PUBLIC SAFETY MUTUAL BENEFIT FUND, INC.

Resolution No. 2019 – 30

APPROVAL OF THE AUDITED FINANCIAL STATEMENTS OF PSMBFI FOR CY 2018

Whereas, the Insurance Commission, Bureau of Internal Revenue, and the Securities and Exchange Commission require the submission of PSMBFI financial reports for the calendar year 2018;

Whereas, pursuant to Board Resolution 2018 - 83, the Board approved the engagement of Isla Lipana & Co., a PricewaterhouseCoopers (PwC) member firm, as the external auditor of the financial statements for CY 2018;

Whereas, based on its audit, Isla Lipana & Co. has rendered its opinion on the financial statements of PSMBFI as of, and for the year ended December 31, 2018;

Whereas, during the Special Board meeting on April 24, 2018, the audited financial statements of PSMBFI were presented by Isla Lipana & Co.;

Whereas, after due consideration, the Board approved the financial statements of PSMBFI for CY 2018;

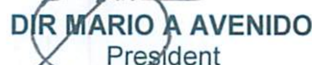
Now, therefore, be it resolved, as it is hereby resolved, that the Board approves the audited financial statements of PSMBFI as of and for the year ended December 31, 2018;

Be it resolved finally, that copies of this resolution be furnished the Chairman and the Vice Chairman of the Board of Trustees, the President, the Vice President, and the PSMBFI Management for reference and information.

Done in San Juan City this 24th day of April 2019.

DIR OSCAR D ALBAYALDE
Chairman

DIR ARCHIE FRANCISCO F GAMBOA
Vice Chairman



DIR MARIO A AVENIDO
President

DIR ARMANDO E RAMOLETE
Vice President

DIR FELIPE S MOQUIALA
Assistant Treasurer

PUBLIC SAFETY MUTUAL BENEFIT FUND, INC.

Resolution No. 2019 – 30

APPROVAL OF THE AUDITED FINANCIAL STATEMENTS OF PSMBFI FOR CY 2018

DIR RICARDO C MARQUEZ
Trustee

DIR JUANITO B VAÑO JR
Trustee

DIR LYNDON G CUBOS
Trustee

DIR KEITH ERNALD L SINGIAN
Trustee

DIR VALFRIE G TABIAN
Trustee

DIR JOAQUIN R ALVA
Trustee

DIR LYNETTE M TADEO
Trustee

DIR KIMANIE J SAROMINES
Trustee

Attested by:

ATTY MATTHEW P BACCAY
Corporate Secretary

www.pwc.com/ph

Public Safety Mutual Benefit Fund (PSMBFI) Incorporated

(A Non-stock, Not-for-profit organization)

Financial Statements
As at and for the years ended December 31, 2018 and 2017

Isla Lipana & Co.

Isla Lipana & Co.

Independent Auditor's Report

To the Board of Trustees and Members of
Public Safety Mutual Benefit Fund (PSMBFI) Incorporated
No. 318 - 320 Boni Serrano Avenue
Corner 1st and 2nd West Streets
San Juan City, Philippines

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Public Safety Mutual Benefit Fund (PSMBFI) Incorporated (the "Association") as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

What we have audited

The financial statements of the Association comprise:

- the statements of financial position as at December 31, 2018 and 2017;
- the statements of total comprehensive income for the years ended December 31, 2018 and 2017;
- the statements of changes in fund balance for the years ended December 31, 2018 and 2017;
- the statements of cash flows for the years ended December 31, 2018 and 2017; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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.

Isla Lipana & Co. is the Philippine member firm of the PwC network. PwC refers to the Philippine member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

Isla Lipana & Co.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Isla Lipana & Co.

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 18 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such 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.

Ruth F. Blasco
Partner
CPA Cert. No. 112595
P.T.R. No. 0018519, issued on January 8, 2019, Makati City
SEC A.N. (individual) as general auditors 1653-A, Category A; effective until August 23, 2020
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
TIN 235-725-236
BIR A.N. 08-000745-133-2017, issued on June 8, 2017; effective until June 7, 2020
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
April 24, 2019

Public Safety Mutual Benefit Fund (PSMBFI) Incorporated

Statements of Financial Position
December 31, 2018 and 2017
(All amounts in Philippine Peso)

	Notes	2018	2017
ASSETS			
Cash and cash equivalents	2.1	2,490,737,333	2,517,545,083
Financial assets at amortized cost	2.1	13,267,734,791	-
Financial asset at fair value through profit or loss	2.2	221,351,062	-
Investment property, net	3	2,814,000	2,814,000
Property and equipment, net	4	253,384,492	240,358,400
Other assets, net	5	6,029,756	12,264,121
Insurance receivables, net	2.1	-	14,601,472
Loans and receivables, net	2.1	-	4,991,218,272
Available-for-sale securities	2.2	-	183,403,565
Held-to-maturity securities	2.1	-	6,617,878,435
Total assets		**16,242,051,434**	**14,580,083,348**
LIABILITIES AND FUND BALANCE			
Accounts payable and accrued expenses	6	641,211,548	815,847,018
Claims payable	7	243,335,637	139,819,669
Legal policy reserves	7	355,182,698	285,133,593
Premium deposits	7	136,081,037	123,538,287
Retirement benefit obligation	10	4,580,649	30,332,769
Members' contributions	2.3	4,762,545,069	4,750,075,583
Total liabilities		**6,142,936,638**	**6,144,746,919**
Retained surplus			
Appropriated	8	1,902,609,744	411,000,000
Unappropriated		8,231,793,511	8,072,342,820
Accumulated other comprehensive income			
Remeasurement loss on retirement benefit obligations	10	(35,288,459)	(48,065,505)
Unrealized gain on change in fair value of available-for-sale securities	2.2	-	59,114
Total fund balance		**10,099,114,796**	**8,435,336,429**
Total liabilities and fund balance		**16,242,051,434**	**14,580,083,348**

(The notes on pages 1 to 43 are an integral part of these financial statements.)

Public Safety Mutual Benefit Fund (PSMBFI) Incorporated

Statements of Total Comprehensive Income
For the years ended December 31, 2018 and 2017
(All amounts in Philippine Peso)

	Notes	2018	2017
UNDERWRITING INCOME			
Insurance premiums		1,301,150,868	821,990,395
UNDERWRITING EXPENSE			
Claims expense	7	(379,812,950)	(231,038,483)
Increase in legal policy reserves	7	(70,049,105)	(35,302,344)
NET UNDERWRITING INCOME		**851,288,813**	**555,649,568**
INTEREST INCOME	2.1	1,540,871,976	1,393,044,215
INTEREST EXPENSE	2.3	(348,926,971)	(390,800,648)
NET INTEREST INCOME		**1,191,945,005**	**1,002,243,567**
REVERSAL OF (PROVISION FOR) CREDIT LOSSES	2.1	282,336,501	(200,070,049)
NET INTEREST INCOME AFTER CREDIT LOSSES		**1,474,281,506**	**802,173,518**
OTHER INCOME			
Rental income	12	7,825,180	5,912,392
Fair value changes on financial assets at fair value through profit or loss	2.2	(6,238,532)	-
Others		7,856,745	37,914,925
		9,443,393	**43,827,317**
INCOME BEFORE OPERATING EXPENSES		**2,335,013,712**	**1,401,650,403**
GENERAL AND ADMINISTRATIVE EXPENSES	9	(460,001,744)	(397,068,354)
INCOME BEFORE INCOME TAX		**1,875,011,968**	**1,004,582,049**
INCOME TAX EXPENSE	13	(87,519,940)	(62,362,764)
NET INCOME FOR THE YEAR		**1,787,492,028**	**942,219,285**
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that may be subsequently reclassified to profit or loss			
Fair value gains on available-for-sale securities	2.2	-	675,213
Item that will not be subsequently reclassified to profit or loss			
Remeasurement gain (loss) on retirement benefit obligation	10	12,777,046	(28,353,428)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)		**12,777,046**	**(27,678,215)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,800,269,074**	**914,541,070**

(The notes on pages 1 to 43 are an integral part of these financial statements.)

Public Safety Mutual Benefit Fund (PSMBFI) Incorporated

Statements of Changes in Fund Balance
For the years ended December 31, 2018 and 2017
(All amounts in Philippine Peso)

	Retained surplus		Accumulated other comprehensive income		
	Appropriated (Note 8)	Unappropriated	Remeasurement loss on retirement benefit obligation (Note 10)	Unrealized (loss) gain on change in fair value of available-for-sale securities (Note 2.2)	Total
Balances as at January 1, 2017	**311,000,000**	**7,230,123,535**	**(19,712,077)**	**(616,099)**	**7,520,795,359**
Appropriation of unappropriated surplus (Note 8)	100,000,000	(100,000,000)	-	-	-
Comprehensive income					
Net income for the year	-	942,219,285	-	-	942,219,285
Other comprehensive (loss) income	-	-	(28,353,428)	675,213	(27,678,215)
Total comprehensive income (loss) for the year	-	942,219,285	(28,353,428)	675,213	914,541,070
Balances as at December 31, 2017	**411,000,000**	**8,072,342,820**	**(48,065,505)**	**59,114**	**8,435,336,429**
Effect of PFRS 9 adoption (Notes 2.1 and 2.2)	-	(136,431,593)	-	(59,114)	(136,490,707)
Balances as at January 1, 2018, as restated	**411,000,000**	**7,935,911,227**	**(48,065,505)**	**-**	**8,298,845,722**
Appropriation of unappropriated surplus (Note 8)	1,491,609,744	(1,491,609,744)	-	-	-
Comprehensive income					
Net income for the year	-	1,787,492,028	-	-	1,787,492,028
Other comprehensive income	-	-	12,777,046	-	12,777,046
Total comprehensive income for the year	-	1,787,492,028	12,777,046	-	1,800,269,074
Balances as at December 31, 2018	**1,902,609,744**	**8,231,793,511**	**(35,288,459)**	**-**	**10,099,114,796**

(The notes on pages 1 to 43 are an integral part of these financial statements.)

