# COVER SHEET
for
## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

1 3 8 2 9 9

**Company Name**

PRAXIS FIDES MUTUAL BENEFIT
ASSOCIATION, INC.

**Principal Office ( No./Street/Barangay/City/Town)Province)**

35 PASEO DEL CONGRESO, CATMON,
CITY OF MALOLOS, BULACAN

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| AFS | | |

## COMPANY INFORMATION

| Company's Email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| praxisfides@gmail.com | (044) 791-3558 | |

| No. of Stockholders | Annual Meeting (Month/Day) | Fiscal Year (Month/Day) |
|---|---|---|
| | March 17, 2018 | December 31 |

## CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| GENER LUCIANO | gener_luciano@yahoo.com | (044) 791-3558 | |

## CONTACT PERSON'S ADDRESS

35 PASEO DEL CONGRESO, CATMON, CITY OF MALOLOS, BULACAN

INSURANCE COMMISSION
FIELD EXAMINATION DIVISION
RECEIVED
4/30/2019

*NOTE 1 :* In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2 : All Boxes must properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiences shall not excuses the corporation from liability for its deficiencies.

**PRAXIS FIDES**
**MUTUAL BENEFIT ASSOCIATION, INC.**
**#35 Paseo del Congreso, Catmon, City of Malolos, Bulacan**
**Tel. No. (044) 791-3558: (044) 662-4288**


# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Praxis Fides Mutual Benefit Association, Inc.** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Trustees is responsible for overseeing the Association's financial reporting process.

The Board of Trustees reviews and approves the financial statements including the schedules attached therein, and submits the same to the members.

**AMC & Associates,** the independent auditor appointed by the members, has audited the financial statements of the Association in accordance with Philippine Standards on Auditing and in its report to the members has expressed its opinion on the fairness of presentation upon completion of such audit.

**MR. RAMON V. BAGAY**
**Chairman**

Gener C. Luciano

**MR. GENER C. LUCIANO**
**President**

**FR. JOSEPH DJ. CRUZ**
**Treasurer**

Signed this 15th day of April 2019

# Financial Statements

# PRAXIS FIDES MUTUAL BENEFIT ASSOCIATION, INC.

*(A Non-Stock, Non-Profit Organization)*

## December 31, 2018 and 2017

AMC
& ASSOCIATES

Certified Public Accountants

# REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
Praxis Fides Mutual Benefit Association, Inc.
*(A Non-Stock, Non-Profit Organization)*
35 Paseo del Congreso, Catmon
Malolos, Bulacan

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the financial statements of **Praxis Fides Mutual Benefit Association, Inc.** (the Association), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in fund balance and statements of cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS) applicable to Mutual Benefit Associations (MBAs).

### *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 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 audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. 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 Financial Statements*

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

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

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

*Suite 1805 - 1807 Cityland Condominium 10, Tower 2, H.V. Dela Costa St., Makati City, Philippines*
*Tel. No.: (02) 841.0462 • Fax No.: (02) 893.0287*

AMC & ASSOCIATES

*Certified Public Accountants*

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

AMC
& ASSOCIATES

*Certified Public Accountants*

**Report on Other Legal and Regulatory Requirements**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2018 required by the Bureau of Internal Revenue as disclosed in Note 28 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS applicable to MBAs. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audits 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.

AMC & ASSOCIATES

Ariel D. Gonzales

By: **Ariel D. Gonzales**
**Partner**
CPA Certification No. 89570
TIN 169-688-077-000
PTR No. 7336494, Jan. 7, 2019, Makati City
BIR Accreditation No. 08-003584-1-2019
(Mar. 06, 2019 to Mar. 05, 2022)
BSP Accreditation (Category B)
(valid until Dec. 31, 2020)
IC Accreditation No. SP-2018/003-R
(Mar. 3, 2018 to Mar. 2, 2021)
SEC Accreditation No. 1331-AR-1 (Group C)
(Sep. 28, 2016 to Sep. 27, 2019)

April 15, 2019

BUREAU OF INTERNAL REVENUE
RDO NO. 25A - PLARIDEL, BULACAN
RECEIVED
APR 25 2019
DANALYN M. SAN ROQUE
COLLECTION SECTION

Virginia Delos Reyes
*Certified Public Accountant*
Unit 19 Rocka Commercial Complex,
Plaridel, Bulacan

# PRACTITIONER'S COMPILATION REPORT

**To the Management**
**Praxis Fides Mutual Benefit Association, Inc.**
***(A Non-Stock, Non-Profit Organization)***
35 Paseo del Congreso, Catmon
Malolos, Bulacan

I have compiled the accompanying financial statements of **Praxis Fides Mutual Benefit Association, Inc.** ***(A Non-Stock, Non-Profit Organization)*** based on information you have provided. These financial statements comprise the statement of financial position of **Praxis Fides Mutual Benefit Association, Inc.** as at December 31, 2018, the statement of comprehensive income, statement of changes in fund balance and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

I have performed this compilation engagement in accordance with Philippine Standard on Related Services 4410 (Revised), *Compilation Engagements.*

I have applied our expertise in accounting and financial reporting to assist you in the preparation and presentation of these financial statements in accordance with Philippine Financial Reporting Standards (PFRS) applicable to Mutual Benefit Associations (MBAs). I have complied with relevant ethical requirements, including principles of integrity, objectivity, professional competence and due care.

These financial statements and the accuracy and completeness of the information used to compile them are your responsibility.

Since a compilation engagement is not an assurance engagement, I am not required to verify the accuracy or completeness of the information you provided to me to compile these financial statements. Accordingly, I do not express an audit opinion or a review conclusion on whether these financial statements are prepared in accordance with *PFRS applicable to MBAs.*

**VIRGINIA GARCIA DELOS REYES**
**Certified Public Accountant**
CPA Certificate No. 094539
TIN 143-345-655-000
BIR Accreditation No. 05-004260-001-2016
valid until September 15, 2019
PRC/BOA Certificate of Accreditation No. 3085
valid until October 25, 2021
CDA Accreditation No. CEA 0135 (Renewal)
valid until February 20, 2020
PTR No. 2482842, Jan. 14, 2019, Plaridel, Bulacan

PRAXIS FIDES MUTUAL BENEFIT ASSOCIATION, INC.

*(A Non-Stock, Non-Profit Organization)*

# STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

*(Amounts in Philippine Peso)*

## ASSETS

| | | 2018 | | 2017 |
|---|---|---|---|---|
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalents *(Note 5)* | P | 199,956,072 | P | 209,768,424 |
| Short-term investments *(Note 6)* | | 81,248,155 | | 30,988,917 |
| Loans and other receivables *(Note 7)* | | 222,805,766 | | 227,223,792 |
| Financial assets at amortized cost *(Note 8)* | | 3,000,000 | | - |
| Financial assets at fair value through profit and loss *(Note 9)* | | 131,196,331 | | 99,593,135 |
| Prepayments | | 683,837 | | 986,359 |
| Total Current Assets | | 638,890,161 | | 568,560,627 |
| **NON-CURRENT ASSETS** | | | | |
| Loans and other receivables *(Note 7)* | | 181,840,569 | | 147,747,509 |
| Financial assets at fair value through other comprehensive income *(Note 10)* | | 27,500,000 | | 22,500,000 |
| Property and equipment *(Note 11)* | | 15,376,247 | | 16,245,764 |
| Investment property *(Note 12)* | | 91,057,602 | | 93,037,255 |
| Total Non-current Assets | | 315,774,418 | | 279,530,528 |
| **TOTAL ASSETS** | P | 954,664,579 | P | 848,091,155 |

## LIABILITIES AND FUND BALANCE

| | | 2018 | | 2017 |
|---|---|---|---|---|
| **CURRENT LIABILITIES** | | | | |
| Accounts payable and other liabilities *(Note 13)* | P | 10,722,020 | P | 12,932,248 |
| Liability on individual equity value *(Note 14)* | | 677,322,919 | | 601,199,316 |
| Basic contingent benefit reserve *(Note 15)* | | 1,167,724 | | 982,862 |
| Claims payable on basic contingent benefit *(Note 16)* | | 1,730,000 | | 1,835,000 |
| Income tax payable | | 96,152 | | 38,931 |
| Total Current Liabilities | | 691,038,815 | | 616,988,357 |
| **NON-CURRENT LIABILITIES** | | | | |
| Accounts payable and other liabilities *(Note 13)* | | 42,324 | | 151,017 |
| Retirement benefit obligation *(Note 21)* | | 6,627,121 | | 6,627,121 |
| Total Non-Current Liabilities | | 6,669,445 | | 6,778,138 |
| Total Liabilities | | 697,708,260 | | 623,766,495 |
| **FUND BALANCE** | | | | |
| Free and unassigned fund balance | | 224,104,156 | | 206,885,809 |
| Assigned fund balance *(Note 19)* | | 40,000,000 | | 40,000,000 |
| Accumulated other comprehensive loss *(Note 19)* | | (7,147,837) | | (22,561,149) |
| Total Fund Balance | | 256,956,319 | | 224,324,660 |
| **TOTAL LIABILITIES AND FUND BALANCE** | P | 954,664,579 | P | 848,091,155 |



*See Notes to Financial Statements.*

# PRAXIS FIDES MUTUAL BENEFIT ASSOCIATION, INC.
*(A Non-Stock, Non-Profit Organization)*

## STATEMENTS OF COMPREHENSIVE INCOME
## FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
*(Amounts in Philippine Peso)*

| | 2018 | 2017 |
|---|---|---|
| **REVENUES** | | |
| Interest on: | | |
| Loans *(Note 7)* | P 38,872,048 | P 31,984,881 |
| Investment securities and deposits with banks *(Notes 5, 6, 8 and 10)* | 7,306,446 | 4,171,569 |
| Insurance fund *(Note 18)* | 25,631,692 | 22,804,068 |
| General fund *(Note 18)* | 13,602,734 | 14,663,020 |
| Service charges and fees *(Note 7)* | 7,477,313 | 7,168,850 |
| Income from sale of financial assets at fair value through profit or loss *(Note 9)* | 2,096,938 | 2,568,896 |
| Membership fees *(Note 18)* | 1,194,300 | 924,400 |
| Others *(Note 17)* | 6,760,107 | 5,035,332 |
| | 102,941,578 | 89,321,016 |
| **EXPENSES** | | |
| Fair value loss on financial assets at fair value through profit or loss *(Note 9)* | 3,978,709 | - |
| Operating expenses *(Note 17)* | 33,043,605 | 26,817,342 |
| Benefit expenses *(Note 17)* | 8,455,000 | 7,420,000 |
| | 45,477,314 | 34,237,342 |
| **PROFIT BEFORE TAX** | 57,464,264 | 55,083,674 |
| **TAX EXPENSE** *(Note 22)* | 1,996,005 | 1,712,233 |
| **NET PROFIT** | 55,468,259 | 53,371,441 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| **Items that will not be reclassified subsequently to profit or loss** | | |
| Remeasurements of post-employment defined benefit obligation *(Notes 19 and 21)* | - | ( 940,663 ) |
| **Items that will be reclassified subsequently to profit or loss** | | |
| Fair value loss on available-for-sale (AFS) financial assets during the year *(Note 9)* | - | ( 3,982,595 ) |
| Fair value loss on disposed of AFS financial assets reclassified to profit or loss *(Note 9)* | - | 2,814,623 |
| | - | ( 2,108,635 ) |
| **TOTAL COMPREHENSIVE INCOME** | P 55,468,259 | P 51,262,806 |



*See Notes to Financial Statements.*

**PRAXIS FIDES MUTUAL BENEFIT ASSOCIATION, INC.**
***(A Non-Stock, Non-Profit Organization)***
**STATEMENTS OF CHANGES IN FUND BALANCE**
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**
***(Amounts in Philippine Peso)***

| | Free and Unassigned Fund balance | Assigned Fund Balance | Accumulated Other Comprehensive Loss | Total (As Restated) |
|---|---|---|---|---|
| Balance at January 1, 2018 | | | | |
| As previously reported *(Note 19)* | P 206,885,809 | P 40,000,000 | (P 22,561,149) | P 224,324,660 |
| Effect of adpotion of PFRS 9 *(Notes 19)* | ( 15,413,312) | - | 15,413,312 | - |
| As restated *(Note 19)* | 191,472,497 | 40,000,000 | ( 7,147,837) | 224,324,660 |
| Contributions during the year *(Note 18)* | 166,717,862 | - | - | 166,717,862 |
| Withdrawals during the year | ( 113,430,859) | - | - | ( 113,430,859) |
| Transfer to liability on individual equity value *(Note 14)* | ( 76,123,603) | - | - | ( 76,123,603) |
| Total comprehensive revenue for the year | 55,468,259 | - | - | 55,468,259 |
| Balance at December 31, 2018 *(Note 19)* | P 224,104,156 | P 40,000,000 | (P 7,147,837) | P 256,956,319 |
| | | | | |
| Balance at January 1, 2017 *(Note 19)* | P 196,920,412 | P 40,000,000 | (P 20,452,514) | P 216,467,898 |
| Contributions during the year *(Note 18)* | 147,118,318 | - | - | 147,118,318 |
| Withdrawals during the year | ( 111,847,380) | - | - | ( 111,847,380) |
| Transfer to liability on individual equity value *(Note 14)* | ( 78,676,982) | - | - | ( 78,676,982) |
| Total comprehensive revenue for the year | 53,371,441 | - | ( 2,108,635) | 51,262,806 |
| Balance at December 31, 2017 *(Note 19)* | P 206,885,809 | P 40,000,000 | (P 22,561,149) | P 224,324,660 |

