ENTER FOR AGRICULTURE AND RURAL DEVELOPMENT (CARD) MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Not-for-Profit Association)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Cash and Cash Equivalents (Notes 6 and 26)	**₱547,505,284**	₱315,295,952
Financial Assets (Note 26)		
Loans and receivables - net (Note 8)	**1,315,512,698**	1,028,653,464
Held-to-maturity investments (Note 7)	**15,558,075,386**	12,689,868,405
Available-for-sale financial assets (Note 9)	**1,645,370,276**	1,270,657,841
Accrued Income (Notes 10)	**220,407,218**	149,918,199
Property and Equipment - net (Note 11)	**116,070,268**	117,863,287
Investment Properties (Note 12)	**352,949,431**	308,143,784
Investments in Associates (Note 13)	**946,624,769**	769,350,788
Pension Asset - net (Note 25)	**43,261,782**	35,194,710
Other Assets (Note 14)	**17,246,568**	17,383,509
	₱20,763,023,680	₱16,702,329,939
LIABILITIES AND FUND BALANCE		
Liabilities		
Insurance contract liabilities (Notes 16 and 26)	**₱9,306,435,713**	₱7,783,398,077
Retirement fund (Note 17)	**5,990,697,711**	4,839,250,994
Accounts payable and accrued expenses (Notes 15 and 26)	**48,225,751**	63,282,476
Total Liabilities	**15,345,359,175**	12,685,931,547
Fund Balance		
Appropriated fund balance (Note 28)	**529,629,710**	224,304,944
Unappropriated fund balance	**4,394,749,858**	3,559,667,260
Other comprehensive income	**493,284,937**	232,426,188
Total Fund Balance	**5,417,664,505**	4,016,398,392
	₱20,763,023,680	₱16,702,329,939

See accompanying Notes to Financial Statements.

CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT (CARD) MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Not-for-Profit Association)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2019	2018
REVENUE		
Members' contribution and premiums – micro (Note 18)	**₱4,355,117,886**	₱3,791,248,317
Reinsurance' share on gross earned premium on insurance contracts (Note 18)	**(3,031,225)**	(3,050,435)
Net premiums on insurance contracts	**4,352,086,661**	3,788,197,882
Investment income (Note 19)	**562,152,537**	481,744,982
Equity in net earnings of associates (Note 13)	**157,177,654**	163,180,366
Rental income (Notes 12 and 21)	**16,235,175**	14,563,949
Reversal of impairment loss on property and equipment and investment properties (Notes 11 and 12)	**1,098,426**	–
Others (Note 17)	**23,936,346**	540,529
Other revenue	**760,600,138**	660,029,826
	5,112,686,799	4,448,227,708
BENEFITS, CLAIMS AND EXPENSES		
Gross change in insurance contract liabilities (Note 16)	**1,520,383,309**	1,593,418,254
Gross insurance contract benefits and claims paid (Note 16)	**1,719,455,970**	1,356,984,623
Insurance benefits and claims	**3,239,839,279**	2,950,402,877
General and administrative expenses (Note 20)	**600,736,357**	529,748,899
	3,840,575,636	3,480,151,776
EXCESS OF REVENUE OVER EXPENSES BEFORE PROVISION FOR TAXES	**1,272,111,163**	968,075,932
PROVISION FOR INCOME TAX (Note 23)	**75,770,402**	69,361,386
EXCESS OF REVENUE OVER EXPENSES	**1,196,340,761**	898,714,546
OTHER COMPREHENSIVE INCOME		
Item that will be reclassified to profit or loss in subsequent periods		
Fair value gains on available-for-sale financial assets (Note 9)	**255,690,405**	179,119,820
Items that will not be reclassified to profit or loss in subsequent periods		
Remeasurement gains (losses) on defined benefit plan (Note 25)	**6,268,786**	(4,851,482)
Equity in other comprehensive income (loss) of an associate (Note 13)	**(1,100,442)**	466,167
TOTAL COMPREHENSIVE INCOME	**₱1,457,199,510**	₱1,073,449,051

See accompanying Notes to Financial Statements.

CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT (CARD) MUTUAL BENEFIT ASSOCIATION

(A Nonstock, Not-for-Profit Association)

STATEMENTS OF CHANGES IN FUND BALANCE

			Other Comprehensive Income				
	Appropriated Fund Balance (Note 28)	Unappropriated Fund Balance	Reserve for Fluctuation in Value of Available-for-Sale Financial Assets (Note 9)	Remeasurement of Actuarial Gains (Losses) (Note 25)	Equity in other comprehensive income of an associate (Note 13)	Total	Total Fund Balance
At January 1, 2019	**₱224,304,944**	**₱3,559,667,260**	**₱230,993,560**	**(₱2,598,099)**	**₱4,030,727**	**₱232,426,188**	**₱4,016,398,392**
Appropriation during the year	**364,832,531**	**(364,832,531)**	–	–	–	–	–
Reversal of appropriations	**(3,578,072)**	**3,574,368**					**(3,704)**
Utilization of appropriation	**(55,929,693)**	–	–	–	–	–	**(55,929,693)**
Total comprehensive income:							
Excess of revenue over expenses	–	**1,196,340,761**	–	–	–	–	**1,196,340,761**
Other comprehensive income (loss)	–	–	**255,690,405**	**6,268,786**	**(1,100,442)**	**260,858,749**	**260,858,749**
At December 31, 2019	**₱529,629,710**	**₱4,394,749,858**	**₱486,683,965**	**₱3,670,687**	**₱2,930,285**	**493,284,937**	**₱5,417,664,505**
At January 1, 2018	₱148,726,853	₱2,782,952,714	₱51,873,740	₱2,253,383	₱3,564,560	₱57,691,683	₱2,989,371,250
Appropriation during the year	122,000,000	(122,000,000)	–	–	–	–	–
Utilization of appropriation	(46,421,909)	–	–	–	–	–	(46,421,909)
Total comprehensive income:							
Excess of revenue over expenses	–	898,714,546	–	–	–	–	898,714,546
Other comprehensive income (loss)	–	–	179,119,820	(4,851,482)	466,167	174,734,505	174,734,505
At December 31, 2018	₱224,304,944	₱3,559,667,260	₱230,993,560	(₱2,598,099)	₱4,030,727	₱232,426,188	₱4,016,398,392

See accompanying Notes to Financial Statements.

CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT (CARD) MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Not-for-Profit Association)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses before provision for current and final tax	**₱1,272,111,163**	₱968,075,932
Adjustments for:		
Increase in aggregate reserves (Note 16)	**1,520,382,466**	1,593,418,254
Interest income (Notes 4, 5, 6 and 10)	**(388,674,929)**	(355,141,061)
Dividend income (Notes 9 and 10)	**(169,885,744)**	(124,249,320)
Equity in net earnings of an associate - net (Note 13)	**(157,177,654)**	(163,180,366)
Depreciation (Notes 11, 12, and 21)	**32,744,305**	24,810,520
Amortization of bond premium (discount) (Note 7)	**(10,398,377)**	6,915,651
Provision for impairment losses (Note 8)	**3,596,596**	6,200,507
Interest income on pension asset (Note 24)	**(2,778,093)**	(2,354,601)
Pension expense (Note 24)	**2,748,654**	2,964,267
Reversal of impairment loss on property and equipment and investment properties (Notes 11 and 12)	**(1,098,425)**	–
Interest expense on lease liability	**422,093**	–
Cash generated from operations before changes in working capital	**2,101,992,055**	1,957,459,783
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	**(133,620,414)**	(34,179,599)
Short-term investments	**(156,835,416)**	(265,142,855)
Other current assets	**159,801**	(5,142,941)
Increase (decrease) in:		
Retirement fund	**1,151,446,717**	996,162,632
Accounts payable and accrued expenses	**(15,443,418)**	(7,258,905)
Claims payable	**2,655,170**	51,450,053
Net cash generated from operations	**2,950,354,495**	2,693,348,168
Income taxes paid	**(75,770,402)**	(69,361,386)
Utilization of appropriation	**(55,929,693)**	(46,421,909)
Contributions paid	**(1,768,847)**	(1,043,518)
Net cash provided by operating activities	**2,816,885,553**	2,576,521,355
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**318,185,910**	319,260,149
Cash dividends received	**188,464,724**	151,361,587
Acquisitions of:		
Held-to-maturity investments (Note 7)	**(3,098,694,594)**	(2,564,495,114)
Available-for-sale financial assets (Note 9 and 25)	**(119,031,630)**	(394,994,693)
Long-term investments	**–**	(261,784,549)
Investment properties (Note 12)	**(64,029,102)**	(1,239,837)
Investments in associates (Note 13)	**(39,775,749)**	(57,600,000)
Property and equipment (Note 11)	**(13,576,377)**	(24,349,588)

