



## INDEPENDENT AUDITORS' REPORT

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

### Report on the Audit of the Separate Financial Statements

#### *Opinion*

We have audited the accompanying separate financial statements of Armed Forces and Police Mutual Benefit Association, Incorporated (AFPMBAI) (the Association), which comprise the separate statements of financial position as at December 31, 2020 and 2019, and the separate statements of comprehensive income, separate statements of changes in fund balance, and separate statements of cash flows for the years then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

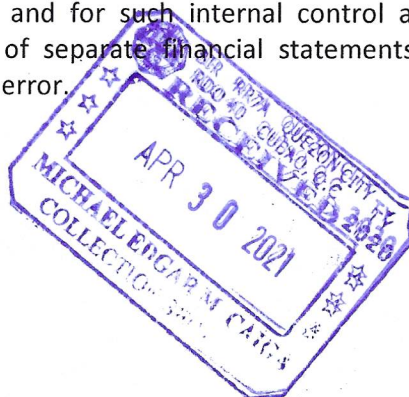
In our opinion, the separate financial statements present fairly, in all materials respects, the financial position of the Association as at December 31, 2020 and 2019 and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

#### *Basis for Opinion*

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

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

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





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

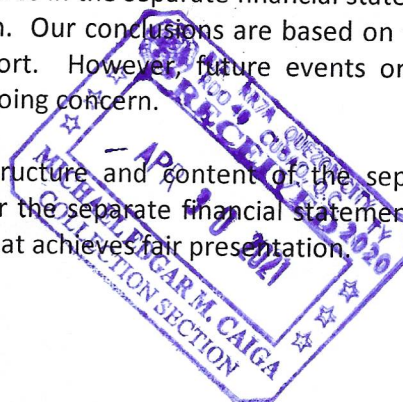
Those charged with governance are responsible for overseeing the Association's financial reporting process.

*Auditors' Responsibilities for the Audit of the Separate Financial Statements*

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Association to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.







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

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

Our audits were conducted for the purpose of forming an opinion on the basic separate financial statements taken as a whole. The supplementary information on taxes and licenses in Note 29 to the separate financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of the Association. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**REYES TACANDONG & Co.**

*Pamela Ann P. Escudro*  
PAMELA ANN P. ESCUADRO

Partner

CPA Certificate No. 128829

Tax Identification No. 216-321-918-000

BOA Accreditation No. 4782; Valid until August 15, 2021

SEC Accreditation No. 128829-SEC Group A

Issued March 23, 2021

Valid for Financial Periods 2020 to 2024

IC Accreditation No. 128829-IC

Issued February 22, 2021

Valid for Financial Periods 2020 to 2024

BIR Accreditation No. 08-005144-013-2020

Valid until January 1, 2023

PTR No. 8534282

Issued January 5, 2021, Makati City

April 7, 2021

Makati City, Metro Manila



**ARMED FORCES AND POLICE MUTUAL BENEFIT ASSOCIATION, INCORPORATED (AFPMBAI)**  
**SEPARATE STATEMENTS OF FINANCIAL POSITION**

		<b>December 31</b>	
	Note	2020	2019
<b>ASSETS</b>			
Cash and cash equivalents	4	P683,957,148	P756,788,410
Short-term investments	4	3,618,953,816	2,252,598,556
Long-term investments	4	1,000,000,000	-
Loans receivables	5	10,245,956,529	9,591,145,737
Financial asset investments:	6		
Investments at fair value through profit or loss (FVPL)		18,877,056	38,815,745
Available-for-sale (AFS) investments		1,671,443,584	2,181,712,447
Held-to-maturity (HTM) investments		7,290,696,178	7,347,135,107
Premiums receivable from members		26,241,814	51,903,965
Other receivables	7	393,539,238	432,358,059
Assets held for sale	8	97,614,979	99,871,457
Investment properties	9	6,556,486,649	3,475,689,379
Investments in a subsidiary and associates	10	473,265,704	473,265,704
Property and equipment	11	622,756,617	247,810,715
Other assets	12	62,458,742	57,238,639
		<b>P32,762,248,054</b>	<b>P27,006,333,920</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Accounts payable and accrued expenses	13	P563,397,455	P573,953,474
Legal policy reserves	14	14,474,072,266	12,960,142,426
Claims and benefits payable	15	754,999,401	576,068,022
Dividends payable	16	430,217,960	383,513,751
Income tax payable		-	16,518,462
Reserve for members' refund	17	3,573,533,659	3,028,501,444
Net retirement liability	22	275,023,590	233,540,238
Deferred tax liability	24	1,749,630,584	583,005,463
Other liabilities		152,658,070	301,369,140
Total Liabilities		<b>21,973,532,985</b>	<b>18,656,612,420</b>
<b>Fund Balance</b>			
Members' contribution	18	77,017,387	80,717,163
Cumulative fair value changes on AFS financial assets	6	229,324,384	192,922,916
Cumulative remeasurement reserves on retirement liability	22	(90,300,354)	(80,947,815)
Accumulated net income:	19		
Assigned		406,571,827	336,719,289
Unassigned		10,166,101,825	7,820,309,947
Total Fund Balance		<b>10,788,715,069</b>	<b>8,349,721,500</b>
		<b>P32,762,248,054</b>	<b>P27,006,333,920</b>

See Accompanying Notes to Separate Financial Statements.





**ARMED FORCES AND POLICE MUTUAL BENEFIT ASSOCIATION, INCORPORATED (AFPMBAI)**  
**SEPARATE STATEMENTS OF COMPREHENSIVE INCOME**

		Years Ended December 31	
	Note	2020	2019
<b>REVENUES</b>			
Premiums, net of reinsurance	20	₱3,945,909,549	₱3,745,606,311
Increase in fair value of investment properties	9	3,080,797,270	203,801,724
Interest income	6	1,316,481,912	1,368,374,689
Rental income	9	89,788,187	89,446,427
Policy income	5	84,032,451	127,452,805
Dividend income	6	7,539,432	11,506,371
Gain on sale of assets held-for-sale	8	3,880,177	157,699,883
Gain on sale of AFS investments	6	—	395,941
Other income		—	2,423,359
		<b>8,528,428,978</b>	<b>5,706,707,510</b>
<b>BENEFITS AND EXPENSES</b>			
Death and other policy benefits	15	1,889,329,298	1,800,860,718
Increase in legal policy reserves	14	1,513,929,840	1,404,482,768
General and administrative expenses	21	962,792,827	936,357,522
Commission expense		265,367,327	286,732,399
Dividends on participating policies	16	130,323,573	104,905,746
Loss on sale of AFS investments	6	93,010,887	—
Other expense		1,251,424	—
		<b>4,856,005,176</b>	<b>4,533,339,153</b>
<b>INCOME BEFORE INCOME TAX</b>		<b>3,672,423,802</b>	<b>1,173,368,357</b>
<b>PROVISION FOR INCOME TAX</b>			
Current	24	1,378,552	19,922,064
Final		86,618,419	82,843,750
Deferred		1,166,625,121	36,474,600
		<b>1,254,622,092</b>	<b>139,240,414</b>
<b>NET INCOME</b>		<b>2,417,801,710</b>	<b>1,034,127,943</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<i>Item that may be reclassified to profit or loss</i>			
Net movement of cumulative fair value changes on			
AFS investments	6	36,401,468	89,663,808
<i>Item that will not be reclassified to profit or loss</i>			
Remeasurement loss on retirement liability	22	(9,352,539)	(46,428,591)
		<b>27,048,929</b>	<b>43,235,217</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>₱2,444,850,639</b>	<b>₱1,077,363,160</b>

See Accompanying Notes to Separate Financial Statements.

**ARMED FORCES AND POLICE MUTUAL BENEFIT ASSOCIATION, INCORPORATED (AFPMBAI)**  
**SEPARATE STATEMENTS OF CHANGES IN FUND BALANCE**

		Years Ended December 31	
	Note	2020	2019
<b>MEMBERS' CONTRIBUTION</b>	18		
Balance at beginning of year		P80,717,163	P84,616,599
Contributions during the year		517,092	602,903
Transfer to reserve for members' refund		(4,216,868)	(4,502,339)
Balance at end of year		77,017,387	80,717,163
<b>ASSIGNED ACCUMULATED INCOME</b>	19		
Balance at beginning of year		336,719,289	194,000,000
Assignment of accumulated income		226,285,500	336,719,289
Reversal of assigned accumulated income		(154,275,668)	(194,000,000)
Utilization of assigned accumulated income		(2,157,294)	-
Balance at end of year		406,571,827	336,719,289
<b>UNASSIGNED ACCUMULATED INCOME</b>	19		
Balance at beginning of year		7,820,309,947	6,868,621,293
Net income		2,417,801,710	1,034,127,943
Assignment of accumulated net income		(226,285,500)	(336,719,289)
Reversal of assigned accumulated net income		154,275,668	194,000,000
Cancellation of dividend declaration		-	60,280,000
Balance at end of year		10,166,101,825	7,820,309,947
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Cumulative fair value changes on AFS investments</b>	6		
Balance at beginning of year		192,922,916	103,259,108
Net movement of cumulative fair value changes on AFS investments		36,401,468	89,663,808
Balance at end of year		229,324,384	192,922,916
<b>Cumulative remeasurement reserves on retirement liability</b>	22		
Balance at beginning of year		(80,947,815)	(34,519,224)
Remeasurement loss		(9,352,539)	(46,428,591)
Balance at end of year		(90,300,354)	(80,947,815)
		139,024,030	111,975,101
		P10,788,715,069	P8,349,721,500

See Accompanying Notes to Separate Financial Statements





**ARMED FORCES AND POLICE MUTUAL BENEFIT ASSOCIATION, INCORPORATED (AFPMBAI)**  
**SEPARATE STATEMENTS OF CASH FLOWS**

		Years Ended December 31	
	Note	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		<b>₱3,672,423,802</b>	₱1,173,368,357
Adjustments for:			
Increase in fair value of investment properties	9	<b>(3,080,797,270)</b>	(203,801,724)
Interest income	6	<b>(1,316,481,912)</b>	(1,368,374,689)
Dividends on participating policies	16	<b>130,323,573</b>	104,905,746
Loss (gain) on sale of AFS investments	6	<b>93,010,887</b>	(395,941)
Incremental benefit reserve	17	<b>85,126,278</b>	124,591,674
Allowance for impairment losses	21	<b>72,454,544</b>	84,680,203
Depreciation and amortization	11	<b>33,753,348</b>	34,851,516
Retirement benefit expense	22	<b>32,130,813</b>	28,526,345
Dividend income	6	<b>(7,539,432)</b>	(11,506,371)
Fair value changes of investments at FVPL	6	<b>(5,177,451)</b>	(615,084)
Gain on sale of assets held for sale	8	<b>(3,880,177)</b>	(157,699,883)
Operating loss before working capital changes		<b>(294,652,997)</b>	(191,469,851)
Decrease (increase) in:			
Loans receivables		<b>(727,265,336)</b>	(159,208,876)
Other receivables		<b>(12,751,788)</b>	140,827,018
Premiums receivable from members		<b>25,662,151</b>	(47,335,318)
Other assets		<b>(5,220,103)</b>	9,379,973
Increase (decrease) in:			
Legal policy reserves		<b>1,513,929,840</b>	1,404,482,768
Claims and benefits payable		<b>178,931,379</b>	76,972,971
Accounts payable and accrued expenses		<b>(12,713,313)</b>	(97,071,575)
Other liabilities		<b>(148,711,070)</b>	(96,515,800)
Net cash generated by operations		<b>517,208,763</b>	1,040,061,310
Interest received		<b>847,715,553</b>	903,057,512
Income tax paid		<b>(104,515,433)</b>	(86,247,352)
Dividends paid	16	<b>(83,619,364)</b>	(208,805,188)
Net cash provided by operating activities		<b>1,176,789,519</b>	1,648,066,282