Public Safety Mutual Benefit Fund (PSMBFI) Incorporated

Statements of Cash Flows
For the years ended December 31, 2018 and 2017
(All amounts in Philippine Peso)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		1,875,011,968	1,004,582,049
Adjustments for:			
Interest income	2.1	(1,540,871,976)	(1,393,044,215)
Interest expense	2.3	348,926,971	390,800,648
(Reversal of) Allowance for credit losses	2.1	(282,336,501)	200,070,049
Write-off of loans and receivables	2.1	-	(517,439)
Fair value changes on financial assets at fair value through profit or loss	2.2	6,238,532	-
Depreciation and amortization	4	40,615,558	41,871,825
Gain on sale of property and equipment	4	(796,053)	-
Increase in legal policy reserves	7	70,049,105	35,302,344
Retirement benefit cost	10	11,482,739	7,144,491
Amortization of discount of financial assets at amortized cost (2017 - held-to-maturity securities)	2.1	(4,319,294)	(1,725,638)
Net operating income before working capital changes		**524,001,049**	**284,484,114**
(Increase) decrease in:			
Insurance receivables		(302,419)	374,611
Loans and receivables		(408,467,829)	(145,529,097)
Other assets		5,159,608	(1,638,858)
Increase (decrease) in:			
Accounts payable and accrued expenses		(174,635,470)	(280,742,977)
Premium deposits		12,542,750	17,416,265
Claims payable		103,515,968	(4,778,435)
Net cash from (used in) operations		**61,813,657**	**(130,414,377)**
Final taxes paid	13	(87,519,940)	(62,362,764)
Interest received on cash in banks and loans receivables		1,202,997,333	1,078,217,272
Contributions to the retirement fund	10	(27,442,421)	(34,522,285)
Net cash from operating activities		**1,149,848,629**	**850,917,846**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		321,941,113	314,826,942
Proceeds from maturities of financial assets at fair value through profit or loss	2.2	65,489,470	-
Proceeds from maturities of financial assets at amortized cost (2017 - Held-to-maturity securities)	2.1	400,000,000	256,270,000
Proceeds from sale of property and equipment	4	813,901	-
Additional investments in:			
Financial assets at amortized cost (2017 - Held-to-maturity securities)	2.1	(1,465,108,381)	(1,799,387,523)
Financial assets at fair value through profit or loss	2.2	(109,675,499)	-
Available-for-sale securities	2.2	-	(153,344,451)
Property and equipment	4	(53,659,498)	(23,862,454)
Net cash used in investing activities		**(840,198,894)**	**(1,405,497,486)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Additional members' contributions	2.3	1,098,093,723	507,565,127
Refund of members' contributions	2.3	(1,434,551,208)	(1,683,686,370)
Net cash used in financing activities		**(336,457,485)**	**(1,176,121,243)**
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(26,807,750)**	**(1,730,700,883)**
CASH AND CASH EQUIVALENTS			
At January 1		2,517,545,083	4,248,245,966
At December 31	**2.1**	**2,490,737,333**	**2,517,545,083**

(The notes on pages 1 to 43 are an integral part of these financial statements.)

Public Safety Mutual Benefit Fund (PSMBFI) Incorporated

Notes to the Financial Statements
As at and for the years ended December 31, 2018 and 2017
(In the notes, all amounts are shown in Philippine Peso unless otherwise stated)

1 General information

Public Safety Mutual Benefit Fund (PSMBFI) Incorporated (the "Association") was incorporated and registered with the Securities and Exchange Commission (SEC) as a non-stock, not-for-profit association on December 11, 1997. The Insurance Commission (IC) granted the Association a license to transact business as a mutual benefit association on February 4, 1998, which is renewable every year.

The enactment of Republic Act (RA) No. 8291, otherwise known as the Government Service Insurance System (GSIS) Act of 1997 excluded the Philippine National Police (PNP), among other public safety practitioners, from the social insurance coverage of GSIS, without providing for an alternative option. After the passage of that law, the families of deceased policemen no longer received insurance benefits. As a remedy, the PNP organized the Association that is primarily engaged in providing insurance protection and financial and material aid to its members, which are limited to public safety practitioners as defined in the Association's by-laws.

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 (NIRC). The Association, however, is subject to the corresponding internal revenue taxes under the NIRC on income derived from any of its properties, real or personal, or any activity conducted for profit regardless of the disposition thereof.

The registered office address of the Association, which is also its principal place of business, is at No. 318-320 Boni Serrano Avenue corner 1st and 2nd West Streets, San Juan City.

The accompanying financial statements were approved and authorized for issue by the Board of Trustees (the Board) on April 24, 2019.

2 Financial assets and financial liabilities

The Association holds the following financial instruments as at December 31:

Financial assets

	Notes	2018	2017
Financial assets at amortized cost			
Cash and cash equivalents	2.1(a)	2,490,737,333	2,517,545,083
Insurance receivables, net	2.1(b)	14,903,891	14,601,472
Loans and receivables, net	2.1(c)	5,564,450,033	4,991,218,272
Other financial assets at amortized cost	2.1(d)	7,688,380,867	-
Held-to-maturity (HTM) securities	2.1(d)	-	6,617,878,435
Other loans and receivables	2.1(d)	-	1,074,757
Financial assets at fair value through profit or loss (FVTPL)	2.2	221,351,062	-
Available-for-sale (AFS) securities	2.2	-	183,403,565
		15,979,823,186	14,325,721,584

A financial asset is any asset that is (a) cash; (b) an equity instrument of another entity; or (c) a contractual right to receive cash or another financial asset from another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the Association.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

Financial liabilities

	Notes	2018	2017
Financial liabilities at amortized cost			
Accounts payable and accrued expenses, excluding withholding tax payables	6	632,138,013	807,862,477
Claims payable, excluding portion pertaining to incurred but not reported (IBNR) claims	7	152,832,627	108,495,255
Members' contributions	2.3	4,762,545,069	4,750,075,583
		5,547,515,709	5,666,433,315

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Association.

The Association's exposure to various risks associated with the financial instruments is discussed in Note 2.5.

Critical accounting judgment: Classification of financial assets

Beginning January 1, 2018, the Association classifies financial assets on the basis of the Association's business model for managing the financial assets, unless option to designate a financial asset at FVTPL is applied, following the requirements of Philippine Financial Reporting Standard (PFRS) 9, *Financial Instruments*. The Association assesses the business model within which the assets are held and whether the contractual term of assets represent solely payments of principal and interest (SPPI) on the principal amount outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The judgments exercised in the classification affect the measurement of financial assets.

The following table summarizes the business models adopted by the Association for managing its financial assets portfolio and the corresponding classification and measurement basis under PFRS 9:

	Under PAS 39		Under PFRS 9		
Financial asset	Classification	Measurement	Business model	Classification	Measurement
Cash and cash equivalents Insurance receivables, net Loans and receivables, net	Loans and receivables	At amortized cost	Hold to collect	Financial asset at amortized cost	At amortized cost
HTM securities	HTM	At amortized cost	Hold to collect	Financial asset at amortized cost	At amortized cost
AFS securities	AFS	At fair value	Hold to collect and sell	Financial asset at FVTPL	At FVTPL

The accounting policies for the classification and measurement of the Association's financial instruments under PFRS 9 are disclosed in Note 17.3.

2.1 Financial assets at amortized cost

(a) Cash and cash equivalents

The account as at December 31 consists of:

	2018	2017
Cash on hand	603,000	618,000
Cash in banks	131,200,628	225,653,359
Cash equivalents	2,358,933,705	2,291,273,724
	2,490,737,333	2,517,545,083

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents include deposits and placements which can be withdrawn anytime depending on the immediate cash requirements of the Association and earn interest at effective rates ranging from 2.00% to 4.80% in 2018 (2017 - 1.88% to 3.50%).

Interest income earned from cash and cash equivalents for the year ended December 31, 2018 amounts to P80,372,499 (2017 - P110,910,673).

There are no restrictions imposed on the Association's cash and cash equivalents as at December 31, 2018 and 2017.

(b) Insurance receivables, net

The account as at December 31 consists of:

	2018	2017
Gross insurance receivables	61,374,934	61,072,515
Less: Allowance for credit losses	(46,471,043)	(46,471,043)
	14,903,891	14,601,472

Based on the Association's assessment of the recoverability of the insurance receivables, additional allowance for credit losses for the years ended December 31, 2018 and 2017 is not necessary.

(c) Loans and receivables, net

The account as at December 31 consists of:

	2018	2017
Loans receivable		
Salary loans	5,632,333,006	5,007,939,579
Equity loans	375,616,425	585,234,015
Interest receivable	61,446,368	45,512,838
Advances to officers and employees	4,331,318	7,964,109
Others	1,865,985	1,556,594
	6,075,593,102	5,648,207,135
Less: Allowance for credit losses	(511,143,069)	(656,988,863)
	5,564,450,033	4,991,218,272

Interest income earned from loans and receivables for the year ended December 31, 2018 amounts to P1,138,558,364 (2017 - P1,077,596,734).

(i) Salary loans receivable

Salary loans are due in monthly installments ranging from one to five years with fixed nominal interest rates ranging from 9.00% to 16.00% per annum.

(ii) Equity loans receivable

Equity loans, which the members can avail up to 90.00% of the members' equity value, bear interest of 8.00% per annum and are due over a period of two years.

(iii) Interest receivable

Interest receivable pertains to interest income earned but not yet collected from the Association's debt investments, and its salary and equity loans.

(iv) Allowance for credit losses

Beginning January 1, 2018, the Association applied the general approach under PFRS 9, *Financial Instruments*, to measure expected credit losses (ECL) on its loans and receivables. The ECL model in PFRS 9 replaces the incurred loss model previously used under Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement*.

To measure the ECL, the Association uses three categories that reflect the credit risk of the underlying receivable balance and how the loan loss provision is determined for each of those categories. A summary of the assumptions underpinning the Association's ECL model is as follows:

Category	Definition of category	Basis for recognition of credit loss
Performing	Counterparty debtors have a low risk of default and a strong capacity to meet contractual cash flows	12-month expected losses. Where the expected term of the loan is less than 12-months, expected losses are measured at its expected lifetime.
Underperforming	Loans for which there is a significant increase in credit risk; a significant increase in credit risk is presumed if interest and/or principal repayments are more than 90 days past due	Lifetime expected losses
Non-performing	Interest and/or principal repayments are more than 180 days past due	Lifetime expected losses

Over the term of the loans, the Association accounts for its credit risk by appropriately providing for ECL on a timely basis. The ECL rates are based on the payment profiles of loans and receivables over a period of 36 months before January 1, 2018 and December 31, 2018, respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Association has identified the unemployment rate to be the most relevant macroeconomic factor, and accordingly adjusts the historical loss rates based on expected changes in the factor.

On that basis, management has re-assessed the allowance for credit loss as at January 1, 2018 (adoption date of PFRS 9) and has determined that the provision calculated under PAS 39 is lower than the provision calculated under PFRS 9. As such, a transition adjustment amounting to P136,490,707 was recognized in the beginning unappropriated retained surplus balance.

The movements in the allowance for credit losses of loans and receivables for the years ended December 31, 2018 and 2017 are shown below:

	Amount
As at January 1, 2017 (PAS 39)	455,182,253
Increase in allowance for credit losses recognized in profit or loss during the year (Note 13)	202,324,049
Receivables written off during the year as uncollectible	(517,439)
As at December 31, 2017	656,988,863
Impact of change in accounting policy recognized in beginning retained surplus	136,490,707
At January 1, 2018 (PFRS 9)	793,479,570
Decrease in allowance for credit losses recognized in profit or loss during the year (Note 13)	(282,336,501)
As at December 31, 2018	511,143,069

The allowance for credit losses pertains only to salary loans receivable. No impairment loss has been recognized for equity loans as the loans are fully secured by members' contributions.

Management has performed an assessment and concluded that the allowance for credit loss pertaining to the other loans and receivable balances is immaterial.

Critical accounting judgment: Impairment of loans and receivables

Beginning January 1, 2018, the Association determines the recoverable amount of loans and receivables based on the ECL of the portfolio of loans and receivables as a whole. In arriving at the ECL for a particular period, management considers both historical loss experience and the relevant macroeconomic factor. In these cases, management uses judgments based on the best available facts and circumstances, including, but not limited to, the length of relationship with the counterparty debtors and whether there had been any payment defaults in the past. An evaluation of loans and receivables designed to identify potential charges to the allowance for credit losses is performed on a continuous basis throughout the year.

