

PUBLIC SAFETY MUTUAL BENEFIT FUND, INC.

Resolution No. 2022 – 48

APPROVAL OF THE AUDITED FINANCIAL STATEMENTS OF PSMBFI FOR CY 2021

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 2021;

Whereas, Board Resolution 2021-87 approved the engagement of Isla Lipana & Co., a PricewaterhouseCoopers (PwC) member firm, as the external auditor of the PSMBFI financial statements for CY 2021;

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, 2021;

Whereas, during the special meeting of the Board of Trustees on 13 April 2022, the audited financial statements of PSMBFI were presented by Isla Lipana & Co.;

Whereas, after evaluation and due consideration, the Board approved the audited financial statements of PSMBFI for CY 2021;

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, 2021;

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

Done in San Juan City this 13th day of April 2022.

DIR ISRAEL EPHRAIM DICKSON
Chairman


DIR MARIO A AVENIDO
Vice Chairman


ATTY JOEL NAPOLEON M CORONEL
President


DIR JOSE MELENCIO NARTATEZ JR
Treasurer


DIR LOUIE S MAKILAN
Assistant Treasurer

PSMBFI Building

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San Juan City, Metro Manila

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PUBLIC SAFETY MUTUAL BENEFIT FUND, INC.

Resolution No. 2022 – 48

APPROVAL OF THE AUDITED FINANCIAL STATEMENTS OF PSMBFI FOR CY 2021



DIR RICARDO C. MARQUEZ
Trustee



DIR JUANITO B. VAÑO JR
Trustee



DIR HERMINIO S. TADEO JR
Trustee



DIR ARMANDO E. RAMOLETE
Trustee



DIR GREGORIO N. LIM
Trustee



DIR RAYLAND L. MALENAB
Trustee



DIR CESAR HAWTHORNE R. BINAG
Trustee



DIR WALTER E. CASTILLEJOS
Trustee



DIR FERDINAND O. DIVINA
Trustee



DIR LEONARDO D.G. DATUIN
Trustee

Attested by:



ATTY CATHERINE E. TAMAYO
Corporate Secretary

***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, 2021 and 2020



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, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

What we have audited

The financial statements of the Association comprise:

- the statements of financial position as at December 31, 2021 and 2020;
- the statements of total comprehensive income for the years ended December 31, 2021 and 2020;
- the statements of changes in fund balance for the years ended December 31, 2021 and 2020;
- the statements of cash flows for the years ended December 31, 2021 and 2020; 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 (PSA). 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 Code of Ethics.

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Independent Auditor's Report
To the Board of Trustees and Members of
Public Safety Mutual Benefit Fund (PSMBFI) Incorporated
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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 PFRS, 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.



Independent Auditor's Report
To the Board of Trustees and Members of
Public Safety Mutual Benefit Fund (PSMBFI) Incorporated
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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 PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, 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 PSA, 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.

Independent Auditor's Report
To the Board of Trustees and Members of
Public Safety Mutual Benefit Fund (PSMBFI) Incorporated
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Report on the Bureau of Internal Revenue Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information under Bureau of Internal Revenue (BIR) Revenue Regulations Nos. 15-2010 and 34-2020 in Note 18 to the financial statements is presented for the purposes of filing with the BIR and is not a required part of the basic financial statements. Such information is the responsibility of management of the Association. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.


Imelda Dela Vega-Mangundaya
Partner
CPA Cert. No. 90670

PTR No. 0024586, issued on January 6, 2022, Makati City
SEC A.N. (individual) as general auditors 90670-SEC, Category A, valid to audit 2019 to 2023
financial statements

SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024
financial statements

TIN 152-015-124

BIR A.N. 08-000745-047-2021, issued on November 23, 2021; effective until November 22, 2024

BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
April 13, 2022

Public Safety Mutual Benefit Fund (PSMBFI) Incorporated

Statements of Financial Position
December 31, 2021 and 2020
(All amounts in Philippine Peso)

	Notes	2021	2020
<u>ASSETS</u>			
Cash and cash equivalents	2.1	2,183,023,369	1,330,866,155
Financial assets at amortized cost, net	2.1	17,964,019,527	19,115,809,705
Financial assets at fair value through profit or loss	2.2	229,265,271	219,223,104
Investment property, net	3	2,814,000	2,814,000
Property and equipment, net	4	264,792,178	258,417,765
Retirement plan asset	10	35,625,103	12,949,609
Other assets, net	5	85,819,688	8,422,287
Total assets		20,765,359,136	20,948,502,625
<u>LIABILITIES AND FUND BALANCE</u>			
Accounts payable and accrued expenses	6	2,665,696,541	2,317,134,631
Claims payable	7	321,455,334	284,499,824
Legal policy reserves	7	522,226,756	482,279,293
Premium deposits	7	117,825,206	120,822,452
Members' contributions	2.3	4,729,413,882	6,261,312,014
Total liabilities		8,356,617,719	9,466,048,214
Retained surplus			
Appropriated	8	9,105,535,237	9,105,535,237
Unappropriated		3,324,410,749	2,418,193,815
Accumulated other comprehensive loss	10	(21,204,569)	(41,274,641)
Total fund balance		12,408,741,417	11,482,454,411
Total liabilities and fund balance		20,765,359,136	20,948,502,625

(The notes on pages 1 to 37 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, 2021 and 2020
(All amounts in Philippine Peso)

	Notes	2021	2020
UNDERWRITING INCOME			
Insurance premiums		1,477,585,695	1,403,139,420
UNDERWRITING EXPENSE			
Claims expense	7	(418,661,167)	(310,198,022)
Experience refund	6	(490,532,697)	(8,303,676)
Increase in legal policy reserves	7	(39,947,463)	(54,093,098)
NET UNDERWRITING INCOME		528,444,368	1,030,544,624
INTEREST INCOME	2.1	1,537,438,671	1,327,811,400
INTEREST EXPENSE	2.3	(470,568,083)	(488,384,601)
NET INTEREST INCOME		1,066,870,588	839,426,799
PROVISION FOR CREDIT LOSSES	2.1	(121,467,080)	(20,470,836)
NET INTEREST INCOME AFTER CREDIT LOSSES		945,403,508	818,955,963
OTHER INCOME			
Rental income	12	6,291,484	6,315,155
Fair value changes on financial assets at fair value through profit or loss	2.2	(6,067,683)	2,791,002
Others		4,597,589	4,354,504
		4,821,390	13,460,661
INCOME BEFORE OPERATING EXPENSES		1,478,669,266	1,862,961,248
GENERAL AND ADMINISTRATIVE EXPENSES	9	(571,873,001)	(1,630,220,394)
INCOME BEFORE INCOME TAX		906,796,265	232,740,854
INCOME TAX EXPENSE	13	(579,331)	(790,158)
NET INCOME FOR THE YEAR		906,216,934	231,950,696
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will not be subsequently reclassified to profit or loss			
Remeasurement gain (loss) on retirement benefit obligation	10	20,070,072	(1,966,949)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)		20,070,072	(1,966,949)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		926,287,006	229,983,747

(The notes on pages 1 to 37 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, 2021 and 2020
(All amounts in Philippine Peso)