(Forward)



		Years Ended December 31	
	Note	2020	2019
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		<b>₱518,237,918</b>	₱396,000,581
Dividends received		<b>7,539,432</b>	11,506,371
Acquisitions of:			
Short-term investments		<b>(6,313,108,636)</b>	(2,950,298,338)
Long-term investments	4	<b>(1,000,000,000)</b>	-
HTM investments	6	<b>(651,031,128)</b>	(3,128,691,197)
Property and equipment	11	<b>(416,910,294)</b>	(42,703,249)
Investments at FVPL		<b>(17,554,909)</b>	(51,840,387)
Assets held for sale		<b>(5,239,377)</b>	-
AFS investments	6	-	(94,000,000)
Proceeds from sale/maturities of:			
Short-term investments		<b>4,946,753,376</b>	2,745,578,050
HTM investments	6	<b>709,569,107</b>	194,783,501
AFS investments	6	<b>453,659,444</b>	90,452,566
Investments at FVPL		<b>42,671,049</b>	37,087,572
Property and equipment		<b>8,211,044</b>	10,088,830
Assets held for sale		<b>11,376,032</b>	16,046,370
Net cash used in investing activities		<b>(1,705,826,942)</b>	(2,765,989,330)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from:			
Reserve for members' refund of equity value	17	<b>532,317,436</b>	468,636,977
Members' contributions		<b>517,092</b>	602,903
Payment of refund on members' contributions	17	<b>(76,628,367)</b>	(89,117,731)
Net cash provided by financing activities		<b>456,206,161</b>	380,122,149
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(72,831,262)</b>	(737,800,899)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>756,788,410</b>	1,494,589,309
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>₱683,957,148</b>	₱756,788,410

See Accompanying Notes to Separate Financial Statements.





**ARMED FORCES AND POLICE MUTUAL BENEFIT ASSOCIATION, INCORPORATED (AFPMBAI)**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS**

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**1. Corporate Information**

Armed Forces and Police Mutual Benefit Association, Incorporated (AFPMBAI) (the Association) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 1, 1965 as a non-stock corporation with soldiers, police, fire, jail management, and coast guard personnel as members. On June 28, 2012, the SEC approved the extension of the Association's corporate life up to 2066. However, as prescribed by the Revised Corporation Code of the Philippines, effective February 23, 2019, the Association shall have perpetual existence.

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

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

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

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

The Association's principal and registered office is located at AFPMBAI Building, Col Bonny Serrano Road, corner Epifanio delos Santos Avenue, Quezon City.

**Status of Operation**

The Covid-19 pandemic which broke out in early 2020 resulted to nationwide mandated lockdowns and negatively impacted the Philippine economy. Management, however, believes that with the Company's strong financial position it can readily meet its maturing obligations and continue as a going concern.

**Approval of the Separate Financial Statements**

The separate financial statements as at and for the years ended December 31, 2020 and 2019 were approved and authorized for issue by the BOT on April 7, 2021.

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## 2. Summary of Significant Accounting Policies

### **Basis of Preparation**

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

### **Measurement Bases**

The separate financial statements are presented in Philippine Peso (Peso), which is the Association's functional and presentation currency. All values are rounded to the nearest Peso unless otherwise stated.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the transaction date. The Association uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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

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

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

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



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

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

- Note 3: Significant Accounting Judgments, Estimates and Assumptions
- Note 6: Financial Assets
- Note 9: Investment Properties
- Note 25: Insurance and Financial Risk Management Objectives and Policies

#### **Adoption of Amended PFRS and Framework**

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PFRS and framework.

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

- Amendments to References to the Conceptual Framework in PFRS – The amendments include new concepts affecting measurement, presentation and disclosure and derecognition; improved definitions and guidance-in particular the definition of an asset and a liability; and clarifications in important areas, such as the roles of stewardship, prudence, measurement uncertainty and substance over form in financial reporting.
- Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material* – The amendments clarify the definition of “material” and how it should be applied by companies in making materiality judgments. The amendments ensure that the new definition is consistent across all PFRS standards. Based on the new definition, an information is “material” if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose separate financial statements make on the basis of those separate financial statements.

Effective for annual periods beginning on or after June 1, 2020 -

- Amendments to PFRS 16, *Leases – Covid-19 Related Rent Concessions* – The amendments provide practical expedient to lessees from applying the requirements on lease modifications under PFRS 16 for eligible rent concessions that is a direct consequence of Covid-19 pandemic. A lessee may elect not to assess whether eligible rent concessions from a lessor is a lease modification. A lessee that makes this election account for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment. The amendments do not affect lessors. Earlier application of the amendments is permitted.

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

### **New and Amended PFRS Issued But Not Yet Effective**

Relevant new and amended PFRS, which are not yet effective as at December 31, 2020 and have not been applied in preparing the separate financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2022:

- Amendments to PFRS 3, *Reference to Conceptual Framework* – The amendments replace the reference of PFRS 3 from the 1989 Framework to the current 2018 Conceptual Framework. The amendment included an exception that specifies that, for some types of liabilities and contingent liabilities, an entity applying PFRS 3 should refer to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, or IFRIC 21, *Levies*, instead of the Conceptual Framework. The requirement would ensure that the liabilities recognized in a business combination would remain the same as those recognized applying the current requirements in PFRS 3. The amendment also added an explicit statement that contingent assets acquired in a business combination should not be recognized by an acquirer. The amendments should be applied prospectively.
- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds Before Intended Use* – The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for its intended use. Instead, the proceeds and related costs from such items shall be recognized in profit or loss. The amendments must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when an entity first applies the amendment.
- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract* – The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling a contract comprises both the incremental costs of fulfilling that contract and an allocation of costs directly related to contract activities. The amendments apply to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other components of equity. Accordingly, the comparatives are not restated. Earlier application is permitted.
- Annual Improvements to PFRS 2018 to 2020 Cycle:
  - Amendments to PFRS 9, *Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities* – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognize a financial liability (i.e. whether the terms of a new or modified financial liability is substantially different from the terms of the original financial liability). These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf. The amendments apply to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendments. Earlier application is permitted.



- Amendments to PFRS 16, *Leases - Lease Incentives* – The amendment removes from the Illustrative Example 13 the illustration of the reimbursement of leasehold improvements by the lessor. The objective of the amendment is to avoid any potential confusion regarding the treatment of lease incentives because of how the requirements for lease incentives are illustrated.

Effective for annual periods beginning on or after January 1, 2023 -

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current* – The amendments clarify the requirements for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also specify and clarify the following: (i) an entity's right to defer settlement must exist at the end of the reporting period, (ii) the classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement, (iii) how lending conditions affect classification, and (iv) requirements for classifying liabilities where an entity will or may settle by issuing its own equity instruments. The amendments must be applied retrospectively. Earlier application is permitted.

Effective for annual periods beginning on or after January 1, 2025 -

- PFRS 17, *Insurance Contracts* – This standard will replace PFRS 4, *Insurance Contracts*. It requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. An amendment to the standard was issued to (i) reduce costs of transition by simplifying some requirements of the standard, (ii) make financial performance easier to explain, and (iii) ease transition by deferring the effectivity of the standard from 2021 to 2023 and by providing additional relief to reduce the effort required when applying PFRS 17 for the first time.

In response to the challenges brought by the Covid-19 pandemic, the IC issued Circular Letter 2020-062, *Amendment of Section 1 of Circular Letter No. 2018-69, Deferral of IFRS 17 Implementation*, which provides a two year deferral on the implementation of the standard from the 2023 effectivity date. Therefore, all life and nonlife insurance companies in the Philippines shall adopt PFRS 17 for annual periods beginning on or after January 1, 2025.

Deferred effectivity -

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28 - *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a conflicting provision under the two standards. It clarifies that a gain or loss shall be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

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

### **Current and Noncurrent Classification**

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

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when it is:

- Expected to be settled in its normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be settled within 12 months after the reporting period; or
- There is no unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

The Association classifies all other liabilities as noncurrent.

### **Insurance Contracts**

#### **Product Classification**

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

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

#### **Underwriting Income**

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

#### **Benefits and Claims**

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



statements of financial position.

#### **Direct Costs and Expenses**

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

#### **Legal Policy Reserves**

Legal policy reserves represent 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.

#### **Dividends on Participating Policies**

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

#### **Liability Adequacy Test**

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

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

#### **Reinsurance Contracts Held**

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

#### **Financial Assets and Liabilities**

The Association availed of the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*, issued in September 2016. The temporary exemption permits entities whose activities are predominantly connected with insurance to continue applying PAS 39 instead of PFRS 9 until the effectivity of the new insurance standards beginning January 1, 2025.

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

To comply with the disclosure requirements of the amendments to PFRS 4, the table below presents the comparison of the classification of the Association's financial assets as at December 31, 2020 under PAS 39 and PFRS 9. The carrying amounts of these financial assets under PAS 39 remain unchanged under PFRS 9.

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

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

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

*"Day 1" Difference.* Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss. In cases where there is no observable data on inception, the Company deems the transaction price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference.

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

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



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

*Financial Assets and Financial Liabilities at FVPL.* This category consists of financial assets and liabilities that are held for trading or financial instruments designated by management as at FVPL on initial recognition.

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

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

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be bifurcated.

The Association's financial assets at FVPL consist of equity securities (see Note 6). As at December 31, 2020 and 2019, the Association does not have any financial liabilities classified as FVPL.

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

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

As at December 31, 2020 and 2019, the Association's HTM investments consist of investments in government and corporate bonds (see Note 6).

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

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

When the fair value of AFS investments cannot be measured reliably because of lack of reliable estimates of unobserved inputs, such as in case of unquoted equity instruments, these financial assets are allowed to be carried as cost less impairment, if any.

Dividends earned on holding AFS investments are recognized in the profit or loss when the right to receive payment has been established. The loss arising from impairment of such securities is recognized as impairment loss in profit or loss.

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

As at December 31, 2020 and 2019, the Association's AFS investments consist of equity securities (see Note 6).

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

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

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

Short-term investments pertain to placements on time deposits and other money market instruments with maturity periods of more than three months but less than one year, measured at face value, and earn interest at the respective short-term investment rates.



Long-term investments pertain to investments with maturity periods beyond 12 months after the reporting date. These are measured at face value, and earn interest at the respective investment rates.

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

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

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

#### **Offsetting of Financial Assets and Liabilities**

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

#### **Impairment of Financial Assets**

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

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

- a. Significant financial difficulty of the issuer or obligor;
- b. Breach of contract, such as default or delinquency in interest or principal payments;
- c. The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; or

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

*Loans and Receivables.* The Association first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

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

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

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

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

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



*AFS Investments Carried at Cost.* If there is an objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be measured reliably, the amount of the loss is measured as the difference between that asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

#### **Derecognition of Financial Assets and Financial Liabilities**

*Financial Asset.* A financial asset, or where applicable, a part of a financial asset or part of a group of similar financial assets is derecognized when:

- The right to receive cash flows from the asset has expired;
- The Association retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The Association has transferred its right to receive cash flows from the financial asset and either has transferred substantially all the risks and rewards incidental to ownership of the financial asset; or
- Has neither transferred nor retained substantially all the risks and rewards incidental to ownership of the financial asset, but has transferred control of the financial asset.