Prior to January 1, 2018, the Association provides for credit losses of loan and receivables based on objective evidence of existence of impairment indicators as of the reporting period. The level of provision is evaluated by management based on collection experience and other factors that affect the collectibility of the accounts.

The calculated allowance for credit losses is reviewed on a regular basis to reflect proper valuation in the financial records. Any change in the Association's assessment of the collectibility of receivables could significantly impact the calculation of allowance for credit losses, if any, and the results of its financial performance.

The Association considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the extent of the net present value of estimated cash flows of individually impaired accounts and the estimated impairment for collectively assessed accounts.

Management, based on its assessment, believes that the loans and receivables are fully collectible as at December 31, 2018 and 2017. The Association's assessment of loans and receivables disclosed a level of ECL equivalent to those already provided for.

(d) Other financial assets at amortized cost

The account as at December 31 consists of:

	Note	2018	2017
Debt securities			
Government securities			
Retail treasury bonds		1,085,000,000	935,000,000
Fixed treasury notes		4,037,178,435	3,787,178,435
Treasury bills		374,427,675	-
		5,496,606,110	4,722,178,435
Corporate bonds		1,875,700,000	1,580,700,000
Long-term negotiable certificate of deposits		315,000,000	315,000,000
		7,687,306,110	6,617,878,435
Other			
Deposits to service providers	5	1,074,757	1,074,757
		7,688,380,867	6,618,953,192

In 2017, the debt security investments were previously classified as HTM securities.

Government securities amounting to P25,000,000 as at December 31, 2018 and 2017 are on deposit with the Bureau of Treasury under the Registry of Scripless Securities System, in accordance with the provision under Section 405 of the Insurance Code of the Philippines, as amended by Republic Act No. 10607, “An Act Strengthening the Insurance Industry” (the amended Code), as security for the benefit of members and creditors of the Association.

Beginning January 1, 2018, the deposits to service providers are presented within other financial assets at amortized cost. In 2017, these are presented as part of Other assets, net (Note 5).

The average interest rates of the debt security investments for the years ended December 31 are as follows:

	2018	2017
Government securities		
Retail treasury bonds	4.71%	4.69%
Fixed treasury notes	4.31%	3.63%
Treasury bills	4.70%	7.75%
Corporate bonds	5.61%	5.07%
Long-term negotiable certificate of deposits	3.71%	3.71%

For the year ended December 31, 2018, interest earned from investments held at amortized cost amounts to P321,941,113 (2017 - P204,536,808 from investments held as HTM securities).

Management has performed an assessment and concluded that the allowance for credit loss pertaining to the other financial assets at amortized cost is immaterial considering the counterparties’ credit standing (sovereign and corporate entities rated investment-grade at a minimum and deposits held at banks with high credit ratings) and history of no payment defaults in the past.

Movements of the account for the year ended December 31 are shown below:

	Amount
As at January 1, 2017	5,073,035,274
Acquisitions	1,799,387,523
Maturities	(256,270,000)
Amortization of discount	1,725,638
As at December 31, 2017 and January 1, 2018 (transition to PFRS 9, reclassification to other financial assets at amortized cost)	6,617,878,435
Acquisitions	1,465,108,381
Maturities	(400,000,000)
Amortization of discount	4,319,294
As at December 31, 2018	7,687,306,110

Critical accounting judgment: Classification of HTM securities until December 31, 2017

The Association follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM. This classification requires significant judgment. In making this judgment, the Association evaluates its intention and ability to hold such investments to maturity. If the Association fails to keep these investments to maturity other than for the specific circumstances - for example selling an insignificant amount close to maturity - it will be required to reclassify the entire class as AFS. The investments would therefore be measured at fair value and not at amortized cost.

As at and during the year ended December 31, 2017, there have been no changes in management's intention and ability to hold the HTM securities to maturity that required remeasurement of the investment at fair value instead of amortized cost.

2.2 Financial assets at FVTPL (2017 - AFS securities)

The financial assets at FVTPL account as at December 31, 2018 consists of:

	Amount
Debt securities	
Government securities	149,989,849
Unit investment trust funds (UITFs)	9,658,641
Mutual funds	29,372,740
Corporate bonds	19,494,306
	208,515,536
Equity securities - listed shares	12,835,526
	221,351,062

The AFS securities account as at December 31, 2017 consists of:

	Amount
Debt securities	
Government securities	86,364,938
Unit investment trust funds (UITFs)	58,899,985
Mutual funds	29,759,615
Corporate bonds	430,700
	175,455,238
Equity securities - listed shares	7,948,327
	183,403,565

With the adoption of PFRS 9, the AFS securities were reclassified to financial assets at FVTPL as at January 1, 2018.

Beginning January 1, 2018, the unrealized fair value gains or losses on financial assets at FVTPL are presented as part of “Fair value gains/losses in financial assets at FVTPL” in profit or loss. Up to December 31, 2017, the fair value gains or losses on the AFS securities are recognized within “Other comprehensive income” section of the statement of total comprehensive income.

In 2017, the Plan entered into a trust fund agreement with Metropolitan Bank and Trust Company and BDO Unibank, Inc.-Trust and Investment Group for the administration of these investments. The Association determines the fair value of these investments based on net asset value per share as at reporting date.

Movements of the account for the years ended December 31 are shown below:

	Amount
At January 1, 2017	29,383,901
Acquisitions	153,344,451
Fair value adjustments	675,213
As at December 31, 2017 and January 1, 2018 (transition to PFRS 9, reclassification to financial assets at FVTPL)	183,403,565
Acquisitions	109,675,499
Maturities	(65,489,470)
Fair value adjustments	(6,238,532)
As at December 31, 2018	221,351,062

Financial assets previously classified as AFS securities

The movements in the reserve for change in fair value of AFS securities account in equity for the year ended December 31, 2017 are summarized as follows:

	Amount
As at January 1, 2017	(616,099)
Fair value adjustments	675,213
As at December 31, 2017	59,114
Effect of PFRS 9 adoption (balance closed to beginning unappropriated retained surplus)	(59,114)
At January 1, 2018 (transition to PFRS 9)	-

2.3 Members’ contributions

The account as at December 31 consists of:

	2018	2017
Principal contributions	3,553,998,762	2,886,802,212
Accumulated earnings	1,208,546,307	1,863,273,371
	4,762,545,069	4,750,075,583

Members’ contributions pertain to the portion of the contributions received from the Member’s Benefit Equity Plan (MBEP) and Member’s Equity Plan (MEP) which represent the member’s savings in the Association. The Members’ contributions are withdrawable on demand by the member.

The estimated fair value of members’ contributions is the amount repayable on demand which is equal to the members’ equity value. The most significant input for purposes of estimating fair value pertains to its interest rates.

In 2016, as part of the preparation for the 20th anniversary of the Association, the Board approved the implementation of the strategy and activities for the proposed transfer of its members’ basic plan from MBEP to MEP upon election of the member. The transfer from MBEP to MEP shall entitle the member to refund the member’s contribution and accumulated earnings as of date of transfer and as such, subsequent collections will be accounted for under MEP.

Features of MBEP and MEP are as follows:

	Contributions breakdown		
	Members' contribution	Insurance premiums	Interest rate
MBEP	44%	56%	12%
MEP	50%	50%	3%

The movements in the principal contributions for the years ended December 31 are shown below:

	2018	2017
At January 1	2,886,802,212	3,459,337,209
Contributions during the year	1,098,093,723	507,565,127
Refunds during the year	(430,897,173)	(1,080,100,124)
At December 31	3,553,998,762	2,886,802,212

The movements in the accumulated earnings of principal contributions as at December 31 consist of:

	2018	2017
At January 1	1,863,273,371	2,260,695,239
Interest on contributions during the year	348,926,971	390,800,648
Refunds during the year	(1,003,654,035)	(788,222,516)
At December 31	1,208,546,307	1,863,273,371

2.4 Fair value determination of financial assets and liabilities

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy described as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - 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); and
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes mainly from PDEX and Bloomberg.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, foreign exchange rates, volatilities and counterparty spreads) existing at reporting date. The Association uses widely recognized valuation models for determining fair values of non-standardized financial instruments of lower complexity. For these financial instruments, inputs into models are generally market observable.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and advances as well as members' contributions are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

The following table shows the fair values of financial assets at FVTPL as at December 31, 2018. In 2017, these assets are presented as part of AFS securities. The fair values used are based on derived market prices as at reporting dates (Level 2).

	2018	2017
Debt securities	208,515,536	175,455,238
Equity securities	12,835,526	7,948,327
	221,351,062	183,403,565

There were no transfers between levels of fair value hierarchy in 2018 and 2017.

2.5 Financial risk management

The Association's overall risk management program objective is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Association's financial performance by analyzing, evaluating, accepting and managing some degree of risk or a combination of risks.

The Association's financial risk management is coordinated with the Board, and focuses on actively securing the Association's short-term and medium-term cash flows by minimizing the exposure to financial risks. Long-term financial investments are managed to generate lasting returns.

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.

(a) Credit risk

Credit risk arises from the potential that the counterparty is unable or unlikely to perform an obligation resulting in a loss for the Association. The holding of cash in banks, debt investments and loans and receivables exposes the Association to credit risk of the counterparty with a maximum exposure equal to the carrying value of the instrument if the counterparty is unwilling or unable to fulfill its obligations, and the Association consequently suffers financial loss.

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;
- verifying the qualifications of the member who avail of the Association's loan facilities.

The Association only grants loans to its bonafide members that have passed its credit evaluation and are approved by the Association's Office of the President. Salary loans are granted only to members who apply with the automatic salary deduction scheme of the finance office of the PNP and other public safety agencies/offices. The Associations' salary and equity loans receivable are actively monitored to avoid significant concentrations of credit risks.

The Association's gross maximum exposure to credit risk is equal to the carrying amount of its financial assets, except for salary loans and equity loans. Salary loans are secured with credit life insurance that extinguishes the outstanding financial obligation of the member in case of premature death during the duration of the insured loan term. Equity loans are secured with the members' contributions which is equal to its carrying value.

The following table provides information regarding the credit quality of the Association's financial assets as at December 31:

2018	Performing	Underperforming	Non-performing	Total
Financial assets at amortized cost				
Cash and cash equivalents, excluding cash on hand	2,490,134,333	-	-	2,490,134,333
Insurance receivables	4,477,730	10,426,161	46,471,043	61,374,934
Loans and receivables				
Salary loans	4,849,181,041	272,008,896	511,143,069	5,632,333,006
Equity loans	366,715,549	8,900,876	-	375,616,425
Interest receivable	61,446,368	-	-	61,446,368
Advances to officers and employees	4,331,318	-	-	4,331,318
Others	1,865,985	-	-	1,865,985
Other				
Debt securities	7,687,306,110	-	-	7,687,306,110
Deposits to service providers	1,074,757	-	-	1,074,757
Financial assets at FVTPL				
Debt securities	221,351,062	-	-	221,351,062
	15,687,884,253	291,335,933	557,614,112	16,536,834,298

2017	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Loans and receivables				
Cash and cash equivalents, excluding cash on hand	2,516,927,083	-	-	2,516,927,083
Insurance receivables	4,175,311	10,426,161	46,471,043	61,072,515
Loans and receivables				
Salary loans	4,148,075,807	202,874,909	656,988,863	5,007,939,579
Equity loans	529,297,078	55,936,937	-	585,234,015
Interest receivable	45,512,838	-	-	45,512,838
Advances to officers and employees	7,964,109	-	-	7,964,109
Others	1,556,594	-	-	1,556,594
AFS securities				
Debt securities	183,403,565	-	-	183,403,565
HTM securities				
Debt securities	6,617,878,435	-	-	6,617,878,435
Other assets				
Deposits to service providers	1,074,757	-	-	1,074,757
	14,055,865,577	269,238,007	703,459,906	15,028,563,490

The counterparties for cash and cash equivalents and government and corporate debt securities are considered to be investment grade based on ratings provided by reputable rating agencies. These counterparties are assessed to possess strong capacity to meet their obligations.