(Forward)

	Years Ended December 31	
	2019	2018
Proceeds from sale/maturities of:		
Held-to-maturity investments (Note 7)	**₱240,885,990**	₱261,078,367
Available-for-sale financial assets (Note 9 and 25)	**9,600**	45,270,000
Investment properties (Note 12)	−	11,209,628
Receipt of refund from the building contractor (Notes 11 and 12)	**8,674,443**	−
Net cash flows used in investing activities	**(2,578,886,785)**	(2,516,284,050)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of lease liabilities	**(5,789,436)**	−
Net cash used in financing activities	**(5,789,436)**	−
NET INCREASE IN CASH AND CASH EQUIVALENTS	**232,209,332**	60,237,305
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**315,295,952**	255,058,647
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱547,505,284**	₱315,295,952

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Center for Agriculture and Rural Development (CARD) Mutual Benefit Association, Inc. (the Association) was registered with the Securities and Exchange Commission (SEC) as a non-stock, not-for-profit association on October 29, 1999. It was granted a license by the Insurance Commission (IC) on May 22, 2001 to engage as a mutual benefit association that extends benefits and services for the welfare and financial security of its members and their families in the form of death benefits, medical subsidy, pension and loan redemption assistance and ensuring continued access to benefits and resources. The Association actively involves the members in the direct management of the Association including the implementation of policies and procedures geared towards sustainability and improved services.

As a non-stock, not-for-profit and mutual benefit association, the Association was granted tax exemption with respect to income and value-added taxes (VAT) except for those activities which are conducted for profit and are not directly related to its main purpose as provided under the National Internal Revenue Code of 1997 as amended by Republic Act 8424 known as the Comprehensive Tax Reform Program by the Bureau of Internal Revenue (BIR).

In June 2015, the Association obtained its registration from BIR as a VAT registered entity in relation to its rental income earned from investment properties. This income is subjected to current income tax and VAT.

The registered office address of the Association is 120 M. Paulino St., corner P. Burgos St., Brgy. VII-D, San Pablo City, Laguna.

2. Basis of Preparation and Statement of Compliance

Basis for Preparation
The Association's financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets which have been measured at fair value. The financial statements are presented in Philippine Peso (₱), which is the Association's functional and presentation currency. All amounts are rounded to the nearest peso, unless otherwise indicated.

Statement of Compliance
The financial statements of the Association have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

3. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretation which became effective beginning January 1, 2019. Unless otherwise stated, the adoption of these new and amended standards did not have any significant impact on financial statements of the Association.

- PFRS 16, *Leases*

  PFRS 16 supersedes Philippine Accounting Standards (PAS) 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases–Incentives*, and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the statement of financial position.

  Association as lessor
  Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. The Association continues to classify leases as either operating or finance leases using similar principles as in PAS 17. Therefore, PFRS 16 did not have an impact on leases where the Association is the lessor.

  Association as lessee
  The Association adopted PFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the Association applied PFRS 16 retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Association elected to use the transition practical expedient to no longer reassess whether a contract is, or contains, a lease at January 1, 2019. Instead, the Association applied PFRS 16 only to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC 4 at January 1, 2019

  The Association has entered into lease contracts for some of its branch office premises, vehicles, and IT equipment. Before the adoption of PFRS 16, the Association classified each of its leases at the inception date as either a finance lease or an operating lease. Upon adoption of PFRS 16, the Association applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets.