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

*Financial Liability.* A financial liability is derecognized from the separate statements of financial position when the obligation under the financial liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability, with the difference in the respective carrying amounts recognized in profit or loss.

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

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

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

#### **Assets Held-for-Sale**

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

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

#### **Investment Properties**

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

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

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

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

#### **Investment in a Subsidiary**

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

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



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

#### **Investments in Associates**

Associates are entities in which the Association has significant influence but not control over the financial and operating policies and which are neither subsidiaries nor joint ventures. Significant influence is presumed to exist when the Association holds between 20% and 50% of the voting rights of the entity. The Association's investments in associates are accounted in the separate financial statements using the cost method less any impairment in value.

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

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

#### **Property and Equipment**

Property and equipment, except for land and construction in progress (CIP), are stated at cost less accumulated depreciation and amortization and any impairment losses. Land is stated at cost less accumulated impairment losses, if any.

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

Depreciation and amortization is computed using the straight-line method over the estimated useful life of the assets.

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

<u>Asset type</u>	<u>Number of Years</u>
Buildings and land improvements	3 - 30
Leasehold improvements	Estimated useful life or term of lease, whichever is shorter
Computer equipment	3 - 5
Furniture, fixtures and other equipment	5
Transportation equipment	5
Computer software	5

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

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

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

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

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

#### **Other Assets**

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

#### **Impairment of Nonfinancial Assets**

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

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

#### **Fund Balance**

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



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

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

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

### **Revenues**

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

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

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

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

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

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

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

*Gain (Loss) on Sale of AFS Investments.* Realized gains and losses include gains and losses on the sale of AFS investments, which are calculated as the difference between net sales proceeds and its cost. Realized gains and losses recognized in profit or loss when the sales transaction occurred.

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

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

The Company also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Company has assessed that it acts as principal in all of its revenue sources.

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

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

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

#### **Benefits and Expenses Recognition**

*Death and Other Policy Benefits.* Death and other policy benefits consist of benefits and claims incurred during the period and changes in IBNR losses. These are recorded on the basis of notifications received and when due.

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

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

#### **Employee Benefits**

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

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

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

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



Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment and the date that the Association recognizes restructuring related costs.

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

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

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

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

### **Income Taxes**

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

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and carryforward benefit of unused net operating loss carryover (NOLCO) and excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry forward benefits of unused NOLCO and excess MCIT over RCIT can be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable income will allow the deferred tax assets to be recovered.

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

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

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

#### **Related Party Relationships and Transactions**

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

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

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

#### **Leases**

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

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

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

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

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

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

#### **Provisions**

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



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

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

#### **Contingencies**

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

#### **Events after the Reporting Date**

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

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### **3. Significant Accounting Judgments, Estimates and Assumptions**

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

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

#### **Judgments**

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

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

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

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

The Association's investments at FVPL amounted to ₱18.9 million and ₱38.8 million as at December 31, 2020 and 2019, respectively (see note 6).

The Association's AFS investments carried at fair value amounted to ₱1.7 billion and ₱2.2 billion as at December 31, 2020 and 2019, respectively (see note 6).

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

*Determining Existence of Control in an Investee Company.* Control is presumed to exist when the Company owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Management has determined that the Association has control over Armed Forces and Police General Insurance Corporation (AFPGEN). Accordingly, AFPGEN is considered a subsidiary.

The carrying value of the subsidiary included under "Investments in a subsidiary and associates" account amounted to ₱453.3 million as at December 31, 2020 and 2019 (see Note 10).

*Classifying Investment in Associates.* The Association classifies its investment in associates based on its significant influence over the entity. The Association owns 28.13% of Aguinaldo Theater Enterprises, Inc. (ATEI) and 22.00% of Centennial Financing Corporation (CFC).

The carrying amount of investment in associates included under "Investments in a subsidiary and associates" account amounted to ₱20.0 million as at December 31, 2020 and 2019 (see Note 10).

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

Rental income amounted to ₱89.8 million and ₱89.4 million in 2020 and 2019, respectively (see Note 27).

*Classifying Leases - The Association as a Lessee.* The Association, as a lessee, has entered into commercial property leases for its branch offices. The Association availed the exemption for leases for which the underlying asset is of low value. Accordingly, lease payments on low value assets are recognized as expense on a straight-line basis over the lease term.



Rent expense amounted to ₱8.6 million and ₱9.2 million in 2020 and 2019, respectively (see Note 27).

#### **Estimates and Assumptions**

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

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

The carrying amount of legal policy reserves amounted to ₱14.5 billion and ₱13.0 billion as at December 31, 2020 and 2019, respectively (see Note 14).

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

Claims and benefits payable amounted to ₱755.0 million and ₱576.1 million as at December 31, 2020 and 2019, respectively (see Note 15).

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

No impairment loss was recognized in 2020 and 2019. The carrying amount of AFS investments amounted to ₱1.7 billion and ₱2.2 billion as at December 31, 2020 and 2019, respectively (see Note 6).

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

No impairment loss was recognized in 2020 and 2019. The carrying amount of HTM investments amounted to ₱7.3 billion as at December 31, 2020 and 2019 (see Note 6).

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

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

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

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

Provision for impairment loss recognized on loans receivables amounted to ₱72.5 million and ₱84.5 million in 2020 and 2019, respectively. The carrying amount of loans receivables amounted to ₱10.2 billion ₱9.6 billion as at December 31, 2020 and 2019, respectively. Allowance for impairment losses amounted to ₱455.8 million and ₱383.4 million as at December 31, 2020 and 2019, respectively (see Note 5).

No impairment loss recognized on premium receivables from members in 2020 and 2019. The carrying amount of premium receivables from members amounted to ₱26.2 million and ₱51.9 million as at December 31, 2020 and 2019, respectively.

No impairment loss was recognized on other receivables in 2020 and 2019. The carrying amount of other receivables amounted to ₱393.5 million and ₱432.4 million as at December 31, 2020 and 2019, respectively. Allowance for impairment losses amounted to ₱3.9 million as at December 31, 2020 and 2019 (see Note 7).

*Determining the Fair Value of Investment Properties.* Investment properties are carried at fair value, which has been determined based on arm's length transactions as at the reporting date and certified by an independent appraiser. In determining the appraised values of the investment properties, the Association hires an independent firm of appraisers. In order to arrive at a reasonable valuation, the appraisers personally inspected the properties, requested information



from reputable sources and considered the following: (a) utility and market value of the land; (b) cost of reproduction of new replaceable property; (c) current prices for similar used property in the second hand market; (d) age, condition, past maintenance, and present and prospective serviceability in comparison with new assets of like kind; (e) accumulated depreciation; and (f) recent trend and development in the industry concerned.

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

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

The fair value of investment properties amounted to ₱6.6 billion and ₱3.5 billion as at December 31, 2020 and 2019, respectively (see Note 9).

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

The fair value of assets held-for-sale amounted to ₱97.6 million and ₱99.9 million as at December 31, 2020 and 2019, respectively (see Note 8).

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

There are no changes in the estimated useful lives of the Association's property and equipment in 2020 and 2019. The carrying amount of depreciable property and equipment amounted to ₱166.8 million and ₱160.3 million as at December 31, 2020 and 2019, respectively (see Note 11).

*Assessing the Impairment of Nonfinancial Assets.* The Association assesses impairment on its nonfinancial assets whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable.

The factors that the Association considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;

- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

The Association recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. Determining such amount requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets.

Provision for impairment loss on assets held-for-sale amounting to nil and ₱0.1 million was recognized in 2020 and 2019, respectively (see Note 8).

The carrying amounts of the nonfinancial assets as at December 31, 2020 and 2019 are as follows:

	Note	2020	2019
Investment properties	9	<b>₱6,556,486,649</b>	₱3,475,689,379
Investments in a subsidiary and associates	10	<b>473,265,704</b>	473,265,704
Property and equipment	11	<b>622,756,617</b>	247,810,715
Assets held-for-sale	8	<b>97,614,979</b>	99,871,457
Other assets	12	<b>62,458,742</b>	57,238,639

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

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

Retirement expense amounted to ₱32.1 million and ₱28.5 million in 2020 and 2019, respectively. Net retirement liability amounted to ₱275.0 million and ₱233.5 million as at December 31, 2020 and 2019, respectively (see Note 22).

*Assessing the Realizability of Deferred Tax Assets.* The Association reviews the carrying amounts of deferred tax assets at each financial reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be utilized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

The Association's gross deferred tax assets amounted to ₱5.4 million and nil as at December 31, 2020 and 2019, respectively (see Note 24).



#### 4. Cash and Cash Equivalents and Investments

##### Cash and Cash Equivalents

This account consists of:

	2020	2019
Cash on hand	<b>P599,000</b>	P560,000
Cash in banks	<b>523,358,148</b>	128,428,410
Cash equivalents	<b>160,000,000</b>	627,800,000
	<b>P683,957,148</b>	P756,788,410

Cash in banks earns interest at prevailing bank deposit rates.

Cash equivalents pertain to short-term placements made in varying periods depending on the immediate cash requirements of the Association. Cash equivalents have maturity of up to 90 days and earn interest ranging from 0.90% to 1.28% and from 1.78% to 5.40% in 2020 and 2019, respectively.

Interest income earned from cash in banks and cash equivalents amounted to P14.1 million and P44.8 million in 2020 and 2019, respectively (see Note 6).

##### Short-term Investments

Short-term investments amounting to P3.6 billion and P2.3 billion as at December 31, 2020 and 2019, respectively, are investments in time deposits and treasury bills with maturity periods of more than three months but less than one year. These earn interests of 1.00% to 6.00% and 2.64% to 7.00% in 2020 and 2019, respectively. Interest income earned from short-term investments amounted to P111.0 million and P118.1 million in 2020 and 2019, respectively (see Note 6).

##### Long-term Investments

In 2020, the Association placed long-term investments amounting to P1.0 billion. These investments are time deposits with maturity periods of two (2) to (3) three years and earn interests ranging from 6.50% to 7.00%. Interest income earned from long-term investments amounted to P43.1 million in 2020 (see Note 6).

#### 5. Loans Receivables

This account consists of:

	2020	2019
Salary loans	<b>P4,343,965,189</b>	P4,439,271,311
Optional policy loans	<b>3,382,455,631</b>	3,435,654,859
Real estate mortgage loans	<b>1,392,235,780</b>	1,275,543,240
Basic policy loans	<b>829,684,252</b>	146,177,222
Real estate housing loans	<b>497,400,106</b>	539,963,955
Educational assistance loans	<b>211,758,525</b>	85,364,068
Calamity loans	<b>42,355,560</b>	50,494,525
Real estate contract	<b>1,920,285</b>	2,040,813
	<b>10,701,775,328</b>	9,974,509,993
Less allowance for impairment losses	<b>(455,818,799)</b>	(383,364,256)
	<b>P10,245,956,529</b>	P9,591,145,737

Loans receivables bear annual interest rates ranging from 6.00% to 12.00% per annum in 2020 and 2019, except for real estate mortgage and housing loans which bear annual rates ranging from 5.50% to 11.00% per annum in 2020 and 2019.

Interest income earned from loans receivables amounted to ₱781.7 million and ₱914.2 million in 2020 and 2019, respectively (see Note 6).

Policy income earned from loan releases and penalties amounted to ₱84.0 million and ₱127.5 million in 2020 and 2019, respectively.

