	Actual	IBNR	Total	reserves	Total
January 1	-	-	-	-	-
Claims expense/provision during the year	4,510,500	312,535	4,823,035	1,331,931	6,154,966
Claims paid	(4,490,500)	-	(4,490,500)	-	(4,490,500)
December 31	20,000	312,535	332,535	1,331,931	1,664,466

Claims and benefits payable

Claims and benefits payable include claims on insurance contracts filed or reported to the Association but not yet paid and claims incurred but not yet reported (IBNR) as at reporting date.

Legal policy reserves

Legal policy reserves represent the total actuarial reserve for basic life benefit policies in force as at reporting date.

9 Reserve for refund of members' equity

A member shall be entitled to a members' equity value (MEV) equal to at least 50% of total gross life insurance contributions paid, as required under the Insurance Code. Interest shall be credited to the MEV annually at a rate to be determined by the Board of Trustees but in no case less than the prevailing savings account interest rate of the top three (3) commercial banks. The MEV, inclusive of interest thereon, is payable upon termination of membership from the Association including, but not limited to, death or total and permanent disability, or upon reaching the termination age of 65 years old, the member shall be entitled to payment of the MEV.

The MEV which amounts to P20,349,241 earns interest rate of 0.5% per annum. Interest expense from MEV amounts to P93,299 for the year ended December 31, 2017 and is charged to general and administrative expenses in the statement of total comprehensive income. Refund made in 2017 amounts to P90,440.

Reserve for refund of members' equity is classified as non-current.

10 Retirement savings fund

A portion of the contributions made by a member is credited to the retirement savings fund (RSF). Interest shall be credited to the RSF at a rate to be determined by the Board of Trustees but in no case less than the prevailing savings deposit interest rate of the top three (3) commercial banks. The RSF, inclusive of interest thereon, is payable upon termination of membership from the Association including, but not limited to, death or total and permanent disability, or upon reaching the termination age of 65 years old.

The RSF which amounts to P7,967,391 earns interest rate of 0.5% per annum. Interest expense on the RSF amounts to P37,323 for the year ended December 31, 2017 and is charged to general and administrative expenses in the statement of total comprehensive income.

Retirement savings fund is classified as non-current.

11 Retirement benefit obligation

Under the provisions of Republic Act No. 7641, retirement date is at age 60 and upon completion of at least 5 years of credited service. At that date, employees are entitled to retirement pay equivalent to one-half month's salary for every year of service.

The amounts recognized as at December 31, 2017 are as follows:

	Amount
Statement of assets, liabilities and fund balance	
Retirement benefit obligation	22,304
Remeasurement gain on retirement benefit obligation	46,303
Statement of total comprehensive income	
Retirement benefit expense	68,607
Other comprehensive income	(46,303)

Retirement benefit expense is presented as part of general and administrative expenses in the statement of total comprehensive income.

Remeasurement gain on retirement benefit obligation is presented as part of accumulated other comprehensive income in the statement of statement of assets, liabilities, and fund balance.

The movements in the retirement benefit obligation for the year ended December 31, 2017 are as follows:

	Amount
At January 1	-
Current service cost	68,607
Remeasurement	(46,303)
At December 31	22,304

The movement in remeasurement gain recognized in accumulated other comprehensive income at December 31, 2017 follows:

	Amount
January 1	-
Remeasurement	
Change in financial assumptions	46,303
Experience adjustment	-
December 31	46,303

The principal actuarial assumptions used in 2017 are as follows:

Discount rate	5.32%
Future salary increases	6.00%

Discount rate

The discount rate is determined by reference to market yields at the end of the reporting period based on high quality corporate bonds with currency and term similar to the estimated term of the benefit obligation. There is no deep market in high quality corporate bonds in the Philippines and therefore, the Association used as reference the yields on long-term Philippine Treasury Bonds and adjusted to reflect the term similar to the estimated term of the benefit obligation as determined by the actuary.

Future salary increases

This is the expected long-term average rate of salary increase taking into account inflation, seniority, promotion and other market factors. Salary increases comprise of the general inflationary increases plus a further increase for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period over which benefits are expected to be paid.

Demographic assumptions

Assumptions regarding mortality experience are set based on published statistics and experience in the Philippines.

The retirement benefit plan typically exposes the Association to a number of risks such as interest rate risk and salary risk. The most significant risk relates to interest rate risk. A decrease in the government bond yields will increase the defined benefit obligation. Hence, the present value of retirement benefit obligation is directly affected by the discount rate to be applied by the Association.