  Refer to the significant accounting policies prior to and beginning January 1, 2019

  Leases previously accounted for as operating leases
  The Association recognized right-of-use (ROU) assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The ROU assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid rent, excess of face and present value of related security deposits, and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Association also applied the available practical expedients wherein it:
- used a single weighted discount rate quoted from various banking institutions for all leases
- relied on its assessment of whether leases are onerous immediately before the date of initial application
- applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- excluded the initial direct costs from the measurement of the ROU asset at the date of initial application
- used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

The effect of adoption PFRS 16 as at January 1, 2019 is, as follows:

	Increase (decrease)
Assets	
Property and equipment (Note 9)	₱1,995,105
Other assets	(56,000)
Liabilities	
Lease liabilities (under 'Other liabilities')	1,916,179

As of January 1, 2019, the weighted average incremental borrowing rate applied by the Association to the lease liabilities is 7.12%. The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as at December 31, 2018, as follows:

Operating lease commitments as at December 31, 2018	**₱12,112,075**
Leases of short-term and low-value assets commitments as at December 31, 2018	**(10,091,305)**
Total gross lease payments as of January 1, 2019	**2,020,770**
Incremental borrowing rate	**7.12%**
Lease liabilities as at January 1, 2019	**₱1,916,179**

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Upon adoption of the Interpretation, the Association has assessed whether it has any uncertain tax position. The Association applies significant judgement in identifying uncertainties over its income tax treatments. The Association determined, based on its tax compliance assessment, in consultation with its tax counsel, that it is probable that its uncertain income tax treatments will be accepted by the taxation authorities. Accordingly, the interpretation did not have an impact on the consolidated financial statements of the Association.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Plan Amendment, Curtailment and Settlement*
- Annual Improvements to PFRSs 2015-2017 Cycle
  - Amendments to PFRS 3 and PFRS 11, *Previously held interest in a joint operation*
  - Amendments to PAS 12, *Income tax consequences of payments on financial instruments classified as equity*
  - Amendments to PAS 23, *Borrowing costs eligible for capitalization*

<u>Future Changes in Accounting Policies</u>
The Association has not applied the succeeding amended PFRS which are not yet effective for the year ended December 31, 2019. Unless otherwise indicated, the succeeding amended PFRS will not significantly impact the financial statements:

Effective beginning on or after January 1, 2020
- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements, and* PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

Effective beginning on or after January 1, 2021
- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted. The Company is currently assessing the impact of adopting PFRS 17.

On December 28, 2018, IC issued circular letter 2018-69 stating that it would further defer the implementation of PFRS 17 to January 1, 2023. On the same circular letter, IC instructed pre-need companies, health maintenance organizations and mutual benefit associations to maintain to comply with the current accounting standards until further required by IC to comply with PFRS 17. However, voluntary compliance is not precluded in implementing PFRS 17.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements and PAS 28, Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

4. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and that are subject to an insignificant risk of changes in value.

Fair Value Measurement

The Association measures financial instruments at fair value. Also, fair values of financial instruments measured at amortized cost and non-financial assets and investment properties carried at cost are disclosed in Note 26.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Association.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Association uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

<u>Financial Instruments</u>

Qualifying for temporary exemption from PFRS 9
The Association applied the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts* issued in September 2016. The temporary exemption permits entities whose activities are predominantly connected with insurance to continue applying PAS 39 rather than PFRS 9 for annual periods beginning before January 1, 2022.

The assessment for whether a reporting entity's activities are predominantly connected with insurance is based on the liabilities connected with insurance in proportion to the entity's total liabilities. An entity may elect the temporary exemption if, and only if:

- The carrying amount of its liabilities arising from contracts within the scope of PFRS 4 is significant compared to the total carrying amount of all its liabilities; and
- The percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all of its liabilities is:
    - i. Greater than 90 percent; or
    - ii. Less than or equal to 90 percent but greater than 80 percent, and the insurer does not engage in a significant activity unconnected with insurance.

The predominance assessment is performed using the carrying amounts of liabilities reported on the statement of financial position at the annual reporting date December 31, 2015 and before December 31, 2018. Applying the requirements, the Association performed the predominance assessment using the Association's statement of financial position as of December 31, 2015.

The Association concluded that it qualified for the temporary exemption from PFRS 9 because its activities are predominantly connected with insurance. As at December 31, 2015, the Association's gross liabilities arising from contracts within the scope of PFRS 4 represented 94% of the total carrying amount of all its liabilities, and the Association did not engage into any significant activities not connected with insurance. Since December 31, 2015, there has been no change in the activities of the Association that requires reassessment of the use of the temporary exemption.