Movements in allowance for impairment losses follow:

	Note	2020	2019
Balance at beginning of year		<b>₱383,364,256</b>	₱298,818,035
Provision for impairment losses	21	<b>72,454,543</b>	84,546,221
Balance at end of year		<b>₱455,818,799</b>	₱383,364,256

Allowance for impairment loss is broken down as follows:

	2020	2019
Specific	<b>₱399,862,597</b>	₱331,854,863
Collective	<b>55,956,202</b>	51,509,393
Balance at end of year	<b>₱455,818,799</b>	₱383,364,256

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

	2020	%	2019	%
Secured loans:				
Cash surrender value	<b>4,212,139,883</b>	<b>39%</b>	₱3,581,832,081	36%
Real estate	<b>1,891,556,171</b>	<b>18%</b>	1,817,548,008	18%
	<b>6,103,696,054</b>	<b>57%</b>	5,399,380,089	54%
Unsecured loans	<b>4,598,079,274</b>	<b>43%</b>	4,575,129,904	46%
	<b>10,701,775,328</b>	<b>100%</b>	₱9,974,509,993	100%

The unearned interest relating to the loans are as follows:

	2020	2019
Optional policy loans	<b>₱152,584,716</b>	₱301,294,353
Basic policy loans	—	1,433
	<b>₱152,584,716</b>	₱301,295,786

Unearned interest on policy loans amounting to ₱152.6 million and ₱301.3 million as at December 31, 2020 and 2019, respectively, pertains to the interest deducted from the proceeds granted to the members and amortized over the term of the loan using the effective interest rate. Amortization amounted to ₱487.7 million and ₱118.7 million in 2020 and 2019, respectively. This is presented under "Other liabilities" account in the separate statements of financial position.



## 6. Financial Assets Investments

### HTM Investments

HTM investments consist of:

	2020	2019
Government bonds	<b>₱5,901,446,836</b>	₱5,787,886,037
Corporate bonds	<b>1,389,249,342</b>	1,559,249,070
	<b>₱7,290,696,178</b>	₱7,347,135,107

HTM investments earn interest ranging from 3.25% to 7.38% per annum in 2020 and 2019. Interest income earned from these investments amounted to ₱366.3 million and ₱290.7 million in 2020 and 2019, respectively.

Movements of the HTM investments are as follows:

	2020	2019
Balance at beginning of year	<b>₱7,347,135,107</b>	₱4,400,369,567
Maturities	<b>(709,569,107)</b>	(194,783,501)
Additions	<b>651,031,128</b>	3,128,691,197
Amortization	<b>2,099,050</b>	12,857,844
Balance at end of year	<b>₱7,290,696,178</b>	₱7,347,135,107

The maturity profile of the above investments is as follows:

	2020	2019
Short-term (up to one year)	<b>₱1,426,783,080</b>	₱709,389,704
Medium-term (one year to five years)	<b>4,495,375,015</b>	4,287,993,017
Long-term (more than five years)	<b>1,368,538,083</b>	2,349,752,386
	<b>₱7,290,696,178</b>	₱7,347,135,107

In compliance with the capital investment requirement under Section 209 of the Amended Insurance Code, certain government debt securities earmarked as security for the benefit of policyholders and creditors of the Association are deposited with the Bureau of Treasury (BOT) under the Registry of Scripless Securities (RoSS) system. As at December 31, 2020 and 2019, the face value and amortized costs of these earmarked government debt securities amounted to ₱5.9 billion and ₱5.8 billion, respectively.

As at December 31, 2020 and 2019, the Association has no HTM investments pledged as collateral.

### AFS Investments

AFS investments in equity securities follow:

	2020	2019
Quoted	<b>₱1,668,443,584</b>	₱2,178,712,447
Unquoted	<b>3,000,000</b>	3,000,000
	<b>₱1,671,443,584</b>	₱2,181,712,447

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

Movements of the AFS investments are as follows:

	2020	2019
Balance at beginning of year	<b>₱2,181,712,447</b>	₱2,088,501,205
Disposals	<b>(546,670,331)</b>	(90,452,566)
Fair value gain	<b>36,401,468</b>	89,663,808
Additions	<b>-</b>	94,000,000
Balance at end of year	<b>₱1,671,443,584</b>	₱2,181,712,447

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

	2020	2019
Balance at beginning of year	<b>₱192,922,916</b>	₱103,259,108
Net movement due to fair value changes and sale		
Realized loss (gain) on sale transferred to profit or loss	<b>93,010,887</b>	(395,941)
Fair value gain (loss)	<b>(56,609,419)</b>	90,059,749
	<b>36,401,468</b>	89,663,808
Balance at end of year	<b>₱229,324,384</b>	₱192,922,916

#### **Investments at FVPL**

Investments at FVPL pertain to publicly traded equity instruments acquired for purposes of selling in the near future. The carrying amount of financial assets at FVPL amounted to ₱18.9 million and ₱38.8 million as at December 31, 2020 and 2019, respectively. Fair value loss amounted to ₱5.2 million and ₱0.6 million in 2020 and 2019, respectively. This amount is presented as part of "Other income - net" account in the separate statements of comprehensive income.

#### **Dividend Income**

Dividend income arises from the following:

	2020	2019
AFS financial assets	<b>₱7,247,477</b>	₱11,141,643
Financial assets at FVPL	<b>291,955</b>	364,728
	<b>₱7,539,432</b>	₱11,506,371



### Interest Income

Interest income arises from the following:

	Note	2020	2019
Loans receivables	5	<b>₱781,730,306</b>	₱914,201,849
HTM investments		<b>366,268,324</b>	290,717,144
Short-term investments	4	<b>110,971,334</b>	118,141,281
Long-term investments	4	<b>43,097,310</b>	–
Cash in banks and cash equivalents	4	<b>14,069,638</b>	44,808,265
Others		<b>345,000</b>	506,150
		<b>₱1,316,481,912</b>	<b>₱1,368,374,689</b>

### **7. Other Receivables**

This account consists of:

	2020	2019
Accrued rental income	<b>₱252,332,865</b>	₱230,875,148
Accrued interest receivable	<b>122,837,689</b>	174,408,298
Due from officers and employees	<b>6,759,803</b>	9,625,028
Advances to agents	<b>1,749,607</b>	4,562,965
Others	<b>13,760,024</b>	16,787,370
	<b>397,439,988</b>	436,258,809
Allowance for impairment loss	<b>(3,900,750)</b>	(3,900,750)
	<b>₱393,539,238</b>	<b>₱432,358,059</b>

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

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

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

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

### **8. Assets Held-for-Sale**

This account consists of:

	2020	2019
Real estate housing projects	<b>₱59,277,014</b>	₱60,453,342
Foreclosed properties	<b>38,337,965</b>	39,418,115
	<b>₱97,614,979</b>	<b>₱99,871,457</b>

The Association recognized gain on sale of assets held-for-sale amounting to ₱3.9 million and ₱157.7 million in 2020 and 2019, respectively.

The Association recognized impairment loss on assets held for sale amounting to nil and ₱0.1 million in 2020 and 2019, respectively (see Note 21).

## 9. Investment Properties

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

	2020	2019
Land	<b>₱6,419,645,649</b>	₱3,374,999,379
Building	<b>136,841,000</b>	100,690,000
	<b>₱6,556,486,649</b>	₱3,475,689,379

Movements in this account follow:

	2020	2019
<b>Cost</b>		
Balance at end and beginning of year	<b>₱706,406,116</b>	₱706,406,116
<b>Cumulative Gain on Fair Value Changes</b>		
Balance at beginning of year	<b>2,769,283,263</b>	2,565,481,539
Increase in fair value	<b>3,080,797,270</b>	203,801,724
Balance at end of year	<b>5,850,080,533</b>	2,769,283,263
<b>Carrying Amount</b>	<b>₱6,556,486,649</b>	₱3,475,689,379

Rental income earned from investment properties amounted to ₱89.8 million and ₱89.4 million in 2020 and 2019, respectively (see Note 27).

Direct costs incurred related to the investment properties amounted to ₱4.0 million and ₱9.9 million in 2020 and 2019, respectively.

The fair value of investment properties are based on a valuation made by an independent firm of appraisers as at December 31, 2020. These are determined using the sales comparison approach for land and modified quantity survey method for improvements. In arriving at the market value of the land, data are sought in the local market consisting of sales and offerings of similar properties.

The inputs to fair valuation are as follows:

- Price per square meter – estimated value prevailing in the real estate market depending on the location, area, shape and time element.
- Value adjustments – adjustments are made to bring the comparative values in approximation to the investment property, taking into account the location, size and architectural features, among others.

In relation to changes in unobservable inputs used, increase or decreases in prices per square meter and value adjustments are directly proportional to the fair value measurement of investment properties.



The fair value of the building was determined income approach based on what an investor is willing to pay for a particular investment. Estimated rental rate ranges from ₱1,710 to ₱6,500 per square meter and uses a discount rate of 6.00%. Significant changes in estimated rental rate per square meter and discount rate would significantly affect the fair value of the properties.

The fair value measurement considers the concept of value-in-use of the investment properties which is based on the highest and best use of the asset or that which may reasonably be expected to produce the highest return over a given period of time. The fair value measurement is categorized under Level 3 of the fair value hierarchy.

The Association recognized deferred tax liability on the cumulative fair value gain of the investment properties amounted to ₱1,155.0 million and ₱583.0 million as at December 31, 2020 and 2019, respectively.

#### 10. Investments in a Subsidiary and Associates

This account consists of investments in AFPGEN, ATEI, and CFC.

The percentage of ownership and carrying amount of investments as at December 31, 2020 and 2019 follow:

	Percentage of Ownership (%)	Cost	Accumulated Impairment	Carrying Amount
AFPGEN	100.00	₱453,265,704	₱—	₱453,265,704
ATEI	28.13	67,500,000	(67,500,000)	—
CFC	22.00	20,000,000	—	20,000,000
		₱540,765,704	(₱67,500,000)	₱473,265,704

No impairment loss was recognized on the Association's investments in AFPGEN, ATEI, and CFC in 2020 and 2019.

#### Subsidiary

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

On January 12, 2021, the subsidiary's Board of Directors (BOD) approved the recommendation of its Management for the filing of its voluntary dissolution and shortening of its corporate term until December 31, 2021. On January 28, 2021, the IC endorsed the subsidiary's amended Articles of Incorporation to the SEC.

On March 30, 2021, the resolution was ratified by the subsidiary's stockholders through a special stockholders' meeting.