The expected future retirement benefit payments as at December 31, 2017 are as follows:

	Amount
Between 1 to 5 years	-
Between 5 to 10 years	-
More than 10 years	1,962,823

The sensitivity of the retirement benefit obligation to changes in the weighted principal assumptions as at December 31, 2017 follows:

	Impact on retirement benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	+/- 1.0%	(4,327)	5,635
Salary increase rate	+/- 1.0%	5,556	(4,337)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the retirement benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement benefit obligation recognized within the statement of assets, liabilities and fund balance.

12 Retained surplus

On July 11, 2016, the Board approved the appropriation of retained surplus amounting to P5,000,000 for guaranty fund. On December 19, 2017, the Board approved the appropriation of retained surplus amounting to P2,126,422 for additional guaranty fund and P15,000,000 for system development and trainings.

The increase in guaranty fund is in accordance with the requirement of the IC. The minimum requirement of P5,000,000 shall be maintained at all times. Every year thereafter, the guaranty fund must increase by an amount equivalent to 5% of the gross premium collections until the amount of the guaranty fund shall reach 12% of the required capital for domestic life insurance companies.

The Insurance Code provides that a mutual benefit association shall only maintain free and unassigned surplus of not more than twenty percent (20%) of its total liabilities as verified by the Insurance Commissioner. Excess amount shall be returned to the members by way of dividends, enhancing the equity value or providing benefits in kind and other relevant services. The Association is in compliance with this provision.

13 General and administrative expenses

Details of the account for the period ended December 31 follow:

	Notes	2017	2016
Professional fees		2,878,877	80,000
Social and community service expenses		1,175,504	-
Taxes and licenses		413,345	281,998
Salaries, wages and benefits		403,832	-
Utilities expense		181,773	-
Meetings and conferences		147,571	-
Interest expense	9,10	130,622	-
Retirement benefit expense	11	68,607	-
Depreciation	6	51,386	-
Dues and subscriptions		50,000	-
Supplies		22,942	11,000
Transportation and travel		9,710	119
Repairs and maintenance		2,902	-
Representation and entertainment		-	960
Miscellaneous expense		11,088	22,278
		5,548,159	396,355

14 Related ministry transactions

The table below summarizes the Association's transactions and balances with its related ministries.

As at and for the year ended December 31, 2017

	Transactions	Outstanding balances [Due from (to) related ministries]	Terms and conditions
Ministries under common control			
Unremitted collections [a]	5,532,673	5,562,673	- Collectible on demand - Unsecured - Non-interest bearing - Settled on net basis against due to related ministries
Collection fees [a]	(796,112)	(796,112)	- Payable on demand - Unsecured - Non-interest bearing - Settled on net basis against due from related ministries
Advances [a]	(2,379,795)	(2,379,795)	- Payable on demand - Unsecured - Non-interest bearing - Settled on net basis against due from related ministries
		2,386,766	

As at and for the period ended December 31, 2016

	Transactions	Outstanding balances [Due from (to) related ministries]	Terms and conditions
Ministries under common control Advances [b]	30,000	30,000	- Collectible on demand - Unsecured - Non-interest bearing - Settled on net basis against due to a related ministry
Ministries under common control Advances [b]	(311,030)	(311,030)	- Payable on demand - Unsecured - Non-interest bearing - Settled on net basis against due from related ministries
Donations and grants [c]	5,550,000	-	- The Association receives donations from its related ministries to finance capital requirements
		311,030	

a) The Association's related ministries collect premium contributions from members on behalf of the Association and remit such to the latter at the end of every month. In consideration thereof, the Association pays the related ministries a service fee based on the total amount of collections.

Likewise, the related ministries pay the approved claims to the members on behalf of the Association upon approval of the Benefits Review Committee.

b) The Association regularly makes advances to and from related ministries to finance working capital requirements.

c) The Association receives donations and grants from its related ministries to finance capital requirements. Part of the donations amounting to P5 million was used as guaranty fund to meet the deposit requirement of the IC.

d) There is no key management compensation during the period.

15 Fair value determination

The fair value of available-for-sale securities at December 31, 2017 is as follows:

	Amount	Fair value hierarchy
Available-for-sale securities	17,734,164	Level 2

Financial assets and liabilities not measured at fair value

The following table provides information about the fair values of the Association's financial assets and liabilities, which are not measured at fair value in the statement of assets, liabilities and fund balance.