***See Notes to Financial Statements.***

PRAXIS FIDES MUTUAL BENEFIT ASSOCIATION, INC.
*(A Non-Stock, Non-Profit Organization)*
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
*(Amounts in Philippine Peso)*

| | 2018 | 2017 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit before tax | P 57,464,264 | P 55,083,674 |
| Adjustments for: | | |
| Impairment losses *(Note 7)* | 5,128,721 | 3,300,000 |
| Unrealized fair value loss of financial assets at fair value through profit or loss *(Note 9)* | 3,978,709 | - |
| Depreciation *(Notes 11 and 12)* | 1,585,794 | 1,639,788 |
| Income from sale of financial assets at fair value through profit and loss *(Note 9)* | (2,096,938) | (2,568,896) |
| Gain on sale of investment property *(Note 12)* | (2,910,378) | - |
| Interest income *(Notes 5, 6, 7 and 10)* | (46,178,494) | (36,156,450) |
| Gain on sale of property and equipment *(Note 17)* | - | (218,000) |
| Operating profit before working capital changes | 16,971,678 | 21,080,116 |
| Increase in loans and other receivables | (26,884,374) | (4,399,760) |
| Decrease in prepayments | 302,522 | 6,134 |
| Increase (decrease) in accounts payable and other liabilities | (2,318,921) | 1,663,978 |
| Increase (decrease) in claims payable on basic contingent benefit | (105,000) | 460,000 |
| Increase in retirement benefit obligation | - | 444,197 |
| Increase in basic contingent benefit reserve | 184,862 | 130,744 |
| Cash generated from (used in) operations | (11,849,233) | 19,385,409 |
| Interest received on loans and other receivables *(Note 7)* | 30,952,667 | 29,501,560 |
| Cash paid for income taxes *(Note 22)* | (1,938,784) | (2,386,694) |
| Net Cash From Operating Activities | 17,164,650 | 46,500,275 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sale of financial assets at fair value through profit or loss | 15,598,168 | 25,105,497 |
| Interest received on bank deposits and invesment securites *(Notes 5, 6, and 10)* | 7,306,446 | 4,171,569 |
| Proceeds from sale of investment property *(Note 12)* | 4,454,118 | - |
| Increase in investment property *(Note 12)* | 435,913 | 7,569,380 |
| Acquisitions of property and equipment *(Note 11)* | (716,277) | (1,864,636) |
| Increase in financial assets at amortized cost *(Note 8)* | (3,000,000) | - |
| Increase in financial assets at fair value through other comprehensive income | (5,000,000) | (5,000,000) |
| Additions to financial assets at fair value through profit or loss *(Note 9)* | (49,083,135) | (43,865,712) |
| Decrease (increase) in short-term investments | (50,259,238) | 4,857,801 |
| Proceeds from sale of investment property *(Note 12)* | | 228,000 |
| Net Cash Used in Investing Activities | (80,264,005) | (8,798,101) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Members' contributions during the year *(Note 18)* | 166,717,862 | 147,118,318 |
| Members' withdrawals during the year | (113,430,859) | (111,847,380) |
| Net Cash From Financing Activities | 53,287,003 | 35,270,938 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | (9,812,352) | 72,973,112 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 209,768,424 | 136,795,312 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** *(Note 5)* | P 199,956,072 | P 209,768,424 |

RDO 25A - PLARIDEL
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MAY 14 2019
LERMA D. MARCOS
RCO - PLARIDEL DISTRICT

*See Notes to Financial Statements.*

PRAXIS FIDES MUTUAL BENEFIT ASSOCIATION, INC.
*(A Non-Stock, Non-Profit Organization)*
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
*(Amounts in Philippine Peso)*

## 1. CORPORATE INFORMATION

### *Organization and Objectives*

**Praxis Fides Mutual Benefit Association, Inc.** (the Association) was incorporated in the Philippines on February 17, 1987 primarily to foster brotherhood thru mutual help and benefit among its members, to encourage the habit of thrift and saving among its members, to provide financial material aid and comforts to members and their families in cases of losses, disability, necessities, unemployment, retirement, or old age as may be authorized by statutes of regulations prescribed by competent authority, and in general to do such acts and things and to undertake such activities not otherwise prohibited by law which are calculated to help members and necessary for the accomplishment of the purpose of which the association has been organized.

The registered office of the Association is located at 35 Paseo del Congreso, Catmon, Malolos, Bulacan.

### *Tax Exemption*

As a non-stock, non-profit association, the Association is exempt from the payment of income tax under Section 30c of the National Internal Revenue Code. However, the income of whatever kind and character of the Association from any of its properties, real or personal, or from any of its activities conducted for profit, regardless of the disposition made of such income, shall be subjected to tax. Moreover, interest income derived from deposit with banks is subject to final tax.

### *Approval of Financial Statements*

The financial statements of the Association as at and for the year ended December 31, 2018 (including the comparative financial statements as at and for the year ended December 31, 2017) were authorized for issue by the Association's Board of Trustees on April 15, 2019.

## 2. MEMBERSHIP

Any person eligible for membership shall become a member of the Association only after paying the initial membership fee and the first monthly contribution. Every member in good standing shall have the right, among others, to participate in the distribution of profit of the Association on the basis of his capital contributions after the Association has set aside such reserves as may be required by any existing laws and regulations. In addition, the member can avail of loans in accordance with his borrowing capacity subject to the limitations as provided for under the existing rules and regulations of the Association.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### *Basis of Preparation of Financial Statements*

*a. Statement of Compliance with Philippine Financial Reporting Standards for Mutual Benefits Associations (MBAs)*

The financial statements of the Association have been prepared in accordance with Philippine Financial Reporting Standards in the Philippines applicable to MBAs.

Pursuant to Section 189 of The Amended Insurance Code, the Insurance Commission issued Circular Letter No. 2014-41 dated September 25, 2014 requiring all new and existing mutual benefits associations doing business in the Philippines to use and maintained the revised Standard Chart of Accounts (SCA) for MBAs. The SCA is the prescribed frameworks for Association in the preparation of financial statements.

The SCA for MBAs list a uniform system of account numbers categorized based on MBAs' revenue, expenses, assets, liabilities and fund value for similar transactions and events, in compliance with the latest Philippine Accounting Standards (PAS) and Philippine Financial Reporting Standards (PFRS).

The financial statements have been prepared using the measurement bases specified by PFRS for each type of assets, liabilities, income and expense. The measurement bases are more fully described in the accounting policies that follow.

*b. Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements.* The Association presents all items of income and expenses in a single statement of comprehensive income.

The Association presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

In 2018, the Association adopted PFRS 9, *Financial Instruments,* which was applied using the transitional relief allowed by the standard. This allows the Association not to restate its prior periods' financial statements. Differences arising from the adoption of PFRS 9 in relation to classification and measurement and impairment of financial assets are recognized in the opening balance of Free and unassigned fund balance (or other component of fund balance, as appropriate) in the current year. The adoption of this standard did not have significant impact in the Association's financial statements.

Further, the Association adopted PFRS 15, *Revenue from Contracts with Customers,* which was applied using the modified retrospective approach. Adoption of this standard did not have material impact in the financial statements of the Association.

Accordingly, the adoption of these two new accounting standards did not require the Association to present its third statement of financial position.

The table below shows the impact of the adoption of PFRS 9 to the Association's fund balance as at January 1, 2018:

| | Effects on | | |
|---|---|---|---|
| | Free and Unassigned Balance | Accumulated Other Comprehensive Loss | Total |
| Balance at January 1, 2018 | P 206,885,809 | (P 22,561,149) | P 184,324,660 |
| Impact of PFRS 9 | | | |
| Effect of reclassification of financial assets | ( 15,413,312) | 15,413,312 | - |
| Net carrying amount | P 191,472,497 | (P 7,147,837) | P 184,324,660 |

c. *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Association's functional currency and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Association are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Association operates.

*Adoption of New and Amended PFRS*

a. *Effective in 2018 that are Relevant to the Association*

The Association adopted for the first time the following amendment and interpretation to PFRS that are relevant to the Association and effective for financial statements for the annual period beginning on or after January 1, 2018:

| | | |
|---|---|---|
| PFRS 9 | : | Financial Instruments |
| PFRS 15 | : | Revenue from Contract with Customers; Clarifications to PFRS 15 |
| Annual Improvements to PFRS 1 (Amendments) PFRS (2014-2016 Cycle) | : | First time Adoption of Philippine Financial Reporting Standards - Deletion of Short-term Exemptions |

Discussed below are the relevant information about these amended standards:

i. PAS 40 (Amendment), *Investment Property – Reclassification to and from investment property*. The amendment states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendment provided a non-exhaustive list of examples constituting change in use. The application of this amendment has no material impact on the Association's financial statements.

ii. PFRS 9 (2014), *Financial Instruments* (issued in 2014). This new standard on financial instruments will replace PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

   a. three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments, i.e., financial assets at amortized costs, fair value through profit and loss (FVTPL), and fair value through other comprehensive income (FVOCI);

   b. an expected credit loss (ECL) model in determining impairment of all debt financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of such financial assets; and,

   c. a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

The Association's new accounting policies relative to the adoption of PFRS 9 is fully disclosed in the succeeding paragraph.

The impact of the adoption of this new accounting standard to the Association's financial statements are as follows:

*Investment Securities Reclassified from Available-for-Sale Financial Assets to Fair Value Through Profit or Loss (FVTPL)*

The Association elected to present in Fair Value Through Profit or Loss (FVTPL) the listed equity securities previously classified as AFS financial assets because these investments are held as short-to-medium term. As a result, certain equity securities with fair value of P99,593,135 were reclassified from AFS financial assets to FVTPL and the accumulated fair value losses on those financial assets amounting to P15,413,312 were reclassified from Accumulated other comprehensive account to Free and unassigned fund balance account as at January 1, 2018.

*Investment Securities Reclassified from Available-for-Sale Financial Assets to Fair Value Through Other Comprehensive Income (FVOCI)*

With respect to unquoted equity securities amounting to P500,000 as at January 1, 2018 which were previously classified as AFS financial assets, the Association elected to irrevocably designate these equity securities at FVOCI, as the assets are now held by the Association with the objective of selling in the future for liquidity purposes.

*Debt Instruments Reclassified from Held-to-Maturity to FVOCI*

The Association reclassified government bonds under HTM investments as FVOCI since the Association's management determined that the objective of the Company's business model is to hold these investments with the objective of selling in the future for liquidity purposes.

The table below summaries the effects of the adoption of PFRS 9 (2014) in the carrying amounts and presentation of the categories of the financial assets in the statement of financial position as at January 1, 2018. The adoption of PFRS 9 has no significant impact on the Association's financial liabilities.

| | Carrying Value PAS 39 December 31, 2017 | Reclassification | Carrying Value PFRS 9 January 1, 2018 |
|---|---|---|---|
| ***Financial asset at FVTPL:*** | | | |
| Available-for-sale financial assets | P 99,593,135 | (P 99,593,135) | P - |
| Financial asset at FVTPL | - | 99,593,135 | 99,593,135 |
| Net carrying amount | P 99,593,135 | P - | P 99,593,135 |
| ***Financial asset at FVOCI:*** | | | |
| Available-for-sale financial assets | P 500,000 | (P 500,000) | P - |
| HTM investments | 22,000,000 | ( 22,000,000) | - |
| Financial asset at FVOCI | - | 22,500,000 | 22,500,000 |
| Net carrying amount | P 22,500,000 | P - | P 22,500,000 |

iii. PFRS 15, *Revenue from Contract with Customers*, together with the Clarifications to PFRS 15 (herein referred to as PFRS 15). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers and Standing Interpretations Committee 31, Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Association's adoption of PFRS 15 has resulted in changes in its accounting policies and has no material impact to the Association's financial statements.

iv. Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, the following amendment is relevant to the Association but had no material impact on the Association's financial statements as this amendment merely clarify existing requirements:

PFRS 1 (Amendments), *First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions*. The amendments removed short-term exemptions in PFRS 1 covering PRFS 7, *Financial Instrument: Disclosures*, PAS 19, *Employee Benefits*, and PFRS 10, *Consolidated Financial Statements*, because the reporting period to which the exemptions applied have already transpired.

*b. Effective in 2018 that are not Relevant to the Association*

The following new PFRS, amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Association's financial statements:

| | | |
|---|---|---|
| PFRS 2 (Amendments) | : | Share-based Payment – Classification and Measurement of Share-based Payment Transactions |
| IFRIC 22 | : | Foreign Currency Transactions and Advance Consideration |

*c. Effective Subsequent to 2018 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2018 which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these pronouncements are expected to have significant impact on the Association's financial statements:

i. PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset).

ii. PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at Fair value through other comprehensive income (FVTOCI). Management is currently assessing the impact of this new standard in its financial statements.

iii. PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to as financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management is currently assessing the impact of this new standard in its financial statements.

iv. IFRIC 23, *Uncertain over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Bank to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Association has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this new standard in its financial statements.

v. Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments are relevant to the Association but had no material impact on the Association's financial statements as these amendments merely clarify existing requirements:

a. PAS 23 (Amendments), *Borrowing costs – Eligibility for Capitalization.* The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

*Financial Instruments*

*a. Financial Assets*

Financial assets are recognized when the Association becomes a party to the contractual terms of the financial instruments. Except for those receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable). For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

*Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9*

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described in the succeeding pages.

*i. Financial Assets at Amortized Cost*

Financial assets are measured at amortized cost if both of the following conditions are met (and are not designated as FVTPL):

- the asset is held within the business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Except for loans and receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, all financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Association's financial assets at amortized cost are presented in the statement of financial position as Cash and cash equivalents, Short-term investments and investments securities presented at Financial assets at amortized cost in the statements of financial position.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Short-term investment includes time deposits with original maturities of more than three months but less than one year.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the statement of profit or loss as part of Finance income.

ii. *Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)*

The Association accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,
- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Association can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Association for trading or as mandatorily required to be classified as FVTPL. The Association has designated equity instruments as at FVOCI on initial application of PFRS 9.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation reserves account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation reserves account is not reclassified to profit or loss but is reclassified directly to Free and unassigned balance account, except for those debt securities classified as FVOCI wherein cumulative fair value gains or losses are recycled to profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the statement of profit or loss as part of Finance income.