	Retained surplus			Accumulated other comprehensive loss	Total
	Appropriated (Note 8)	Unappropriated	Total	(Note 10)	
Balances as at January 1, 2020	1,902,609,744	9,389,168,612	11,291,778,356	(39,307,692)	11,252,470,664
Comprehensive income (loss)					
Net income for the year	-	231,950,696	231,950,696	-	231,950,696
Other comprehensive loss	-	-	-	(1,966,949)	(1,966,949)
Total comprehensive income (loss) for the year	-	231,950,696	231,950,696	(1,966,949)	229,983,747
Appropriation of surplus (Note 8)	7,202,925,493	(7,202,925,493)	-	-	-
Balances as at December 31, 2020	9,105,535,237	2,418,193,815	11,523,729,052	(41,274,641)	11,482,454,411
Comprehensive income					
Net income for the year	-	906,216,934	906,216,934	-	906,216,934
Other comprehensive income	-	-	-	20,070,072	20,070,072
Total comprehensive income for the year	-	906,216,934	906,216,934	20,070,072	926,287,006
Balances as at December 31, 2021	9,105,535,237	3,324,410,749	12,429,945,986	(21,204,569)	12,408,741,417

(The notes on pages 1 to 37 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, 2021 and 2020
(All amounts in Philippine Peso)

	Notes	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		906,796,265	232,740,854
Adjustments for:			
Interest income	2.1	(1,537,438,671)	(1,327,811,400)
Interest expense	2.3	470,568,083	488,384,601
Provision for credit losses	2.1	121,467,080	20,470,836
Depreciation and amortization	4	49,442,036	50,132,994
Increase in legal policy reserves	7	39,947,463	54,093,098
Retirement benefit cost	10	9,879,363	10,007,215
Provision for (reversal of) incurred but not reported (IBNR) claims	7	5,125,927	(5,034,362)
Fair value changes on financial assets at fair value through profit or loss	2.2	6,067,683	(2,791,002)
Amortization of discount on financial assets at amortized cost	2.1	(31,142,622)	(43,396,197)
Gain on sale of property and equipment	4	(42,407)	-
Net operating income (loss) before working capital changes		40,670,200	(523,203,363)
(Increase) decrease in:			
Insurance receivables		(8,011)	(2,711,553)
Loans and receivables		149,208,178	225,888,797
Other assets		(77,976,732)	(1,233,995)
Increase (decrease) in:			
Accounts payable and accrued expenses		348,561,910	329,780,226
Premium deposits		(2,997,246)	(16,379,798)
Claims payable		31,829,583	66,758,136
Net cash from operations		489,287,882	78,898,450
Interest received on cash in banks and loans receivables		1,182,967,287	799,113,020
Contributions to the retirement fund	10	(12,484,785)	(13,193,972)
Net cash from operating activities		1,659,770,384	864,817,498
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		356,761,199	388,044,848
Proceeds from maturities of:			
Financial assets at fair value through profit or loss	2.2	35,178,904	75,274,788
Financial assets at amortized cost	2.1	6,387,800,000	3,950,654,704
Additional investments in:			
Financial assets at amortized cost	2.1	(5,477,824,262)	(5,961,208,431)
Financial assets at fair value through profit or loss	2.2	(51,288,754)	(75,028,207)
Additions to property and equipment	4	(55,816,455)	(45,736,240)
Proceeds from sale of property and equipment	4	42,413	-
Net cash from (used in) investing activities		1,194,853,045	(1,667,998,538)
CASH FLOWS FROM FINANCING ACTIVITIES			
Additional members' contributions	2.3	1,111,053,683	1,033,120,933
Refund of members' contributions and accumulated earnings	2.3	(3,113,519,898)	(397,944,380)
Net cash (used in) from financing activities		(2,002,466,215)	635,176,553
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		852,157,214	(168,004,487)
CASH AND CASH EQUIVALENTS			
At January 1		1,330,866,155	1,498,870,642
At December 31	2.1	2,183,023,369	1,330,866,155

(The notes on pages 1 to 37 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, 2021 and 2020

(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 organization 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. The membership in the Association is limited to public safety practitioners as defined in its 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.

Coronavirus pandemic

The pandemic which broke out in March 2020 forced governments all over the world, including the Philippines, to implement community lockdowns and quarantines to mitigate the spread of the virus. Unfortunately, these lockdowns caused the demands for goods and services to plummet which ultimately led to the contraction of both the global and domestic economies. This also resulted in certain relief measures offered to the members such as moratorium on loan payments, including non-collection of interest over the course of the moratorium.

Effect of the suspension of loan payments mandated by the Bayanihan Acts I and II

On March 24, 2020, the Philippine Congress passed Republic Act No. 11469 or the Bayanihan to Heal as One Act (Bayanihan Act I) into law, which conferred emergency powers to the President of the Philippines. Section 4(aa) of Bayanihan Act I directed all banks, quasi-banks, financing companies, lending companies and other financial institutions to implement a thirty (30)-day grace period for the payment of all loans falling due within the ECQ period without interests, penalties, and other charges. Under this law, persons with multiple loans were granted a grace period of 30 days for each and every loan.

The following were the reprieve measures issued by the government through the Implementing Rules and Regulations (IRR) of Section 4(aa) of Bayanihan Act I for all loans regardless of status with payments (e.g., principal and/or interest) falling due within the ECQ/modified ECQ period (March 17, 2020 to May 31, 2020):

- implementation of mandatory grace period to extend payment due dates of loans;
- non-imposition of interest on interest and waiver of fees and charges for non-payment;
- non-imposition of documentary stamp tax on credit extensions; and
- payment on a staggered basis for accrued interest on implemented mandatory grace period.

On September 11, 2020, the President of the Philippines signed into law Republic Act No. 11494 or the Bayanihan to Recover as One Act (Bayanihan Act II), in view of the continuing rise of COVID-19 cases and the ensuing economic disruption brought about by the pandemic. Under Section 4(uu) of Bayanihan Act II, all banks and financial institutions are directed to implement a mandatory one-time sixty (60)-day grace period for the payment of all existing, current, and outstanding loans falling due on or before December 31, 2020, without incurring interest on interest, penalties, fees, or other charges. The amounts falling due within the 60-day grace period may be settled in full after the 60-day grace period, or on a staggered basis until December 31, 2020, or as may be agreed upon by the parties.

While Bayanihan Acts I and II both provide moratorium on the payment of eligible loans, they differ in the qualification of eligible loans, the number of days provided as grace period and the allowable payment schemes.

As a result of the COVID-19 pandemic, the Association has seen an increase in the level of NPL in 2021 and 2020. The status of loans prior to the grant of the mandatory grace period and/or extension of maturity dates or payment due dates were retained. The Association monitored non-performing loans (NPL) internally: 1) based on aging of accounts without the grace period and 2) aging with grace period, as the grant of the grace period may have artificially understated the actual NPL levels. The Association has extended financial assistance to its members in 2020 through its "Tulong Handog sa mga Miyembro: COVID 19 Crisis Pantawid Program" (Note 8). The COVID-19 pandemic has no impact on the Association's underwriting income from insurance premiums.

The pandemic remains the topmost concern of the government and businesses alike. The Philippine economy is gradually opening with the imposition of less stringent community quarantine protocols. Likewise, the vaccination program of the government, commenced in the first quarter of 2021, is expected to ramp up with increasing vaccination coverage in the fourth quarter of 2021, and is hoped to slow down and contain the spread of the virus and boost confidence among businesses and consumers.

Measures to manage financial risks are in place to ensure that future events that may expose the Association to risk, particularly arising from COVID-19, are kept to a minimal extent. As at reporting date, the pandemic still poses some risk and uncertainties, the Association, however, remains confident on its ability to absorb some conceivable financial shocks that may rise due to volatile economic conditions.