	2017		2016	
	Carrying values	Fair values	Carrying values	Fair value
Assets				
Cash	29,605,345	29,605,345	631,838	631,838
Receivables	1,878,635	1,878,635	5,782	5,782
Due from related ministries	2,386,766	2,386,766	30,000	30,000
Guaranty deposit	5,000,000	5,000,000	5,000,000	5,000,000
	38,870,746	38,870,746	5,667,620	5,667,620
Liabilities				
Accrued expenses and other liabilities	611,767	611,767	40,000	40,000
Due to a related ministry	-	-	311,030	311,030
	611,767	611,767	351,030	351,030

There were no transfers between levels of fair value hierarchy in 2017 and 2016.

16 Insurance and financial risk management objectives and policies

The primary objective of the Association's financial risk management framework is to protect the Association's members from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. The Association recognizes the critical importance of having efficient and effective risk management systems in place.

The Association has established a risk management function with reference from the Board of Trustees and its management. This is supplemented with a clear organizational structure. The Association also established a Benefits Review Committee (BRC), a body responsible to recommend the payment of benefits to the members.

The operations of the Association are subject to the regulatory requirements of the IC. The IC is primarily interested in protecting the rights of the members and in monitoring the Association closely to ensure that the Association is satisfactorily managing its affairs for its members' benefit. At the same time, the IC is also interested in ensuring that the Association maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

16.1 Insurance risk

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

The main insurance risks the Association is exposed to are:

- Mortality risk - risk of loss arising due to member death experience being different than expected.
- Morbidity risk - risk of loss arising due to member health experience being different than expected.
- Longevity risk -risk of loss arising due to annuitant living longer than expected.
- Expense risk - risk of loss arising from returns being different from expected.
- Member decision risk - risk of loss arising due to member experiences being different than expected.

The Association's basic life insurance policy (BLIP), represented by Certificate of Membership (COM), entitles a member to life insurance with accidental death benefits, total and permanent disabilities, and dismemberment coverage.

The increase in the overall frequency of claims are mainly due to widespread changes in lifestyle and pre-existing conditions of death, resulting in earlier or more claims than expected.

The Association manages its insurance risk by ensuring that it generates lasting returns from its financial assets, so that it will be able to fund its obligation arising from its insurance contracts. The Association also closely monitors its assets and liabilities to attempt to match the expected pattern of claim payments with the maturity dates of its assets.

16.2 Financial risk

The Association is exposed to financial risk through its financial assets and financial liabilities. In particular, the key financial risk that the Association is exposed to is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts.

Safety of principal is the foremost objective of the investment program. Investment shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. The Association does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The financial risks to which the Association is exposed to include credit risk, liquidity risk, and market risk.

16.3 Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss of the Association.

The Association minimizes its credit risk by:

- limiting the investment to those allowed by the IC or as approved by the Insurance Commissioner;
- pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisers with which the Association will do business;
- Defining the membership requirements and verifying that the member has met satisfactorily the set requirements. All active members of the Association shall be bound by its implementing Rules and Regulations from time of implementation.

The maximum credit risk exposure of the Association's financial assets, which is equal to the carrying amounts in the statement of assets, liabilities and fund balance, is shown below:

	2017	2016
Cash in banks	29,600,345	631,838
Receivables	1,878,635	5,782
Due from related ministries	2,386,766	30,000
Guaranty deposit	5,000,000	5,000,000
	38,865,746	5,667,620

Cash in banks are held in banks that qualify as universal banks to minimize credit risk exposure. Universal banks, as defined by the Philippine Banking System, represent the largest single group, resource-wise, of financial institutions in the country that have good credit ratings.

Receivables pertain to receivables from members, employees and officers which are short-term and non-interest bearing. Contributions from members are collected on a weekly basis and a grace period of 45 days is provided to members in case of default to the weekly contributions. Advances to employees and officers are subject to liquidation thirty (30) days from the cash advance date or through salary deduction in accordance with the Association's policy.

The Association does not perceive any significant credit risk exposure arising from related party transactions and balances. Due from related ministries consist of unremitted premium contributions from members collected by the related ministries on behalf of the Association and non-interest bearing advances which are collectible on demand (Note 14).

16.4 Liquidity risk

Liquidity risk is the risk that the Association is unable to meet its financial obligations when due.