Date of recognition
Financial instruments are recognized in the statement of assets, liabilities and fund balance when the Association becomes a party to the contractual provisions of the instrument. Purchases or sales of

financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Initial recognition of financial instruments
Financial instruments are initially recognized at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial instruments at FVPL, the initial measurement of financial assets includes transaction costs. The Association classifies its financial assets in the following categories: held-to-maturity (HTM) investments, AFS investments, FVPL investments, and loans and receivables. The Association classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every end of the reporting period.

Day 1 profit
Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Association recognizes the difference between the transaction price and fair value (a Day 1 profit) in the statement of comprehensive income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Association determines the appropriate method of recognizing the Day 1 profit amount.

Loan and receivables
Receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which the Association has no intention of trading. Receivables are carried at amortized cost using the effective interest rate (EIR) method, reduced by allowance for impairment losses. Gains and losses are recognized in the statement of comprehensive income when the receivables are derecognized or impaired based on comparison with fair value.

Short-term Investments
Short-term investments are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three months but less than one year from dates of placement. These earn interests at the respective short-term investment rates.

Long-term Investments
Long-term investments are non-current assets that are not used in operating activities to generate revenues. In other words, long-term investments are assets that are held for more than one year or accounting period and are used to create other income outside of the normal operations of the Association.

Financial assets or financial liabilities are classified in this category are designated by management on initial recognition when any of the following criteria are met:

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

AFS financial assets
AFS financial assets are those investments which are designated as such or do not qualify to be classified as designated as at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

These investments are initially recorded at cost, being the fair value of the consideration paid for the acquisition of the investment, including all transaction costs directly attributable to the acquisition. After initial recognition, AFS financial assets are subsequently measured at fair value. Interest earned on holding AFS financial assets are reported as interest income using the EIR. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported as “Reserve for fluctuation in value of AFS financial assets” (net of tax, where applicable) in the other comprehensive income in the fund balance section of the Association’s statement of financial position. When the security is disposed of, the cumulative gains or losses previously recognized in equity is recognized in the Association’s statement of comprehensive income.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment losses. Dividends earned on holding AFS financial assets are recognized in the Association’s statement of comprehensive income when the right of payment has been established.

The losses arising from impairment of such investments are recognized as “Provision for impairment losses” included under “Operating expenses” in the Association’s statement of comprehensive income.

As of December 31, 2019 and 2018, AFS financial assets include investments in mutual fund, investments in unquoted securities and units in trust fund. Investments in mutual funds and in unit in trust fund are initially recorded at fair value and revalued at year end in reference to published net asset value. The investments in unquoted securities are initially recorded at cost, being the fair value of the investment at the time of acquisition. The investments in mutual funds are carried at fair value (Note 26).

HTM investments
HTM investments are non-derivative financial assets that comprise fixed or determinable income securities of which the Association has the positive intension and ability to hold until maturity. Investments intended to be held for an undefined period are not included in this classification. These investments are initially recognized at cost, being the fair value of the consideration paid for the

acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortized cost, using the EIR method. The cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the EIR method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the EIR, transaction costs and all other premiums and discounts. Gains and losses are recognized in the statement of comprehensive income when the investments are derecognized or impaired, as well as through the amortization process. These investments represent debt securities where the Association has the positive intent and financial capability to hold to maturity.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Association having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy applies primarily to the Association's "Accounts payable and accrued expenses", and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable and pension liability).

<u>Offsetting</u>
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Association assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Association and all of the counterparties.

<u>Impairment of Financial Assets</u>
An assessment is made at each reporting date as to whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of comprehensive income.

Assets carried at amortized cost
If there is objective evidence that an impairment loss on financial assets 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 losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognized in the statement of comprehensive income.

The Association 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 it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. 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, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS financial assets
If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of comprehensive income, is transferred from equity to the statement of comprehensive income. Reversals in respect of equity instruments classified as AFS financial assets are not recognized in the statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through the statement of comprehensive income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

Where the Association has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Association’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the carrying amount of the asset and the maximum amount of consideration that the Association could be required to repay.

Financial liabilities
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 Association’s statement of comprehensive income.

Investments in Associates
Investments in associates, are accounted for under the equity method of accounting. An associate is an entity in which the Association has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in associate is carried in the statement of financial position at cost plus post-acquisition changes in the Association's share in the net assets of the investee. The statement of comprehensive income reflects the Association's share of the results of the operations of the investee. Unrealized gains arising from inter Association transactions are eliminated to the extent of the Association's interest therein. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction in the carrying value of the investment.