Approval of the financial statements

The accompanying financial statements were approved and authorized for issue by the Board of Trustees (the Board) on April 13, 2022.

2 Financial assets and financial liabilities

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

(a) Financial assets

	Notes	2021	2020
Financial assets at amortized cost			
Cash and cash equivalents	2.1(a)	2,183,023,369	1,330,866,155
Insurance receivables, net	2.1(b)	8,608,424	8,600,413
Loans and receivables, net	2.1(c)	5,498,654,419	5,771,619,492
Other financial assets at amortized cost	2.1(d)	12,456,756,684	13,335,589,800
Financial assets at fair value through profit or loss (FVTPL)	2.2	229,265,271	219,223,104
At December 31		20,376,308,167	20,665,898,964

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.

Critical accounting judgment: Classification of financial assets

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 represents 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.

(b) Financial liabilities

	Notes	2021	2020
Financial liabilities at amortized cost			
Accounts payable and accrued expenses, excluding payables to government agencies	6	2,656,845,277	2,296,182,180
Members' contributions	2.3	4,729,413,882	6,261,312,014
		7,386,259,159	8,557,494,194

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.

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:

	2021	2020
Cash on hand	648,000	698,000
Cash in banks	613,563,291	192,501,794
Cash equivalents	1,568,812,078	1,137,666,361
	2,183,023,369	1,330,866,155

Cash in banks earn interest at the prevailing 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 .0625% to 1.60% in 2021 (2020 - 0.05% to 1.50%).

Interest income earned from cash and cash equivalents for the year ended December 31, 2021 amounts to P16,916,331 (2020 - P30,292,236).

There are no restrictions imposed on the Association's cash and cash equivalents as at December 31, 2021 and 2020.

(b) Insurance receivables, net

The account as at December 31 consists of:

	2021	2020
Gross insurance receivables	65,505,628	65,497,617
Less: Allowance for credit losses	(56,897,204)	(56,897,204)
	8,608,424	8,600,413

Insurance receivables pertain to amounts due from a reinsurer under liquidation and other receivables from third parties.

The movements in the allowance for credit losses of insurance receivables for the years ended December 31 are shown below:

	2021	2020
At January 1	56,897,204	46,471,043
Provision for credit losses	-	10,426,161
At December 31	56,897,204	56,897,204

(c) Loans and receivables, net

The account as at December 31 consists of:

	2021	2020
Loans receivable		
Salary loans	5,448,243,040	5,877,572,548
Equity loans	551,566,466	647,393,346
Interest receivable	72,135,539	74,425,354
Receivable from members	27,936,392	-
Advances to officers and employees	2,510,955	4,224,555
Others	2,859,767	4,436,308
	6,105,252,159	6,608,052,111
Less: Allowance for credit losses	(606,597,740)	(836,432,619)
	5,498,654,419	5,771,619,492

(i) *Salary loans receivable*

Salary loans are due in monthly installments ranging from one to five years with fixed nominal interest rates ranging from 5.00% 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, are payable in monthly installments with a fixed 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.

Interest income earned from loans and receivables for the year ended December 31, 2021 amounts to P1,166,050,956 (2020 - P909,474,316).

(iv) *Receivable from members*

Receivable from members pertain to overpayments of Member's Experience Refund ("MER") and Member's Benefit from Interest on Equity Value ("MBIEV") to members in 2021.

(v) *Allowance for credit losses*

The Association applied the general approach under PFRS 9, *Financial Instruments*, to measure expected credit losses (ECL) on its loans and receivables.

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 30 days past due	Lifetime expected losses
Non-performing	Interest and/or principal repayments are more than 90 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 48 months before December 31, 2021 and December 31, 2020 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.

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

	2021	2020
At January 1	836,432,619	826,387,944
Provision for credit losses	121,467,080	10,044,675
Write-offs	(351,301,959)	-
At December 31	606,597,740	836,432,619

The allowance for credit losses pertains to salary loans receivable and equity loans receivables.

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

Management writes off loans and receivables based on factors such as number of years past due, collection costs exceeding recoveries, borrower status, and non-significant loan balances, subject to the approval of the Board.

Critical accounting estimate: Impairment of loans and receivables

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.

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.

(d) Other financial assets at amortized cost

The account as at December 31 consists of:

	2021	Average interest rates	2020	Average interest rates
Debt securities				
Government securities				
Retail treasury bonds	2,435,000,000	4.58%	1,985,000,000	4.73%
Fixed treasury notes	5,287,210,457	4.45%	4,964,605,767	4.48%
Treasury bills	2,715,331,470	1.54%	4,364,909,276	2.14%
	10,437,541,927		11,314,515,043	
Corporate bonds	1,768,140,000	5.57%	1,770,000,000	5.76%
Long-term negotiable certificate of deposits	250,000,000	3.85%	250,000,000	3.85%
	12,455,681,927		13,334,515,043	
Other				
Deposits to service providers	1,074,757		1,074,757	
	12,456,756,684		13,335,589,800	

Government securities amounting to P25,000,000 as at December 31, 2021 and 2020 are on deposit with the Bureau of Treasury under the Registry of Scripps 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.

For the year ended December 31, 2021, interest earned from financial assets at amortized cost amounts to P354,471,384 (2020 - P388,044,848).

Movements in the debt securities for the years ended December 31 are shown below:

	2021	2020
At January 1	13,334,515,043	11,280,565,119
Acquisitions	5,477,824,262	5,961,208,431
Maturities	(6,387,800,000)	(3,950,654,704)
Amortization of discount	31,142,622	43,396,197
At December 31	12,455,681,927	13,334,515,043

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 with no history of payment defaults in the past.

2.2 Financial assets at FVTPL

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

	2021	2020
Debt securities		
Government securities	176,697,299	172,957,546
Unit investment trust funds (UITFs)	15,679,892	9,697,173
Corporate bonds	9,806,740	11,812,021
	202,183,931	194,466,740
Equity securities - listed shares	27,081,340	24,756,364
	229,265,271	219,223,104

The Association entered into a trust fund agreement with Metropolitan Bank and Trust Corporation 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 in the account for the years ended December 31 are shown below:

	2021	2020
At January 1	219,223,104	216,678,683
Acquisitions	51,288,754	75,028,207
Maturities	(35,178,904)	(75,274,788)
Fair value adjustments	(6,067,683)	2,791,002
As at December 31	229,265,271	219,223,104

The unrealized fair value gains or losses on financial assets at FVTPL are presented as part of "Fair value changes on financial assets at FVTPL" in the statement of total comprehensive income.

2.3 Members' contributions

The account as at December 31 consists of:

	2021	2020
Principal contributions	4,279,691,552	5,125,465,452
Accumulated earnings	449,722,330	1,135,846,562
	4,729,413,882	6,261,312,014

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 members' 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%	4%

Principal contributions pertain to contributions received from a member representing the member's savings in the Association. The movements in the principal contributions for the years ended December 31 are shown below:

	2021	2020
At January 1	5,125,465,452	4,314,521,383
Contributions during the year	1,111,053,683	1,033,120,933
Refunds during the year	(1,956,827,583)	(222,176,864)
At December 31	4,279,691,552	5,125,465,452

Accumulated earnings represents the interest earned by the members over the principal contributions deposited with the Association. The movements in the accumulated earnings of principal contributions as at December 31 consist of:

	2021	2020
At January 1	1,135,846,562	823,229,477
Interest on contributions during the year	470,568,083	488,384,601
Refunds during the year	(1,156,692,315)	(175,767,516)
At December 31	449,722,330	1,135,846,562

Refunds on principal contributions and accumulated earnings represent withdrawals from the members either through voluntary or involuntary withdrawal or termination of their membership.