Prudent liquidity risk management implies maintaining sufficient cash ensuring the availability of funding through an adequate amount of committed credit. This is important to ensure that the Association can meet all present and future financial obligations as they fall due and comply with contractual obligations.

The table below presents the maturity profile of the Association's financial assets and liabilities based on undiscounted cash flows, which it uses to manage the inherent liquidity risk. The analysis into maturity groupings is after the reporting period and until contractual maturity date or, if earlier, the expected date the financial liability will be settled.

	2017		
	Up to 1 year	1 to 5 years	Total
Assets			
Cash	29,605,345	-	29,605,345
Available-for-sale securities	17,734,164	-	17,734,164
Receivables	1,878,635	-	1,878,635
Due from related ministries	2,386,766	-	2,386,766
Guaranty deposit	-	5,000,000	5,000,000
	51,604,910	5,000,000	56,604,910
Liabilities			
Accrued expenses and other liabilities*	611,767	-	611,767
Claims and benefits payable**	20,000	-	20,000
Reserve for refund of member's equity	20,349,241	-	20,349,241
Retirement savings fund contributions	7,967,391	-	7,967,391
	28,948,399	-	28,948,399

**Excluding payable to government agencies amounting to P5,410*
***Excluding IBNR amounting to P312,535*

	2016		
	Up to 1 year	1 to 5 years	Total
Assets			
Cash	631,838	-	631,838
Receivables	5,782	-	5,782
Due from related ministries	30,000	-	30,000
Guaranty deposit	-	5,000,000	5,000,000
	667,620	5,000,000	5,667,620
Liabilities			
Accrued expenses and other liabilities	40,000	-	40,000
Due to a related ministry	311,030	-	311,030
	351,030	-	351,030

It is unusual for an association primarily transacting an insurance business to predict the requirements of funding with absolute certainty as the theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are thus based on management's best estimate based on statistical techniques and past experience.

16.5 Market risk

Market risk is the risk that fair value of future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk includes foreign currency risk, interest rate and other price risks. The Association has no financial assets and liabilities that are exposed to foreign currency risk and interest rate risk.

Available-for-sale securities pertain to investments in UITF are exposed to equity price risk since it is measured using net asset value per unit (NAVPU). The UITF, which is structured as a money market fund, aims to generate liquidity and stable income by investing in a diversified portfolio of primarily short-term fixed income instruments.

The Association measures the sensitivity of its investment securities based on the average historical fluctuation of the NAVPU. All other variables held constant, for every 100 basis points increase (decrease) in NAVPU, the fair value of the Association's investments will increase (decrease) net income and equity for the year ended December 31, 2017 by P1,773,416.

17 Capital management and regulatory requirements

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

The Association manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Association's activities. In order to maintain or adjust the capital structure, the Association may adjust the amount of experience refund paid to members.

MOS requirements

The MOS shall be the excess of the value of its admitted assets (as defined under the Insurance Code) exclusive of its paid-up capital over the amount of its liabilities, unearned premiums and reinsurance reserves. The final amount of the MOS shall be determined only after the accounts of the Association have been examined by the IC specifically as to admitted and non-admitted assets as defined in the Insurance Code.

As at December 31, the estimated amounts of non-admitted assets, as defined under the Insurance Code and are still subject to examination by the IC, which are included in the Association's statement of assets, liabilities and fund balance, follow:

	Amount
Advances and other receivables	1,878,635
Due from related ministries	2,386,766
Property and equipment	75,214
	4,340,615

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

RBC requirements

The RBC ratio is used to measure the adequacy of the Association's statutory surplus in relation to the risks inherent in its business. The RBC method involves developing a risk-adjusted target level of statutory surplus by applying certain factors to various assets, premiums and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items. The target level of statutory surplus varies not only as a result of the insurer's size, but also on the risk profile of the insurer's operations.

Every MBA is annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio will trigger regulatory intervention by the IC. The RBC ratio of the MBA ratio shall be calculated as members' equity divided by the RBC requirement. As provided by Insurance Memorandum Circular No. 11-2006 dated December 8, 2006, members' equity is defined as admitted assets minus all liabilities inclusive of actuarial reserves and other obligation under the policies and membership certificates.

The following table shows how the RBC ratio as at December 31 has been determined by the Association:

	Amount
Member's equity	21,718,930
RBC requirement	2,723,567
	797%

18 Significant accounting estimates and judgments

The Association makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

18.1 Significant estimates

(a) The ultimate liability arising from claims made under insurance contracts (Note 8)

The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Association will ultimately pay for such claims. The major uncertainties are the frequency of claims due to the contingencies covered and the timing of benefit payments.