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

	2020	2019
Total assets	<b>₱732,776,810</b>	₱831,821,384
Total liabilities	<b>215,456,840</b>	283,527,435
Total equity	<b>517,319,970</b>	548,293,949
Total revenues	–	101,425,593
Net loss	<b>(28,736,739)</b>	(66,102,292)
Other comprehensive income (loss)	<b>(2,237,240)</b>	6,946,581
Total comprehensive loss	<b>(30,973,979)</b>	(59,155,711)

#### Associates

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

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

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

	ATEI		CFC	
	2020*	2019	2020**	2019
Current assets	<b>₱9,471,211</b>	₱13,067,541	₱–	₱116,636,739
Non-current assets	<b>73,482,706</b>	78,610,786	–	6,945,213
<b>Total assets</b>	<b>82,953,917</b>	91,678,327	–	123,581,952
Current liabilities	<b>2,079,692</b>	3,641,901	–	446,588
Non-current liabilities	–	–	–	–
<b>Total liabilities</b>	<b>2,079,692</b>	3,641,901	–	446,588
<b>Total equity</b>	<b>80,874,225</b>	88,036,426	–	123,135,364
<b>Net income</b>	<b>6,539,206</b>	751,031	–	1,797,956
<b>Other comprehensive income</b>	–	–	–	378,730
<b>Total comprehensive income</b>	<b>6,539,206</b>	751,031	–	2,176,686

\*Balances are unaudited

\*\*No available financial information



## 11. Property and Equipment

Movements of the account are as follows:

		2020					
	Note	Land, Buildings, Leasehold and Land Improvements	Computer Equipment	Furniture, Fixtures and Other Equipment	Transportation Equipment	Computer Software	Total
<b>Cost</b>							
Balance at beginning of year		₱266,560,956	₱249,781,907	₱102,666,355	₱47,054,990	₱17,796,701	₱688,366,036
Additions		373,026,499	14,640,508	5,141,986	12,367,583	11,552,341	416,910,294
Retirement/Disposals		—	(416,878)	(3,138,727)	(2,296,371)	(2,360,250)	(12,740,554)
Balance at end of year		639,587,455	264,005,537	104,669,614	57,126,202	26,988,792	1,092,535,776
<b>Accumulated Depreciation</b>							
Balance at beginning of year		106,897,030	222,879,787	78,459,313	32,319,191	—	440,555,321
Depreciation	21	5,437,358	12,467,636	11,360,814	4,487,540	—	33,753,348
Retirement/Disposals		—	(87,378)	(2,930,152)	(1,511,980)	—	(4,529,510)
Balance at end of year		112,334,388	235,260,045	86,889,975	35,294,751	—	469,779,159
<b>Carrying Amount</b>		<b>₱527,253,067</b>	<b>₱28,745,492</b>	<b>₱17,779,639</b>	<b>₱21,831,451</b>	<b>₱26,988,792</b>	<b>₱622,756,617</b>
		2019					
	Note	Land, Buildings, Leasehold and Land Improvements	Computer Equipment	Furniture, Fixtures and Other Equipment	Transportation Equipment	Computer Software	Total
<b>Cost</b>							
Balance at beginning of year		₱266,560,956	₱240,702,768	₱96,768,659	₱39,856,329	₱—	₱657,805,416
Additions		—	10,773,550	6,436,115	7,257,261	17,796,701	42,703,249
Retirement/Disposals		—	(1,694,411)	(538,419)	(58,600)	—	(12,142,629)
Balance at end of year		266,560,956	249,781,907	102,666,355	47,054,990	17,796,701	688,366,036
<b>Accumulated Depreciation</b>							
Balance at beginning of year		99,496,624	211,998,201	67,951,570	28,311,209	—	407,757,604
Depreciation	21	7,400,406	12,505,240	10,879,288	4,066,582	—	34,851,516
Retirement/Disposals		—	(1,623,654)	(371,545)	(58,600)	—	(2,053,799)
Balance at end of year		106,897,030	222,879,787	78,459,313	32,319,191	—	440,555,321
<b>Carrying Amount</b>		<b>₱159,663,926</b>	<b>₱26,902,120</b>	<b>₱24,207,042</b>	<b>₱14,735,799</b>	<b>₱17,796,701</b>	<b>₱247,810,715</b>

The carrying amount of the land amounted to ₱456.0 million and ₱87.5 million in 2020 and 2019, respectively. Fully depreciated property and equipment still in used in operations amounted to ₱353.9 million and ₱260.4 million as at December 31, 2020 and 2019, respectively.

## 12. Other Assets

This account consists of:

	2020	2019
Cash placements with closed local banks	<b>₱44,667,067</b>	₱44,667,067
Input value-added tax (VAT)	<b>41,569,447</b>	40,586,267
Deposit for the acquisition of real estate property	<b>14,320,373</b>	14,320,373
Prepaid expenses	<b>12,896,790</b>	9,380,350
Unused supplies	<b>3,179,594</b>	2,075,751
Others	<b>5,379,205</b>	5,762,565
	<b>122,012,476</b>	116,792,373
Allowance for impairment losses	<b>(59,553,734)</b>	(59,553,734)
	<b>₱62,458,742</b>	₱57,238,639

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

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

Prepaid expenses consist of prepaid income tax, prepayments on insurance and subscriptions.

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

Allowance for impairment loss pertain to cash placements with closed local banks, deposit for the acquisition of real estate property and other deposits amounting to ₱59.6 million as at December 31, 2020 and 2019.

## 13. Accounts Payable and Accrued Expenses

This account consists of:

	Note	2020	2019
Accounts payable - refund		<b>₱228,607,929</b>	₱249,298,687
Accounts payable		<b>74,618,279</b>	76,548,250
Accruals for:			
Commission		<b>15,648,983</b>	17,025,444
Advertising and promotions		<b>13,673,979</b>	13,814,213
Others		<b>34,728,474</b>	35,836,197
Security deposits		<b>57,860,506</b>	59,226,565
Subscription payable	23	<b>47,250,000</b>	47,250,000
Experience refund		<b>17,895,864</b>	17,090,323
Statutory payables		<b>17,226,241</b>	25,720,840
Commission payable		<b>2,550,794</b>	7,817,457
Replenishment in transit		<b>2,522,230</b>	2,522,230
Loans payable		<b>2,122,175</b>	2,078,697
Retention fee payable		<b>810,119</b>	843,319
Others		<b>47,881,882</b>	18,881,252
		<b>₱563,397,455</b>	₱573,953,474



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

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

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

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

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

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

Experience refund pertains to the amount to be paid for the excess of the insured's policy coverage over claims made.

Statutory payables consist of withholding tax and other payables to different government agencies which will normally be settled in the subsequent month.

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

#### 14. Legal Policy Reserves

The Association's legal policy reserves amounted to ₱14.5 billion and ₱13.0 billion as at December 31, 2020 and 2019, respectively. Increase in legal policy reserves recognized in profit or loss amounted to ₱1.5 billion and ₱1.4 billion in 2020 and 2019, respectively. The legal policy reserves were certified by the Association's consulting actuary, who is duly accredited by the IC.

##### Sensitivity Analysis

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

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

	Change in Assumptions	2020			
		Increase/ (Decrease) in Gross Liabilities	Increase/ (Decrease) in Net Liabilities	Increase/ (Decrease) in Profit before Tax	Increase/ (Decrease) in Fund Balance
Mortality/mobility	+10%	₱30,947,141	₱30,947,141	(₱30,947,141)	(₱30,947,141)
	-10%	(4,307,522)	(4,307,522)	4,307,522	4,307,522
Discount rate	+1%	(416,884,854)	(416,884,854)	416,884,854	416,884,854
	-1%	550,062,986	550,062,986	(550,062,986)	(550,062,986)

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

## 15. Claims and Benefits Payable

Movements in this account follow:

	2020	2019
Balance at beginning of year	₱576,068,022	₱499,095,051
Death and other policy benefits incurred:		
Claims and benefits	1,851,855,619	1,771,547,390
Increase in IBNR	37,473,679	29,313,328
Claims and benefits paid	(1,710,397,919)	(1,723,887,747)
Balance at end of year	₱754,999,401	₱576,068,022

## 16. Dividends Payable

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

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

	2020	2019
Balance at beginning of year	₱383,513,751	₱487,413,193
Dividends declared during the year	130,323,573	104,905,746
Dividends paid during the year	(83,619,364)	(208,805,188)
Balance at end of year	₱430,217,960	₱383,513,751

## 17. Reserve for Members' Refund

The Association's reserve for members' refund amounted to ₱3.6 billion and ₱3.0 billion as at December 31, 2020 and 2019, respectively. This account pertains to refund to members upon their retirement, which is equivalent to 50% of membership dues collected on basic policies which have been in-force for at least three (3) years, plus 6% interest per annum.



The movements of this account follow:

	2020		
	Refund of Equity Value	Refund of Members' Contribution	Total
Balance at beginning of year	₱2,937,437,007	₱91,064,437	₱3,028,501,444
Contributions received	532,317,436	4,216,868	536,534,304
Incremental benefit reserve	85,126,278	—	85,126,278
Refund paid	(70,280,595)	(6,347,772)	(76,628,367)
Balance at end of year	₱3,484,600,126	₱88,933,533	₱3,573,533,659

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

#### 18. Members' Contribution

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

The Association's members' contribution amounted to ₱77.0 million and ₱80.7 million as at December 31, 2020 and 2019, respectively. Decrease in members' contribution amounted to ₱3.7 million and ₱3.9 million in 2020 and 2019, respectively. Transfer to reserve for members' refund amounted to ₱4.2 million and ₱4.5 million in 2020 and 2019, respectively.

#### 19. Accumulated Net Income

As at December 31, 2020 and 2019, the fund balance of the Association amounted to ₱10.8 billion and ₱8.3 billion, respectively.

##### Assigned Accumulated Income

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

	2020	2019
Corporate social responsibility	₱130,000,000	₱110,000,000
Capital expenditures	93,000,000	36,000,000
Capacity building	72,163,621	74,924,289
Member's equity dividend	60,280,000	60,280,000
Upgrading of systems, equipment and facilities	47,842,706	50,000,000
Trainings and seminars	3,285,500	5,515,000
	₱406,571,827	₱336,719,289

In 2020, the Association directly utilized the assigned accumulated income for upgrading of its systems, equipment and facilities amounting to ₱2.2 million.

**Unassigned Accumulated Income**

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

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

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

As at December 31, 2020, the Association has complied with the requirement on limit of unassigned accumulated income based on the Management's internal computation. As at December 31, 2019, the Association has complied with this requirement as verified by the IC.

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**20. Premiums, Net of Reinsurance**

This account consists of:

	2020	2019
Gross premiums on:		
Permanent insurance plans	₱3,313,141,825	₱3,134,200,569
Basic policies	496,267,222	447,933,623
Group insurance	112,159,557	137,776,412
Special group term insurance	24,938,055	26,253,806
	3,946,506,659	3,746,164,410
Less reinsurance premiums ceded	(597,110)	(558,099)
	₱3,945,909,549	₱3,745,606,311



## 21. General and Administrative Expenses

This account consists of:

	Note	2020	2019
Salary and employee benefits		<b>₱408,015,502</b>	₱404,197,327
Donations and contributions		<b>167,913,359</b>	102,427,848
Provision for impairment losses	5, 8	<b>72,454,543</b>	84,680,203
Depreciation and amortization	11	<b>33,753,348</b>	34,851,516
Transportation and travel		<b>28,626,911</b>	35,871,255
Taxes and licenses		<b>20,486,415</b>	15,673,867
Promotional and business development		<b>18,856,404</b>	55,554,268
Experience refund		<b>16,039,322</b>	14,281,934
Representation and entertainment		<b>14,383,770</b>	16,310,522
Repairs and maintenance		<b>13,901,783</b>	22,632,438
Supplies		<b>13,803,364</b>	12,847,434
Manpower service fees		<b>12,077,357</b>	7,511,285
Communication		<b>12,028,724</b>	16,572,163
Meetings and conferences		<b>10,700,971</b>	9,724,005
Rent		<b>8,589,596</b>	9,222,026
Collection incentive fee		<b>8,362,179</b>	12,506,137
Utilities		<b>7,472,685</b>	9,789,203
Directors' fees		<b>7,341,902</b>	6,718,287
Professional fees		<b>5,027,485</b>	6,992,241
Interest		<b>2,051,589</b>	5,285,676
Seminar and training		<b>1,183,991</b>	3,127,994
Litigation		<b>307,495</b>	848,711
Brokers' fees		-	258,218
Others		<b>79,414,132</b>	48,472,964
		<b>₱962,792,827</b>	₱936,357,522

Experience refund pertains to the excess of the insured's policy coverage over claims made.