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 from 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 classifies the Association's financial assets at FVTPL according to level of the fair value hierarchy as at December 31:

	Level 1	Level 2	Level 3	Total
2021				
Debt securities	192,377,191	9,806,740	-	202,183,931
Equity securities	27,081,340	-	-	27,081,340
	219,458,531	9,806,740	-	229,265,271
2020				
Debt securities	182,654,719	11,812,021	-	194,466,740
Equity securities	24,756,364	-	-	24,756,364
	207,411,083	11,812,021	-	219,223,104

There were no transfers between levels of fair value hierarchy in 2021 and 2020.

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 and the sufficiency of members' contributions to cover the outstanding balance of equity loans.

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 are equal to their carrying values.

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

2021	Performing	Underperforming	Non-performing	Total
Financial assets at amortized cost				
Cash and cash equivalents, excluding cash on hand	2,182,375,369	-	-	2,182,375,369
Insurance receivables, gross	8,608,424	50,000	56,847,204	65,505,628
Loans and receivables, gross				
Salary loans	4,716,655,620	554,810,606	176,776,814	5,448,243,040
Equity loans	469,673,163	28,957,737	52,935,566	551,566,466
Interest receivable	72,135,539	-	-	72,135,539
Receivable from members	27,936,392	-	-	27,936,392
Advances to officers and employees	2,510,955	-	-	2,510,955
Others	2,859,767	-	-	2,859,767
Other financial assets at amortized cost				
Debt securities	12,455,681,927	-	-	12,455,681,927
Deposits to service providers	1,074,757	-	-	1,074,757
Financial assets at FVTPL				
Debt securities	202,183,931	-	-	202,183,931
	20,141,695,844	583,818,343	286,559,584	21,012,073,771
<hr/>				
2020	Performing	Underperforming	Non-performing	Total
Financial assets at amortized cost				
Cash and cash equivalents, excluding cash on hand	1,330,168,155	-	-	1,330,168,155
Insurance receivables, gross	8,600,413	50,000	56,847,204	65,497,617
Loans and receivables, gross				
Salary loans	5,121,190,264	6,185,182	750,197,102	5,877,572,548
Equity loans	561,354,306	448,799	85,590,241	647,393,346
Interest receivable	74,425,354	-	-	74,425,354
Advances to officers and employees	4,224,555	-	-	4,224,555
Others	4,436,308	-	-	4,436,308
Other financial assets at amortized cost				
Debt securities	13,334,515,043	-	-	13,334,515,043
Deposits to service providers	1,074,757	-	-	1,074,757
Financial assets at FVTPL				
Debt securities	194,466,740	-	-	194,466,740
	20,637,962,690	449,964,240	445,847,493	21,533,774,423

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.

The Association rates the quality of insurance and loans receivables as follows:

- Performing - Current and past due for up to 30 days;
- Underperforming - 31 to 90 days past due; and
- Non-performing - More than 90 days past due.

For salary loans receivable to be classified as underperforming, contractual payments in arrears are more than 30 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 90 days might still be classified as underperforming, with no allowance for credit loss adjustment recorded.

As at December 31, 2021 and 2020, balances classified as non-performing 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)].

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 90 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.

Write-off

Financial assets (and the related allowance for credit and impairment losses) are normally written off, either partially or in full, when there is no realistic prospect of recovery.

The Association writes off loans and receivables based on factors such as number of years past due, collection costs exceeding recoveries, borrower status, and non-significant loan balances, subject to the approval of the Board.

The outstanding contractual amounts of such assets written off during the year ended December 31, 2021 was P351.30 million (2020 - nil). The write-off of loans is undertaken in accordance with Association's internal credit policy.

(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 financial assets 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.

	2021				Total
	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	
Financial assets					
Cash and cash equivalents	2,183,023,369	-	-	-	2,183,023,369
Insurance receivables, gross	65,505,628	-	-	-	65,505,628
Loans and receivables					
Salary loans*	630,888,039	1,681,974,814	3,030,940,187	104,440,000	5,448,243,040
Equity loans*	229,417,420	322,149,046	-	-	551,566,466
Interest receivable	72,135,539	-	-	-	72,135,539
Receivable from members	27,936,392	-	-	-	27,936,392
Advances to officers and employees	2,510,955	-	-	-	2,510,955
Others	2,859,767	-	-	-	2,859,767
Other financial assets at amortized cost	4,700,982,717	3,548,995,092	3,033,837,101	1,172,941,774	12,456,756,684
Financial assets at FVTPL	44,846,913	85,091,041	52,224,585	47,102,732	229,265,271
	7,960,106,739	5,638,209,993	6,117,001,873	1,324,484,506	21,039,803,111
Financial liabilities					
Accounts payable and accrued expenses**	2,656,845,277	-	-	-	2,656,845,277
Claims payable***	285,068,504	-	-	-	285,068,504
Legal policy reserves	31,817,371	47,918,365	19,895,086	1,244,936,302	1,344,567,124
Premium deposits	13,643,759	36,374,851	65,547,948	2,258,648	117,825,206
Members' contributions	462,172,349	378,565,435	328,962,533	3,559,713,565	4,729,413,882
	3,449,547,260	462,858,651	414,405,567	4,806,908,515	9,133,719,993
Net liquidity position (gap)	4,510,559,479	5,175,351,342	5,702,596,306	(3,482,424,009)	11,906,083,118

*Gross of allowance for credit losses aggregating P606,597,740

**Excluding payables to government agencies amounting to P8,851,264

***Excluding IBNR amounting to P36,386,830

	2020				Total
	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	
Financial assets					
Cash and cash equivalents	1,330,866,155	-	-	-	1,330,866,155
Insurance receivables, gross	65,497,617	-	-	-	65,497,617
Loans and receivables					
Salary loans*	1,531,358,249	2,804,950,742	1,529,259,186	12,004,371	5,877,572,548
Equity loans*	380,863,590	266,529,756	-	-	647,393,346
Interest receivable	74,425,354	-	-	-	74,425,354
Advances to officers and employees	4,224,555	-	-	-	4,224,555
Others	4,436,308	-	-	-	4,436,308
Other financial assets at amortized cost	5,403,050,322	3,738,400,739	2,823,279,436	1,370,859,303	13,335,589,800
Financial assets at FVTPL	23,757,611	60,708,405	96,869,088	37,888,000	219,223,104
	8,818,479,761	6,870,589,642	4,449,407,710	1,420,751,674	21,559,228,787
Financial liabilities					
Accounts payable and accrued expenses**	2,296,182,180	-	-	-	2,296,182,180
Claims payable***	253,238,921	-	-	-	253,238,921
Legal policy reserves	33,316,107	51,338,743	18,623,961	1,180,232,402	1,283,511,213
Premium deposits	31,479,400	57,660,033	31,436,251	246,768	120,822,452
Members' contributions	554,372,870	744,135,066	561,158,589	4,401,645,489	6,261,312,014
	3,168,589,478	853,133,842	611,218,801	5,582,124,659	10,215,066,780
Net liquidity position (gap)	5,649,890,283	6,017,455,800	3,838,188,909	(4,161,372,985)	11,344,162,007

*Gross of allowance for credit losses aggregating P836,432,619

**Excluding payables to government agencies amounting to P20,952,451

***Excluding IBNR amounting to P31,260,903

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.