With this, it is reasonably possible, based on existing knowledge, that the outcomes within the next financial year are different from assumptions and could require a material adjustment to the carrying amount of the asset or liability affected including reserve for outstanding losses. The Association considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the ultimate liability arising from claims made under insurance contracts as the major uncertainties may differ significantly.

The carrying value of claims payable as at December 31, 2017 amounts to P332,535. Legal policy reserves as at December 31, 2017 amounts to P1,331,931.

b) Principal assumptions and estimation of retirement benefit (Note 11)

The present value of the retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining pension cost include the discount rate. Any changes in these assumptions will impact the carrying amount of retirement obligations.

The Association determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligation. In determining the appropriate discount rate, the Association considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related retirement obligation.

Other key assumptions for retirement obligation are based in part on current market conditions. Additional information is disclosed in Note 11. Retirement benefit expense charged to general and administrative expenses in the statement of total comprehensive income amounts to P68,607 for the year ended December 31, 2017. The related carrying amount of retirement benefit obligation at December 31, 2017 amounts to P22,304.

18.2 Significant judgments

a) Recoverability of receivables (Note 4)

In determining the recoverable amount of the Association's receivables, management considers the historical experience of unexpected losses established for these receivables based on the ageing analysis. In this case, management uses judgments based on the best available facts and circumstances, including but not limited to their payment history. An evaluation of the receivables, designed to identify potential charges to the provision, is performed on a continuous basis throughout the year. If any such evidence exists for receivables, changes in those estimates and judgments could have a significant effect on the carrying value of receivables and the amount and timing of recorded provision for any period.

No allowance for impairment is provided on receivables as the accounts are deemed to be fully collectible. As at December 31, 2017, receivables amount to P1,878,635 (2016 - P 5,782).

b) Classification of available-for-sale securities (Note 3)

The Association invested in UITF which does not qualify to be classified or designated as loans and receivables, financial assets at fair value through profit or loss (FVTPL) or held-to-maturity investments. The Association expects to hold the securities on demand, however, these can be sold in response to liquidity requirements or changes in market conditions.

Available-for-sale securities are classified as non-current assets unless the intention is to dispose such assets within 12 months from reporting date. The Association intends to dispose the investments on demand or within the next twelve (12) months whichever comes first.

19 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to both periods presented, unless otherwise stated.

19.1.1 Basis of preparation

The financial statements of the Association have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). The term PFRSs in general includes all applicable PFRSs, Philippine Accounting Standards (PASs) and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities.

The preparation of financial statements in conformity with PFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Association's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 18.

Revised standard chart of accounts (SCA)

On September 25, 2014, the IC issued Circular Letter No. 2014-41 presenting a revised SCA for MBAs. The revised SCA is in line with the requirements of SRC Rule 68, section 189 of the Amended Insurance Code, and current accounting standards in the Philippines.

19.1.2 Changes in accounting policy and disclosures

(a) Amendments to standard adopted by the Association effective January 1, 2017

The following amendments to existing standard has been adopted by the Association effective January 1, 2017:

- *Amendments to PAS 7, 'Disclosure Initiative'* require entities to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealized exchange differences. Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities. Entities may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated. These amendments did not have a significant effect on the Association's financial statements.

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2017 are not relevant or material to the Association.

b) New standards not yet effective and not early adopted by the Association

The following accounting standards and interpretations are not mandatory for the December 31, 2017 reporting period and have not been adopted by the Association.

- *PFRS 9, Financial instruments (effective for annual periods beginning on or after January 1, 2018).* PFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Association will apply the new rules retrospectively from January 1, 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

  Classification and measurement of financial assets

  Investments in equity instruments

  Under PFRS 9, investments in equity instruments are always measured at fair value. Equity instruments that are held for trading are required to be classified at FVTPL, with dividend income recognized in profit or loss.

  For all other equities within the scope of PFRS 9, the standard allows entities to make an irrevocable election on initial recognition, on an instrument-by-instrument basis, to present changes in fair value in other comprehensive income rather than in profit or loss (except for equities that give an investor significant influence over an investee according to PAS 28, which can only be accounted for under PFRS 9 if they are measured at FVTPL). Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of an investment, in which case they are recognized in other comprehensive income. There is no recycling of amounts from OCI to profit or loss - for example, on sale of an equity investment - nor are there any impairment requirements. The entity however, can transfer the cumulative gain or loss within equity.