Any dividends earned on holding equity instruments are recognized in profit or loss as part of Miscellaneous under Other operating income account, when the Association's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Association, and, the amount of the dividend can be measured reliably, unless the dividends clearly represent recovery of a part of the cost of the investment.

As at December 31, 2018, the Association's financial assets designated at FVOCI is discussed in Note 9.

*iii. Financial Assets at Fair Value Through Profit or Loss (FVTPL)*

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the Association designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Association's financial assets at FVTPL include equity securities which are held for trading purposes or designated as at FVTPL.

Financial assets at FVTPL are measured at fair value with gains or losses recognized in profit or loss as part of Finance income in the statements of profit or loss. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

Interest earned on these investments is included in the net fair value gains (losses) on these assets presented as part of Finance Income in the statements of profit or loss.

As at December 31, 2018, the Association's financial assets designated at FVTPL is discussed in Note 10.

The Association can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Association is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Association's business model will take effect only at the beginning of the next reporting period following the change in the business model.

*Classification, Measurement and Reclassification of Financial Assets in Accordance with PAS 39*

Financial assets are assigned to different categories by management on initial recognition, depending on the purpose for which the investments were acquired and their characteristics. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, HTM investments and AFS financial assets.

A more detailed description of the four categories of financial assets relevant to the Association as at and for the year ended December 31, 2017 follows:

*i. Financial Assets at FVTPL*

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments.

Subsequent to initial recognition, financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term.

As at December 31, 2017, the Association does not have financial assets designated at FVTPL.

*ii. AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

All financial assets within this category are subsequently measured at fair value, except for equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost, less impairment loss, if any. Gains and losses are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss. When the asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative gain or loss recognized in other comprehensive income is reclassified from revaluation reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income.

Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

As at December 31, 2017, the Association's AFS financial assets is presented in Note 10.

*iii. HTM Investments*

This includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as HTM if the Association has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification. If the Association were to sell other than an insignificant amount of HTM investments, the whole category would be tainted and reclassified to AFS financial assets.

Subsequent to initial recognition, the HTM investments are measured at amortized cost using the effective interest method, less impairment losses, if any. Impairment loss, which is the difference between the carrying value and the present value of estimated future cash flows of the investment, is recognized when there is objective evidence that the investment has been impaired. Any changes to the carrying amount of the investment, including impairment loss, are recognized in profit or loss.

The Association currently holds government bonds designated into this category in 2017.

iv. *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Association provides money or services directly to a debtor with no intention of trading the receivables. Included in this category are those arising from direct loans to customers and all receivables from customers and other Association. They are included in current assets, except for those with maturities greater than 12 months after the end of each reporting period, which are classified as non-current assets.

The Association's financial assets categorized as loans and receivables are presented as Cash and cash equivalents, Short-term investments and Loans and other receivables in the statements of financial position.

Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Short-term investment includes time deposits with original maturities of more than three months but less than one year.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Any change in their value is recognized in profit or loss, except for increases in fair values of reclassified financial assets under PAS 39 and PFRS 7. Increases in estimates of future cash receipts from such financial assets shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the financial asset at the date of the change in estimate.

Impairment loss is provided when there is objective evidence that the Association will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows.

For investments that are actively traded in organized financial markets, fair value is determined by reference to exchange-quoted market bid prices at the close of business on the reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

*b. Impairment of Financial Assets*

*Impairment of Financial Assets Under PFRS 9*

From January 1, 2018, the Association assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost and debt instruments measured at FVOCI. Recognition of credit losses is no longer dependent on the Association's identification of a credit loss event. Instead, the Association considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Association applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade and other receivables and contract assets. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL, the Association uses its historical experience, external indicators and forward-looking information to calculate the ECL using a provision matrix. The Association also assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics, and have been grouped based on the days past due.

For debt instruments measured at FVOCI and at amortized cost, the allowance for credit losses is based on the ECL associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since the origination of the financial asset, in such case, a lifetime ECL for a purchased or originated credit impaired, the allowance for credit losses is based on the change in the ECL over the life of the asset. The Association recognized a loss allowance for such losses at each reporting date.

The key elements used in the calculation of ECL are as follows:

- *Probability of default* – It is an estimate of likelihood of default over a given time horizon.

- *Loss given default* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Association would expect to receive, including the realization of any collateral.

- *Exposure at default* – It represents the gross carrying amount of the financial instruments subject to the impairment calculation.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

*Impairment of Financial Assets Under PAS 39*

As at December 31, 2017, the Association's assessed impairment of financial assets as follows:

*i. Assets Carried at Amortized Cost*

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial asset with similar credit risk characteristics and collectively assesses them for impairment. 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 on loans or HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit loss that have not been incurred) discounted at the financial asset's original effective interest rate.

*ii. Assets Carried at Cost*

If there is objective evidence of impairment for any of the unquoted equity instruments that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and required to be settled by delivery of such an unquoted equity instrument, impairment loss is recognized. The amount of impairment loss is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

*iii. Assets Carried at Fair Value*

When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Revaluation Reserves to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

c. *Items of Income and Expense Related to Financial Assets*

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Interest income or Interest expense, Impairment losses, Gain on disposal of financial assets, Dividend income and Recoveries from accounts written-off (presented as part of Other income) in the profit or loss.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in the profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

d. *Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Association neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Association recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Association retains substantially all the risks and rewards of ownership of a transferred financial asset, the Association continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

e. *Financial Liabilities*

As the accounting for financial liabilities remains largely the same under PFRS 9 compared to PAS 39, the Association's financial liabilities were not impacted by the adoption of PFRS 9. However, for completeness, the accounting policy is disclosed below.

Financial liabilities are classified as financial liabilities at FVTPL, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Association determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

As at December 31, 2018 and 2017, the Association did not have financial liabilities at FVTPL or derivative liabilities designated as hedging instruments.

The Association's financial liabilities include accounts payable and other liabilities, liability on individual equity value, basic contingent benefit reserve and claims payable on basic contingent benefit. These are recognized when the Association becomes a party to the contractual agreements of the instrument.

Accounts payable and other liabilities are initially recognized at their fair value and subsequently measured at amortized cost, using effective interest method for any maturities beyond one year, less settlement payments.

Liability on individual equity value, basic contingent benefit reserve and claims payable on basic contingent benefit are recognized as financial liabilities based on the amounts recommended by an independent actuary.

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

f. *Offsetting Financial Instruments*

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Association currently has legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

*Prepayments*

This account pertains to prepayments controlled by the Association as a result of past events. They are recognized in the 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.

*Property and Equipment*

Land and building and improvements are measured at acquisition or construction cost less depreciation for building and improvements. As no finite useful life for land can be determined, related carrying amount are not depreciated. All other property and equipment are carried at acquisition cost less accumulated depreciation and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses are removed from the accounts and any resulting gain or loss is reflected in income for the period.

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

| | |
|---|---|
| Building and improvements | 2-30 years |
| Furniture, fixtures and equipment | 2-5 years |
| Transportation equipment | 2-5 years |

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at each reporting date.

An item of property and equipment, including the related accumulated depreciation and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statements of comprehensive income in the year the item is derecognized.

*Investment Property*

This account includes parcels of land acquired in settlement of loans recorded at the lower of the total loan exposure or bid price at the same time of foreclosure, which should not be higher than the fair value of the property less costs to sell. Any excess of the loan balance over the bid price that is not recoverable from the borrower is included under Other losses in the statements of comprehensive income. Holding costs subsequent to foreclosure or acquisition of the properties are charged to operations as incurred.

Other investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. This investment property is initially recognized at cost, which includes acquisition price plus directly attributable cost incurred such as legal fees, transfer taxes and other transaction impairment losses, if any. Investment property is recognized using cost model. Depreciation is computed on the straight-line basis over ssthe estimated useful life of 5 years

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal.

*Impairment of Non-financial Assets*

The Association's property and equipment and investment property are subject to impairment testing. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Association's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

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

*Provisions and Contingencies*

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to 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.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Association that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Association can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

*Revenue and Expense Recognition*

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

- *Interest* - revenue is recognized as the interest accrues taking into account the effective yield on the asset.

  Interest collected in advance (unearned interest income) is amortized to earnings using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Association estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

For other income arises in the performance of Association's services, the Association follows a 5-step process to determine whether to recognize revenue:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

For Step 1 to be achieved, the following five gating criteria must be present:

i. the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
ii. each party's rights regarding the goods or services to be transferred or performed can be identified;
iii. the payment terms for the goods or services to be transferred or performed can be identified;
iv. the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
v. collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized either at a point in time or over time, when (or as) the Association satisfies performance obligations by transferring the promised goods or services to its customers.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

i. the customer simultaneously receives and consumes the benefits provided by the Association's performance as the Association performs;
ii. the Association's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
iii. the Association's performance does not create an asset with an alternative use to the Association and the entity has an enforceable right to payment for performance completed to date.

The Association recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Association satisfies a performance obligation before it receives the consideration, the Association recognizes either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Income that were recognized under the above criteria are discussed as follows:

- *General and insurance funds and membership fees* – revenue is recognized monthly as they become due from members.

- *Service charges and fees* – revenue is amortized and recognized using the effective interest rate method over the term of the loan.

- *Other contributions* – revenue is recognized upon receipt of contribution.

- *Miscellaneous* – revenue is recognized as they are earned.

In 2017 and prior periods, the Association recognized revenues based on the provisions of PAS 18 which is to the extent that such revenues and the related costs incurred or to be incurred can be measured reliably and it is probable that future economic benefits will flow to the Association. Where the outcome of the contract cannot be measured reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Expenses are recognized when it is probable that decrease in future economic benefits related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Cost and operating expenses are recognized in profit or loss upon utilization of services or at the date they are incurred.

*Employee Benefits*

The Association provides short term benefits and post-employment benefits to employees through a defined benefit plan, as well as various defined contribution plans.

a. *Short-term Benefits*

   Wages, salaries and bonuses are recognized as an expense in the year in which the associated services are rendered by employees. Short term accumulating compensated absences such as paid annual leave are recognized when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognized when the absences occur.

b. *Defined Benefit Plan*

   A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Association, even if plan assets for funding the defined benefit have been acquired. Plan assets may include assets specially designated to a long-term benefit fund, as well as qualifying insurance policies. The Association's defined benefit post-employment plans covers all regular full-time employees.

   The liability recognized in the statements of financial position for defined benefit pension plan is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated futures cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance costs or Finance income account in the statement of comprehensive income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment.

c. *Defined Contribution Plan*

A defined contribution plan under which the Association pays fixed contributions into an independent entity such as Social Security System (SSS), Philhealth and Pag-ibig. The Association has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

*Leases*

The Association accounts for its leases as follows:

a. *Association as Lessee*

Leases which do not transfer to the Association substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the statements of comprehensive revenues on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

b. *Association as Lessor*

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Association determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

*Income Taxes*

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the profit or loss.

*Related Party Transactions and Relationship*

Related party transactions are transfers of resources, services or obligations between the Association and its related parties, regardless 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. These parties include: (a) individuals 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 the legal form.

*Fund Balance*

Assigned fund balance represents that amount set-aside based on certain percentage from net profit during the year.

Free and unassigned fund balance includes all current and prior period results as disclosed in the statements of comprehensive income.

Accumulated other comprehensive loss includes all the accumulated fair value changes in defined benefit obligation.

*Events After the End of the Reporting Period*

Any post-year-end event that provides additional information about the Association's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

## 4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Association's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates 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. Actual results may ultimately differ from these estimates.

*Critical Management Judgments in Applying Accounting Policies*

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

a. *Determination of ECL on Loans and other receivables (2018)*

The Association uses a provision matrix to calculate ECL for trade and other receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is based on the Association's historical observed default rates. The Association's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions).

b. *Evaluation of Business Model Applied in Managing Financial Instruments (2018)*

Upon adoption of PFRS 9, the Association developed business models which reflect how it manages its portfolio of financial instruments. The Association's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Association) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Association evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Association (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Association's investment and trading strategies.

c. *Testing the Cash Flows Characteristics of Financial Assets and Continuing Evaluation of the Business Model (2018)*

In determining the classification of financial assets under PFRS 9, the Association assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Association assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows).

If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Association considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Association considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessary inconsistent with a held-to-collect business model if the Association can explain the reasons for those sales and why those sales do not reflect a change in the Association's objective for the business model.

*d. Classifying Financial Assets as HTM Investment (2017)*

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investment prior to the adoption of PFRS 9, the Association evaluates its intention and ability to hold such investments to maturity. If the Association fails to keep these investments as maturity other than for specific circumstances under the accounting policy as discussed in Note 2, it will be required to reclassify the entire class of HTM investment to AFS securities.

In 2017, the Association did not dispose any of its HTM investments prior to maturity of the investments. Consequently, the Association reclassified all of its HTM investments with amortized cost of P22,000,000 to Investment securities at fair value through other comprehensive income in relation to the adoption of PFRS 9 *(see Note 9)*.

The Association classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

*e. Evaluating Impairment of AFS Financial Assets (2017)*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment with respect to the Association's outstanding AFS financial assets as at December 31, 2017, the Association has evaluated, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. For investments issued by counterparty under bankruptcy, the Association determines permanent impairment based on the price of the most recent transaction and on latest indications obtained from reputable counterparties (which regularly quotes prices for distressed securities) since current bid prices are no longer available.