Foreign currency risk

The Association has no financial assets and liabilities denominated in foreign currencies and therefore, it has no exposure to foreign currency exchange risk.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Association takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may also result in losses in the event that unexpected movements arise. 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.

The Association's government securities and corporate debts at amortized cost bear fixed interest rates, hence, not subject to significant cash flow interest rate risk.

The Association's government securities and corporate debts at FVTPL bear fixed interest rates, thus, subject to fair value interest rate risk. The sensitivity analysis below is performed by the Association for reasonable possible shift of 100 basis points in interest rates, with all other variables held constant, considering the impact on fair value changes on financial assets at FVTPL in the statements of total comprehensive income:

	2021	2020
+100 basis points	decrease by P4.53 million	decrease by P5.32 million
-100 basis points	increase by P4.56 million	increase by P5.64 million

Price risk

The Association is exposed to price risk to the extent of its equity investments classified as financial assets at FVTPL. For sensitivity analysis purposes, based on management's projections, a reasonably possible shift of $\pm 10\%$ movement in the market value of the Association's financial assets at FVTPL will increase/decrease net income for the year ended December 31, 2021 by P22,926,527 (2020 - P21,992,310).

3 Investment property

Investment property as at December 31, 2021 and 2020 amounts to P2,814,000.

The fair value of investment property as at December 31, 2021 is P4,060,000 (2020 - P3,640,000). The fair value of the investment property was obtained using the market 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 ranging from P13,872 to P15,300 per square meter. Sensitivities surrounding the carrying value of investment property is considered minimal.

The fair value of investment property as at December 31, 2021 and 2020 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.

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, 2020	54,669,197	477,214,637	171,201,029	25,740,589	51,009,054	779,834,506
Additions	20,883,657	3,426,374	11,320,749	1,866,460	8,239,000	45,736,240
At December 31, 2020	75,552,854	480,641,011	182,521,778	27,607,049	59,248,054	825,570,746
Additions	32,327,984	4,343,154	16,040,692	1,067,625	2,037,000	55,816,455
Disposals/retirement	-	-	5,591,154	-	970,188	6,561,342
At December 31, 2021	107,880,838	484,984,165	192,971,316	28,674,674	60,314,866	874,825,859
Accumulated depreciation						
At January 1, 2020	-	330,654,655	129,837,271	23,059,444	33,468,617	517,019,987
Depreciation for the year	-	22,122,433	20,298,138	1,742,622	5,969,801	50,132,994
At December 31, 2020	-	352,777,088	150,135,409	24,802,066	39,438,418	567,152,981
Depreciation for the year	-	21,977,798	19,236,361	1,712,166	6,515,711	49,442,036
Disposals/retirement	-	-	5,591,154	-	970,182	6,561,336
At December 31, 2021	-	374,754,886	163,780,616	26,514,232	44,983,947	610,033,681
Net book values						
At December 31, 2020	75,552,854	127,863,923	32,386,369	2,804,983	19,809,636	258,417,765
At December 31, 2021	107,880,838	110,229,279	29,190,700	2,160,442	15,330,919	264,792,178

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

In 2021, the Association disposed certain fixed assets with a net book value of P6 for P42,413, resulting to a gain on disposal of P42,407, which is presented under Other income within profit or loss. No disposals were made in 2020.

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, 2021 and 2020, 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.

Critical accounting estimate: Useful lives of long-lived assets

The Association estimates the useful life of each of its property and equipment based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of practices of similar businesses, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible however, that future results of operations could be materially affected by changes in the amounts and timing or recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment would increase the recorded operating expenses and decrease non-current assets. The Association considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the useful lives of long-lived assets.

5 Other assets, net

The account as at December 31 consists of:

	Note	2021	2020
E-money deposits		78,413,913	-
Prepaid expenses		2,393,451	2,529,479
Unrefunded SSS Benefit		2,151,585	1,621,774
Creditable withholding tax		2,061,641	1,854,952
Office supplies inventory		638,577	1,703,924
Deferred tax asset	13	160,520	712,157
Software, net		1	1
		85,819,688	8,422,287

E-money deposits represent cash deposited in Paymaya facility, which is used as a payout channel of the Association for the distribution of MER and MBIEV accessible by members through mobile phones.

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

As at December 31, 2021 and 2020, the total cost of software that is still being used by the Association amounts to P6,552,944.

6 Accounts payable and accrued expenses

The account as at December 31 consists of:

	2021	2020
Payable to members	2,586,669,762	1,977,167,716
Accrued expenses	70,175,515	319,014,464
Payables to government agencies	8,851,264	20,952,451
	2,665,696,541	2,317,134,631

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 on demand or within one year.

On July 30, 2021, the Board approved the release of experience refund amounting to P490,532,697 (2020 - P8,303,676) to be distributed as benefit to its MBEP members amounting to P247,973,985 (2020 - nil) and MEP members amounting to 233,746,970 (2020 - nil). Likewise, the Board, on the same date, approved a Special Group Term Insurance (SGTI) refund amounting to P8,811,742 (2020 - 8,303,676). Consistent with the intention of the Board to provide benefit to its members, the amounts of experience refund is presented in the statement of total comprehensive income.

As at December 31, 2021, the outstanding payables related to experience refund amount to P589,995,359 (2020 - P447,006,618).

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

Payables to government agencies pertain to withholding taxes such as fringe benefit, compensation, expanded and final withholding taxes, and statutory contributions payable to Social Security System ("SSS"), Home Development Mutual Fund ("HDMF") and Philippine Health Insurance Corporation ("Philhealth").

7 Insurance contract liabilities and related accounts

(a) Claims payable and legal policy reserves

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

	Claims payable			Legal policy reserves	Total
	Actual	IBNR	Total		
At January 1, 2020	186,480,785	36,295,265	222,776,050	428,186,195	650,962,245
Provisions during the year	315,232,384	(5,034,362)	310,198,022	54,093,098	364,291,120
Claims paid during the year	(248,474,248)	-	(248,474,248)	-	(248,474,248)
At December 31, 2020	253,238,921	31,260,903	284,499,824	482,279,293	766,779,117
Provisions during the year	413,535,240	5,125,927	418,661,167	39,947,463	458,608,630
Claims paid during the year	(381,705,657)	-	(381,705,657)	-	(381,705,657)
At December 31, 2021	285,068,504	36,386,830	321,455,334	522,226,756	843,682,090

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. Consequently, the Association continues to determine the reserve for traditional life insurance policies under the net premium valuation (NPV) method.

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, 2021 and 2020, the IC has not yet issued a circular relating to the guidelines on the implementation of this provision.

The Association plans to retain the unappropriated retained surplus as at December 31, 2021 of P3.32 billion (2020 - P2.42 billion) for the following:

- As additional appropriation for future contingencies, including other losses, and additional funding for existing projects; and,
- To plan for any future distribution of MBIEV, enhancement of equity value, and any further provision of benefits in kind and other relevant services for members.

Management will continue to evaluate the plans to retain the unappropriated retained surplus over 20% of its total liabilities after considering the amended regulatory capital requirements of the IC on fixed capitalization and RBC framework.