  The Association is likely to retain the measurement of its available-for-sale securities at fair value through other comprehensive income (FVOCI) while financial assets classified as loans and receivables under PAS 39 will remain at amortized cost under PFRS 9.

  Classification and measurement of financial liabilities

  PFRS 9 will have no impact on the Association's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVTPL and the Association does not have any such liabilities. The de-recognition rules have been transferred from PAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed.

  Impairment of financial assets

  The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under PAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, loan commitments and certain financial guarantee contracts.

  Based on the initial assessments performed to date, this impairment requirement is not expected to have a significant impact on the Association's financial statements.

Hedge accounting

The new hedge accounting rules under PFRS 9 will align the accounting for hedging instruments more closely with the entity's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

The new hedge accounting rules will not have a significant impact on the Association as there are no formal hedge accounting relationships as at December 31, 2017.

- *IFRS 17, 'Insurance Contracts' (effective January 1, 2021).* IFRS 17 was issued in May 2017 as replacement for PFRS 4, 'Insurance Contracts'. The FRSC has not yet approved the adoption of IFRS 17, however, it is expected that the standard will be adopted in the Philippines by its effective date. IFRS 17 represents a fundamental change in the accounting framework for insurance contracts requiring liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of (1) discounted probability-weighted cash flows, (2) an explicit risk adjustment, and (3) a contractual service margin ("CSM") representing the unearned profit for the contract which is recognized as revenue over the coverage period. The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under PFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features. Management will assess the impact of the new standard on the Association's financial statements.

There are no other standards, amendments or interpretations that are expected to have a material impact on the financial statements of the Association.

19.2 Cash

Cash includes cash on hand and deposits held at call with banks. These are carried at face amount or at nominal amount.

19.3 Financial assets

19.3.1 Classification

The Association classifies its financial assets in the following categories: (a) at FVTPL, (b) loans and receivables, (c) held-to-maturity investments and (d) available-for-sale securities. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Association did not hold financial assets classified under (a) and (c) categories as at December 31, 2017 and 2016.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of being traded. The Association' loans and receivables comprise of cash, members' contributions due and uncollected and advances and other receivables.

Available-for-sale securities

Available-for-sale securities are non-derivative instruments that are either designated in this category or not classified in any of the other categories.

19.3.2 Recognition and measurement

Initial recognition and measurement

Regular-way purchases and sales of financial assets are recognized on trade-date - the date on which the Association commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at FVTPL. Financial assets carried at FVTPL are initially recognized at fair value; and transaction costs are recognized in the statement of total comprehensive income.

Subsequent measurement

Available-for-sale securities are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method. Changes in the fair value of available-for-sale securities are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired.

19.4 Impairment of financial assets

Loans and receivables

The Association assesses at each reporting date whether there is an objective evidence that a financial asset or a group of financial asset is impaired. A financial asset or a group of financial asset is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Association first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Association determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial 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.

A provision for impairment is established when there is an objective evidence that the Association will not be able to collect all amounts due according to the original credit terms. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments are considered indicators that the financial asset is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in the statement of total comprehensive income. When a financial asset is uncollectible, it is written off against the allowance account. Such receivable is written off after all the necessary procedures have been completed and the amount of loss has been determined. If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of reversal is recognized in the statement of total comprehensive income as a reduction of impairment losses for the year.

Available-for-sale securities

The Association assesses at each reporting date whether there is an objective evidence that a security classified as available-for-sale is impaired. For debt securities, the Association uses the criteria disclosed under loans and advances. For an equity security classified as available-for-sale, a significant or prolonged decline in the fair value below cost is considered in determining whether the securities are impaired. Generally, the Association treats 20% or more as 'significant' and greater than twelve months as 'prolonged'. The cumulative loss (difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognized in excess of revenue over expenses) is removed from other comprehensive income and recognized in excess of revenue over expenses when the asset is determined to be impaired. If in a subsequent period, the fair value of a debt instrument previously impaired increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through excess of revenue over expenses. Reversal of impairment losses recognized previously on equity instruments is made directly to other comprehensive income.