For salary loans receivable to be classified as underperforming (2017 - past due and impaired), contractual payments in arrears are more than 180 days or if the arrears are equivalent to 20% or more of the total obligation. An allowance for credit loss adjustment is recorded in profit or loss for these receivables. When credit exposure is adequately secured, arrears more than 180 days might still be classified as underperforming, with no allowance for credit loss adjustment recorded.

As at December 31, 2018, balances classified as non-performing (2017 - impaired) are fully provided with an allowance for credit loss. The ECL calculation is based on provision rates which represent the historical loss experience based on days past due, adjusted for the current conditions and forecasts of future economic conditions [Note 2.1(c)(iv)].

Management deemed it not necessary to establish any allowance for credit loss for those amounts classified as underperforming based on assessment of the expected loss component of loans and receivables under this category. Significant portion of these balances are due from counterparties that have demonstrated good track records and with no history of payment default.

Significant increase in credit risk

When determining whether the credit risk (i.e., risk of default) on a financial instrument has increased significantly since initial recognition, the Association considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both qualitative and quantitative information and analysis based on the Association's experience, expert credit assessment and forward-looking information.

The Association primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

As a backstop, the Association considers that a significant increase in credit risk occurs no later than when an asset is more than 90 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

Definition of "default"

The Association defines a financial instrument as in default in all cases when the counterparty debtor becomes over 180 days past due on its contractual payments. As a part of a qualitative assessment of whether a counterparty is in default, the Association also considers a variety of instances that may indicate evidence of impairment, such as job security concerns of the counterparty debtors (e.g., suspension, termination) and/or bankruptcy of the counterparty debtors.

(b) Liquidity risk

Liquidity or 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 value, or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Association is the matching of available cash resources in respect of claims arising from insurance contracts.

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 regulatory requirements.

The Association manages liquidity through a liquidity risk policy which specifies minimum proportion of funds to meet emergency calls, set up of contingency funding plans and the sources of funding.

The table below presents the maturity profile of the Association's financial liabilities based on undiscounted cash flows, which it uses to manage the inherent liquidity risk. The analysis into maturity grouping is after the reporting period and until contractual maturity date or, if earlier, the expected date the financial liability will be settled. The amounts disclosed in the table are the contractual undiscounted cash flows which equal their carrying balances, as the impact of discounting is not significant.

	2018				
	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Financial assets					
Cash and cash equivalents	2,490,737,333	-	-	-	2,490,737,333
Insurance receivables, gross	61,374,934	-	-	-	61,374,934
Loans and receivables					
Salary loans*	1,559,761,518	2,847,118,008	1,225,453,480	-	5,632,333,006
Equity loans	320,005,678	55,610,747	-	-	375,616,425
Interest receivable	61,446,368	-	-	-	61,446,368
Advances to officers and employees	4,331,318	-	-	-	4,331,318
Others	1,865,985	-	-	-	1,865,985
Other financial assets at amortized cost	862,396,729	2,498,500,000	2,175,601,000	2,151,883,138	7,688,380,867
Financial assets at FVTPL	67,500,471	76,566,020	45,498,428	31,786,143	221,351,062
	5,429,420,334	5,477,794,775	3,446,552,908	2,183,669,281	16,537,437,298
Financial liabilities					
Accounts payable and accrued expenses**	632,138,013	-	-	-	632,138,013
Claims payable***	152,832,627	-	-	-	152,832,627
Members' contributions	630,556,233	478,561,393	704,040,818	2,949,386,625	4,762,545,069
	1,415,526,873	478,561,393	704,040,818	2,949,386,625	5,547,515,709
Net liquidity position (gap)	4,013,893,461	4,999,233,382	2,742,512,090	(765,717,344)	10,989,921,589

**Gross of allowance for credit losses amounting to P511,143,069*
***Excluding withholding tax payables of P9,291,506*
****Excluding IBNR amounting to P90,503,010*

	2017				
	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Financial assets					
Cash and cash equivalents	2,517,545,083	-	-	-	2,517,545,083
Insurance receivables	61,072,515	-	-	-	61,072,515
Loans and receivables					
Salary loans*	715,280,621	3,966,565,241	326,093,717	-	5,007,939,579
Equity loans	83,558,578	447,338,831	54,336,606	-	585,234,015
Interest receivable	45,512,838	-	-	-	45,512,838
Advances to officers and employees	7,964,109	-	-	-	7,964,109
Others	1,556,594	-	-	-	1,556,594
AFS securities	67,279,012	43,546,496	42,818,442	29,759,615	183,403,565
HTM securities	2,105,378,435	1,614,700,000	962,800,000	1,935,000,000	6,617,878,435
Other assets					
Deposits to service providers	-	-	-	1,074,757	1,074,757
	5,605,147,785	6,072,150,568	1,386,048,765	1,965,834,372	15,029,181,490
Financial liabilities					
Accounts payable and accrued expenses	807,862,477	-	-	-	807,862,477
Claims payable**	108,495,255	-	-	-	108,495,255
Members' contributions	246,756,137	212,957,845	1,715,518,104	2,574,843,497	4,750,075,583
	1,163,113,869	212,957,845	1,715,518,104	2,574,843,497	5,666,433,315
Net liquidity position (gap)	4,442,033,916	5,859,192,723	(329,469,339)	(609,009,125)	9,362,748,175

**Gross of allowance for impairment amounting to P656,988,863*
***Excluding withholding tax payables of P7,984,541*
****Excluding IBNR amounting to P31,324,414*

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.

(c) Market risk

Market risk is the risk that fair value or 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 denominated in foreign currencies and therefore, it has no exposure to foreign currency exchange risk.

The Association's investment portfolio is exposed to market risk depending on the nature of underlying securities. For example, a bond fund which is comprised mainly of debt securities are primarily exposed to interest rate risk while an equity fund is exposed to price risk.

For sensitivity analysis purposes, based on management's projections, a reasonably possible shift of ±10% movement in the market value of the Association's financial assets at FVTPL will increase/decrease net income for the year ended December 31, 2018 by P22,135,106 (2017 - P18,340,356).

3 Investment property, net

Investment property as at December 31, 2018 and 2017 amounts to P2,814,000.

The fair value of the investment property as at December 31, 2018 and 2017 is P3,640,000. The fair value of the investment property was obtained using the market data approach and is based on sales and listings of comparable properties registered within the vicinity. The fair value of the Association's investment property falls under the Level 3 category. The most significant input for purposes of estimating fair value pertains to price per square meter.

The fair value of the investment property as at December 31, 2018 and 2017 was determined by an independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. In estimating the fair value of the parcels of land, the appraisal made gave due consideration to the highest and best use of the property following the Market approach (discussed below).

Fair value measurement

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 Association uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- Market approach - A valuation technique that uses observable inputs, such as prices, broker quotes and other relevant information generated by market transactions involving identical or comparable assets or group of assets.
- Income approach - A valuation technique that converts 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).

4 Property and equipment, net

Movements in the account are as follows:

	Land	Buildings and improvements	Office machine and equipment	Furniture and fixtures	Transportation equipment	Total
Cost						
At January 1, 2017	36,960,381	435,557,390	152,058,310	30,775,791	33,339,226	688,691,098
Additions	-	7,681,464	14,522,138	1,658,852	-	23,862,454
Disposals/retirement	-	(163,971)	-	-	-	(163,971)
At December 31, 2017	36,960,381	443,074,883	166,580,448	32,434,643	33,339,226	712,389,581
Additions	-	8,510,801	22,697,467	2,189,872	20,261,358	53,659,498
Disposals/retirement	-	-	(26,140,656)	(1,694,437)	(2,652,250)	(30,487,343)
At December 31, 2018	36,960,381	451,585,684	163,137,259	32,930,078	50,948,334	735,561,736
Accumulated depreciation						
At January 1, 2017	-	257,209,789	128,676,751	27,903,108	16,533,679	430,323,327
Depreciation for the year	-	18,674,004	15,889,003	1,709,986	5,598,832	41,871,825
Disposals/retirement	-	(163,971)	-	-	-	(163,971)
At December 31, 2017	-	275,719,822	144,565,754	29,613,094	22,132,511	472,031,181
Depreciation for the year	-	18,954,589	14,477,252	1,653,334	5,530,383	40,615,558
Disposals/retirement	-	-	(26,122,922)	(1,694,330)	(2,652,243)	(30,469,495)
At December 31, 2018	-	294,674,411	132,920,084	29,572,098	25,010,651	482,177,244
Net book values						
At December 31, 2017	36,960,381	167,355,061	22,014,694	2,821,549	11,206,715	240,358,400
At December 31, 2018	36,960,381	156,911,273	30,217,175	3,357,980	25,937,683	253,384,492

Depreciation expense is presented as part of General and administrative expenses (Note 9).

In 2018, the Association disposed certain fixed assets with a net book value of P17,848 for P813,901, resulting to a gain on disposal of P796,053 which is presented under Other income within profit or loss.

As at December 31, 2018, the total cost of fully-depreciated property and equipment that are still being used by the Association amounts to P285,585,305 (2017 - P280,827,010).

Critical accounting judgment: Impairment of property and equipment

The Association's property and equipment are carried at cost less accumulated depreciation and amortization and impairment losses, if any. The carrying value is reviewed and assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Changes in those judgments could have a significant effect on the carrying value of property and equipment and the amount and timing of recorded provision for any period.

As at December 31, 2018 and 2017, management believes, based on its judgment, that there are no indications of impairment or changes in circumstances indicating that the carrying value of its property and equipment may not be recoverable.

5 Other assets, net

The account as at December 31 consists of:

	Note	2018	2017
Prepaid expenses		1,692,548	7,261,586
Creditable withholding tax		1,934,541	1,723,708
Office supplies inventory		1,077,020	1,345,882
Deposits to service providers	2.1(d)	-	1,074,757
Others		1,325,647	858,188
		6,029,756	12,264,121

Prepaid expenses consists of prepaid real estate tax and advance payment for various expenses.

Starting January 1, 2018, deposits to service providers are presented as part of Other financial assets at amortized cost [Note 2.1(d)].

As at December 31, 2018 and 2017, included within Others is the fully amortized integrated information system that is still in use. The integrated information system was acquired at a cost of P6,552,944.