Based on management evaluation of information and circumstances affecting the Association's AFS financial assets as at December 31, 2017, the Association has not recognized any impairment loss.

f. *Distinction Between Investment Properties and Owner-managed Properties*

The Association determines whether a property qualifies as investment property. In making its judgment, the Association considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

g. *Distinction between Operating and Finance Leases*

The Association has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

h. *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 3 above and disclosures on relevant provisions and contingencies are presented in Note 23.

*Key Sources of Estimation Uncertainty*

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

a. *Estimation of Allowance for ECL (2018)*

The measurement of the allowance for ECL on financial assets at amortized cost and at FVOCI is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses).

The carrying value of loans and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 7.

b. *Estimation of Impairment of Financial Assets (HTM Investments and Loans and Other Receivables) (2017)*

The Association reviews its HTM investments and Loans and other receivables portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Association makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the financial asset or a portfolio of similar financial assets. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The total impairment losses on financial assets recognized in profit or loss is presented in Note 10.

c. *Fair Value Measurement of Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument.

Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Fair value losses of P3,981,777 in 2018 and P3,982,595 in 2017 on financial assets at fair value through profit and loss previously classified as available-for-sale financial assets in 2017 was reported in the statement of comprehensive income *(see Note 9)*.

The fair values of the Association's financial instruments are disclosed in Note 25.

d. *Estimation of Useful Lives of Property and Equipment and Investment Property Except Land*

The Association estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property and equipment are analyzed in Note 11. Based on management's assessment as at December 31, 2018 and 2017, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

e. *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

In 2018 and 2017, there were no impairment losses recognized on non-financial assets.

*f. Valuation of Post-employment Defined Benefit Obligation*

The determination of the Association's obligation and cost of post-employment is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 21 and include, among others, discount rates, expected rate of return on plan assets and expected rate of salary increases. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit as well as the significant assumptions used in estimating such obligation are presented in Note 21.

## 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as at December 31:

| | 2018 | 2017 |
|---|---|---|
| Cash in banks | P 84,676,555 | P 73,271,005 |
| Short-term placements | 115,279,517 | 136,497,419 |
| | P 199,956,072 | P 209,768,424 |

Cash in banks generally earn interest at rates based on daily banks deposit rates. Short-term placements are made for varying periods between 30 to 90 days and earn effective annual interest ranging from 1.50% to 5.44% in 2018 and 1.00% to 4.00% in 2017.

The interest earned on cash in banks and short-term placements amounted to P889,074 in 2018 and P1,847,711 in 2017 and are presented as part of Interest on investment securities and deposits with banks in the statements of comprehensive income.

## 6. SHORT-TERM INVESTMENTS

The short-term investments amounted to P81,248,155 in 2018 and P30,988,917 in 2017. These investments have a term for more than three months but less than one-year term and bear an annual effective interest ranging from 1.75% to 5.625% in 2018 and 1.75% to 4.29% in 2017.

The interest earned on short-term investments amounted to P5,408,997 in 2018 and P1,574,858 in 2017 and are presented as part of Interest on investment securities and deposits with banks in the statements of comprehensive income.

## 7. LOANS AND OTHER RECEIVABLES

The details of this account are shown below:

| | 2018 | 2017 |
|---|---|---|
| Consumption loans | P 375,170,011 | P 342,394,083 |
| Accrued income | 34,095,300 | 26,175,919 |
| Accounts receivable | 1,928,230 | 12,889,183 |
| | 411,193,541 | 381,459,185 |
| Allowance for impairment losses | ( 6,547,206) | ( 6,487,884) |
| | P 404,646,335 | P 374,971,301 |

In the statements of financial position, these are presented as follows:

| | 2018 | 2017 |
|---|---|---|
| Current | P 222,805,766 | P 227,223,792 |
| Non-current | 181,840,569 | 147,747,509 |
| | P 404,646,335 | P 374,971,301 |

The Association grants loans ranging from P1,000 to P10,000,000 and P1,000 to P14,000,000 in 2018 and 2017, respectively, with annual effective interest rates ranging from 5% to 16% in both years. The credit terms on loans ranging from 3 months to 10 years.

The interest received on loans and other receivables amounted to P38,872,048 in 2018 and P31,984,881 in 2017 and are presented as Interest on loans in the statements of comprehensive income.

Accounts receivable pertains to unremitted collections and receivable to borrowers who reacquired their previously foreclosed properties.

The Association collects service fees at 3% of loans granted. Service fees amounted to P7,477,313 and P7,168,850 in 2018 and 2017, respectively, and presented as Services charges and fees in the statements of comprehensive income.

Past due loans amounted to P22,968,429 in 2018 and P7,886,062 in 2017.

The movements in the allowance for impairment losses in loans receivables are as follows:

| | 2018 | 2017 |
|---|---|---|
| Balance at beginning of year | P 6,487,884 | P 5,013,321 |
| Impairment losses during the year *(see Note 17)* | 5,128,721 | 3,300,000 |
| Reversal | ( 5,069,399) | ( 1,825,437) |
| Balance at end of year | P 6,547,206 | P 6,487,884 |

An analysis of changes in the gross carrying amount and the corresponding ECL allowances follows:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Gross carrying amounts as at January 1, 2018 | P 334,508,021 | P 1,398,178 | P 6,487,884 | P 342,394,083 |
| New assets originated | 231,145,082 | 14,570,251 | 59,322 | 245,774,655 |
| Assets derecognized or prepaid | ( 212,998,727) | - | - | ( 212,998,727) |
| Gross carrying amounts as December 31, 2018 | P 352,654,376 | P 15,968,429 | P 6,547,206 | P 375,170,011 |
| ECL allowance as at January 1, 2018 Under PFRS 9 | P 6,295,465 | 34,115 | 158,304 | 6,487,884 |
| Provision for of credit losses | 4,771,760 | 355,574 | 1,447 | 5,128,721 |
| Reversal | ( 5,069,399) | - | - | ( 5,069,399) |
| ECL allowance as at December 31, 2018 under PFRS 9 | P 5,997,826 | P - | P - | P 6,547,206 |

## 8. FINANCIAL ASSETS AT AMORTIZED COST

This account includes investment securities amounting to P3,000,000 in 2018. This 182-day treasury bill bears interest of 4.018% in 2018. The interest earned on this financial assets amounted to P1,674 in 2018 and are presented as part of Interest on investment securities and deposits with banks in the statements of comprehensive income.

## 9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account comprises of investment securities as follows:

| | 2018 | 2017 |
|---|---|---|
| Mutual funds | P 44,453,200 | P 36,816,509 |
| Quoted equity securities | 40,861,396 | 37,372,963 |
| Equity securities under Investment Management Agreement (IMA) | 40,477,351 | 20,149,199 |
| Unit investment trust fund (UITF) | 5,404,384 | 5,254,464 |
| | P 131,196,331 | P 99,593,135 |

The reconciliation of the carrying amounts of these financial assets at FVTPL is as follows:

| | 2018 | 2017 |
|---|---|---|
| Balance at beginning of year | P 99,593,135 | P 79,431,996 |
| Additions | 49,083,135 | 43,865,712 |
| Disposals | ( 13,501,230) | ( 22,536,601) |
| Fair value losses - net | ( 3,978,709) | ( 1,167,972) |
| Balance at end of year | P 131,196,331 | P 99,593,135 |

In 2018 and 2017, the Association recognized gain from disposal of financial assets at FVTPL amounting to P2,096,938 and P2,568,896, respectively. These are presented as Income from sale of financial assets at fair value through profit or loss in the statements of comprehensive income.

The acquisition cost and accumulated fair value gain or loss of these financial assets at FVTPL are presented below:

| | Acquisition Cost | Fair Market Value | Accumulated Fair Value Gain or Loss |
|---|---|---|---|
| December 31, 2018 | | | |
| Mutual funds | P 45,000,000 | P 44,453,200 | P 546,800 |
| Quoted equity securities | 64,657,699 | 40,861,396 | 23,796,303 |
| Equity securities under IMA | 42,151,049 | 40,477,351 | 1,673,698 |
| UITF | 5,000,000 | 5,404,384 | ( 404,384) |
| | P 156,808,748 | P 131,196,331 | P 25,612,417 |
| December 31, 2017 | | | |
| Mutual funds | P 35,000,000 | P 36,816,509 | (P 1,816,509) |
| Quoted equity securities | 54,881,447 | 37,372,963 | 17,508,484 |
| Equity securities under IMA | 20,125,000 | 20,149,199 | ( 24,199) |
| UITF | 5,000,000 | 5,254,464 | ( 254,464) |
| | P 115,006,447 | P 99,593,135 | P 15,413,312 |

Quoted equity securities consist of investments in companies listed in the Philippine Stock Exchange. The fair values of listed equity securities have been determined directly by reference to published prices in active markets.

Equity securities under Investment Management Agreement (IMA) consists of bonds, note placements and shares of listed companies managed by several local banks.

The fair values of mutual funds, UITF, and equity securities under IMA have been determined directly by reference to published prices in active markets.

In 2017, these equity securities were classified under AFS financial assets.

## 10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

This account consists of the following treasury bonds and unquoted securities:

| | 2018 | 2017 |
|---|---|---|
| Corporate bonds | | |
| 10-Year Treasury Bonds | P 10,000,000 | P 10,000,000 |
| 20-Year Treasury Bonds | 7,000,000 | 7,000,000 |
| Government bonds | | |
| 3-Year Treasury Bonds | 10,000,000 | 5,000,000 |
| Unquoted equity securities | 500,000 | 500,000 |
| | P 27,500,000 | P 22,500,000 |

Treasury bonds bear interest ranging from 3.25% to 7.25% in 2018 and 2017. These investments were set aside as guarantee fund reserves in compliance with the Association's registration as mutual benefit association.

The interest earned on these investments amounted to P1,008,375 in 2018 and P749,000 in 2017 and are presented as part of Interest on investment securities and deposits with banks in the statements of comprehensive income.

Unquoted equity security consists of investment in a non-stock association.

The fair values of unquoted equity securities are neither readily available nor is there an alternative basis for deriving a reasonable valuation as of reporting date. Management believes that no impairment should be recognized with this investment.

In 2017, treasury bonds were classified under HTM investments while unquoted equity securities was classified under AFS financial assets.

## 11. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation at the beginning and end of 2018 and 2017 are shown below:

| | Building and Improvements | Transportation Equipment | Furniture Fixtures and Equipment | Land | Total |
|---|---|---|---|---|---|
| December 31, 2018 | | | | | |
| Cost or valuation | P 12,311,779 | P 8,007,621 | P 6,872,318 | P 6,182,137 | P 33,373,855 |
| Accumulated depreciation | ( 5,629,638) | ( 6,315,223 ) | ( 6,052,747 ) | - | ( 17,997,608) |
| Net carrying amount | P 6,682,141 | P 1,692,398 | P 819,571 | P 6,182,137 | P 15,376,247 |
| December 31, 2017 | | | | | |
| Cost or valuation | P 12,426,775 | P 3,710,930 | P 3,148,700 | P 6,182,137 | P 25,468,542 |
| Accumulated depreciation | ( 5,323,796) | ( 1,343,798 ) | ( 2,555,184 ) | - | ( 9,222,778) |
| Net carrying amount | P 7,102,979 | P 2,367,132 | P 593,516 | P 6,182,137 | P 16,245,764 |
| January 1, 2017 | | | | | |
| Cost or valuation | P 12,402,955 | P 4,013,630 | P 2,574,284 | P 6,182,137 | P 25,173,006 |
| Accumulated depreciation | ( 4,893,961) | ( 2,105,006) | ( 2,166,743 ) | - | ( 9,165,710) |
| Net carrying amount | P 7,508,994 | P 1,908,624 | P 407,541 | P 6,182,137 | P 16,007,296 |

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2018 and 2017 is shown below:

| | Building and Improvements | Transportation Equipment | Furniture Fixtures and Equipment | Land | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2018, net of accumulated depreciation | P 7,102,979 | P 2,367,132 | P 593,516 | P 6,182,137 | P 16,245,764 |
| Additions | - | - | 716,277 | - | 716,277 |
| Depreciation charge for the year *(see Note 15)* | ( 420,838) | ( 674,734) | ( 490,222) | - | ( 1,585,794) |
| Balance at December 31, 2018, net of accumulated depreciation | P 6,682,141 | P 1,692,398 | P 819,571 | P 6,182,137 | P 15,376,247 |
| Balance at January 1, 2017, net of accumulated depreciation | P 7,508,994 | P 1,908,624 | P 407,541 | P 6,182,137 | P 16,007,296 |
| Additions | 23,820 | 1,266,400 | 574,416 | - | 1,864,636 |
| Depreciation charge for the year *(see Note 15)* | ( 429,835) | ( 807,892) | ( 388,441) | - | ( 1,626,168) |
| Balance at December 31, 2017, net of accumulated depreciation | P 7,102,979 | P 2,367,132 | P 593,516 | P 6,182,137 | P 16,245,764 |

As at December 31, 2018, and 2017, the management believes that there is no indication of impairment and that the carrying value of the property and equipment can be recovered through use in operations.

In addition, there were no property and equipment pledge as security or collateral for liabilities for both years.

## 12. INVESTMENT PROPERTY

The Association's investment property pertains to the portion of the land and land improvements held for sale and lease. These also include real and other properties acquired in satisfaction of unsettled debts. The Association currently holds these acquired assets for purposes of capital appreciation and continues to value its properties using the cost model.