19.4.1 Derecognition

A financial asset is derecognized when the contractual right to receive the cash flows from the asset has ceased to exist or the asset has been transferred and substantially all the risks and rewards of ownership of the asset are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Association tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

19.5 Financial liabilities

The Association's financial liabilities are limited to other financial liabilities at amortized cost. There are no financial liabilities at FVTPL (including financial liabilities held for trading and those that are designated at fair value).

The Association's other financial liabilities include due to related ministries and accrued expenses and other liabilities (except provisions, insurance contract liabilities, taxes payable and government contributions).

19.5.1 Recognition and measurement

Financial liabilities are initially measured at fair value plus transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities are subsequently measured at amortized cost using the effective interest method.

19.5.2 Derecognition of financial liabilities

Financial liabilities are derecognized when extinguished.

19.6 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of assets, liabilities and fund balance when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Association or the counterparty.

19.7 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The Association classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and,
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

For non-financial assets, the Association uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Common used valuation techniques are as follows:

- Market approach - A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as a business.
- Income approach - Valuation techniques that convert future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The fair values were determined in reference to observable market inputs reflecting orderly transactions, i.e. market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions.

19.8 Insurance receivables

Insurance receivables are recognized when due and measured on initial recognition at the fair value of the amount receivable. Subsequent to initial recognition, insurance receivables are measured at amortized cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in excess of revenue over expenses.

Insurance receivables are derecognized following the derecognition criteria of financial assets.

19.9 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes the purchase price and other expenditures that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The cost of replacing parts is added to the carrying amount of property and equipment when the replacement part is expected to provide incremental future benefits. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of total comprehensive income during the period in which they are incurred.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging, as follows:

Computer equipment	1 to 5 years
Furniture, fixtures and equipment	1 to 5 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal at which time the cost and the related accumulated depreciation and amortization are removed from the accounts. Any gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and are recognized in the statement of total comprehensive income.

19.10 Impairment of non-financial assets

Assets that have definite useful lives, particularly property and equipment, are subject to depreciation and amortization and are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at the end of each reporting period. Reversals of previously recorded impairment loss, if any, are credited to the statement of total comprehensive income.

19.11 Insurance contracts

Insurance contracts are defined as those contracts under which the Association accepts significant insurance risk from another party (the members) by agreeing to compensate the members if a specified uncertain future event (the insured event) adversely affects the member.

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.

19.12 Insurance contract liabilities

Life insurance contract liabilities are recognized when the contracts are entered into and the premiums are recognized.

Legal policy reserves

Legal policy reserve represents the accumulated total liability for policies in force at the reporting date. 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.

Insurance benefits and claims

Insurance benefit and claims are recorded when incurred. These are recorded when notices of claims have been received or when policies reach maturity. Unpaid claims, including IBNR claims, are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date. These costs pertain to estimates of the Association's obligations to the members where the Association has not yet received notification on. Delays can be experienced in the notification and settlement of claims, therefore the ultimate cost could not be known with certainty at the reporting date. The Association develops estimates for IBNR using services of an external actuary accredited by the IC. The actuarial models consider factors such as time from the date of service to claim receipt and claim backlogs. Each period, the Association re-examines previously established provisions for claims based on actual claim submissions and other changes in facts and circumstances.

Liability adequacy test

At each reporting date, a liability adequacy test is performed for the insurance contract liabilities. In performing this test, current best estimates of future cash flows and claims handling and administration expenses, as well as investment income from the asset backing such liabilities are used. Any deficiency is immediately charged against current operations.

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 estimates assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

Liabilities for future policy benefits on in-force policies have been computed based on methods and assumptions that are in accordance with generally accepted actuarial principles. Changes in the balance of legal policy reserves at each reporting date are charged to the statement of total comprehensive income.

19.13 Reserve for refund of members' equity

Reserve for refund of members' equity represents the amount of obligation set-up by the Association on membership certificates pertaining to 50% of the equity value, as required under the Insurance Code. Consequently, an allocation for liability on MEV is recognized in the statement of total comprehensive income.

The MEV earns interest of 5% per annum. The interest expense is charged to general and administrative expenses in the statement of total comprehensive income.

19.14 Retirement savings fund

Under the Association's BLIP, a certain portion of the contribution received from a member represents the member's retirement savings in the Association. The RSF contribution shall not form part of the MEV.

The RSF earns interest rate of 0.5% per annum. Interest expense is charged to general and administrative expenses in the statement of total comprehensive income.