6 Accounts payable and accrued expenses

The account as at December 31 consists of:

	2018	2017
Payable to members	595,563,433	782,520,500
Accrued expenses	36,344,067	25,341,977
Withholding tax payables	9,291,506	7,984,541
Accrued collection fees	12,542	-
	641,211,548	815,847,018

Payable to members includes outstanding balances related to experience refund, loan overpayments, refund of equity value of terminated members, and interest accretions which are payable within one year.

As at December 31, 2018, the outstanding payables related to experience refund distributions amount to P161,294,580 (2017 - P161,262,301).

Accrued expenses pertain to accrual of various expenses such as repairs, representation, travel, and transportation expenses.

7 Insurance contract liabilities and related accounts

(a) Claims payable and legal policy reserves

The movements of the Association's insurance contract liabilities consisting of the claims payable and legal policy reserves for the years ended December 31 are shown below:

	Claims payable			Legal policy	
	Actual	IBNR	Total	reserves	Total
At January 1, 2017	107,986,057	36,612,047	144,598,104	249,831,249	394,429,353
Provisions during the year	236,326,116	(5,287,633)	231,038,483	35,302,344	266,340,827
Claims during the year	(235,816,918)	-	(235,816,918)	-	(235,816,918)
At December 31, 2017	108,495,255	31,324,414	139,819,669	285,133,593	424,953,262
Provisions during the year	320,634,354	59,178,596	379,812,950	70,049,105	449,862,055
Claims during the year	(276,296,982)	-	(276,296,982)	-	(276,296,982)
At December 31, 2018	152,832,627	90,503,010	243,335,637	355,182,698	598,518,335

Claims payable arises from life insurance contracts entered into by the Association with its members.

Legal policy reserves represent the accumulated total liability for policies in force as at reporting date.

IC issued its Circular Letter 2016-66 which provides that the reserves for traditional life insurance policies shall be valued using the gross premium valuation (GPV) method effective January 1, 2017. However, following recent developments in the implementation of the GPV method by mutual benefit associations, IC issued Advisory 6-2018 on April 17, 2018 which defers the application of the GPV method for the valuation of traditional life insurance policies by mutual benefit associations until such time that IC issues a new financial reporting framework specifically for mutual benefit associations.

Critical accounting estimate: Ultimate liability arising from claims made under insurance contracts

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 sources of 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 and related reinsurance balances. 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 sources of uncertainties may differ significantly.

(b) Premiums deposits

The account pertains to premiums left on deposit with the Association which are applied to succeeding premium payments due. Upon application, they are recognized as premium revenues. They do not earn interest while held by the Association pending application to premiums due.

8 Retained surplus

Section 408 of the amended 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 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. This amendment, however, is still subject for further interpretation. As at December 31, 2018 and 2017, the IC has not yet issued a circular relating to the guidelines on the implementation of this provision.

The movements in the Association's appropriated retained surplus for the years ended December 31 are shown below:

	2018	2017
At January 1	411,000,000	311,000,000
Appropriations during the year	1,491,609,744	100,000,000
At December 31	1,902,609,744	411,000,000

The beginning balance at January 1, 2017 pertains to appropriations of retained surplus made by the Board on October 30, 2012 for the Association's mortality fund and guaranty fund amounting to P230 million and P46 million, respectively. The remaining appropriated retained surplus amounting to P35 million represents the reserve to support the payment of the 20% administrative expense loading after a member has contributed for 20 years.

The mortality fund represents the reserve for any unusual fluctuation in the mortality assumptions. The Association will determine adequacy of this appropriation on an annual basis and adjustments shall be made whenever necessary.

On July 28, 2017, the Board approved the appropriation of P100 million for the construction of Regional Extension Office (REO) outside the PNP Camps in connection to the directives of the PNP to disallow private entities to maintain or lease an office inside camp premises. Thus, this necessitates the immediate relocation of all REOs.

On January 29, 2018, the Board approved the appropriation of P400 million to support the land acquisition and regional office construction project of the Association, including the hiring of real estate professionals to assist in the project.

On July 30, 2018, the Board approved the appropriation of P500 million for the Association's information technology (IT) enhancement project which would cover the data clean-up, data migration, IT security, IT peripherals, and all related expenses.

The remaining appropriated retained surplus amounting to P592 million represents the reserve to support the activities for the five-year development plan of the Association, inclusive of payment for the Members' Experience Refund, preparation for the implementation of PFRS 17, product development and upgrade of audit database.

9 General and administrative expenses

General and administrative expenses for the years ended December 31 consist of:

	Notes	2018	2017
Personnel costs			
Employee benefits		124,790,911	93,316,979
Salaries and wages		93,033,528	92,037,251
Retirement benefit cost	10	11,482,739	7,144,491
		229,307,178	192,498,721
Depreciation and amortization	4	40,615,558	41,871,470
Collection fees		27,370,223	26,893,898
Transportation and travel		25,609,477	19,831,501
Advertising and promotion		20,104,775	28,344,826
Directors' fee		18,026,136	14,536,822
Communication, light and water		13,520,258	11,900,071
Representation and entertainment		9,306,521	8,903,049
Supplies		6,984,856	9,475,320
Outside services		6,602,187	5,511,970
Repairs and maintenance		4,410,121	3,590,465
Professional fees		4,027,786	2,522,090
Fuel and oil		3,988,184	3,313,417
Bank charges		2,860,642	3,562,724
Trainings and seminars		2,525,646	2,026,960
Rent	12	2,314,264	1,876,062
Insurance expense		1,032,442	1,106,241
Fringe benefit tax		805,183	265,882
Taxes and licenses		690,802	1,311,925
Subscription and periodicals		672,726	328,601
Commission expense		515,964	914,764
Others		38,710,815	16,481,575
		460,001,744	397,068,354

Other expenses mainly pertain to social and community expenses, general assembly meeting expenses, and strategic planning expenses.

10 Retirement benefit obligation

The Association has a funded defined benefit retirement plan. Under the plan, qualified officers and employees will be entitled to receive retirement benefits when they reach the normal retirement age of 60. Retirement benefit is the amount equivalent to 125% of the final monthly salary for each year of service.

The most recent actuarial valuation of the Association's retirement plan was performed by an independent actuary as at December 31, 2018 using the projected-unit-credit method.

The amounts recognized in the statement of financial position as at December 31 are as follows:

	2018	2017
Present value of defined benefit obligation	89,212,759	92,025,190
Fair value of plan assets	(84,632,110)	(61,692,421)
Retirement benefit obligation	4,580,649	30,332,769

The movements in the retirement benefit liability for the years ended December 31 follow:

	Note	Present value of defined benefit obligation	Fair value of plan assets	Net amount
At January 1, 2017		55,434,007	(26,510,853)	28,923,154
Retirement benefit cost recognized in profit or loss				
Current service cost		6,065,757	-	6,065,757
Interest cost (income)		2,827,321	(1,748,587)	1,078,734
	9	8,893,078	(1,748,587)	7,144,491
Remeasurements recognized in accumulated other comprehensive income (OCI)				
Return on plan assets		-	(2,416,385)	(2,416,385)
Changes in experience adjustments		7,153,346	-	7,153,346
Changes in demographic assumptions		68,259	-	68,259
Changes in financial assumptions		23,548,208	-	23,548,208
		30,769,813	(2,416,385)	28,353,428
Other movements				
Contributions to the retirement fund		-	(34,522,285)	(34,522,285)
Benefits paid from the retirement fund		(3,505,689)	3,505,689	-
Others		433,981	-	433,981
		(3,071,708)	(31,016,596)	(34,088,304)
At December 31, 2017		92,025,190	(61,692,421)	30,332,769
Retirement benefit cost recognized in profit or loss				
Current service cost		10,297,512	-	10,297,512
Interest cost		5,252,006	(4,066,779)	1,185,227
	9	15,549,518	(4,066,779)	11,482,739
Remeasurements recognized in accumulated OCI				
Return on plan assets		(7,024,290)	-	(7,024,290)
Changes in experience adjustments		2,321,406	-	2,321,406
Changes in demographic assumptions		(11,936,404)	-	(11,936,404)
Changes in financial assumptions		-	3,862,242	3,862,242
		(16,639,288)	3,862,242	(12,777,046)
Other movement				
Contributions to the retirement fund		-	(27,442,421)	(27,442,421)
Benefits paid from the retirement fund		(1,722,661)	1,722,661	-
Benefits paid for separation prior to 2018		-	2,984,608	2,984,608
		(1,722,661)	(22,735,152)	(24,457,813)
At December 31, 2018		89,212,759	(84,632,110)	4,580,649

As at December 31, 2018, the average duration of the defined benefit obligation is 15.70 years (2017 - 18.72 years).

The projected maturity analysis of the undiscounted benefit payments follows:

	2018		2017	
	Normal retirement	Other than normal retirement	Normal retirement	Other than normal retirement
Less than one year	4,083,762	4,739,879	-	2,320,085
1 to 5 years	6,856,598	22,698,812	7,649,297	11,814,454
6 to 10 years	30,588,628	36,747,598	16,030,470	21,820,118
11 to 15 years	74,956,331	31,677,535	114,921,500	24,207,801
16 to 20 years	58,876,195	23,729,856	93,900,995	20,016,775
Over 21 years	140,536,146	22,553,787	272,856,173	25,209,258

As at December 31, the Association's plan assets are invested in the following as at December 31:

	2018	2017
Cash and cash equivalents	54,483,741	33,232,681
Financial assets at FVTPL	4,599,270	5,059,386
AFS securities	25,363,607	23,306,198
Interest receivable	185,492	94,156
	84,632,110	61,692,421

The plan is being administered by a trustee-bank who is authorized to invest the fund as deemed proper on trust agreement with the objective of obtaining optimal return.

The Association's transactions with the retirement fund are limited to contributions and benefit payments.

The fair value of the plan assets approximates their carrying value as at December 31, 2018 and 2017.

The retirement plan typically exposes the Association to a number of risks such as investment risk, interest rate risk and salary risk, the most significant of which relate to investment and interest rate risks. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using 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 pension liability.

A decrease in government bond yields will increase the defined benefit obligation although this will also be partially offset by an increase in the value of the plan's fixed income holdings. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the Association. However, the Association believes that due to the long-term nature of the pension liability and the strength of the Association itself, the mix of investments of the plan is an appropriate element of the Association's long term strategy to manage the plan efficiently.

The actual return on plan assets for the year ended December 31, 2018 amounts to P204,537 (2017 - P4,164,972).

The expected contribution to the retirement benefit plan for the year ending December 31, 2019 amounts to P10,841,800.

The principal assumptions used in the actuarial valuation of the Association's retirement plan are as follows:

	2018	2017
Discount rate per annum	7.30%	5.78%
Salary increase rate	5.00%	5.00%

Discount rate

The discount rate was determined in accordance with the Philippine Interpretations Committee- (PIC) approved Q&A 2008-01 (Revised), which mandates that discount rates reflect (a) benefit cash flows and (b) use of zero coupon rates, even though theoretically derived. The procedure of bootstrapping was applied to the benchmark government bond yields to arrive at the theoretical zero coupon yield curve. These derived rates were then used to compute the present value of the expected future benefit cash flows across valuation years.

Finally, the single-weighted discount rate was calculated as the uniform discount rate that produced the same present value.

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.