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

	2021	2020
At January 1	9,105,535,237	1,902,609,744
Appropriations during the year	-	7,202,925,493
At December 31	9,105,535,237	9,105,535,237

The balance of Appropriated retained surplus as at January 1, 2021 pertains to the following:

- On October 30, 2012, the Board approved appropriations amounting to P230 million and P46 million for the Association's mortality fund and guaranty fund, respectively, and P35 million representing 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 with 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.
- On January 28, 2019, the Board approved the appropriation of P592 million which represents the reserve to support activities for the five-year development plan of the Association, inclusive of payment for the MER, preparation for the implementation of PFRS 17, product development and upgrade of audit database.
- On June 30, 2020, the Board approved the appropriation of P7.20 billion from the unappropriated retained surplus to fund a number of projects pertaining to the Association's Bayanihan Program (P2.50 billion), Tulong Handog sa mga Miyembro: COVID 19 Crisis Pantawid Program for its members (P1.00 billion), funds set aside for patronage refund (P1.22 billion) and experience refund (P687 million) to its members, product development fund (P1.00 billion), construction of REOs (P790 million) and upgrade of its audit database (P1.00 million).

Based on management's assessment, the above appropriations are still valid as at December 31, 2021 and 2020.

The above plans covered by appropriations are expected to be completed for a period within five (5) years, except for continuing programs such as, but not limited to, MER, acquisition of land, and construction of REO offices.

9 General and administrative expenses

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

	Notes	2021	2020
Personnel costs			
Employee benefits		161,027,365	115,305,562
Salaries and wages		87,428,261	83,244,285
Retirement benefit cost	10	9,879,363	10,007,215
		258,334,989	208,557,062
Depreciation and amortization	4	49,442,036	50,132,994
Social and community expense		47,073,758	960,422,989
Collection fees		25,440,263	17,034,501
Directors' fee		22,865,358	18,072,251
Communication, light and water		19,382,548	14,517,035
Taxes and licenses		18,832,285	124,726,801
Supplies		17,664,961	5,454,842
Advertising and promotion		15,766,506	14,346,412
Representation and entertainment		10,339,413	7,166,936
Bank charges		9,357,272	2,264,734
Repairs and maintenance		8,493,744	3,210,511
Transportation and travel		7,446,796	7,364,748
Professional fees		6,629,068	5,256,049
Outside services		5,802,890	6,247,660
Fringe benefit tax		2,371,633	1,828,401
Rent	12	2,103,372	1,850,262
Fuel and oil		1,178,986	1,032,869
Insurance expense		1,048,080	1,071,718
Subscription and periodicals		1,042,846	866,056
Trainings and seminars		502,817	267,261
Modification losses		-	148,548,939
Others		40,753,380	29,979,363
		571,873,001	1,630,220,394

In 2020, the Association extended financial assistance to all of its eligible members as part of its "Tulong Handog sa mga Miyembro: COVID 19 Crisis Pantawid Program" (Note 8). Actual amount disbursed for the year ended December 31, 2020 of P912.38 million is presented under Social and community expense.

In 2020, the Association, in compliance with the requirements of Bayanihan Acts I and II, provided moratorium on principal and interest payments for eligible loans. The payment moratorium modified the contractual cash flows of the Association's loan portfolio. The deferral of the payment on both principal and interest resulted in a modification loss of P148.55 million and presented as part of General and administrative expenses in the statement of total comprehensive income.

Other expenses mainly pertain to 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.

As at December 31, 2021 and 2020, the actuarial valuation of the Association's retirement plan was performed by an independent actuary using the projected-unit-credit method.

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

	2021	2020
Present value of defined benefit obligation	100,416,000	113,681,224
Fair value of plan assets	(136,041,103)	(126,630,833)
Retirement plan asset	(35,625,103)	(12,949,609)

The movements in the retirement plan asset, net for the years ended December 31 follow:

	Note	Present value of defined benefit obligation	Fair value of plan assets	Net amount
At January 1, 2020		105,296,539	(117,026,340)	(11,729,801)
Retirement benefit cost recognized in profit or loss				
Current service cost		10,597,224	-	10,597,224
Interest cost (income)		5,296,416	(5,886,425)	(590,009)
	9	15,893,640	(5,886,425)	10,007,215
Remeasurements recognized in accumulated other comprehensive income (OCI)				
Return on plan assets		-	3,654,903	3,654,903
Changes in experience adjustments		(5,907,495)	-	(5,907,495)
Changes in financial assumptions		4,219,541	-	4,219,541
		(1,687,954)	3,654,903	1,966,949
Other movements				
Contributions to the retirement fund		-	(13,193,972)	(13,193,972)
Benefits paid from the retirement fund		(5,821,001)	5,821,001	-
		(5,821,001)	(7,372,971)	(13,193,972)
At December 31, 2020		113,681,224	(126,630,833)	(12,949,609)
Retirement benefit cost recognized in profit or loss				
Current service cost		10,362,383	-	10,362,383
Interest cost (income)		4,240,310	(4,723,330)	(483,020)
	9	14,602,693	(4,723,330)	9,879,363
Remeasurements recognized in accumulated OCI				
Return on plan assets		-	3,534,935	3,534,935
Changes in experience adjustments		(6,417,073)	-	(6,417,073)
Changes in financial assumptions		(17,187,934)	-	(17,187,934)
		(23,605,007)	3,534,935	(20,070,072)
Other movement				
Contributions to the retirement fund		-	(12,484,785)	(12,484,785)
Benefits paid from the retirement fund		(4,262,910)	4,262,910	-
		(4,262,910)	(8,221,875)	(12,484,785)
At December 31, 2021		100,416,000	(136,041,103)	(35,625,103)

As at December 31, 2021, the weighted average duration of the defined benefit obligation is 16 years (2020 - 18 years).

The projected maturity analysis of the undiscounted benefit payments as at December 31 are as follows:

	2021	2020
Less than one year	3,527,299	8,952,453
1 to 5 years	37,650,155	31,595,671
6 to 10 years	69,696,538	60,312,890
11 to 15 years	79,574,927	74,712,904
16 to 20 years	113,795,795	95,182,727

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

	2021	2020
Cash and cash equivalents	35,155,265	53,462,864
Financial assets at FVTPL	102,190,457	73,095,002
Interest receivable	142,429	72,967
Payables	(1,447,048)	-
	136,041,103	126,630,833

The plan is being administered by a trustee-bank who is authorized to invest the fund as deemed proper based 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, 2021 and 2020.

The expected funding to the retirement benefit plan for the year ending December 31, 2022 amounts to P3,527,299 (2021 - P8,952,453).

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, 2021 amounts to P1,188,395 (2020 - P2,231,522).

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

	2021	2020
Discount rate	4.99%	3.73%
Salary increase rate	4.00%	4.00%

Discount rate

The discount rate was determined in accordance with the 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 PHP BVAL (Bloomberg valuation) reference rates on government bonds 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, 2021 and 2020, 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:

	Change in assumption	Impact on retirement benefit obligation	
		Increase in assumption	Decrease in assumption
2021			
Discount rate	1.00%	(11,185,426)	13,316,367
Salary increase rate	1.00%	13,314,701	(11,445,269)
2020			
Discount rate	1.00%	(13,298,963)	16,120,840
Salary increase rate	1.00%	15,846,060	(13,421,161)

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:

	2021		2020	
	Transactions for the year	Outstanding balance at December 31	Transactions for the year	Outstanding balance at December 31
Advances to related parties	(489,845)	344,400	(430,818)	834,244

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, unguaranteed, unsecured, and payable within a period of twelve (12) months.

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, 2021 and 2020 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:

	2021	2020
Salaries	15,541,053	13,745,572
Bonuses	18,969,235	10,749,422
Compensated absence	504,953	543,492
Short-term medical benefits	197,000	161,000
Social security costs	193,500	120,000
Other short-term benefits	3,124,123	2,731,614
	38,529,864	28,051,100

12 Leases

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 rate. Rental income related to these agreements for the year ended December 31, 2021 amounts to P6,291,484 (2020 - P6,315,155).