19.15 Retirement benefit obligation

The Association has a defined benefit plan following Republic Act No. 7641. A defined benefit plan is a pension plan under which the Association does not pay fixed contributions into a separate entity. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statement of assets, liabilities and fund balance in respect of defined benefit pension plan is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets. The defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating the terms of the related pension liability.

Actuarial gains and losses are recognized in other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in the statement of total comprehensive income.

19.16 Retained surplus

Retained surplus represents the cumulative balance of excess revenue over expenses. Unappropriated retained surplus represents that portion which is free and can be declared for distribution to the members. Appropriated retained surplus represents that portion which is restricted and therefore not available for any experience refund declaration.

19.17 Revenue

Revenue is recognized to the extent that it is probable that economic benefits will flow to the entity and the amount of revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Members' premium contributions

Insurance premiums are recognized as revenue when they become due from members.

Members' fees

Members' fees are recognized when cash is received from membership application.

Donations and grants

Donations and grants are recognized when actually received by the Association or when donors have entered into an enforceable agreement to contribute to the Association.

Interest income

Interest income is recognized when earned using effective interest method.

19.18 Expenses

Cost and expenses are recognized in the statement of total comprehensive income when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Benefits and claims

Benefits and claims consist of benefits paid as insurance protection, and financial and material aid to members, as well as changes in the valuation of insurance contract liabilities. Death claims are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. An allocation for liability on MEV is recognized in the statement of total comprehensive income with a corresponding increase in reserve for refund of members' equity which is recognized in the statement of assets, liabilities and fund balance.

Collection fees paid to individuals and/or partner institutions for collection services are recognized upon rendering of service.

Other claims expenses are recognized when incurred. Membership enrollment and marketing expenses include member mobilization costs and expenses incurred on the production of policy forms and promotional materials, among others. Research and development expenses represent costs incurred for research - related activities such as conduct of impact assessments and satisfaction surveys for its exsiting products.

General and administrative expenses

Expenses are recognized in the statement of total comprehensive income when incurred.

19.19 Provision and contingencies

Provisions are recognized when the Association has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made with the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, an increase in provision due to the passage of time is recognized as an interest expense. When the Association expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the statement of total comprehensive income, net of any reimbursement.

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements, but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements.

19.20 Related party transactions

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

Due from related ministries is recognized initially at fair value and measured subsequently at amortized cost using the effective interest method, less any provision for impairment. A provision for impairment of due from related ministries is established when there is an objective evidence that the Association will not be able to collect all amounts due according to the original terms of the receivable. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of loss is recognized in the statement of total comprehensive income. When the amount becomes uncollectible, it is written-off against the allowance account for receivables. Subsequent recoveries of amounts previously written-off are credited in the statement of total comprehensive income.

Due to related ministries are initially recognized at fair value plus transaction costs and subsequently measured at amortized cost using the effective interest method. They are derecognized when, and only when, they are extinguished, i.e., when the obligation is discharged or is cancelled or expires.

Due from/to related ministries are settled net when there is a legally enforceable right to offset or as agreed by the ministries.

19.21 Subsequent events (or events after the reporting date)

Post year-end events that provide additional information about the Association's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end adjusting events that are non-adjusting events are disclosed in the notes to financial statements when material.

20 Supplementary information required by the Bureau of Internal Revenue (BIR)

Below is the supplementary information required by RR No. 15-2010. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

As part of its registration with the BIR (Note 1), the Association is exempted from payment of taxes from income derived by it.

i. Value-added taxes

The Association has no registered activities covered by value-added taxes.

ii. Local and national taxes

Local and national taxes paid for the year ended December 31, 2017 consist of business permits and other licenses amounting to P413,345. Taxes and licenses are presented as part of general and administrative expenses in the statement of total comprehensive income.

iii. Withholding taxes

Withholding taxes paid and accrued as at December 31, 2017 consist of:

	Paid	Accrued	Total
Withholding tax on compensation	40,197	-	27,068
Expanded withholding tax	48,000	450	48,450

Withholding taxes payable is presented as part of accrued expenses and other liabilities in the statement of assets, liabilities and fund balance.

iv. Tax assessments

Taxable year 2016 is an open tax year as at December 31, 2017. The Association did not receive any Final Assessment Notice from the BIR as at and for the year ended December 31, 2017.

v. Tax cases

The Association has no outstanding cases which are under preliminary investigation and/or prosecution in court or bodies outside the BIR as at and for the year ended December 31, 2017.

vi. Other information

All other information prescribed to be disclosed by the BIR has been included in this note.