The gross carrying amounts and the accumulated depreciation of investment property are shown below:

| | Land | Land Improvements | Total |
|---|---|---|---|
| December 31, 2018 | | | |
| Cost | P 90,770,300 | P 341,782 | P 91,112,082 |
| Accumulated depreciation | - | ( 54,480) | ( 54,480) |
| Net carrying amount | P 90,770,300 | P 287,302 | P 91,057,602 |
| December 31, 2017 | | | |
| Cost | P 92,749,953 | P 341,782 | P 93,091,735 |
| Accumulated depreciation | - | ( 54,480) | ( 54,480) |
| Net carrying amount | P 92,749,953 | P 287,302 | P 93,037,255 |
| January 1, 2017 | | | |
| Cost | P 100,319,333 | P 341,782 | P 100,661,115 |
| Accumulated depreciation | - | ( 40,860) | ( 40,860) |
| Net carrying amount | P 100,319,333 | P 300,922 | P 100,620,255 |

The reconciliations of the carrying amounts at the beginning and end of 2018 and 2017, of investment property, are shown below:

| | Land | Land Improvements | Total |
|---|---|---|---|
| Balance at January 1, 2018, net of accumulated depreciation | P 92,749,953 | P 287,302 | P 93,037,255 |
| Adjustments | ( 435,913) | - | ( 435,913) |
| Disposal | ( 1,543,740) | - | ( 1,543,740) |
| Balance at December 31, 2018, net of accumulated depreciation | P 90,770,300 | P 287,302 | P 91,057,602 |

| | Land | Improvements | Total |
|---|---|---|---|
| Balance at January 1, 2017, net of accumulated depreciation | P 100,319,333 | P 300,922 | P 100,620,255 |
| Adjustments | ( 7,569,380) | - | ( 7,569,380) |
| Depreciation charge for the year | - | ( 13,620) | ( 13,620) |
| Balance at December 31, 2017, net of accumulated depreciation | P 92,749,953 | P 287,302 | P 93,037,255 |

The Association recognized gain on sale of investment property amounting P2,910,378 in 2018 and is presented as part of Other income under miscellaneous in the statements of comprehensive income.

The Association's investment property includes real and other properties acquired in satisfaction of unsettled debts. The Association currently holds these acquired assets for purposes of capital appreciation and continues to value its properties using the cost model.

The fair value information of the investment property as at December 31, 2018 and 2017 cannot be determined reliably primarily because comparable market transactions were infrequent and alternative reliable estimates of fair value based on discounted cash flow projections were not available as at the financial reporting date.

## 13. ACCOUNTS PAYABLE AND OTHER LIABILITIES

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Current: | | |
| Accounts payable | P 9,844,014 | P 12,352,079 |
| Due to government agencies | 508,508 | 546,791 |
| Accrued expenses | 369,498 | 33,378 |
| | P 10,722,020 | P 12,932,248 |
| Non-Current | | |
| Advance deposit | P 42,324 | P 151,017 |

## 14. LIABILITY ON INDIVIDUAL EQUITY VALUE

This account pertains to legal policy reserve which represents the amount set-up by the Association to cover future benefit payments to members based on the amounts recommended by an independent actuary accredited by the Insurance Commission dated April 29, 2019 and April 27, 2018, respectively.

The movement of liability on individual equity value is presented below:

| | 2018 | 2017 |
|---|---|---|
| Balance at beginning of year | P 601,199,316 | P 522,522,334 |
| Collections from equity participation during the year | 76,123,603 | 78,676,982 |
| Balance at end of year | P 677,322,919 | P 601,199,316 |

## 15. BASIC CONTINGENT BENEFIT RESERVE

This account represents the amount set-up by the Association as insurance premium reserves based on 50% of the total insurance collected from the members to cover any insurance claim by the members.

The account is broken down as follows:

| | 2018 | 2017 |
|---|---|---|
| Insurance fund collateral | P 2,335,448 | P 1,965,723 |
| Multiply by 50% | 50% | 50% |
| | P 1,167,724 | P 982,862 |

The movements of this account are as follows:

| | 2018 | 2017 |
|---|---|---|
| Balance at beginning of year | P 982,862 | P 852,118 |
| Additional reserves | 184,862 | 130,744 |
| Balance at end of year | P 1,167,724 | P 982,862 |

## 16. CLAIMS PAYABLE ON BASIC CONTINGENT BENEFIT

This represents benefit claims on membership certificates filed or reported to the Association but not yet paid amounting to P1,730,000 and P1,835,000 as at December 31, 2018 and 2017, respectively.

## 17. EXPENSES AND OTHER INCOME

*Expenses*

This account is consists of the following:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Salaries, wages and employees benefits *(see Note 21)* | P | 15,278,969 | P | 11,945,542 |
| Insurance claims | | 8,455,000 | | 7,420,000 |
| Impairment losses *(see Note 7)* | | 5,128,721 | | 3,300,000 |
| Transportation and travel | | 3,685,846 | | 1,835,424 |
| Depreciation *(see Notes 11 and 12)* | | 1,585,794 | | 1,639,788 |
| Meetings and conferences | | 1,482,961 | | 2,719,732 |
| Stationery and office supplies | | 1,324,692 | | 1,183,273 |
| Administrative expenses | | 1,241,771 | | 1,035,700 |
| Utilities | | 607,378 | | 516,549 |
| Taxes and licenses *(see Note 28)* | | 521,308 | | 319,779 |
| Repairs and maintenance | | 243,080 | | 362,892 |
| Communication | | 272,723 | | 242,999 |
| Professional fees | | 195,486 | | 393,600 |
| Contractors fees | | 143,183 | | 252,200 |
| Commission | | 93,994 | | 129,297 |
| Miscellaneous | | 1,237,699 | | 940,567 |
| | P | 41,498,605 | P | 34,237,342 |

These expenses are classified in the statements of comprehensive income as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Operating expenses | P | 33,043,605 | P | 26,817,342 |
| Benefit expenses | | 8,455,000 | | 7,420,000 |
| | P | 41,498,605 | P | 34,237,342 |

*Other Income*

This account consists of the following:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Gain on sale of investment property | P | 2,910,378 | P | - |
| Rental income *(see Note 23)* | | 1,975,508 | | 2,708,397 |
| Penalty income | | 648,568 | | 568,704 |
| Gain on sale of property and equipment *(see Note 10)* | | - | | 218,000 |
| Miscellaneous | | 4,136,031 | | 1,540,231 |
| | P | 6,760,107 | P | 5,035,332 |

## 18. MEMBERS' CONTRIBUTIONS

The Association collects monthly contributions from members ranging from P100 to P20,000 depending on the mode of payments and insurance cover which forms part of general fund and insurance fund. The general fund amounted to P13,602,734 and P14,663,020 in 2018 and 2017, respectively, while insurance fund amounted to P25,631,692 and P22,804,068 in 2018 and 2017, respectively. These funds were presented in the statements of comprehensive income.

Members can only withdraw the contributed equity upon termination of membership in the Association. A portion of members' equity is transferred to general fund when members fail to remit their monthly loan contributions. Members whose equity is less than the members' outstanding loan balance are reclassified as non-members. Total contributions amounted to P166,717,862 and P147,118,318 in 2018 and 2017, respectively.

Membership fees are recorded as revenues and are shown as Membership fees in the statements of comprehensive income. Membership fees amounted to P1,194,300 and P924,400 in 2018 and 2017, respectively.

As at December 31, 2018, and 2017, the Association has a total of 148,980 and 128,614 members, respectively.

## 19. FUND BALANCE

*Assigned Fund Balance*

This account is composed of the following:

| | 2018 | 2017 |
|---|---|---|
| Guaranty fund | P 38,000,000 | P 38,000,000 |
| Funds assigned for members' benefits | 2,000,000 | 2,000,000 |
| | P 40,000,000 | P 40,000,000 |

The fund assigned for guaranty fund pertains to the portion of the fund balance set aside for guaranty fund.

Fund assigned for members' benefits were assigned for the following accounts:

| | |
|---|---|
| Funds for incremental benefit for individual equity value | P 500,000 |
| Funds assigned for education and training | 500,000 |
| Funds assigned for other member's benefit | 500,000 |
| Funds assigned for community development | 500,000 |
| | P 2,000,000 |

*Accumulated Other Comprehensive Loss*

This account pertains to loss on remeasurements of retirement benefit obligation in 2018. Revaluation of AFS financial assets in 2017 (classify under Financial assets at FVTPL in 2018) was adjusted to the beginning balance of Free and unassigned surplus in adoption of PFRS 9. Movement of this account is as follow:

| | Revaluation of AFS Financial Assets | Remeasurements of Retirement benefit obligation | Total |
|---|---|---|---|
| December 31, 2018 | | | |
| Balance at beginning of year | (P 15,413,312) | (P 7,147,837) | (P 22,561,149) |
| Effect of adoption of PFRS 9 Transfer to free and unassigned fund balance | 15,413,312 | - | 15,413,312 |
| Balance at end of year | P - | (P 7,147,837) | (P 7,147,837) |
| December 31, 2017 | | | |
| Balance at beginning of year | (P 14,245,340) | (P 6,207,174) | (P 20,452,514) |
| Fair value loss on disposal during the year | 2,814,623 | - | 2,814,623 |
| Revaluation during the year | ( 3,982,595) | ( 940,663) | ( 4,923,258) |
| Balance at end of year | (P 15,413,312) | (P 7,147,837) | (P 22,561,149) |

## 20. RELATED PARTY TRANSACTIONS

The Association's related parties include the Association's employees, directors, officers, stockholders and related interest (DOSRI) and key management personnel.

The summary of the Association's transactions and outstanding balances with the related parties follows:

| | 2018 | | 2017 | | |
|---|---|---|---|---|---|
| | Amount of Transactions | Outstanding Balance | Amount of Transactions | Outstanding Balance | Terms and Condition |
| DOSRI | | | | | |
| Loans and interest | (P 2,544,948) | P 484,322 | P 675,011 | P 3,029,270 | Interest bearing ranging 5% to 16% payable in 3 years, unsecured, no impairment loss |
| Key management personnel | | | | | |
| Compensation | P 5,387,040 | P - | P 8,611,132 | P - | |

*Loans and Receivables with Related Parties*

In the ordinary course of business, the Association has loans and other transactions with its members, including officers and employees of the Association (hereinafter referred to as related parties). Under the Association's policy, these loans and other transactions are made substantially on the same terms as with other members.

The movement of these loans to related parties is presented below:

| | 2018 | 2017 |
|---|---|---|
| Balance at beginning of year | P 3,029,270 | P 2,354,259 |
| Releases during the year | - | 1,176,677 |
| Collections during the year | ( 2,544,948) | ( 501,666) |
| Balance at end of year | P 484,322 | P 3,029,270 |

*Key Management Compensation*

The compensation of key management is broken down as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Salaries and wages | P | 5,387,040 | P | 5,707,039 |
| Retirement benefits | | - | | 1,076,352 |
| | P | 5,387,040 | P | 6,783,391 |

Key management includes general manager and higher positions.

## 21. EMPLOYEE BENEFITS

*Salaries and Employee Benefit Expense*

Expenses recognized for salaries and employee benefits are presented below:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Salaries and wages | P | 8,629,166 | P | 6,715,294 |
| Employees welfare and benefits | | 4,569,978 | | 2,806,555 |
| Retirement costs | | 1,451,341 | | 1,895,838 |
| Social security costs | | 628,484 | | 527,855 |
| | P | 15,278,969 | P | 11,945,542 |

*Retirement Benefit Obligation*

a. *Characteristics of the Retirement Benefit Obligation*

The Association does not have yet a tax-qualified, non-contributory retirement plan as at December 31, 2018 and 2017.

The normal retirement age is 60 with a minimum of 5 years of credited service. The plan also provides for an early retirement at age 50 with a minimum of 5 years of credited service and late retirement after age 60, both subject to the approval of the Association's BOD. Normal retirement benefit is an amount equivalent to 150% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

a. *Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented in 2017 are based on the actuarial valuation report obtained from an independent actuary on February 19, 2018. As at December 31, 2018, actuarial valuation report is not available and there were no material changes on the last year's assumptions used by the management.

The amounts of retirement benefit obligation recognized in the statements of financial position are as follows:

| | 2018 | 2017 |
|---|---|---|
| Present value of the obligation | P 19,897,223 | P 18,445,882 |
| Fair value of plan assets | ( 13,270,102) | ( 11,818,761) |
| Retirement benefit obligation | P 6,627,121 | P 6,627,121 |

The movements in the present value of the retirement benefit obligation recognized in the books are as follows:

| | 2018 | 2017 |
|---|---|---|
| Balance at beginning of year | P 18,445,882 | P 15,688,063 |
| Current service cost | 1,213,302 | 1,657,801 |
| Interest cost | 238,037 | 814,994 |
| Benefits paid | - | ( 131,200) |
| Actuarial loss | - | 416,224 |
| Balance at end of year | P 19,897,223 | P 18,445,882 |

The movements in the fair value of plan assets are presented below:

| | 2018 | 2017 |
|---|---|---|
| Balance at beginning of year | P 11,818,761 | P 10,445,801 |
| Contributions | 1,451,341 | 1,451,641 |
| Actual return | - | 52,519 |
| Benefits paid | - | ( 131,200) |
| Balance at end of year | P 13,270,102 | P 11,818,761 |

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below:

| | 2018 | 2017 |
|---|---|---|
| Cash and cash equivalents | P 11,279,978 | P 9,828,637 |
| Retirement loan to employees | 1,990,124 | 1,990,124 |
| | P 13,270,102 | P 11,818,761 |

The fair values of the above equity and debt securities are determined based on the quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

Plan assets do not compromise any of the Association's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the retirement benefit obligation are as follows:

| | 2018 | 2017 |
|---|---|---|
| *Reported in profit or loss:* | | |
| Current service costs | P 1,451,341 | P 1,657,801 |
| Interest costs | - | 238,037 |
| | P 1,451,341 | P 1,895,838 |
| *Reported in other comprehensive income-* | | |
| Actuarial loss | P - | (P 940,663) |

Current service and interest cost is allocated and presented as part of operating expenses in the statement of profit or loss.