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

Salaries and employee benefits consist of:

	Note	2020	2019
Salaries and allowances		<b>₱250,059,512</b>	₱235,176,268
Employee benefits		<b>125,825,177</b>	140,494,714
Retirement benefit	22	<b>32,130,813</b>	28,526,345
		<b>₱408,015,502</b>	₱404,197,327

## 22. Net Retirement Liability

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

For early retirement, the benefit is equivalent to 50% of the employee's monthly basic salary for every year of service with the rate progressing to a maximum of 150% of basic monthly salary. Death and disability benefit on the other hand, shall be determined on the same basis as in normal retirement. The latest actuarial valuation date is as at December 31, 2020 which was performed by the Association's external actuaries.

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

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

	Note	2020	2019
Current service cost		<b>₱20,706,718</b>	₱16,883,893
Net interest cost		<b>11,424,095</b>	11,642,452
	21	<b>₱32,130,813</b>	₱28,526,345

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

	2020	2019
Present value of defined benefit obligations	<b>₱396,661,636</b>	₱360,546,013
Fair value of retirement plan assets	<b>(121,638,046)</b>	(127,005,775)
	<b>₱275,023,590</b>	₱233,540,238

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

	2020	2019
Balance at beginning of year	<b>₱360,546,013</b>	₱281,407,720
Current service cost	<b>20,706,718</b>	16,883,893
Interest cost	<b>17,436,138</b>	20,520,601
Benefits paid	<b>(13,632,745)</b>	(8,601,633)
Remeasurement loss on defined benefits obligation	<b>11,605,512</b>	50,335,432
Balance at end of year	<b>₱396,661,636</b>	₱360,546,013



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

	2020	2019
Balance at beginning of year	<b>₱127,005,775</b>	₱122,822,418
Benefits paid	<b>(13,632,745)</b>	(8,601,633)
Interest income	<b>6,012,043</b>	8,878,149
Remeasurement gain on plan assets	<b>2,252,973</b>	3,906,841
Balance at end of year	<b>₱121,638,046</b>	₱127,005,775

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

	2020	2019
Balance at beginning of year	<b>₱80,947,815</b>	₱34,519,224
Remeasurement loss	<b>9,352,539</b>	46,428,591
Balance at end of year	<b>₱90,300,354</b>	₱80,947,815

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

The major categories of plan assets are as follows:

	2020	2019
Receivables - net	<b>₱56,780,884</b>	₱61,374,389
AFS financial assets	<b>52,680,648</b>	49,359,034
Short-term investments	<b>9,147,301</b>	15,846,233
Cash and cash equivalents	<b>4,507,265</b>	1,416,135
Accounts payable and accrued expenses	<b>(1,478,052)</b>	(990,018)
	<b>₱121,638,046</b>	₱127,005,775

The plan exposes Association to the following risks:

- *Salary risk* - any increase in the retirement plan participants' salary will increase the retirement plan's liability.
- *Longevity risk* - any increase in the plan participants' life expectancy will increase the retirement plan's liability.
- *Interest rate risk* - a decrease in the bond interest rate will increase the present value of the retirement liability. However, this is partially counterbalanced by an increase in the return on the plan assets.
- *Investment risk* - if the actual return on plan assets is below the discount rate used in calculating the present value of the retirement liability, a plan deficit will arise. However, the compositions of plan assets are balanced enough not to expose the School to significant concentrations of investment risk.

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

	2020	2019
Discount rates	<b>3.62%</b>	4.89%
Salary increase rate	<b>5.50%</b>	7.00%

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

Sensitivity analysis based on reasonably possible changes of the assumptions on net retirement liability as at December 31, 2020 are as follows:

	Change in Assumption	Effect on Net Retirement Liability	Present Value of Net Retirement Liability
Discount rate	+1.0%	(28,359,923)	368,301,713
	-1.0%	33,260,968	429,922,604
Salary increase rate	+1.0%	32,288,027	428,949,663
	-1.0%	(28,139,270)	368,522,366

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

Maturity analysis of the benefit payments are as follows:

Period	2020	2019
Within 1 Year	<b>₱37,845,828</b>	₱19,264,805
Within 1-5 Years	<b>154,078,856</b>	169,095,318
More than 5 Years	<b>973,027,425</b>	1,293,322,017

The weighted average duration of the defined benefit obligation is 12 years.

## 23. Related Party Transactions

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

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

Related Party	Relationship	Nature of Transaction	2020		2019	
			Amount of Transactions	Outstanding Balance	Amount of Transactions	Outstanding Balance
AFPGEN	Subsidiary	Insurance expense	₱-	₱-	₱267,555	₱-
		Rental income	-	-	190,223	-
		Rental expense	849,762	-	-	-
		Subscription payable (see Note 13)	-	₱47,250,000	-	₱47,250,000

(Forward)



Related Party	Relationship	Nature of Transaction	2020	2019	Related Party	Relationship
			Amount of Transactions	Outstanding Balance		
AFPSLAI	Entity with common significant influence	Short-term investments	(P499,997,413)	P500,000,000	P1,385,097,413	P999,997,413
		Interest income	36,376,988	-	48,313,458	-
		AFS investments	-	3,000,000	-	3,000,000
		Interest income	345,000	-	506,150	-
		Long-term investments	1,000,000,000	1,000,000,000	-	-
		Interest income (see Note 6)	43,097,310	-	-	-
		Rent income	2,704,161	-	2,704,161	-
		Rent expense	252,632	P21,053	252,632	P-

In 2017, the Association entered into a subscription agreement with its Subsidiary. The former subscribed for P275.0 million of the latter's redeemable preferred shares and paid P227.5 million. The remaining subscription payable amounted to P47.3 million as at December 31, 2020 and 2019 is included under "Accounts payable and accrued expenses" account.

#### **Compensation of Key Management Personnel**

The compensation of key management personnel pertaining to short-term employee benefits amounted to P9.9 million and P6.4 million in 2020 and 2019, respectively.

## **24. Income Tax**

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

The Association's provision for current income tax expense in 2020 represents MCIT. The current income tax expense in 2019 represents RCIT. The Association's income taxes are based on its rental and other income.

The Association's excess MCIT over RCIT incurred during the year amounting to P1.4 million can be claimed against future taxable income until 2023.

The components of net deferred tax liability represent the tax effects of the following temporary differences:

	2020	2019
Deferred tax liability on -		
Cumulative fair value gain on investment property	P1,755,024,160	P583,005,463
Deferred tax assets on:		
NOLCO	4,015,024	-
Excess MCIT over RCIT	1,378,552	-
Total deferred tax assets	5,393,576	-
Net deferred tax liability	P1,749,630,584	P583,005,463

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

	2020	2019
Provision for income tax at statutory tax rate	<b>₱1,101,727,141</b>	₱352,010,507
Tax relief availment on exempt activities	<b>(96,954,451)</b>	(188,851,688)
Income tax effects of:		
Nondeductible expenses	<b>302,907,224</b>	86,219,699
Difference of final tax rate against statutory tax rate	<b>(46,612,391)</b>	(45,390,319)
Nontaxable income	<b>(6,445,431)</b>	(64,747,785)
	<b>₱1,254,622,092</b>	₱139,240,414

Pursuant to Revenue Regulations No. 25-2020 implementing Section 4 of Republic Act No. 11494, otherwise known as the Bayanihan to Recover as One Act, the net operating loss of the business or enterprise for taxable years 2020 and 2021 shall be carried over as deduction from gross income for the next five (5) consecutive taxable years immediately following the date of such loss. Hence, NOLCO incurred in 2020 amounting to ₱13.4 million can be claimed against future taxable income until 2025.

On March 26, 2021, the Corporate Recovery and Tax Incentives for Enterprises ("CREATE") was approved and signed into law by the country's President. Under the CREATE, the RCIT of domestic corporations was revised from 30% to 25% or 20% depending on the amount of total assets or total amount of taxable income. In addition, the MCIT was changed from 2% to 1% of gross income for a period of three (3) years. The changes in the income tax rates shall retrospectively become effective beginning July 1, 2020.

Since the signing into law of CREATE is considered as a non-adjusting subsequent event for financial reporting, the income tax rates used in preparing the separate financial statements as at and for the year ended December 31, 2020 are 30% and 2% for RCIT and MCIT, respectively.

The table below summarizes the financial impact of the change in income tax rate to the Association's separate financial statements had the CREATE been substantively enacted as at December 31, 2020:

	Balances Using Revised Income Tax Rate	Audited Balances (Based on Old Income Tax Rate)	Differences
Prepaid income tax	₱2,995,256	₱2,650,618	₱344,638
Net deferred tax liability	1,458,140,366	1,749,630,584	(291,490,218)
Accumulated net income	10,864,508,508	10,572,673,652	291,834,856
Current income tax	1,033,914	1,378,552	(344,638)
Deferred income tax	875,134,903	1,166,625,121	(291,490,218)
Net income	2,709,636,566	2,417,801,710	291,834,856



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

### Insurance Risk

#### **Nature of Risk**

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

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

#### **Monitoring and Controlling**

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

#### **Frequency and Severity of Claims**

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

- For contracts where death is the insured risk, the most significant factor would be epidemics that result in earlier or more claims than expected;
- For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted; and
- For contracts with discretionary participating feature, the participating nature of these insurance contracts results in a portion of the insurance risk being shared with the insured party.

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

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

	2020		2019	
	Exposure, Net of Reinsurance	Concentration	Exposure, Net of Reinsurance	Concentration
Individual	₱39,742,742,225	98.66%	₱36,467,611,784	98.55%
Group	539,650,000	1.34%	534,850,000	1.45%
	₱40,282,392,225	100%	₱37,002,461,784	100%

**Classification by Attained Age (Based on 2020 Data of In-force Policies)**

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

Individual				
Attained Age	Gross of Reinsurance		Net Reinsurance	
	Exposure	Concentration (%)	Exposure	Concentration (%)
<20	₱6,385,913,658	16.07%	₱6,385,913,658	16.07%
20-24	2,580,772,470	6.49%	2,580,772,470	6.49%
25-29	8,766,631,254	22.06%	8,766,631,254	22.06%
30-34	8,369,582,444	21.06%	8,369,582,444	21.06%
35-39	4,875,349,035	12.27%	4,875,349,035	12.27%
40-44	4,098,307,511	10.31%	4,098,307,511	10.31%
45-49	2,610,985,439	6.57%	2,610,985,439	6.57%
50-54	1,515,905,427	3.81%	1,515,905,427	3.81%
55-59	379,491,581	0.95%	379,491,581	0.95%
60-64	88,734,364	0.22%	88,734,364	0.22%
65-69	32,936,948	0.08%	32,936,948	0.08%
70-74	20,061,023	0.05%	20,061,023	0.05%
75-79	8,158,651	0.02%	8,158,651	0.02%
80+	9,912,420	0.02%	9,912,420	0.02%
Total	₱39,742,742,225	100.00%	₱39,742,742,225	100.00%

Group				
Attained Age	Gross of Reinsurance		Net Reinsurance	
	Exposure	Concentration (%)	Exposure	Concentration (%)
<20	₱-	-	₱-	-
20-24	3,900,000	0.72%	3,900,000	0.72%
25-29	71,050,000	13.17%	71,050,000	13.17%
30-34	86,250,000	15.98%	86,250,000	15.98%
35-39	52,600,000	9.75%	52,600,000	9.75%
40-44	53,050,000	9.83%	53,050,000	9.83%
45-49	62,200,000	11.53%	62,200,000	11.53%
50-54	96,200,000	17.83%	96,200,000	17.83%
55-59	95,200,000	17.64%	95,200,000	17.64%
60-64	18,450,000	3.42%	18,450,000	3.42%
65-69	750,000	0.13%	750,000	0.13%
70-74	-	0.00%	-	0.00%
75-79	-	0.00%	-	0.00%
80+	-	0.00%	-	0.00%
Total	₱539,650,000	100.00%	₱539,650,000	100.00%



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

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

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

Group				
Attained Age	Gross of Reinsurance		Net Reinsurance	
	Exposure	Concentration (%)	Exposure	Concentration (%)
<20	₱—	—	₱—	—
20-24	31,000,000	5.80%	31,000,000	5.80%
25-29	64,650,000	12.09%	64,650,000	12.09%
30-34	71,950,000	13.45%	71,950,000	13.45%
35-39	50,550,000	9.45%	50,550,000	9.45%
40-44	51,550,000	9.64%	51,550,000	9.64%
45-49	71,450,000	13.36%	71,450,000	13.36%
50-54	90,700,000	16.96%	90,700,000	16.96%
55-59	90,550,000	16.93%	90,550,000	16.93%
60-64	11,700,000	2.19%	11,700,000	2.19%
65-69	750,000	0.13%	750,000	0.13%
70-74	—	0.00%	—	0.00%
75-79	—	0.00%	—	0.00%
80+	—	0.00%	—	0.00%
Total	₱534,850,000	100.00%	₱534,850,000	100.00%

### Source of Uncertainty in the Estimation of Future Claim Payment

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

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

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

#### **Financial Risk Management Objectives and Policies**

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

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

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

#### **Credit Risk**

Credit risk is a risk when a party to a financial instrument fails to discharge an obligation and cause the other party to incur a financial loss.