Critical accounting estimate: Valuation of retirement benefit obligation

The determination of retirement benefit obligation is dependent on the selection of certain assumptions used by the Association in calculating such amounts. Those assumptions include, among others, discount rate and salary increase rate. Due to the long-term nature of the retirement plan, such estimates are subject to significant uncertainty. As at December 31, 2018 and 2017, the assumed discount rate was determined based on the yield of a Philippine government bond with term that is appropriate for the term of the liability of the plan.

While the Association believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and the related obligation.

As at December 31, the sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is as follows:

		Impact on retirement benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
2018			
Discount rate	1.00%	(6,674,071)	7,601,466
Salary increase rate	1.00%	8,381,670	(7,460,630)
2017			
Discount rate	1.00%	(9,463,661)	11,029,972
Salary increase rate	1.00%	11,649,274	(10,136,838)

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the defined benefit obligation at the reporting date after first adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all other assumptions remained unchanged. The corresponding change in the defined benefit obligation was expressed as a percentage change from the base defined benefit obligation.
It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

11 Related party transactions

The Association's related parties include the members of the Board, its officers and key management personnel. The following are the significant transactions with related parties:

	2018		2017	
	Transactions for the year	Outstanding balance at December 31	Transactions for the year	Outstanding balance at December 31
Advances to related parties	19,114,750	3,674,802	22,522,258	7,401,590

The transactions presented above pertain to net amount of additions and liquidations on the advances to related parties. The outstanding balance at December 31 is presented as part of Advances to officers and employees [Note 2.1(c)].

Advances to related parties pertain to non-interest bearing cash advances provided to members of the Board and officers in the ordinary course of business. These advances are subject to liquidation, are unguaranteed and unsecured.

Based on the objective assessment done by management on the related party balances, no allowance for credit loss has been recognized against receivables from related parties, as these are all deemed to be fully recoverable as at December 31, 2018 and 2017 in the absence of history of payment default of the related parties.

The aggregate amounts included in the determination of income before income tax that resulted from transactions with key management personnel for the years ended December 31 are as follows:

	2018	2017
Salaries	17,188,642	18,590,980
Bonuses	17,775,511	11,355,541
Compensated absence	1,522,351	1,558,486
Short-term medical benefits	411,981	547,413
Social security costs	198,739	199,146
Other short-term benefits	788,071	544,880
	37,885,295	32,796,446

12 Operating lease commitments

The Association as lessor

The Association leases out a portion of its existing building to various lessees for a period ranging from two to five years. These contracts are generally subject to 6% to 10% annual escalation. Rental income related to these agreements for the year ended December 31, 2018 amounts to P7,825,180 (2017 - P5,912,392).

Direct costs relating to the premises being leased out amount to P4,328,879 for the year ended December 31, 2018 (2017 - P4,358,312).

The future minimum rental receivables under long-term operating leases as at December 31 are as follows:

	2018	2017
Within one year	5,921,370	5,475,429
After one year but not more than five years	3,820,776	10,303,876
	9,742,146	15,779,305

The Association as lessee

The Association has short-term lease agreements for its REOs. Rent expense related to these agreements for the year ended December 31, 2018 amounts to P2,314,264 (2017 - P1,876,062) (Note 9).

13 Income taxes

Final tax

The Association's main operation is not subject to income tax. Current income tax expense represents final taxes on interest income from cash and cash equivalents and investments that are withheld by financial institutions.

Income subject to normal tax

The details of the Association's taxable revenue and expenses for the years ended December 31 are as follows:

	Note	2018	2017
Rent income	12	7,825,180	5,912,392
Direct costs	12	(4,328,879)	(4,358,312)
		3,496,301	1,554,080
Other taxable income		821,276	114,384
Gross loss		4,317,577	1,668,464
Itemized deductions		(5,960,840)	(4,191,092)
Net operating loss carry over (NOLCO)		(1,643,263)	(2,522,628)

Movement and details of NOLCO which can be applied against future taxable profits are as follows:

Year of incurrence	Year of expiration	2018	2017
2018	2021	1,643,263	-
2017	2020	2,522,628	2,522,628
2016	2019	2,982,445	2,986,284
2015	2018	1,177,700	1,177,700
2014	2017	-	4,311,435
		8,326,036	10,998,047
Expired portion		(1,177,700)	(4,311,435)
		7,148,336	6,686,612
Tax rate		30%	30%
Unrecognized deferred tax asset on NOLCO		2,144,501	2,005,984

Critical accounting judgment: Recognition of deferred tax asset

The Association's main operation as a mutual benefit association is not subject to income tax. The Association's management has assessed that there is no adequate future taxable profits that will be available against which the unused NOLCO can be applied before its expiration. As such, the Association has not recognized deferred tax assets from future deductible temporary differences arising from NOLCO amounting to P2,144,501 as at December 31, 2018 (2017 - P2,005,984).

14 Insurance risk and capital management, objectives and policies

The primary objective of the Association's 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, its committees and management. This is supplemented with a clear organizational structure with delegated authorities and responsibilities from the Board to senior managers.

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

The operations of the Association are also subject to regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions [e.g., minimum risk-based capital (RBC) requirements].

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 main insurance policy entitles a member to life insurance with accidental death benefit and dismemberment coverage.

The significant factors that could increase the overall frequency of claims are terrorism, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected.

The Association manages its insurance risk by ensuring 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.

Capital management and regulatory requirements

The primary objective of the Association's capital management is to comply with the statutory requirements on RBC for mutual benefit associations.

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.

To ensure compliance with these externally imposed capital requirements, it is the Association's policy to monitor the RBC requirement on a quarterly basis as part of the Association's internal financial reporting process.

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 asset, 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 mutual benefit association 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 Association 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:

	2018	2017
Member's equity	10,099,114,796	8,435,336,429
RBC requirement	1,826,627,238	1,751,102,257
RBC ratio	553%	482%

(a) Others

On April 24, 2006, the IC issued Insurance Memorandum Circular No. 2-2006 increasing the amount of guaranty fund of mutual benefit associations. All existing mutual benefit associations should have a guaranty fund of P12,500,000 on or before December 31, 2006. This fund shall be deposited with the IC. The guaranty fund of the Association amounting to P25,000,000 as at December 31, 2018 (2017 - P25,000,000) is included in other financial assets at amortized cost (2017 - HTM securities).

The Association fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to its objectives, policies and processes from the previous year.

15 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities as at December 31 according to when they are expected to be recovered or settled.

	2018		
	Less than 12 months	Over 12 months	Total
ASSETS			
Financial assets at amortized cost			
Cash and cash equivalents	2,490,737,333	-	2,490,737,333
Insurance receivables, net	14,903,891	-	14,903,891
Loans and receivables, net	1,947,410,866	3,617,039,167	5,564,450,033
Other financial assets at amortized cost	862,396,729	6,825,984,138	7,688,380,867
Financial asset at FVTPL	-	221,351,062	221,351,062
Investment property	-	2,814,000	2,814,000
Property and equipment, net	-	253,384,492	253,384,492
Other assets, net	-	6,029,756	6,029,756
Total assets	5,315,448,819	10,926,602,615	16,242,051,434
LIABILITIES			
Accounts payable and accrued expenses	641,211,548	-	641,211,548
Claims payable	243,335,637	-	243,335,637
Legal policy reserves	-	355,182,698	355,182,698
Premium deposits	-	136,081,037	136,081,037
Retirement benefit obligation	-	4,580,649	4,580,649
Members' contributions	630,556,233	4,131,988,836	4,762,545,069
Total liabilities	1,515,103,418	4,627,833,220	6,142,936,638

	2017		
	Less than 12 months	Over 12 months	Total
ASSETS			
Cash and cash equivalents	2,517,545,083	-	2,517,545,083
Insurance receivables	14,601,472	-	14,601,472
Available-for-sale securities	67,279,012	116,124,553	183,403,565
Held-to-maturity securities	2,105,378,435	4,512,500,000	6,617,878,435
Loans and receivables, net	853,872,740	4,137,345,532	4,991,218,272
Investment property	-	2,814,000	2,814,000
Property and equipment, net	-	240,358,400	240,358,400
Other assets, net	2,798,465	9,465,656	12,264,121
Total assets	5,561,475,207	9,018,608,141	14,580,083,348
LIABILITIES			
Accounts payable and accrued expenses	815,847,018	-	815,847,018
Claims payable	139,819,669	-	139,819,669
Legal policy reserves	-	285,133,593	285,133,593
Premium deposits	-	123,538,287	123,538,287
Retirement benefit obligation	-	30,332,769	30,332,769
Members' contributions	246,756,137	4,503,319,446	4,750,075,583
Total liabilities	1,202,422,824	4,942,324,095	6,144,746,919

16 Critical accounting estimates, assumptions and judgments in applying accounting policies

The Association makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. It is reasonably possible that the outcomes within the next financial year could differ from assumptions made at reporting date and could result in the adjustment to the carrying amount of affected assets or liabilities.

(a) Critical accounting estimates

- The ultimate liability arising from claims made under insurance contracts (Note 7)
- Valuation of retirement benefit obligation (Note 10)

(b) Critical accounting judgments

- Classification of financial assets (Note 2)
- Impairment of loans and receivables [Note 2.1(c)]
- Classification of HTM securities prior to 2018 [Note 2.1(d)]
- Impairment of property and equipment (Note 4)
- Recognition of deferred tax asset (Note 13)

17 Summary of significant accounting policies

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. The policies have been consistently applied to both years presented, unless otherwise stated.

17.1 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, PAS, and interpretations of the 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 financial assets at FVTPL in 2018 (2017 - AFS securities).

The preparation of these 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. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the financial statements therefore fairly present the financial position and results of the Association. 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 16.

Revised standard chart of accounts (SCA)

On September 25, 2014, the IC issued Circular Letter no. 2014-41 presenting a revised SCA for mutual benefit associations. The revised SCA is in line with the requirements of SRC Rule 68, section 189 of the amended Code, and current accounting standards in the Philippines. The Circular Letter is effective beginning on 2014 financial statements. The Association implemented the circular in 2015.

Changes in accounting policies and disclosures

(a) New standards adopted by the Association

The following relevant standards have been adopted by the Association effective January 1, 2018:

- PFRS 9, *Financial instruments*. PFRS 9 deals with the classification, measurement and impairment of financial instruments, as well as hedge accounting.

  PFRS 9 replaces the multiple classification and measurement models for financial assets in PAS 39, *Financial Instruments: Recognition and Measurement*, with a single model that has three classification categories: amortized cost, fair value through OCI (FVOCI), and FVTPL. Classification under PFRS 9 is driven by the entity's business model for managing and holding the financial assets and whether the contractual cash flow characteristics of these financial assets represent SPPI on the outstanding amount. Investments in equity instruments are required to be measured at FVTPL with the irrevocable option at inception to present changes in fair value in OCI. The classification and measurement of financial liabilities under PFRS 9 remains the same as in PAS 39 except where an entity has chosen to measure a financial liability at FVTPL. For such liabilities, changes in fair value arising from changes in the entity's own credit risk are presented separately in OCI.

  The impairment rules of PFRS 9 introduced an ECL model that replaces the 'incurred credit loss' model used in PAS 39. Such new impairment model will generally result in earlier recognition of losses compared to PAS 39.