Property and Equipment
The Association's property and equipment consist of land, building, equipment and right-of-use assets that do not qualify as investment properties.

Property and equipment, except for land, are stated at cost less accumulated depreciation and any impairment in value. Land is carried at cost less any impairment in value. The initial cost of property and equipment comprises its purchase price, including taxes and directly attributable cost to bring the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Effective January 1, 2019, it is the Association's policy to classify right-of-use assets as part of property and equipment. Prior to that date, all of the Association's leases are accounted for as operating leases in accordance with PAS 17, hence, not recorded on the statement of financial position. The Association recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Unless the Association is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. Right-of-use assets are subject to impairment.

Depreciation is computed using the straight-line method over the estimated useful lives (EUL) of the assets as follows:

	Years
Building	10-15
Land improvement	10
Transportation equipment	5
Computer and office equipment	3
Office furniture and fixtures	3
Right-of-use assets	1.5-2.5

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made with respect to these assets.

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

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, an impairment loss is recognized in the statement of profit or loss.

Investment Properties

Investment properties comprise of land and building that are held to earn rentals or capital appreciation or both and that are not occupied by the Association.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and amortization and any impairment in value. Depreciation and amortization of investment properties are computed using the straight-line method over the estimated useful lives (EUL) of assets as follows:

	In Years
Building	10-15

Construction in-progress is carried at cost and transferred to the related investment property account when the construction and related activities to prepare the property for its intended use are complete, and the property is ready for occupancy.

The EUL and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of investment properties.

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

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to operations in the period in which the costs are incurred.

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

Impairment of Nonfinancial Assets

The Association assesses at each end of the reporting period whether there is an indication that property and equipment may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Association makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at each end of the reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in statement of comprehensive income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal the depreciation charge is adjusted in future periods to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Fund Balance
Fund balance represents accumulated excess of revenue over expenses.

Revenue Recognition
Revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

Revenues within the scope of PFRS 15, Revenue from Contracts with Customers
Revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

The following specific recognition criteria must also be met before revenue is recognized within the scope of PFRS 15:

Surrender charge
Surrender charge pertains to the fee imposed by the Association for the cancellation of the member’s policy. This is intended for the administration costs incurred by the Association. Surrender charge is recognized when earned. In 2019, the Association discontinued charging surrender charge upon membership cancellation.

Other income
Income from other sources is recognized when earned.

Revenues outside the scope of PFRS 15

Members’ Contribution and Premiums
Contributions and premiums are recognized when collected. When contributions and premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue. The Association collects its contributions and premiums through the following affiliates that are considered as collecting institutions: (a) CARD Bank, Inc., (b) CARD, Inc., (c)

CARD SME Bank, Inc., (d) CARD MRI Rizal Bank, Inc. (e) CARD Leasing and Finance Corp., and (f) CARD Employee Multi-Purpose Cooperative and all BOAT partners.

Interest income
Interest on interest-bearing placements and securities are recognized based on the accrual accounting using the EIR.

Rental income
Rental income is the income generated from the investment properties of the Association and recognized when earned.

<u>Insurance Contract Liabilities</u>
Life insurance contract liabilities
Life insurance contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserve for life insurance contracts is calculated in compliance with the statutory requirements as set by the IC where the assumptions used are based on 50.00% of gross premiums of the Association for the year.

Golden life contract liabilities
Golden life insurance contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserve for golden life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method wherein the assumptions used are the 1980 Commissioners Standard Ordinary (CSO) Male - Age Nearest Birth Table for mortality and 4.00% as discount rate per annum. Both assumptions are duly approved by IC.

Golden Life Insurance Program (GLIP)
Golden Life Insurance Program (GLIP) contract liabilities are recognized when contracts are entered into and the premiums are recognized. The policy reserves for Golden Life is calculated using the Net Premium Valuation (NPV) Method. It is calculated as the expected present value of future benefits less the expected value of the future premiums arising from the policy. The assumptions used are discount rate and mortality rate which are based on the pricing assumptions as indicated in the Actuarial Notes. The discount rate is at 3.75% per annum and 100.00% of 1980 Commissioner's Standard Ordinary (CSO) Male – Age Nearest Birthday for the mortality rate.