In determining the amounts of the retirement benefit obligation, the following significant actuarial assumptions were used:

| | 2018 | 2017 |
|---|---|---|
| Discount rates | 5.44 | 5.44% |
| Expected rate of salary increases | 7% | 7% |

Assumptions regarding mortality are based on published statistics and mortality tables. The average age of the employees is 37.29 years in 2018 and 2017, while the average years of service is 8.35 in 2018 and 2017. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bonds with terms to maturity approximating to the terms of the retirement benefit obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

b. *Risks Associated with the Retirement Plan*

The plan exposes the Association to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

i. Interest Risk

The present value of the retirement benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation.

ii. Longevity and Salary Risks

The present value of the retirement benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants during their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

c. *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below:

*Sensitivity Analysis*

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the retirement benefit obligation at the actuarial valuation report date after first adjusting one of the current assumptions according to the applicable sensitivity increment or decrement, based on changes in the relevant assumption that were reasonably possible at the valuation date, while all other assumptions remained unchanged. The sensitivities were expressed as the corresponding change in the retirement benefit obligation.

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit obligation as at December 31, 2017:

| | Impact on defined benefit obligation | | |
|---|---|---|---|
| | Change in Assumption | Increase in Assumption | Decrease in Assumption |
| December 31, 2017 | | | |
| Discount rate | 1% | P 3,521,208 | (P 3,451,481) |
| Salary increase rate | 1% | 3,322,621 | ( 3,256,827) |
| Withdrawal rate | 10% | ( 197,157) | 193,253 |

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the statements of financial position.

## 22. TAX EXPENSE

The components of tax expense as reported in the statements of comprehensive revenues are presented below:

| | 2018 | 2017 |
|---|---|---|
| Regular corporate income tax | P 592,652 | P 877,919 |
| Final tax at 20% | 1,403,353 | 834,314 |
| | P 1,996,005 | P 1,712,233 |

As mentioned in Note 1, the Association is exempt from the payment of income tax under Section 30c of the National Internal Revenue Code. However, the Association's income from rental is subjected to regular income tax of 30%.

In 2013, the Association donated computer equipment to Alexis G. Santos National High School, Masagana Public High School and Lolomboy National High School amounting to P164,350. Likewise, the Association donated computer equipment of P147,045 to San Gabriel Elementary School in 2012, science equipment package of P73,550 in 2011 to Turo Elementary School located in Bocaue, Bulacan and P80,000 in 2010 to Sta. Maria Elementary School located in Poblacion, Sta. Maria, Bulacan. Under the Memorandum of Agreement between the Association and Department of Education, the Association entitles to tax incentives equivalent to the amount donated plus an additional 50% of the amount donated subject to approval by the Bureau of Internal Revenue (BIR) pursuant to Revenue Regulations No. 10-2003.

On June 30, 2014, the Association received an exception from the BIR for the Adopt a School Program in favor of DepEd Turo Elementary School and Sta. Maria Elementary School. The said exemption entitles the Association to a full deductibility of donation and entitlement to a 50% additional deduction. The donation also exempts the Association from paying donors tax pursuant to R.A. 8525.

## 23. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Association:

*Operating Lease – Association as Lessor*

The Association is a lessor on various offices with terms ranging from one to ten years, with renewal options, and includes annual escalation rates of 10%. The future minimum lease payments receivable under these leases as at December 31 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Within one year | P 999,492 | P 1,239,363 |
| After one year but not more than five years | - | 1,746,477 |
| Due more than five years | - | - |
| | P 999,492 | P 2,985,840 |

Rental income recognized from these leases amounted to P1,975,508 in 2018 and P2,708,397 in 2017 and presented as part of Others under Revenues account in the statements of comprehensive revenues *(see Note 17)*.

*Others*

In the normal course of business, the Association makes various commitments and incurs certain contingent liabilities that are not given recognition in the Association's financial statements. Management believes that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Association's financial statements.

## 24. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Association is exposed to a variety of financial risks in relation to financial instruments. The Association's financial assets and liabilities by category are summarized in Note 24. The main types of risks are market risk, credit risk and liquidity risk.

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

The Association does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Association is exposed to are described below.

*Market Risk*

The Association is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks which result from both its operating and investing activities.

a. *Foreign Currency Sensitivity*

The Association has no significant exposure to foreign currency risks as most transactions are denominated in Philippine peso, its functional currency.

b. *Interest Rate Sensitivity*

The Association's policy is to minimize interest rate cash flow risk exposures on long-term financing. The Association is exposed only to changes in market interest rates through its cash and cash equivalents, short-term investments and HTM investments as there are no existing bank borrowings. All other financial assets (such as loans and other receivables) and financial liabilities (such as accounts payable and other liabilities) have fixed interest rates.

Interest income would have either increased or decreased by P102,909 in 2018 and P387,267 in 2017 assuming reasonably possible change in interest rates of +/-.82% for regular savings and +/-1.49% for time deposit account in 2018 and 2017, with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Association's cash and cash equivalents held at December 31, 2018 and 2017. All other variables are held constant.

c. *Other Price Risk Sensitivity*

The Association's market price risk arises from its investments carried at fair value through profit or loss (AFS financial assets in 2017). It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments. For these securities, an average volatility of 23% has been observed in both years. If quoted price for these securities increased or decreased by that amount, profit before tax would have changed by P482,296 in 2018 and P658,437 in 2017.

These investments are considered long-term strategic investments. No specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity investments are utilized in the Association's favor.

*Credit Risk*

Credit risk is the risk that counterparty fails to discharge an obligation to the Association. The Association is exposed to this risk for various financial instruments, for example by granting loans and receivables to borrowers, placing deposits and investment in bonds.

An analysis of the maximum exposure to credit risk, net of allowance for credit and impairment losses, to credit risk exposures before taking into account any collateral held or other credit enhancements for the components of the statements of financial position is shown below:

| | 2018 | 2017 |
|---|---|---|
| Cash and cash equivalents | P 199,956,072 | P 209,768,424 |
| Short-term investments | 81,248,155 | 30,988,917 |
| Loans and other receivables | 404,646,335 | 374,971,301 |
| Financial assets at Amortized cost | 3,000,000 | - |
| Financial assets at FVTPL | 131,196,331 | 99,593,135 |
| Financial assets at FVOCI | 27,500,000 | 22,500,000 |
| | P 847,546,893 | P 737,821,777 |

The following tables show the credit quality of financial assets by class (gross of allowance) of the Association:

| 2018 | Neither Past Due Nor Impaired | | | | | |
|---|---|---|---|---|---|---|
| | High Grade | Standard Grade | Substantard Grade | Past Due But Not Impaired | Impaired | Total |
| Cash and cash equivalents | P 199,956,072 | P - | P - | P - | P - | P 199,956,072 |
| Short-term investments | 81,248,155 | - | - | - | - | 81,248,155 |
| Financial assets at amortized cost | 3,000,000 | - | - | - | - | 3,000,000 |
| Financial assets at FVTPL | 131,196,331 | - | - | - | - | 131,196,331 |
| Financial assets at FVOCI | 27,500,000 | - | - | - | - | 27,500,000 |
| Loans and receivables: | | | | | | |
| Consumption loans | - | 352,654,376 | - | 15,968,429 | 6,547,206 | 375,170,011 |
| Accrued income | - | 34,095,300 | - | - | - | 34,095,300 |
| Accounts receivable | - | 1,928,230 | - | - | - | 1,928,230 |
| | P442,900,558 | P388,677,906 | P - | P 15,968,429 | P 6,547,206 | P 854,094,099 |

| 2017 | Neither Past Due Nor Impaired | | | | | |
|---|---|---|---|---|---|---|
| | High Grade | Standard Grade | Substantard Grade | Past Due But Not Impaired | Impaired | Total |
| Cash and cash equivalents | P 209,768,424 | P - | P - | P - | P - | P 209,768,424 |
| Short-term investments | 30,988,917 | - | - | - | - | 30,988,917 |
| Financial assets at FVTPL | 99,593,135 | - | - | - | - | 99,593,135 |
| HTM investments | 22,500,000 | - | - | - | - | 22,500,000 |
| Loans and receivables: | | | | | | |
| Consumption loans | - | 334,508,021 | - | 1,398,178 | 6,487,884 | 342,394,083 |
| Accrued interest | | | | | | |
| Accrued income | - | 26,175,919 | - | - | - | 26,175,919 |
| Accounts receivable | - | 12,889,183 | - | - | - | 12,889,183 |
| | P362,850,476 | P373,573,123 | P - | P 1,398,178 | P 6,487,884 | P 744,309,661 |

The succeeding tables show the aging analysis of past due loans and other receivables but not yet impaired. Under PFRS, a financial asset is past due when the counterparty has failed to make a payment when contractually due.

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | Over 180 days | Total |
| Loans and receivables: | | | | | | |
| Consumption | P 4,661,674 | P 2,278,112 | P 181,372 | P 31,035 | P 8,816,236 | P 15,968,429 |

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | Over 180 days | Total |
| Loans and receivables: | | | | | | |
| Consumption | P - | P 98,185 | P 154,253 | P 305,329 | P 840,411 | P 1,398,178 |

The Association's management considers the net amount of the above financial assets that are not impaired or past due for each reporting dates are of good credit quality. The bases in grading the Association's financial assets are as follows:

1. *High Grade*

   These are financial assets which have a high probability of collection. The counterparty has the apparent ability to satisfy its obligation and the security is readily enforceable.

2. *Standard Grade*

   These are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay but with the experience of default.

3. *Substandard Grade*

   These are receivables where the counterparty has the experience of default and probability of turning past due in the near future and/or are already past due.

*Liquidity Risk*

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Association's inability to meet its obligations when they fall due without incurring unacceptable losses or costs.

The Association's Management Committee is responsible for the overall management and oversight of the Association's liquidity profile, while the day to day management of liquidity is assumed by the Finance Department. A cash flow mismatch analysis is used to measure the Association's liquidity. A maturity ladder is constructed to determine the cumulative net excess or deficit of funds at appropriate time bands. Net cumulative outflow limits have been put in place to ensure that the Association's funding requirements are not strained.

The tables below summarize the maturity profile of the Association's financial instruments:

| | 2018 | | | | |
|---|---|---|---|---|---|
| | On Demand | Less than 3 Months | 3 to 12 Months | Over 1 Year | Total |
| Financial Assets: | | | | | |
| Cash and cash equivalents | P 84,676,555 | P 115,279,517 | P - | P - | P 199,956,072 |
| Short-term investments | - | - | 81,248,155 | - | 81,248,155 |
| Financial at Amortized cost | - | - | 3,000,000 | - | 3,000,000 |
| Financial assets at FVTPL | 131,196,331 | - | - | - | 131,196,331 |
| Financial at FVOCI | - | - | - | 27,500,000 | 27,500,000 |
| Loans and Receivables - gross | - | 220,505,701 | 8,847,271 | 181,840,569 | 411,193,541 |
| | 215,872,886 | 335,785,218 | 93,095,426 | 209,340,569 | 854,094,099 |
| Financial liabilities: | | | | | |
| Accounts payable and other liabilities | 10,170,188 | - | - | 42,324 | 10,213,512 |
| Liability on individual equity value | 677,322,919 | - | - | - | 677,322,919 |
| Claims payable on basic contingent benefit | 1,730,000 | - | - | - | 1,730,000 |
| Basic contingent benefit reserve | 1,167,724 | - | - | - | 1,167,724 |
| | 690,391,831 | - | - | 42,324 | 690,434,155 |
| Cumulative gap | (P474,518,945) | P 335,785,218 | P 93,095,426 | P 209,298,245 | P 163,659,944 |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | On Demand | Less than 3 Months | 3 to 12 Months | Over 1 Year | Total |
| Financial Assets: | | | | | |
| Cash and cash equivalents | P 73,721,005 | P 136,047,419 | P - | P - | P 209,768,424 |
| Short-term investments | - | - | 30,988,917 | - | 30,988,917 |
| Financial assets at FVTPL | 99,593,135 | - | - | - | 99,593,135 |
| Financial at FVOCI | - | - | - | 22,500,000 | 22,500,000 |
| Loans and Receivables - gross | - | 232,565,936 | 1,145,740 | 147,747,509 | 381,459,185 |
| | 173,314,140 | 368,613,355 | 32,134,657 | 170,247,509 | 744,309,661 |
| Financial liabilities: | | | | | |
| Accounts payable and other liabilities | 12,234,440 | - | - | 151,017 | 12,385,457 |
| Liability on individual equity value | 601,199,316 | - | - | - | 601,199,316 |
| Claims payable on basic contingent benefit | 982,862 | - | - | - | 982,862 |
| Basic contingent benefit reserve | 1,835,000 | - | - | - | 1,835,000 |
| | 616,251,618 | - | - | 151,017 | 616,402,635 |
| Cumulative gap | (P442,937,478) | P 368,613,355 | P 32,134,657 | P 170,096,492 | P 127,907,026 |

To ensure that the Association maintains a prudent and management level of cumulative negative gap, the Association maintains a pool of highly liquid assets in the form of short-term investments. Further, the Association has pending credit lines with the banks in the event of funding its operations.