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

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

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

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



The Association strictly monitors the status of the financial assets and regularly evaluate the financial condition of the counterparties, provide the necessary allowance to the extent of the amount deemed unrecoverable.

The table below summarizes the Association's maximum exposure to credit risk for each class of financial assets as at December 31:

	2020	2019
Cash in banks and cash equivalents	<b>₱683,358,148</b>	₱756,228,410
Short-term investments	<b>3,618,953,816</b>	2,252,598,556
Long-term investments	<b>1,000,000,000</b>	–
HTM investments	<b>7,290,696,178</b>	7,347,135,107
Loan receivables*	<b>10,245,956,529</b>	9,591,145,737
Premium receivables from members	<b>26,241,814</b>	51,903,965
Other receivables**	<b>393,539,238</b>	432,358,059
	<b>₱23,258,745,723</b>	₱20,431,369,834

\*Net of allowance for impairment losses amounting to ₱455.8 million and ₱383.3 million as at December 31, 2020 and 2019, respectively.

\*\*Net of allowance for impairment losses amounting to ₱3.9 million as at December 31, 2020 and 2019.

The Association's concentration of credit risk arises from its loan receivables and its investments in corporate and government debt securities. Loan receivables which amounted to ₱10.3 billion and ₱9.6 billion represent 31.27% and 35.51% of its total assets as at December 31, 2020 and 2019, respectively, while investments in corporate and government debt securities which amounted to ₱7.3 billion as at December 31, 2020 and 2019 represents 22.25% and 27.21% of its total assets, respectively

The amount of secured loans amounted to ₱6.1 billion and ₱5.4 billion as at December 31, 2020 and 2019, respectively (see Note 5).

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

	December 31, 2020			
	Neither Past Due nor Impaired		Past Due	Total
	Investment High Grade	Non-investment Grade Satisfactory		
Cash in banks and cash equivalents	<b>₱683,358,148</b>	<b>₱–</b>	<b>₱–</b>	<b>₱683,358,148</b>
Short-term investments	<b>3,618,953,816</b>	–	–	<b>3,618,953,816</b>
Long-term investments	<b>1,000,000,000</b>	–	–	<b>1,000,000,000</b>
HTM investments	<b>7,290,696,178</b>	–	–	<b>7,290,696,178</b>
Loans receivables	<b>9,680,899,249</b>	–	<b>1,020,876,079</b>	<b>10,701,775,328</b>
Premium receivables from members	<b>26,241,814</b>	–	–	<b>26,241,814</b>
Other receivables	<b>393,539,238</b>	–	<b>3,900,750</b>	<b>397,439,988</b>
	<b>₱22,693,688,443</b>	<b>₱–</b>	<b>₱1,024,776,829</b>	<b>₱23,718,465,272</b>

December 31, 2019				
	Neither Past Due nor Impaired		Past Due	Total
	Investment High Grade	Non-investment Grade Satisfactory		
Cash in banks and cash equivalents	₱756,228,410	₱-	₱-	₱756,228,410
Short-term investments	2,252,598,556	-	-	2,252,598,556
HTM investments	7,347,135,107	-	-	7,347,135,107
Loans receivables	8,431,267,804	-	1,543,242,189	9,974,509,993
Premium receivables from members	51,903,965	-	-	51,903,965
Other receivables	432,358,059	-	3,900,750	436,258,809
<b>Total</b>	<b>₱19,271,491,901</b>	<b>₱-</b>	<b>₱1,547,142,939</b>	<b>₱20,818,634,840</b>

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

#### *Investment High Grade*

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

#### *Non-Investment Grade - Satisfactory*

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

#### *Past Due but not Impaired*

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

#### *Past Due and Impaired*

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

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

December 31, 2020							
	Age Analysis of Financial Assets past Due but not Impaired				Total Past Due but not Impaired	Past Due and Impaired	Total
	7 to 12 Mos	13 to 24 Mos	25 to 36 Mos	>36 Mos			
Financial assets:							
Loan receivables	₱75,481,303	₱69,808,466	₱48,667,986	₱371,099,525	₱565,057,280	₱455,818,799	₱1,020,876,079
Other receivables	-	-	-	-	-	3,900,750	3,900,750
<b>Total</b>	<b>₱75,481,303</b>	<b>₱69,808,466</b>	<b>₱48,667,986</b>	<b>₱371,099,525</b>	<b>₱565,057,280</b>	<b>₱459,719,549</b>	<b>₱1,024,776,829</b>



December 31, 2019							
	Age Analysis of Financial Assets past Due but not Impaired				Total Past Due but not Impaired	Past Due and Impaired	Total
	7 to 12 Mos	13 to 24 Mos	25 to 36 Mos	>36 Mos			
Financial assets:							
Loan receivables	P259,586,704	P344,167,320	P155,758,399	P400,365,510	P1,159,877,933	P383,364,256	P1,543,242,189
Other receivables	-	-	-	-	-	3,900,750	3,900,750
<b>Total</b>	<b>P259,586,704</b>	<b>P344,167,320</b>	<b>P155,758,399</b>	<b>P400,365,510</b>	<b>P1,159,877,933</b>	<b>P387,265,006</b>	<b>P1,547,142,939</b>

### Liquidity Risk

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

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

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

December 31, 2020				
	Due and Demandable and within one	1-5 Years	Over 5 Years	Total
Cash and cash equivalents	P683,957,148	P-	P-	P683,957,148
Short-term investments	3,618,953,816	-	-	3,618,953,816
Long-term investments	-	1,000,000,000	-	1,000,000,000
Financial assets at FVPL	18,877,056	-	-	18,877,056
AFS financial assets	1,671,443,584	-	-	1,671,443,584
HTM investments	1,426,783,080	4,495,375,015	1,368,538,083	7,290,696,178
Loan receivables	5,289,741,630	4,956,214,899	-	10,245,956,529
Premium receivables from members	26,241,814	-	-	26,241,814
Other receivables	393,539,238	-	-	393,539,238
<b>Total Financial Assets</b>	<b>13,129,537,366</b>	<b>10,451,589,914</b>	<b>1,368,538,083</b>	<b>24,949,665,363</b>
Claims and benefits payable	P754,999,401	P-	P-	P754,999,401
Accounts payable and accrued expenses*	546,171,214	-	-	546,171,214
Dividends payable	430,217,960	-	-	430,217,960
Reserve for members' refund	3,573,533,659	-	-	3,573,533,659
Other liabilities	152,658,070	-	-	152,658,070
<b>Total Financial Liabilities</b>	<b>5,457,580,304</b>	<b>-</b>	<b>-</b>	<b>5,457,580,304</b>
<b>Net Liquidity</b>	<b>P7,671,957,062</b>	<b>P10,451,589,914</b>	<b>P1,368,538,083</b>	<b>P19,492,085,059</b>

\*Excluding statutory payable amounting to P17.2 million

December 31, 2019				
	Due and Demandable and within one year	1-5 Years	Over 5 Years	Total
Cash and cash equivalents	₱756,228,410	₱-	₱-	₱756,228,410
Short-term investments	2,252,598,556	-	-	2,252,598,556
Financial assets at FVPL	38,815,745	-	-	38,815,745
AFS financial assets	2,181,712,447	-	-	2,181,712,447
HTM investments	709,389,704	4,287,993,017	2,349,752,386	7,347,135,107
Loan receivables	8,675,641,901	915,503,836	-	9,591,145,737
Premium receivables from members	51,903,965	-	-	51,903,965
Other receivables	432,358,059	-	-	432,358,059
<b>Total Financial Assets</b>	<b>15,098,648,787</b>	<b>5,203,496,853</b>	<b>2,349,752,386</b>	<b>22,651,898,026</b>
Claims and benefits payable	576,068,022	-	-	576,068,022
Accounts payable and accrued expenses*	548,232,634	-	-	548,232,634
Dividends payable	383,513,751	-	-	383,513,751
Reserve for members' refund	3,028,501,444	-	-	3,028,501,444
Other liabilities	301,369,140	-	-	301,369,140
<b>Total Financial Liabilities</b>	<b>4,837,684,991</b>	<b>-</b>	<b>-</b>	<b>4,837,684,991</b>
<b>Net Liquidity</b>	<b>₱10,260,963,796</b>	<b>₱5,203,496,853</b>	<b>₱2,349,752,386</b>	<b>₱17,814,213,035</b>

\*Excluding statutory payable amounting to ₱25.7 million.

### Market Risk

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

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

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

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

### Currency Risk

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

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



### Interest Rate Risk

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

December 31, 2020					
	Interest Rate	Due in			Total
		1 Year	2-5 Years	Beyond 5 Years	
Financial Assets					
Cash in banks and cash equivalents	0.90% to 1.28%	₱683,957,148	₱–	₱–	₱683,957,148
Short-term investments	1.00% to 6.00%	3,618,953,816	–	–	3,618,953,816
Long-term investments	6.50% to 7.00%	–	1,000,000,000	–	1,000,000,000
HTM investments	3.25% to 7.38%	1,426,783,080	4,495,375,015	1,368,538,083	7,290,696,178
Loans receivables:					
Salary and other loans	6.00% to 10.00%	3,435,415,572	4,956,214,899	–	8,391,630,471
Real estate loans	6.00% to 12.00%	1,854,326,058	–	–	1,854,326,058
		₱11,019,435,674	₱10,451,589,914	₱1,368,538,083	₱22,839,563,671

December 31, 2019					
	Interest Rate	Due in			Total
		1 Year	2-5 Years	Beyond 5 Years	
Financial Assets					
Cash in banks and cash equivalents	1.78% to 5.40%	₱756,228,410	₱–	₱–	₱756,228,410
Short-term investments	2.64% to 7.00%	2,252,598,556	–	–	2,252,598,556
HTM investments	3.25% to 7.38%	709,389,704	4,287,993,017	2,349,752,386	7,347,135,107
Loans receivables:					
Salary and other loans	6.00% to 10.00%	7,181,878,714	704,309,245	270,774,026	8,156,961,985
Real estate loans	6.00% to 12.00%	1,817,548,008	–	–	1,817,548,008
		₱12,717,643,392	₱4,992,302,262	₱2,620,526,412	₱20,330,472,066

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

### Price Risk

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

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

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

A 5% increase in stock prices would have increases carrying values of the investments of the Association by P84.5 million and P111.0 million as at December 31, 2020 and 2019, respectively. An equal change in the opposite direction would have decreased the carrying values of these investments by an equal but opposite amount.