  The hedging rules of PFRS 9 better align hedge accounting with an entity's risk management strategies. Also, some of the prohibitions and rules in PAS 39 are removed or changed, making hedge accounting easier or less costly to achieve for many hedges.

  Deferral of adoption of PFRS 9

  Although PFRS 9 has an effective date for accounting periods beginning on or after January 1, 2018, an optional relief is provided in *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts* (Amendments to PFRS 4). The amendments include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of PFRS 9 until the effective date of PFRS 17 which is expected to be the financial reporting periods beginning on or after January 1, 2022 (further deferred by the IC to January 1, 2023 based on IC Circular 2018-69 issued on December 28, 2018), as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before PFRS 17 is adopted.

The Association did not qualify for the deferral option as based on management's assessment, the carrying amount of the Association's liabilities arising from contracts within the scope of PFRS 4 or total liabilities connected with insurance is not greater than 90% of the total carrying amount of all its liabilities as at the annual reporting date that immediately precedes April 1, 2016, i.e., December 31, 2015, as required under *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts* (Amendments to PFRS 4).

As such, the Association adopted PFRS 9 in full beginning January 1, 2018.

Impact of adoption of PFRS 9

Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of PFRS 9 are recognized in retained surplus as at January 1, 2018. Accordingly, the information presented for 2017 continues to be reported under PAS 39 and thus, may not be comparable with the current period.

The determination of the business model within which a financial asset is held, has been made on the basis of the facts and circumstances that existed at January 1, 2018 (the date of initial application of PFRS 9 by the Association).

On January 1, 2018, the Association assessed the business model objective for holding its financial instruments and the nature of the cash flow characteristics of the financial instruments held. Following the business model identified, certain financial assets were reclassified into new classification categories as discussed below.

AFS securities are now classified and measured as financial assets at FVTPL. On adoption date, the cumulative change in fair value reserve for AFS securities under Accumulated OCI for these securities (P59,114) was reclassified to the beginning balance of retained surplus and the underlying securities have been subsequently carried at fair value with changes to fair value recognized in profit or loss (Note 2.2).

The Association's financial assets previously classified as loans and receivables under PAS 39 will remain at amortized cost under PFRS 9. HTM securities are now classified as other financial assets at amortized cost [Note 2.1(d)].

The adoption of PFRS 9 did not have an impact on the Association's accounting for its financial liabilities.

Management also reassessed the level of allowance for credit losses following the requirements of PFRS 9. Based on management's assessment, an additional provision of P136,490,707 (recognized in the beginning retained surplus balance) is needed to align the previous allowance for credit losses calculated under PAS 39 to be at par with the allowance for credit losses calculated under PFRS 9 [Note 2.1(c)(iv)].

The new hedge accounting rules do not have a significant impact on the Association as there are no formal hedge accounting relationships as at January 1, 2018.

As explained above, PFRS 9 was adopted without restating comparative information. The reclassifications arising from the new standard are therefore not reflected in the statement of financial position as at December 31, 2017, but are recognized in the opening statement of financial position as at January 1, 2018.

The following tables show the adjustments recognized for each individual line item in the statement of financial position. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

	December 31, 2017, as originally presented	Impact of adoption of PFRS 9	January 1, 2018, as restated
Cash and cash equivalents	2,517,545,083	-	2,517,545,083
Insurance receivables, net	14,601,472	(14,601,472)	-
Loans and receivables, net	4,991,218,272	(4,991,218,272)	-
AFS securities	183,403,565	(183,403,565)	-
HTM securities	6,617,878,435	(6,617,878,435)	-
Financial assets at amortized cost	-	11,488,282,229	11,488,282,229
Financial asset at FVTPL	-	183,403,565	183,403,565
Other assets, net	12,264,121	(1,074,757)	11,189,364
Total assets	14,580,083,348	(136,490,707)	14,443,592,641
Accumulated OCI			
Unrealized gain on change in fair value of AFS securities	59,114	(59,114)	-
Retained surplus			
Unappropriated	8,072,342,820	(136,431,593)	7,935,911,227
Total fund balance	8,435,336,429	(136,490,707)	8,298,845,722
Total liabilities and fund balance	14,580,083,348	(136,490,707)	14,443,592,641

The impact of the adoption on fund balance are summarized in the table above and on the statement of changes in fund balance.

There is no impact on the previously reported numbers in the statement of total comprehensive income and statement of cash flows on the adoption of PFRS 9.

- PFRS 15, *Revenue from contracts with customers*. PFRS 15 replaced PAS 18, *Revenue*, which covers contracts for goods and services and PAS 11, *Construction contracts*, which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.

  A new five-step process must be applied before revenue can be recognized: (1) identify contracts with customers, (2) identify the separate performance obligation, (3) determine the transaction price of the contract, (4) allocate the transaction price to each of the separate performance obligations, and (5) recognize the revenue as each performance obligation is satisfied.

  The adoption of PFRS 15 did not have a significant impact to the financial statements of the Association as the Association's revenues arise largely from activities related to its insurance, investment and leasing contracts, which are outside the scope of the revenue standard. PFRS 15 did not result in a significant change in the revenue recognition of the remaining sources of revenues of the Association because the timing and measurement of its revenue under PAS 18 and PFRS 15 are essentially the same. As such, no transition adjustments were recognized in retained surplus as at January 1, 2018.

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2018 are considered not relevant to the Association's financial statements.

(b) New standards, amendments to standards and interpretations not yet adopted by the Association

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018, and have not been applied in preparing these financial statements. The more relevant standards are set out below:

- PFRS 16, *Leases* (effective for annual periods beginning on or after January 1, 2019). PFRS 16 will replace the current guidance in *PAS 17, Leases.* PFRS 16 which will become effective on January 1, 2019 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. PFRS 16 removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. An optional exemption exists for short-term and low-value leases.

  The adoption of PFRS 16 will likely affect the accounting of certain assets currently held by the Association under its operating lease arrangements. The Association will recognize a right-of-use asset and a lease liability for its leases previously classified as operating leases (where the Association is the lessee). The Association is currently finalizing the full impact of adopting the new standard as at December 31, 2018.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments* (effective for annual periods beginning on or after January 1, 2019). It has been clarified previously that PAS 12, *Income Taxes*, not PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

  An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

  The adoption of the above interpretation is not expected to have a material impact on the financial statements of the Association since the Association has no uncertain tax position as at December 31, 2018.

- PFRS 17, *Insurance Contracts* (effective January 1, 2022). PFRS 17 was issued in May 2017 as replacement for PFRS 4, *Insurance Contracts*. PFRS 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 of 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 OCI. The choice is likely to reflect how insurers account for their financial assets under PFRS 9. 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.

  PFRS 17 is effective for accounting periods beginning on or after January 1, 2022, although the IC has determined to defer the effective date of PFRS 17 implementation by one year to accounting periods commencing on or after January 1, 2023. The Association is currently assessing the full impact of PFRS 17.

There are no other relevant standards, amendments to standards or interpretations that are not yet effective and that would be expected to have a material impact on the Association’s financial statements.

17.2 Cash and cash equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash depending on the immediate cash requirements of the Association and are subject to an insignificant risk of change in value.

17.3 Financial instruments

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

Accounting policies applied beginning January 1, 2018 (PFRS 9)

(i) Classification

The Association classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through OCI (FVOCI),
- those to be measured subsequently at FVTPL, and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Association has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Association reclassifies debt investments when, and only when, its business model for managing those assets changes.

The financial liabilities are classified by the Association in the following categories: (a) at FVTPL, and (b) at amortized cost. The Association does not hold financial liabilities at FVTPL as at January 1, 2018 and December 31, 2018.

(ii) Recognition

The Association recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. 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 financial asset.

(iii) Measurement

At initial recognition, the Association measures a financial asset or liability at its fair value plus, in the case of a financial asset or liability not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset or liability. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows represent SPPI. As at January 1, 2018 and December 31, 2018, the Association does not hold financial assets with embedded derivatives.

(a) Financial assets - debt instruments

Subsequent measurement of debt instruments depends on the Association's business model for managing the financial asset and the cash flow characteristics of the financial asset. There are three measurement categories into which the Association classifies its debt instruments:

- Amortized cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI are measured at amortized cost. Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in "Other income" account. Impairment losses are presented as separate line item in the statement of total comprehensive income.

  This financial asset classification applies primarily to the Association's Cash and cash equivalents, Insurance receivables, net, Loans and receivables, net, and Other financial assets at amortized cost. The details of these financial assets are disclosed in Note 2.1.

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent SPPI, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in "Other income" account. Interest income from these financial assets is included in finance income using the effective interest rate method. Impairment expenses are presented as separate line item in the statement of total comprehensive income.

  As at January 1, 2018 and December 31, 2018, the Association does not hold financial asset debt instruments measured at FVOCI.

- FVTPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or loss and presented within "Fair value gains/losses in financial assets at FVTPL" account in the period in which it arises.

  This financial asset classification applies primarily to the Association's debt securities classified as financial assets at FVTPL (Note 2.2).

(b) Financial assets - equity instruments

The Association subsequently measures all equity investments at fair value. Where the Association's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Changes in the fair value of financial assets at FVTPL are recognized in "Fair value gains/losses in financial assets at FVTPL" account in the statement of total comprehensive income, as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

This financial asset classification applies primarily to the Association's equity securities classified as financial assets at FVTPL. The details of these financial assets are disclosed in Note 2.2.

(c) Financial liabilities

The Association's financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

This accounting policy applies to the Association's Claims payable (excluding IBNR portion) (Note 7), Members' contributions (Note 2.3) and Accounts payable and accrued expenses (other than liabilities covered by other accounting standards, such as income tax and other payables to government agencies) (Note 6).

(iv) Impairment

From January 1, 2018, the Association assesses on a forward-looking basis the ECL associated to all debt instruments carried at amortized cost and FVOCI. The Association recognizes an allowance for credit loss for such expected losses at each reporting date.

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and,
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Association applied the general approach under PFRS 9 for its loans and other receivables, which requires loans and receivable balances to be bucketed into one of three categories [Note 2.1(d)(iv)].

The expected loss rates are based on the historical profiles of loans and receivable balances and the corresponding historical credit losses experienced for these balances. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Impairment losses on receivables and reversals of impairment losses are presented as a separate line item within operating profit. Subsequent recoveries of amounts previously written off are credited on “Other income” account in the statement of total comprehensive income.

Accounting policies applied until December 31, 2017 (PAS 39)

The Association has applied PFRS 9 retrospectively, but has elected not to restate comparative information as allowed by the standard. As a result, the comparative information provided continues to be accounted for in accordance with the Association’s previous accounting policies.

(i) Classification

Until December 31, 2017, the Association classifies its financial assets in the following categories:

(a) financial assets at FVTPL,
(b) loans and receivables,
(c) HTM investments, and
(d) AFS financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as HTM, re-evaluates this designation at the end of each reporting period. The Association does not hold any financial assets under category (a) during and as at the end of December 31, 2017.

The financial liabilities are classified by the Association in the following categories: (a) at FVTPL and (b) at amortized cost. The Association does not hold financial liabilities at FVTPL during and as at the end of December 31, 2017.