## 25. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS

### a. *Fair Value of Financial Instruments*

The following tables set forth the carrying values and estimated fair values of financial assets and liabilities, by category and by class, recognized as at December 31:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| *Financial Assets* | | | | |
| Cash and cash equivalents | P 199,956,072 | P 199,956,072 | P 209,768,424 | P 209,768,424 |
| Short-term investments | 81,248,155 | 81,248,155 | 30,988,917 | 30,988,917 |
| Financial assets at amortized cost | 3,000,000 | 3,000,000 | - | - |
| Loans and other receivables | 411,193,541 | 404,646,335 | 381,459,185 | 374,971,301 |
| Financial assets at FVOCI | 27,500,000 | 27,500,000 | 22,500,000 | 22,500,000 |
| Financial assets at FVTPL | 131,696,331 | 131,696,331 | 99,593,135 | 99,593,135 |
| | P 854,594,099 | P 848,046,893 | P 744,309,661 | P 737,821,777 |
| *Financial Liabilities* | | | | |
| Accounts payable and other liabilities | P 10,213,512 | P 10,213,512 | P 12,385,457 | P 12,385,457 |
| Liability on individual equity value | 677,322,919 | 677,322,919 | 601,199,316 | 601,199,316 |
| Claims payable on basic contingent benefit | 1,730,000 | 1,730,000 | 1,835,000 | 1,835,000 |
| Basic contingent benefit reserve | 1,167,724 | 1,167,724 | 982,862 | 982,862 |
| | P 690,434,155 | P 690,434,155 | P 616,402,635 | P 616,402,635 |

The methods and assumptions used by the Association in estimating the fair value of the financial instruments are as follows:

i. *Cash and cash equivalents and short-term investments*

The carrying amounts approximate fair values given the short-term nature of the instruments.

ii. *Financial assets at FVTPL*

For publicly traded equity securities, fair values are based on quoted prices published in markets. For unquoted equity securities, fair value could not be reliably determined due to the unpredictable timing of future cash flows and the lack of suitable methods of arriving at a reliable fair value. These are carried at original cost less allowance for impairment loss.

iii. *Financial assets at FVOCI, Financial assets at amortized cost and Loans and other receivables*

Financial assets at FVOCI, financial assets at amortized cost and loans and other receivables are net of impairment losses. The estimated fair value of these financial assets represents the discounted amount of estimated future cash flows expected to be received. Long term interest-bearing loans are periodically repriced at interest rates equivalent to the current market rates, to determine fair value.

iv. *Accounts payable and other liabilities, Liability on individual equity value, and Basic contingent benefit reserve*

These liabilities are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. Fair value of these short-term liabilities approximates their carrying values.

b. *Fair Value Hierarchy*

The Association uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

There have been no significant transfers among Levels 1, 2 and 3 in the reporting periods.

As at December 31, 2018 and 2017, financial assets at FVTPL are the only financial assets (nil for liabilities) measured at fair value.

The financial asset values are determined at fair value hierarchy as follows:

| | 2018 | 2017 |
|---|---|---|
| Level 1 | P 412,900,558 | P 340,350,476 |
| Level 2 | 30,500,000 | 22,500,000 |
| Level 3 | 404,646,335 | 374,971,301 |
| | P 848,046,893 | P 737,821,777 |

All financial liabilities are categorized as Level 3.

## 26. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Associations' capital management objectives are to ensure the Association's ability to continue as a going concern and to provide an adequate return to members by pricing products and services commensurately with the level of risk.

The Association sets the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities. The Association manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Association may adjust the amount of dividends paid to members or sell assets to reduce debt.

The Association monitors capital on the basis of the carrying amount of equity as presented on the face of the statements of financial position. Capital for the reporting periods under review is summarized as follows:

| | 2018 | 2017 |
|---|---|---|
| Total liabilities | P 697,708,260 | P 623,766,495 |
| Total fund balance | 256,956,319 | 224,324,660 |
| Debt-to-fund ratio | 2.72:1.00 | 2.78:1.00 |

## 27. NON-ADMITTED ASSETS

The estimated amounts of non-admitted assets as defined in the Section 197 of the Insurance Code and still subject to examination by the IC which are included in the accompanying statements of financial position follow:

| | 2018 | 2017 |
|---|---|---|
| Short-term investments | P - | P 1,250,000 |
| Financial assets at FVTPL | - | 13,478,150 |
| Accounts receivable | 2,242,413 | 2,465,709 |
| Prepayments | 683,837 | 986,359 |
| Investment property | 33,000,387 | 33,490,780 |
| Property and equipment | 2,511,970 | 9,745,477 |
| | P 38,438,607 | P 61,416,475 |

## 28. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR 15-2010 are as follows:

a. *Output Value-Added Tax (VAT)*

The Association has no output VAT for the year 2018.

b. *Input VAT*

Input VAT arising from various purchases were directly charged by the Association as cost and expense.

c. *Taxes on Importation*

The Association has no tax on importation since it does not have any transactions which are subject to importation tax.

*d. Excise Tax*

The Association does not have excise tax in any of the year presented since it does not have any transactions which are subject to excise tax.

*e. Documentary Stamps Tax*

The Association did not pay nor incur documentary stamp tax during the year.

*f. Taxes and Licenses*

The details of taxes and licenses account are broken down as follows:

| | | |
|---|---|---|
| Real property tax | P | 69,981 |
| Percentage taxes | | 49,942 |
| Municipal license and permits | | 7,281 |
| Annual registration fee | | 500 |
| Others | | 393,604 |
| | P | 521,308 |

*g. Withholding Taxes*

The details of total withholding taxes for the year ended December 31, 2018 are shown below:

| | | |
|---|---|---|
| Compensation and employee benefits | P | 291,517 |
| Expanded | | 129,895 |
| | P | 421,412 |

*h. Deficiency Tax Assessment and Tax Case*

As at December 31, 2018, the Association neither has any deficiency tax assessment with the BIR nor does it has tax case outstanding or pending in courts or bodies outside the BIR in any of the open years.

## 29. RECLASSIFICATION OF ACCOUNTS

Certain accounts in the 2018 financial statements were reclassified to conform with the 2017 financial statement presentation of accounts.

# REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY SEC SCHEDULES FILED SEPARATELY FROM THE BASIC FINANCIAL STATEMENTS

**The Board of Trustees**
**Praxis Fides Mutual Benefit Association, Inc.**
***(A Non-Stock, Non-Profit Organization)***
35 Paseo del Congreso, Catmon
Malolos, Bulacan

We have audited in accordance with Philippine Standards on Auditing, the financial statements of **Praxis Fides Mutual Benefit Association, Inc.** *(A Non-Stock, Non-Profit Organization)* for the year ended December 31, 2018, on which we have rendered our report dated April 15, 2019. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The following schedules as of and for the year ended December 31, 2018 are presented for purposes of additional analysis in compliance with the requirements of Securities Regulation Code Rule 68, and are not required parts of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards:

1. Schedule of Receipts or Income Other Than Contributions and Donations;
2. Schedule of Contributions and Donations;
3. Schedule of Disbursements According to Sources and Activities; and,
4. Tabular Schedule of Standards and Interpretations

Such supplementary information are the responsibility of management. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**AMC & ASSOCIATES**

Ariel D. Gonzales

By: **Ariel D. Gonzales**
**Partner**
CPA Certification No. 89570
TIN 169-688-077-000
PTR No. 7336494, Jan. 7, 2019, Makati City
BIR Accreditation No. 08-003584-1-2019
(Mar. 06, 2019 to Mar. 05, 2022)
BSP Accreditation (Category B)
(valid until Dec. 31, 2020)
IC Accreditation No. SP-2018/003-R
(Mar. 3, 2018 to Mar. 2, 2021)
SEC Accreditation No. 1331-AR-1 (Group C)
(Sep. 28, 2016 to Sep. 27, 2019)

April 15, 2019



*Suite 1805 - 1807 Cityland Condominium 10, Tower 2, H.V. Dela Costa St., Makati City, Philippines*
*Tel. No.: (02)841.0462 • Fax No.: (02)893.0287*

PRAXIS FIDES MUTUAL BENEFIT ASSOCIATION, INC.
*(A Non-Stock, Non-Profit Organization)*
SCHEDULE OF RECEIPTS
FOR THE YEAR ENDED DECEMBER 31, 2018

| | General Fund | Basic Benefit Fund | Optional Fund | Total |
|---|---|---|---|---|
| Membership Fees/Dues Contribution | P 54,548,906 | P 192,349,554 | P - | P 246,898,460 |
| Gross Income | | | | |
| Interest on Deposits with Banks | - | - | 7,306,446 | 7,306,446 |
| Interest on Mortgage Loans | - | 28,822,881 | - | 28,822,881 |
| Interest on Collateral Loans | - | 310,856 | - | 310,856 |
| Interest on Certificate Loans | - | 19,700,752 | - | 19,700,752 |
| Other Income | - | 14,237,420 | - | 14,237,420 |
| Collection of receivables | - | 404,646,335 | - | 404,646,335 |
| Proceeds of deposits | - | - | - | - |
| Sales of stocks | - | - | 24,857,724 | 24,857,724 |
| TOTAL | P 54,548,906 | P 660,067,798 | P 32,164,170 | P 746,780,874 |

# PRAXIS FIDES MUTUAL BENEFIT ASSOCIATION, INC.

*(A Non-Stock, Non-Profit Organization)*

## SCHEDULE OF DISBURSEMENTS

## FOR THE YEAR ENDED DECEMBER 31, 2018

| | General Fund | Basic Benefit Fund | Optional Fund | Total |
|---|---|---|---|---|
| Benefits Paid | P - | P 8,455,000 | P - | P 8,455,000 |
| Direct Expense | | | | |
| Commission Incentives | - | 39,751,871 | - | 39,751,871 |
| Operating Expenses | 35,039,610 | - | - | 35,039,610 |
| Loan Releases | - | 283,064,270 | - | 283,064,270 |
| Placement of Time Deposit | - | - | 27,000,000 | 27,000,000 |
| Bonds | - | - | - | - |
| Stocks | - | - | 40,861,396 | 40,861,396 |
| Purchase of: | | | | |
| Transportation | - | - | - | - |
| Office Equipment | - | - | - | - |
| Furniture and fixtures | - | - | 716,777 | 716,777 |
| Other Disbursements | - | - | - | - |
| TOTAL | P 35,039,610 | P 331,271,141 | P 68,578,173 | P 434,888,924 |

## SCHEDULE OF CONTRIBUTIONS/DONATIONS

| Name of Foundation/Organization<br>PRAXIS FIDES MUTUAL BENEFIT ASSOCIATION INC. | SEC Registration No.<br>138299 |
|---|---|
| For the year ended<br>DECEMBER 31, 2018 | |

**Part I Contributors/Donors[1]**

| (a)<br>No. | (b)<br>Name and address | (c)<br>Nationality[2] | (d)<br>Total Contributions | (e)<br>Type of Contribution[3] |
|---|---|---|---|---|
| 1 | ................................................ | .................... | P.................... | Cash ☐<br>Noncash ☐<br>*(Complete Part II if there is a noncash contribution)* |
| 2 | ................................................ | .................... | P.................... | Cash ☐<br>Noncash ☐<br>*(Complete Part II if there is a noncash contribution)* |
| 3 | ................................................ | .................... | P.................... | Cash ☐<br>Noncash ☐<br>*(Complete Part II if there is a noncash contribution)* |
| 4 | ................................................ | .................... | P.................... | Cash ☐<br>Noncash ☐<br>*(Complete Part II if there is a noncash contribution)* |
| 5 | ................................................ | .................... | P.................... | Cash ☐<br>Noncash ☐<br>*(Complete Part II if there is a noncash contribution)* |
| 6 | ................................................ | .................... | P.................... | Cash ☐<br>Noncash ☐<br>*(Complete Part II if there is a noncash contribution)* |
| 7 | ................................................ | .................... | P.................... | Cash ☐<br>Noncash ☐<br>*(Complete Part II if there is a noncash contribution)* |
| 8 | ................................................ | .................... | P.................... | Cash ☐<br>Noncash ☐<br>*(Complete Part II if there is a noncash contribution)* |
| 9 | ................................................ | .................... | P.................... | Cash ☐<br>Noncash ☐<br>*(Complete Part II if there is a noncash contribution)* |
| 10 | ................................................ | .................... | P.................... | Cash ☐<br>Noncash ☐<br>*(Complete Part II if there is a noncash contribution)* |
| 11 | Others (aggregate of all contributions which are individually below P100,000.00) – by nationality | .................... | P.................... | Cash ☐<br>Noncash ☐ |

[1] A contributor or donor includes individuals, partnerships, corporations, associations, trusts and organizations.
[2] If supranational organization, indicate place of principal office or domicile.
[3] Contributions or donations reportable on the Schedule are contributions, donations, grants, bequests, devises, and gifts of money or property, amounting to P100,000.00 or more from each contributor or donor.

| Name of Foundation/Organization<br>PRAXIS FIDES MUTUAL BENEFIT ASSOCIATION INC. | SEC Registration No.<br>138299 |
|---|---|
| For the year ended DECEMBER 31, 2018 | |

**Part II Noncash Property**

| (a) No. from Part I | (b) Description of noncash property given | (c) Fair Market Value (or estimate) | (d) Date received |
|---|---|---|---|
| 1 | | P | |
| 2 | | P | |
| 3 | | P | |
| 4 | | P | |
| 5 | | P | |
| 6 | | P | |
| 7 | | P | |
| 8 | | P | |
| 9 | | P | |
| 10 | | P | |

Signed under oath by the following:

Signature Gener C. Luciano
Printed Name of President GENER C. LUCIANO

Signature
Printed Name of Treasurer FR. JOSEPH DJ. CRUZ

Signed this ____ day of 2019

**PRAXIS FIDES MUTUAL BENEFIT ASSOCIATION, INC.**
**Schedule of Philippine Financial Reporting Standards and Interpretations**
**Adopted by the Securities and Exchange Commission and the**
**Financial Reporting Standards Council as of December 31, 2018**