The Association determined the reasonably possible change in Philippine Stock Exchange Index based on the historical fluctuation of equity securities the Association hold as at the reporting date in 2020 and 2019.

### **Fair Value of Financial Instruments**

The table below presents a comparison by category of carrying amounts and fair values of all the Association's financial instruments that are carried in the separate financial statements as at December 31, 2020 and 2019:

	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash and cash equivalents	P683,957,148	P683,957,148	P756,788,410	P756,788,410
Short-term investments	3,618,953,816	3,618,953,816	2,252,598,556	2,252,598,556
Long-term investments	1,000,000,000	1,119,346,098	-	-
Financial assets at FVPL	18,877,056	18,877,056	38,815,745	38,815,745
AFS financial assets	1,671,443,584	1,671,443,584	2,181,712,447	2,181,712,447
HTM investments	7,290,696,178	7,850,404,771	7,347,135,107	7,494,974,814
Loan receivables	10,245,956,529	10,245,956,529	9,591,145,737	9,591,145,737
Premium receivables from members	26,241,814	26,241,814	51,903,965	51,903,965
Other receivables	393,539,238	393,539,238	432,358,059	432,358,059
	<b>P24,949,665,363</b>	<b>P25,628,720,054</b>	<b>P22,652,458,026</b>	<b>P22,800,297,733</b>
<b>Financial Liabilities</b>				
Claims and benefits payable	P754,999,401	P754,999,401	P576,068,022	P576,068,022
Accounts payable and accrued expenses*	546,171,214	546,171,214	548,232,634	548,232,634
Dividends payable	430,217,960	430,217,960	383,513,751	383,513,751
Reserve for members' refund	3,573,533,659	3,573,533,659	3,028,501,444	3,028,501,444
Other liabilities	152,658,070	152,658,070	301,369,140	301,369,140
	<b>P5,457,580,304</b>	<b>P5,457,580,304</b>	<b>P4,837,684,991</b>	<b>P4,837,684,991</b>

\*Excluding statutory payables amounting to P17.2 million and P25.7 million in 2020 and 2019, respectively.

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

- Cash and cash equivalents, short-term investments, long-term investments, loan receivables (current), premium receivables from members, and other receivables and other financial liabilities - carrying amount approximate fair values at reporting dates due to the relative short-term maturities of these financial assets and liabilities.
- Financial assets at FVPL and AFS financial assets - fair values are based on quoted market prices. Investments in unquoted equity investments for which no reliable basis for fair value measurement are available are carried at cost, net of any allowance for impairment losses.
- HTM investments and loans receivables (non-current) - the fair values are determined by computing the present value of expected future cash flows of the loans using the predetermined market rate for similar instrument as discount rate.



### Fair Value Hierarchy

The table below analyzes financial instruments carried at fair value, by valuation method as at December 31, 2020 and 2019.

	Level 1	Level 2	Level 3	Total
Financial assets at FVPL				
2020	<b>₱18,877,056</b>	<b>₱-</b>	<b>₱-</b>	<b>₱18,877,056</b>
2019	38,815,745	-	-	38,815,745
AFS financial assets				
2020	<b>1,668,443,584</b>	<b>-</b>	<b>3,000,000</b>	<b>1,671,443,584</b>
2019	2,178,712,447	-	3,000,000	2,181,712,447

There has been no transfer between levels of fair value hierarchy in 2020 and 2019.

### AFS Financial Assets

Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

## 26. Capital Management Objectives, Policies and Procedures

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

The Association's capital management objectives are:

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

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

	2020	2019
Members' contribution	<b>₱77,017,387</b>	₱80,717,163
Cumulative fair value changes on AFS financial assets	<b>229,324,384</b>	192,922,916
Accumulated net income	<b>10,572,673,652</b>	8,157,029,236
	<b>₱10,879,015,423</b>	₱8,430,669,315

The capital requirements and limitation are as follows:

*Risk-Based Capital Requirements*

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

On December 23, 2020, the Association's BOT declared payment of cash dividends to its members equivalent to 1% of the members' 2020 reserve for members' equity value fund aggregating to ₱117.94 million.

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

As at December 31, 2020, the Association has complied with the RBC ration requirements based on their internal computation.

*Minimum Members' Equity Requirement*

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

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

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

As at December 31, 2020 and 2019, the Association is compliant with the minimum members' equity requirement.

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## 27. Lease Commitments

### a. Operating Leases - the Association as Lessors

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



Future minimum rental income as at December 31, 2020 and 2019 are as follows:

	2020	2019
Not later than one year	<b>₱68,928,704</b>	₱61,592,658
Later than one year and not later than five years	<b>270,715,718</b>	319,366,265
More than five years	<b>1,186,814,600</b>	1,196,983,285
<b>Total</b>	<b>₱1,526,459,022</b>	<b>₱1,577,942,208</b>

Rental income amounted to ₱89.8 million and ₱89.4 million in 2020 and 2019, respectively (see Note 9).

b. Operating Leases - the Association as Lessees

The Association leases the premises of its regional offices with various maturities that are renewable under certain terms and conditions. In 2020 and 2019, total rent expense amounted to ₱8.6 million and ₱9.2 million, respectively.

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

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

	2020	2019
Not later than one year	<b>₱1,833,812</b>	₱2,427,316
Later than one year and not later than five years	<b>761,205</b>	288,000
<b>Total</b>	<b>₱2,595,017</b>	<b>₱2,715,316</b>

## 28. Maturity Profile of Assets and Liabilities

The following table presents all assets and liabilities of the Association as at December 31, 2020 and 2019 analyzed according to when they are expected to be recovered or settled (based on contractual maturity).

	December 31, 2020			Total
	Within One Year	Beyond One Year	No Term	
<b>Assets</b>				
Cash and cash equivalents	P683,957,148	P-	P-	P683,957,148
Short-term investments	3,618,953,816	-	-	3,618,953,816
Long-term investments	-	1,000,000,000	-	1,000,000,000
Loans receivables	5,289,741,630	4,956,214,899	-	10,245,956,529
Financial assets at FVPL	18,877,056	-	-	18,877,056
AFS financial assets	1,671,443,584	-	-	1,671,443,584
HTM investments	1,426,783,080	5,863,913,098	-	7,290,696,178
Premium receivables from members	26,241,814	-	-	26,241,814
Other receivables	393,539,238	-	-	393,539,238
Assets held-for-sale	97,614,979	-	-	97,614,979
Investment properties	-	-	6,556,486,649	6,556,486,649
Investments in a subsidiary and associates	-	-	473,265,704	473,265,704
Property and equipment	-	166,738,174	456,018,443	622,756,617
Other assets	62,458,742	-	-	62,458,742
	<b>13,289,611,087</b>	<b>11,986,866,171</b>	<b>7,485,770,796</b>	<b>32,762,248,054</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	563,397,455	-	-	563,397,455
Legal policy reserves	1,131,501,662	13,165,298,144	177,272,460	14,474,072,266
Claims and benefits payable	754,999,401	-	-	754,999,401
Dividends payable	430,217,960	-	-	430,217,960
Reserve for members' refund	3,573,533,659	-	-	3,573,533,659
Net retirement liability	-	275,023,590	-	275,023,590
Other liabilities	152,658,070	-	-	152,658,070
	<b>6,606,308,207</b>	<b>13,440,321,734</b>	<b>-</b>	<b>20,223,902,401</b>
<b>Net Assets</b>	<b>P6,683,302,880</b>	<b>(P1,453,455,563)</b>	<b>P7,485,770,796</b>	<b>P12,538,345,653</b>

	December 31, 2019			Total
	Within One Year	Beyond One Year	No Term	
<b>Assets</b>				
Cash and cash equivalents	P756,788,410	P-	P-	P756,788,410
Short-term investments	2,252,598,556	-	-	2,252,598,556
Loans receivables	8,675,641,901	915,503,836	-	9,591,145,737
Financial assets at FVPL	38,815,745	-	-	38,815,745
AFS financial assets	2,181,712,447	-	-	2,181,712,447
HTM investments	709,389,704	6,637,745,403	-	7,347,135,107
Premium receivables from members	51,903,965	-	-	51,903,965
Other receivables	432,358,059	-	-	432,358,059
Assets held-for-sale	99,871,457	-	-	99,871,457
Investment properties	-	-	3,475,689,379	3,475,689,379
Investments in a subsidiary and associates	-	-	473,265,704	473,265,704
Property and equipment	-	160,290,444	87,520,271	247,810,715
Other assets	57,238,639	-	-	57,238,639
	<b>15,256,318,883</b>	<b>7,713,539,683</b>	<b>4,036,475,354</b>	<b>27,006,333,920</b>

(Forward)



December 31, 2019				
	Within One Year	Beyond One Year	No Term	Total
<b>Liabilities</b>				
Accounts payable and accrued expenses	₱573,953,474	₱-	₱-	₱573,953,474
Legal policy reserves	1,260,806,783	11,572,530,778	126,804,865	12,960,142,426
Claims and benefits payable	576,068,022	-	-	576,068,022
Income tax payable	16,518,462	-	-	16,518,462
Reserve for members' refund	3,028,501,444	-	-	3,028,501,444
Net retirement liability	-	233,540,238	-	233,540,238
Dividends payable	383,513,751	-	-	383,513,751
Other liabilities	301,369,140	-	-	301,369,140
	6,140,731,076	11,806,071,016	126,804,865	18,073,606,957
<b>Net Assets</b>	₱9,115,587,807	(₱4,092,531,333)	₱3,909,670,489	₱8,932,726,963

## 29. Supplementary Information Required Under RR No. 15-2010 of the Bureau of Internal Revenue

### VAT

#### a. Output VAT

Output VAT declared by the Company for the year ended December 31, 2020 and the revenues subject to VAT amounted to ₱69,785,192 and ₱8,374,223, respectively. Output VAT is based on gross receipts while the amount of revenue presented in the separate statements of comprehensive income is based on accrual method.

#### b. Input VAT

Balance at beginning of year	₱40,586,267
Current year's domestic purchases of goods	9,549,658
Current year's domestic purchases of services	151,431
Allowable input VAT	50,287,356
Applied against output VAT	(8,374,223)
Balance at end of year	₱41,913,133

### All Other Local and National Taxes

The Association's local and national taxes for the year ended December 31, 2020 consist of:

Real estate taxes	7,796,849
Documentary stamp tax	6,015,108
Transfer tax	2,771,718
Percentage tax	2,208,590
License and permit fees	1,031,118
Others	663,032
	₱20,486,415

### Withholding Taxes

Withholding taxes paid, accrued and/or withheld by the Association for the year ended December 31, 2020 consist of:

	Paid	Accrued	Total
Withholding taxes on compensation	₱32,403,535	₱5,124,042	₱37,527,577
Expanded withholding taxes	19,688,123	2,691,565	22,379,688
Final withholding taxes	1,947,697	1,123,549	3,071,246
	₱54,039,355	₱8,939,156	₱62,978,511



**Documentary Stamp Tax**

On loan instruments	₱8,797,117
On lease and service contracts	70,706
	<u>₱8,867,823</u>

**Tax Assessments**

The Company has no pending tax assessment from the BIR as at December 31, 2020.

**Tax Cases**

The Company has no pending tax case in courts or other regulatory bodies outside of the BIR as at December 31, 2020.