Direct costs relating to the depreciation of the premises being leased out amount to P3,564,556 for the years ended December 31, 2021 and 2020.

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

	2021	2020
Within one year	3,806,743	5,205,325
After one year but not more than five years	6,182,775	4,360,313
	9,989,518	9,565,638

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, 2021 amounts to P2,103,372 (2020 - P1,850,262) (Note 9).

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

13 Income taxes

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	2021	2020
Rent income	12	6,291,484	6,315,155
Direct costs	12	(3,564,556)	(3,564,556)
		2,726,928	2,750,599
Other taxable income		42,407	36,736
Taxable income		2,769,335	2,787,335
Itemized deductions		(2,415,777)	(2,404,861)
Net taxable income		353,558	382,474

Deferred income tax (DIT) assets, presented within Other assets, as at December 31, are as follows:

	2021	2020
Net operating loss carry over (NOLCO)	-	492,979
Minimum corporate income tax (MCIT)	160,520	219,178
	160,520	712,157

The deferred tax expense charged to profit or loss in 2021 pertains to the application and expiration of NOLCO and MCIT amounting to P492,979 (2020 - P756,788) and P86,352 (2020 - P33,370), respectively.

The reconciliation between the stator income tax rate and the effective income tax rates follows:

	2021	2020
Statutory income tax rate	25.00%	30.00%
Tax effects of:		
Non-taxable income	(73.01%)	(298.65%)
Income subjected to final taxes	(10.07%)	(54.28%)
Non-deductible expense	58.09%	322.98%
NOLCO application	(0.01%)	(0.05%)
Effective income tax rate	0.00%	0.00%

The Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) bill which provides for lower corporate income tax rates and rationalizes fiscal incentives had been signed into law by the President of the Philippines in 2021 but with an effective date of July 1, 2020. Given that the signing of CREATE is a non-adjusting subsequent event with respect to 2020 reporting period, the Association recognized an adjustment in 2021 pertaining to the December 31, 2020 balances which resulted in an increase of P82,163 in deferred tax expense.

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

Year of incurrence	Year of expiration	2021	2020
2018	2021	1,643,263	1,643,263
2017	2020	-	2,522,628
		1,643,263	4,165,891
Applied portion		(353,558)	(382,474)
Expired portion		(1,289,705)	(2,522,628)
		-	1,260,789
Tax rate		25%	30%
DTA on NOLCO		-	378,237

Critical accounting judgment: Recognition of deferred tax asset

The recognition of deferred income tax assets depends on management's assessment of the probability of available future taxable income against which the temporary differences can be applied.

The Association reviews the carrying amounts of deferred income tax assets at each reporting date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will allow all or part of its deferred income tax assets to be utilized. Realization of future tax benefit related to deferred income tax assets is dependent on the Association's ability to generate future taxable income during the periods in which these are expected to be recovered.

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 these 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 members 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:

	2021	2020
Member's equity	12,426,605,221	11,482,454,411
RBC requirement	1,798,053,838	1,879,331,735
RBC ratio	691%	611%

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, 2021 (2020 - P25,000,000) is included in other financial assets at amortized cost.

The Association fully complied with the externally imposed capital requirements during the reported financial period 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.

	2021		Total
	Less than 12 months	Over 12 months	
ASSETS			
Financial assets at amortized cost			
Cash and cash equivalents	2,183,023,369	-	2,183,023,369
Insurance receivables, net	8,608,424	-	8,608,424
Loans and receivables, net	668,695,368	4,829,959,051	5,498,654,419
Other financial assets at amortized cost	4,700,982,717	7,755,773,967	12,456,756,684
Financial assets at FVTPL	44,846,913	184,418,358	229,265,271
Investment property	-	2,814,000	2,814,000
Property and equipment, net	-	264,792,178	264,792,178
Retirement plan asset	-	35,625,103	35,625,103
Other assets, net	83,597,526	2,222,162	85,819,688
Total assets	7,689,754,317	13,075,604,819	20,765,359,136
LIABILITIES			
Accounts payable and accrued expenses	2,665,696,541	-	2,665,696,541
Claims payable	321,455,334	-	321,455,334
Legal policy reserves	2,106,729	520,120,027	522,226,756
Premium deposits	13,643,759	104,181,447	117,825,206
Members' contributions	462,172,350	4,267,241,532	4,729,413,882
Total liabilities	3,465,074,713	4,891,543,006	8,356,617,719
2020			
	Less than 12 months	Over 12 months	Total
ASSETS			
Financial assets at amortized cost			
Cash and cash equivalents	1,330,866,155	-	1,330,866,155
Insurance receivables, net	8,600,413	-	8,600,413
Loans and receivables, net	1,519,202,757	4,252,416,735	5,771,619,492
Other financial assets at amortized cost	5,403,050,322	7,932,539,478	13,335,589,800
Financial assets at FVTPL	23,757,611	195,465,493	219,223,104
Investment property	-	2,814,000	2,814,000
Property and equipment, net	-	258,417,765	258,417,765
Retirement plan asset	-	12,949,609	12,949,609
Other assets, net	5,855,177	2,567,110	8,422,287
Total assets	8,291,332,435	12,657,170,190	20,948,502,625
LIABILITIES			
Accounts payable and accrued expenses	2,317,134,631	-	2,317,134,631
Claims payable	284,499,824	-	284,499,824
Legal policy reserves	1,611,076	480,668,217	482,279,293
Premium deposits	31,479,400	89,343,052	120,822,452
Members' contributions	554,372,870	5,706,939,144	6,261,312,014
Total liabilities	3,189,097,801	6,276,950,413	9,466,048,214

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*

- Impairment of loans and receivables [Note 2.1(c)]
- Useful life of PPE (Note 4)
- 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 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. These 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 (PFRS). The term PFRS in general includes all applicable PFRS, PAS, and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at FVTPL and retirement benefit assets.

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 PFRS in the Philippines. The Association implemented the circular in 2015 and is being continuously observed.

Changes in accounting policies and disclosures

(a) *Amendments to existing standards adopted by the Association*

The Association has adopted the following amendments to existing standards effective January 1, 2021:

- Amendment to PFRS 16, 'Leases'

The amendment provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

The adoption of the above amendments did not impact the financial statements of the Association since it did not avail of any rent concessions during the year.

- Amendments to PFRS 9, *'Financial Instruments'*, PFRS 7 *'Financial Instruments: Disclosures'*, PFRS 4, *'Insurance Contracts'* and PFRS 16 *'Leases'*

These amendments that were issued in August 2020 address issues that arise during the reform of an interest rate benchmark rate (IBOR), including the replacement of one benchmark rate with an alternative one.

The key reliefs provided by the amendments are as follows:

- Changes to contractual cash flows. When changing the basis for determining contractual cash flows for financial assets and liabilities (including lease liabilities), the reliefs have the effect that the changes that are required by an interest rate benchmark reform (that is, are necessary as a direct consequence of IBOR reform and are economically equivalent) will not result in an immediate gain or loss in the income statement.
- Hedge accounting. The hedge accounting reliefs will allow most PFRS 9 hedge relationships that are directly affected by IBOR reform to continue. However, additional ineffectiveness might need to be recorded.

The adoption of the above amendments did not impact the financial statements of the Association since it does not have any financial instruments or other arrangements that are linked to IBOR.