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements** | | ✔ | | |
| Conceptual Framework Phase A: Objectives and Qualitative Characteristics | | ✔ | | |
| **Practice Statement Management Commentary** | | ✔ | | |
| ***Philippine Financial Reporting Standards (PFRS)*** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | | | ✔ |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | | | ✔ |
| | Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | | | ✔ |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | | | ✔ |
| | Amendments to PFRS 1: Government Loans | | | ✔ |
| | Amendments to PFRS 1: Deletion of Short-term Exemptions | | | ✔ |
| **PFRS 2** | Share-based Payment | | | ✔ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✔ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✔ |
| | Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions | | | ✔ |
| **PFRS 3 (Revised)** | Business Combinations | | | ✔ |
| | Amendment to PFRS 3: Remeasurement of Previously Held Interests in a Joint Operation *(effective January 1, 2019)* | | | ✔ |
| **PFRS 4** | Insurance Contracts | | | ✔ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✔ |
| | Amendments to PFRS 4: Applying PFRS 9, *Financial Instruments*, with PFRS 4, *Insurance Contracts* | | | ✔ |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | ✔ |
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | | | ✔ |
| **PFRS 7** | Financial Instruments: Disclosures | ✔ | | |
| | Amendments to PFRS 7: Transition | | | ✔ |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | | | ✔ |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | | | ✔ |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | | | ✔ |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | | | ✔ |
| | Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities | ✔ | | |
| | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures | | | ✔ |
| **PFRS 8** | Operating Segments | | | ✔ |
| **PFRS 9** | Financial Instruments (2014) | ✔ | | |
| | Amendments to PFRS 9: Prepayment Features with Negative Compensation* *(effective January 1, 2019)* | | | ✔ |
| **PFRS 10** | Consolidated Financial Statements | | | ✔ |
| | Amendments to PFRS 10: Transition Guidance | | | ✔ |
| | Amendments to PFRS 10: Investment Entities | | | ✔ |
| | Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* *(effective date deferred indefinitely)* | | | ✔ |
| | Amendments to PFRS 10: Investment Entities - Applying the Consolidation Exception | | | ✔ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| PFRS 11 | Joint Arrangements | | | ✔ |
| | Amendments to PFRS 11: Transition Guidance | | | ✔ |
| | Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations | | | ✔ |
| | Amendment to PFRS 11: Remeasurement of Previously Held Interests in a Joint Operation *(effective January 1, 2019)* | | | ✔ |
| PFRS 12 | Disclosure of Interests in Other Entities | | | ✔ |
| | Amendments to PFRS 12: Transition Guidance | | | ✔ |
| | Amendments to PFRS 12: Investment Entities | | | ✔ |
| | Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception | | | ✔ |
| PFRS 13 | Fair Value Measurement | ✔ | | |
| PFRS 14 | Regulatory Deferral Accounts | | | ✔ |
| PFRS 15 | Revenue from Contracts with Customers | | | ✔ |
| PFRS 16 | Leases* *(effective January 1, 2019)* | | | ✔ |
| PFRS 17 | Insurance Contracts* *(effective January 1, 2021)* | | | ✔ |
| *Philippine Accounting Standards (PAS)* | | | | |
| PAS 1 (Revised) | Presentation of Financial Statements | ✔ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✔ |
| | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | ✔ | | |
| | Amendments to PAS 1: Disclosure Initiative | | | ✔ |
| PAS 2 | Inventories | | | ✔ |
| PAS 7 | Statement of Cash Flows | ✔ | | |
| | Amendments to PAS 7: Disclosure Initiative | | | ✔ |
| PAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors | ✔ | | |
| PAS 10 | Events After the Reporting Period | ✔ | | |
| PAS 12 | Income Taxes | ✔ | | |
| | Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets | | | ✔ |
| | Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses | | | ✔ |
| | Amendment to PAS 12 - Tax Consequences of Dividends* *(effective January 1, 2019)* | | | ✔ |
| PAS 16 | Property, Plant and Equipment | ✔ | | |
| | Amendments to PAS 16: Bearer Plants | | | ✔ |
| | Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization | | | ✔ |
| PAS 17 | Leases | ✔ | | |
| PAS 19 (Revised) | Employee Benefits | ✔ | | |
| | Amendments to PAS 19: Defined Benefit Plans - Employee Contributions | | | ✔ |
| PAS 20 | Accounting for Government Grants and Disclosure of Government Assistance | | | ✔ |
| PAS 21 | The Effects of Changes in Foreign Exchange Rates | | | ✔ |
| | Amendments: Net Investment in a Foreign Operation | | | ✔ |
| PAS 23 (Revised) | Borrowing Costs | | | ✔ |
| | Amendment to PAS 23: Eligibility for Capitalization | | | ✔ |
| PAS 24 (Revised) | Related Party Disclosures | ✔ | | |
| PAS 26 | Accounting and Reporting by Retirement Benefit Plans | | | ✔ |
| PAS 27 (Revised) | Separate Financial Statements | | | ✔ |
| | Amendments to PAS 27: Investment Entities | | | ✔ |
| | Amendments to PAS 27: Equity Method in Separate Financial Statements | | | ✔ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| PAS 28 (Revised) | Investments in Associates and Joint Ventures | | | ✔ |
| | Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* *(effective date deferred indefinitely)* | | | ✔ |
| | Amendments to PAS 28: Investment Entities - Applying the Consolidation Exception | | | ✔ |
| | Amendment to PAS 28: Measurement of Investment in Associates at Fair Value through Profit or Loss | | | ✔ |
| | Amendment to PAS 28: Long-term Interest in Associates and Joint Venture (*effective January 1, 2019*) | | | ✔ |
| PAS 29 | Financial Reporting in Hyperinflationary Economies | | | ✔ |
| PAS 32 | Financial Instruments: Presentation | ✔ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✔ |
| | Amendments to PAS 32: Classification of Rights Issues | | | ✔ |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | | | ✔ |
| PAS 33 | Earnings Per Share | | | ✔ |
| PAS 34 | Interim Financial Reporting | | | ✔ |
| PAS 36 | Impairment of Assets | ✔ | | |
| | Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets | ✔ | | |
| PAS 37 | Provisions, Contingent Liabilities and Contingent Assets | ✔ | | |
| PAS 38 | Intangible Assets | | | ✔ |
| | Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization | | | ✔ |
| PAS 40 | Investment Property | ✔ | | |
| | Amendment to PAS 40: Reclassification to and from Investment Property | | | ✔ |
| PAS 41 | Agriculture | | | ✔ |
| | Amendments to PAS 41: Bearer Plants | | | ✔ |
| ***Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)*** | | | | |
| IFRIC 1 | Changes in Existing Decommissioning, Restoration and Similar Liabilities** | | | ✔ |
| IFRIC 2 | Members' Share in Co-operative Entities and Similar Instruments | | | ✔ |
| IFRIC 4 | Determining Whether an Arrangement Contains a Lease | | | ✔ |
| IFRIC 5 | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds** | | | ✔ |
| IFRIC 6 | Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | | | ✔ |
| IFRIC 7 | Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies | | | ✔ |
| IFRIC 9 | Reassessment of Embedded Derivatives** | | | ✔ |
| | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives** | | | ✔ |
| IFRIC 10 | Interim Financial Reporting and Impairment | | | ✔ |
| IFRIC 12 | Service Concession Arrangements | | | ✔ |
| IFRIC 14 | PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | | | ✔ |
| | Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction** | | | ✔ |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation | | | ✔ |
| IFRIC 17 | Distributions of Non-cash Assets to Owners** | | | ✔ |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments** | | | ✔ |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine** | | | ✔ |
| IFRIC 21 | Levies | | | ✔ |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration | | | ✔ |
| IFRIC 23 | Uncertainty Over Income Tax Treatments (effective *January 1, 2019*) | | | ✔ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| *Philippine Interpretations - Standing Interpretations Committee (SIC)* | | | | |
| SIC-7 | Introduction of the Euro | | | ✔ |
| SIC-10 | Government Assistance - No Specific Relation to Operating Activities | | | ✔ |
| SIC-13 | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | | | ✔ |
| SIC-15 | Operating Leases - Incentives | | | ✔ |
| SIC-25 | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders** | | | ✔ |
| SIC-27 | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | | | ✔ |
| SIC-29 | Service Concession Arrangements: Disclosures | | | ✔ |
| SIC-31 | Revenue - Barter Transactions Involving Advertising Services** | | | ✔ |
| SIC-32 | Intangible Assets - Web Site Costs** | | | ✔ |

* These standards will be effective for periods subsequent to 2018 and are not early adopted by the Company.

** These standards have been adopted in the preparation of financial statements but the Company has no significant transactions covered in both years presented.

REPUBLIC OF THE PHILIPPINES )
MALOLOS CITY, BULACAN ) s.s.

## SWORN STATEMENT

**KNOWN ALL TO MEN THESE PRESENTS:**

I, **Gener C. Luciano**, of legal age, Filipino citizen, and with office at at **35 Paseo del Congreso, Catmon, Malolos, Bulacan**, after being duly sworn to law do hereby depose and state:

That I am the President of **Praxis Fides Mutual Benefit Association, Inc.**, a non-stock, non-profit association with postal address located at **35 Paseo del Congreso, Catmon, Malolos, Bulacan**

That as President of the said Association, I am in the position to attest to the accuracy and completeness of the following:

1. Schedule of Receipts or Income Other Than Contributions and Donations;
2. Schedule of Contributions and Donations; and,
3. Schedule of Disbursements According to Sources and Activities.

**IN WITNESS WHEREOF,** This Certificate has been signed this 28th day of May 2019, at Malolos City, Bulacan.

Gener C. Luciano
Affiant

MAY 2 8 2019

**SUBSCRIBED AND SWORN** to before me this ________ day of _________ 2019, at MALOLOS CITY, BULACAN; affiant exhibiting to me his Passport No. P8284764A, issued at DFA Angeles on August 9, 2018.

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Book No. VI
Series of 2019

MANUEL P. PUNZALAN
Notary Public for the Province of Bulacan
Until December 31, 2020
Serial No. PNC-74-MB-2018
Office Address: ... 203, Capule Bldg.
Catmon, Malolos City, Bulacan
Roll No 23476
PTR No. 1438456 Malolos City/11/29/2018 for 2019
IBP No. 055850 Ortigas Center/11/29/2018 for 2019
MCLE Compliance No. V-0022310, 4-14-16

REPUBLIC OF THE PHILIPPINES )
MALOLOS CITY,BULACAN ) s.s.

## SWORN STATEMENT

**KNOWN ALL TO MEN THESE PRESENTS:**

I, **Ramon V. Bagay**, of legal age, Filipino citizen, and with office at at **35 Paseo del Congreso, Catmon, Malolos, Bulacan**, after being duly sworn to law do hereby depose and state:

That I am the Chairman of **Praxis Fides Mutual Benefit Association, Inc.**, a non-stock, non-profit association with postal address located at **35 Paseo del Congreso, Catmon, Malolos, Bulacan**

That as Chairman and President of the said Association, I am in the position to attest to the accuracy and completeness of the following:

1. Schedule of Receipts or Income Other Than Contributions and Donations;
2. Schedule of Contributions and Donations; and,
3. Schedule of Disbursements According to Sources and Activities.

**IN WITNESS WHEREOF,** This Certificate has been signed this 28th day of May 2019, at Malolos City, Bulacan

**Ramon V. Bagay**
Affiant

MAY 2 8 2019

**SUBSCRIBED AND SWORN** to before me this _______ day of _________ 2019, at MALOLOS CITY, BULACAN; affiant exhibiting to me his SSS NO. 03-5017464-4

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Book No. VI
Series of 2019

**MANUEL P. PUNZALAN**
Notary Public for the Province of Bulacan
Until December 31, 2020
Serial No. [illegible]-MB-2018
Office Address: [illegible] 204, Capule Bldg.
[illegible] City, Bulacan
Roll No. 23476
PTR No. [illegible] Malolos City/11/29/2018 for 2019
IBP No. [illegible] Ortigas Center/11/29/2018 for 2019
MCLE Compliance No. V-0022310/8-14-16

REPUBLIC OF THE PHILIPPINES )
<TYPE CITY / MUNICIPALITY> ) s.s.
PASAY CITY

## SWORN STATEMENT

**KNOWN ALL TO MEN THESE PRESENTS:**

I, **Fr. Joseph DJ. Cruz**, of legal age, Filipino citizen, and with office at at **35 Paseo del Congreso, Catmon, Malolos, Bulacan**, after being duly sworn to law do hereby depose and state:

That I am the Treasurer of **Praxis Fides Mutual Benefit Association, Inc.**, a non-stock, non-profit association with postal address located at **35 Paseo del Congreso, Catmon, Malolos, Bulacan**

That as Chief Financial Officer of the said Association, I am in the position to attest to the accuracy and completeness of the following:

1. Schedule of Receipts or Income Other Than Contributions and Donations;
2. Schedule of Contributions and Donations; and,
3. Schedule of Disbursements According to Sources and Activities.

**IN WITNESS WHEREOF,** This Certificate has been signed this 28th day of May 2019, at Malolos City, Bulacan.

**Fr. Joseph DJ. Cruz**
Affiant

2 9 MAY 2019

**SUBSCRIBED AND SWORN** to before me this ________ day of __________ 2019, at PASAY CITY; affiant exhibiting to me his Passport No. P4045886A, issued at DFA NCR North on August 15, 2017.

ATTY. HENRY D. ADASA
NOTARY PUBLIC
UNTIL DECEMBER 31, 2019
COMMISSION 17-23
PASADENA ST., PASAY CITY
IBP NO. 047427 - 01/03/19 PASIG
PTR NO. 5826667 - 01/03/19 P.C
MCLE COMPLIANCE NO. VI-0002830 - 4/14/2022
ROLL NO. 29679

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