(ii) Reclassification

The Association could choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term. In addition, the Association could choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or AFS categories if the Association has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost, as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and HTM categories are determined at the reclassification date. Further increases in estimates of cash flows adjusts effective interest rates prospectively.

(iii) Measurement

At initial recognition, the Association measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Subsequent to the initial recognition, loans and receivables and HTM investments are carried at amortized cost using the effective interest method.

AFS financial assets and financial assets at FVTPL are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognized as follows:

- for financial assets at FVTPL - in profit or loss within “Other income” account
- for AFS financial assets - changes in the carrying amount are recognized in OCI.

When securities classified as AFS are sold, the accumulated fair value adjustments recognized in OCI are reclassified to profit or loss under the “Other income” account.

(iv) Impairment

The Association assesses at each reporting date whether there is an objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is 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.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the Association first assesses whether an objective evidence of impairment exists individually for receivables that are individually significant, and collectively for receivables that are not individually significant using the criteria above. If the Association determines that no objective evidence of impairment exists for an individually assessed receivable, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses those for impairment. Receivables 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.

The amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of loss is recognized in profit or loss. Loans, together with the associated allowance account, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

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 reversal of the previously recognized impairment loss is recognized in profit or loss. Reversals of previously recorded impairment provision are based on the result of management's update assessment, considering the available facts and changes in circumstances, including but not limited to results of recent discussions and arrangements entered into with customers as to the recoverability of receivables at the end of the reporting period. Subsequent recoveries of amounts previously written-off are credited against operating expenses in profit or loss.

The Association assesses at each reporting date whether there is an objective evidence that a security classified as AFS is impaired. For debt securities, the Association uses the criteria disclosed under loans and advances. For an equity security classified as AFS, 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 profit or loss) is removed from other comprehensive income and recognized in profit or loss 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 profit or loss. Reversal of impairment losses recognized previously on equity instruments is made directly to other comprehensive income.

Accounting policies applicable for both years presented

The following policies were not affected by the adoption of PFRS 9 and continues to be applicable as at and for the years ended December 31, 2018 and 2017.

(a) Day 1 difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Association recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in profit or loss under "Other operating expenses, net" account unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Association determines the appropriate method of recognizing the 'Day 1' difference amount.

(b) Determination of fair value

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

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.

Disclosure of fair values of financial and non-financial assets and liabilities are discussed in Notes 2.4 and 3.

(c) Derecognition of financial instruments

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Association has transferred substantially all risks and rewards of ownership (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).

Financial liabilities are derecognized when, and only when, it is extinguished, i.e., when the obligation is discharged or is cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference between the respective carrying amount is recognized in profit or loss in the statement of total comprehensive income.

(d) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if, 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.

As at December 31, 2018 and 2017, there are no financial assets and liabilities that have been offset.

17.4 Investment property

Investment property consists of parcels of land owned by the Association that is primarily held for capital appreciation. Investment property is initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment property is measured at cost less any impairment in value.

Investment property is derecognized either when disposed or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the disposal or retirement of investment property are recognized in profit or loss.

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

For a transfer from investment property to owner-occupied property and transfer of owner-occupied property to investment property, the Association accounts for such properties in accordance with the policy stated under investment property and property and equipment, respectively, up to the date of change in use.

17.5 Property and equipment

Property and equipment, except for land, are initially recognized at cost and subsequently measured at cost less accumulated depreciation and amortization, and any impairment in value. Land is stated at cost less any impairment in value.

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

Construction in-progress is stated at cost. This includes cost of construction and other direct cost. Construction in-progress is not depreciated until such time the relevant assets are completed and available for use.

Depreciation is computed on a straight-line method over the estimated useful lives of the assets as follows:

	Number of years
Building and improvements	20
Transportation equipment	5
Office machine and equipment	3
Furniture and fixtures	3

Depreciation of property and equipment commences once the assets are available for use. Depreciation ceases at the earlier of the date that the item is classified as non-current asset held for sale or the date that the asset is derecognized.

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

When properties and equipment are retired or otherwise disposed of, the cost of the related accumulated depreciation and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations. Fully depreciated properties and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged against current operations.

An item of property and equipment is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising on the retirement and disposal of an item of property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

17.6 Software and program cost

Software and program cost, which are not specifically identifiable and integral to specific computer software, are shown as part of "Other assets" in the statement of financial position. These are carried at cost, less accumulated amortization and any impairment in value. Amortization is computed on a straight-line method over the estimated useful life of five years.

As at December 31, 2018 and 2017, software and program cost is fully amortized but still in use.

17.7 Impairment of non-financial assets

The Association assesses property and equipment, investment property and software and program cost at each reporting date whether there is an indication that an asset may be impaired. All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the fair value, reflecting market conditions less cost to sell, and value in use, based on an integral evaluation of discounted cash flow. Impairment loss is charged pro-rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of impairment loss.

17.8 Prepayments

Prepayments are expenses paid in advance and recorded as asset before they are utilized. This account comprises prepaid expenses and creditable withholding tax. Prepaid expenses are apportioned over the period covered by the payment and charged to the appropriate accounts in the statement of total comprehensive income when incurred. Creditable withholding tax is deducted from income tax payable.

17.9 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.

17.10 Insurance contract liabilities

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

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 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 those 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 an actuarial process that is centrally controlled. 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 taken to profit or loss.

17.11 Premium deposits

Premium payments received in advance that are measured at the fair value of the consideration received are deferred and recognized as premium when they become due.

17.12 Members' contributions

Under the Association's MBEP, 44% of the contribution received from a member represents the member's savings in the Association, which was directly reported as additions to "Members' contributions". The members' contributions earn interest at a rate as may be determined by the Board. This equity plan was being offered by the Association until December 31, 2013.

Effective January 1, 2014, the Association started offering the MEP. Under this new equity plan, 50% of the contributions are maintained as savings in the Association and recognized as "Members' contributions". The members' contributions earn interest at a rate as may be determined by the Board but shall never be lower than the prevailing commercial bank rate for savings accounts.

The members' contributions earn interest at a rate of 12% and 3% for MBEP and MEP, respectively. The interest expense is charged to the statement of total comprehensive income. On June 27, 2016, the Board approved the 1% increase in interest rate for MEP from 2% since January 2014.

The interest expense is charged to profit or loss, while the accumulated earnings of the members' contribution is shown as an addition to the "Members' contributions" under the liabilities section of the statement of financial position.

In addition to interest provided to the members' equity balance, the Association declares experience refund resulting from certain experience rating arrangements brought by the good financial performance of the Association. The experience refund is calculated at specified dates, such as contract anniversary date or at the end of the calendar year. Experience refunds are charged as an expense upon declaration of such by the Board. Unpaid balance of experience refunds is presented under Payable to members in the statement of financial position.

17.13 Retained surplus

Retained surplus represents the cumulative balance of net income or loss, prior period adjustments, effects of changes in accounting policy and other capital adjustments. 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.

17.14 Revenue recognition

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:

- Insurance premiums are recognized as revenue when they become due from members.
- Interest income on cash and cash equivalents, debt securities and loans receivables are recognized as they accrue based on the effective interest rate method.
- Rental income under the Association's operating lease agreements is accounted for on a straight-line basis over the lease term.
- Other income is recognized when earned.

17.15 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 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.

Interest expense on accumulated members' equity is recognized in profit or loss as it accrues.

Other costs and expenses are recognized in profit or loss upon utilization of the service or when they are incurred.

17.16 Retirement benefits

The Association operates a defined benefit retirement plan. The retirement plan is generally funded through payments to a trustee bank determined by periodic actuarial calculations.

Typically, defined benefit plans define an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan asset, if any, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

The defined benefit cost consists of the service cost and net interest cost. Service cost which includes current service cost, past service cost and gains or losses on non- routine settlements is recognized as expense in profit or loss. Past service cost is recognized when plan amendment or curtailment occurs. Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurement comprising actuarial gains and losses, return on plan asset, and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) is recognized immediately in other comprehensive income in the period in which they arise. Remeasurement is not reclassified to profit or loss in subsequent periods. Remeasurement recognized in other comprehensive income account "Remeasurement gains (losses) on retirement benefit obligation" is not reclassified to another equity account in subsequent periods. The difference between the interest income component of net interest and the actual return on plan asset is recognized in other comprehensive income.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Association, nor can they be paid directly to the Association. Fair value of plan assets is based on 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 no maturity, the expected period until the settlement of the related obligation.

The Association's right to be reimbursed of some or all of the expenditures required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

17.17 Operating leases

Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Association as lessor

Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Association as lessee

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

17.18 Taxation

The tax expense for the year comprises current and deferred income tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current tax

The current income tax is calculated on the basis of the tax laws enacted or substantively enacted at reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each reporting date, the Association reassesses the need to recognize previously unrecognized deferred income tax asset.

Deferred income tax assets are recognized for all deductible temporary differences and carry-forward benefits of unused tax credits that can be utilized. Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax asset against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

17.19 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 the 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.

17.20 Related party transactions

Related party relationship exists when one party has the ability to control, directly or indirectly, through one or more intermediaries, 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 entity and its key management personnel, directors or members. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely to the legal form.

17.21 Subsequent events (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 the financial statements when material.

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

Below is the additional information required by Revenue Regulations 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.

(a) Output value-added tax (VAT)

The National Internal Revenue Code of 1997 provides for the imposition of VAT on sales of goods and services. Accordingly, the Association’s sales are subject to output VAT while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT.

Output VAT declared for the year ended December 31, 2018 and the revenues upon which the same was based consist of:

	Gross amount of revenues	Output VAT
Subject to 12% VAT	8,319,273	998,313

Remaining output VAT payable as at December 31, 2018 amounts to P24,040 and is presented as part of Accrued expenses within Accounts payable and accrued expenses.

(b) Input VAT

Movements in input VAT for the year ended December 31, 2018 follow:

	Amount
Beginning balance	170,115
Add: Current year's domestic purchases/payments for:	
Services lodged under other accounts	442,630
Less: Claims for tax credit/refund and other adjustments	(442,630)
Total input VAT	170,115

Input VAT as at December 31, 2018 is presented as part of Other assets, net, account.

(c) All other local and national taxes

All other local and national taxes paid for the year ended December 31, 2018 consist of:

	Amount
Permits and licenses	617,382
Registration fees	73,420
	690,802

The above local and national taxes are lodged under Taxes and licenses in General and administrative expenses.

There are no accrued other local and national taxes as at December 31, 2018.

(d) Withholding taxes

Withholding taxes paid and accrued and/or withheld for the year ended December 31, 2018 consist of:

	Paid	Accrued	Total
Withholding tax on compensation	14,476,402	8,242,003	22,718,405
Expanded withholding tax	1,677,959	831,314	2,509,273
Fringe benefit tax	586,994	218,189	805,183
	16,741,355	9,291,506	26,032,861

As at December 31, 2018, total outstanding creditable withholding tax amounts to P1,934,541.

(e) Tax assessments and tax cases

Taxable years 2015, 2016 and 2017 are open tax years. The Association has not received any Preliminary or Final Assessment Notices on any of the open tax years as at December 31, 2018.

The Association has no outstanding tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR as at December 31, 2018.

(f) Other information

All other information required to be disclosed by the BIR have been included in this note.