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

The following new accounting standards and amendments to existing standards are not mandatory for December 31, 2021 reporting period and have not been early adopted by the Association:

- PFRS 17, *Insurance Contracts* (effective for annual periods beginning on or after January 1, 2025)

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 statement of income or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under PFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The IC is currently reviewing the impact of PFRS 17 across the entire industry and has established a project team to manage the implementation approach. The IC, considering the extension of IFRS 17 and the challenges of the COVID-19 pandemic to the insurance industry, has deferred the implementation of PFRS 17 to January 1, 2025, granting an additional two-year period from the date of effectivity proposed by the International Accounting Standards Board (IASB). The Association is assessing the quantitative impact of PFRS 17 as at reporting date.

Likewise, the following amendments to existing standards are not mandatory for December 31, 2021 reporting period and have not been early adopted by the Association:

- Amendments to PAS 16, *'Property, Plant and Equipment'*

The amendment prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset.

- Amendment to PAS 37, *'Provisions, Contingent Liabilities and Contingent Assets'*

The amendment clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling the contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

- Amendments to PAS 1, '*Presentation of Financial Statements*'

The amendments clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). The amendments also clarify what PAS 1 means when it refers to the 'settlement' of a liability.

In addition, PAS 1 requires entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

- Amendment to PAS 8, '*Accounting Policies, Changes in Accounting Estimates and Errors*'

The amendment clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

- Amendments to PAS 12, '*Income Taxes*'

The amendments require entities to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognize deferred tax assets (to the extent that it is probable that they can be utilized) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with (a) right-of-use assets and lease liabilities, and (b) decommissioning, restoration and similar liabilities, and the corresponding amounts recognized as part of the cost of the related assets. The cumulative effect of recognizing these adjustments is recognized in retained earnings, or another component of equity, as appropriate.

- Annual Improvements to PFRS Standards 2018-2020

The following improvements were finalized in May 2020:

- i. PFRS 9, '*Financial Instruments*', clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- ii. PFRS 16, '*Leases*', amendment to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

The adoption of the above amendments is not expected to have a material impact on the financial statements of the Association.

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.

(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 assets at FVOCI and financial liabilities at FVTPL as at December 31, 2021 and 2020.

(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.

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.

(iii) Measurement

At initial recognition, the Association measures a financial asset or liability at its fair value plus or minus, 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 December 31, 2021 and 2020, 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 under "Provision for credit losses".

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 December 31, 2021 and 2020, 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 changes on 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 changes on 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

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 applies the general approach under PFRS 9 for its loans and other receivables and other financial assets at amortized cost, which require the 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 the balances of loans and other receivables, and other financial assets at amortized cost, 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 loans and other receivables and other financial assets at amortized cost 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.

(v) 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.

(vi) Modification of loans

In the event when there is a renegotiation or modification of the contractual cash flows of loans to members, as initiated by the Association or driven by regulatory requirements, the Association assesses if the terms are substantially different or not. If the terms are substantially different, the Association derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Association also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in the statement of total comprehensive income as a gain or loss on modification.

If the terms are not substantially different, the Association recalculates the gross carrying amount of the financial asset and recognizes a modification gain or loss in the statement of total comprehensive income. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

(vii) Derecognition of financial instruments other than modification

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Association has transferred substantially all the 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.

(viii) 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, 2021 and 2020, 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. Land is not subject to depreciation.

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 and is not subject to depreciation.

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, 2021 and 2020, 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 premiums 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 4% for MBEP and MEP, respectively. The interest expense is charged to the statement of total comprehensive income.

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 refund is intended by the Board as benefit to its members and is charged as an expense upon discretionary declaration of such by the Board. Unpaid balance of experience refund is presented under Accounts payable and accrued expenses 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 members. Appropriated retained surplus represents that portion which is restricted and therefore not available for any declaration for distribution to members.

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. 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 Leases

When the Association enters into an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys the right to use an asset or is dependent on the use of specific asset or assets, the Association assesses whether the arrangement is, or contains, a lease. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement. In such cases, when the Association has assessed that the arrangement is, or contains, a lease, the Association accounts for it under PFRS 16, as applicable.

Association as lessor

Rental income under fixed and non-cancellable leases is recognized in profit or loss on a straight-line basis over the period of the lease.

Association as lessee

The Association recognizes a lease liability and a right-of-use asset in the statement of financial position for its leases where the Association is the lessee. The Association recognizes depreciation expense from its right-of-use asset and an interest expense from the unwinding of the lease liability.

For the years ended December 31, 2021 and 2020, the lease payments made by the Association for its existing lease agreements are deemed to be immaterial.

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 Comparatives

Some comparatives have been restated to conform to current year presentation.

17.22 Events after the reporting date

Any post year-end event that provides additional information about the Association's position at the reporting date (adjusting event) is reflected in the financial statements when material. Post year-end events that are not adjusting events, if any, 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 (RR) Nos. 15-2010 and 34-2020. This information is presented for the purposes of filing with the BIR and is not a required part of the basic financial statements.

RR No. 15-2010

(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 sale of services are subject to output VAT while its purchases from other VAT-registered individuals or corporations are subject to input VAT.

Output VAT for the year ended December 31, 2021 and the revenues upon which the same was based consist of:

	Gross amount of revenues	Output VAT
Subject to 12% VAT	7,323,094	878,771

Remaining output VAT payable as at December 31, 2021 amounts to P31,973 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, 2021 follow:

	Amount
Beginning balance	22,813
Add: Current year's domestic purchases/payments for services lodged under other accounts	209,092
Less: Claims for tax credit/refund and other adjustments	(213,129)
Total input VAT	18,776

Input VAT as at December 31, 2021 is presented as part of Other assets, net.

(c) All other local and national taxes

All other local and national taxes paid for the year ended December 31, 2021 consist of:

	Amount
Permits and licenses	18,386,399
Registration fees	445,886
	18,832,285

The above local and national taxes are lodged under Taxes and licenses in General and administrative expenses (Note 9).

(d) Withholding taxes

Withholding taxes paid and accrued and/or withheld for the year ended December 31, 2021 consist of:

	Paid	Accrued	Total
Withholding tax on compensation	22,585,109	5,207,163	27,792,272
Expanded withholding tax	1,003,566	1,368,067	2,371,633
Fringe benefit tax	2,648,689	697,382	3,346,071
	26,237,364	7,272,612	33,509,976

As at December 31, 2021, total outstanding creditable withholding tax amounts to P2,061,641 (Note 5).

Accrued withholding taxes are included as part of accounts payable and accrued expenses in the statement of financial position.

(e) Tax assessments and tax cases

Taxable years 2018, 2019 and 2020 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, 2021.

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, 2021, other than an on-going tax case for certain order of payments due to a local government unit.

(f) Other information

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

RR No. 34-2020

On December 18, 2020, the BIR issued RR No. 34-2020, Prescribing the Guidelines and Procedures for the Submission of BIR Form No. 1709, Transfer Pricing Documentation (TPD) and other Supporting Documents, Amending for this Purpose the Pertinent Provisions of RR Nos. 19-2020 and 21-2002, as amended by RR No. 15-2010, to streamline the guidelines and procedures for the submission of BIR Form No. 1709, TPD and other supporting documents by providing safe harbors and materiality thresholds. Section 2 of the RR provides the list of taxpayers that are required to file and submit the RPT Form, together with the annual income tax return.

The Association is not covered by the requirements and procedures for related party transactions provided under this RR as it does not meet any criteria of the taxpayers prescribed in Section 2 of the RR.