Basic Life Insurance Program (BLIP) Extension Plan
Basic Life Insurance Program (BLIP) Extension Plan contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserves for BLIP Extension Plan is calculated using the Net Premium Valuation (NPV) Method. It is calculated as the expected present value of future benefits less the expected value of the future premiums arising from the policy. The assumptions used are discount rate and mortality rate which are based on the pricing assumptions as indicated in the Actuarial Notes. The discount rate is at 3.50% per annum and the mortality rate used is 100.00% of the Philippine Intercompany Mortality Table. These assumptions are duly approved by the Insurance Commission.

Katuparan Plan
Katuparan Plan contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserve for the Katuparan Plan is calculated as 50% of the gross premium collection for the year 2019.

Remitter Protek Plan
Remitter Protek Plan contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserve for Remitter Protek Plan is computed using the unearned net premiums reserves method.

Loan redemption contract liabilities
Loan redemption contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserve for loan redemption is computed using the unearned net premium reserves method.

Liability adequacy test
Liability adequacy tests are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against the statement of comprehensive income initially by establishing a provision for losses arising from the liability adequacy tests.

Claim Costs
Liabilities for unpaid claim costs and loss adjustment expenses relating to insurance contracts are accrued when insured events occur. The liabilities for unpaid claims, including those for incurred but not reported losses, are measured using the chain ladder method, based on a reasonable estimate of ultimate claim amounts. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense in the period when the estimates are changed or payments are made.

Expense Recognition
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants.

Benefits and claims
Life insurance claims reflect the cost of all claims arising during the year, including claims handling costs. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Benefits recorded are then accrued as liabilities.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general and administrative expenses directly attributable to the claims function.

General and administrative expenses
Expenses consist of costs of administering the business. These are recognized as expenses as incurred.

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

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

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service cost, past service cost and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

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

Leases

Policies applicable effective January 1, 2019
The Association determines at contract inception whether a contract is, or contains, a lease by assessing whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Association as a lessee
The Association applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Association recognizes right-of-use assets representing the right to use the underlying assets and lease liabilities to make lease payments

- Right-of-use assets
  At the commencement date of the lease (i.e, the date the underlying asset is available for use), the Association recognizes right-of-use assets measured at cost. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Subsequent to initial recognition,

the Association measures the right-of-use assets at cost less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities.

The Association presents the right-of-use assets in ‘Property and equipment’ and subjects it to impairment in line with the Association’s policy on impairment of nonfinancial assets.

- Lease liabilities
  At the commencement date of the lease, the Association recognizes lease liabilities measured at the present value of lease payments to be made over the lease term discounted using the Association’s incremental borrowing rate with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The lease payments include fixed payments, any variable lease payments that depend on an index or a rate, and any amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Association and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

  After the commencement date of the lease, the Association measures the lease liabilities by increasing the carrying amount to reflect interest on the lease liabilities (recorded in ‘Interest expense on bills payable and other borrowings’), reducing the carrying amount to reflect the lease payments made, and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

- Short-term leases and leases of low-value assets
  The Association applies the short-term lease recognition exemption to its leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option, and the leases of low-value assets recognition exemption to its leases of office spaces and other equipment that are considered of low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense under ‘Occupancy and equipment-related costs’ on a straight-line basis over the lease term.

The Association as a lessor
In operating leases where the Association does not transfer substantially all the risks and rewards incidental to ownership of an asset, the Association recognizes rental income on a straight-line basis over the lease terms. The Association adds back the initial direct costs incurred in negotiating and arranging an operating lease to the carrying amount of the leased asset and recognizes them as rental income over the lease term on the same basis. The Association recognizes contingent rents as revenue in the period in which they are earned.

Policies applicable prior to January 1, 2019
The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

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

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for any of the scenarios above, and at the renewal or extension period for the second scenario.

The Association as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the statement of comprehensive income on a straight-line basis over the lease term. Indirect costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognized over the lease term on the same basis as the lease income. Minimum lease payments are recognized on a straight-line basis while the variable rent is recognized as an expense based on the terms of the lease contract.

The Association as lessor
Leases where the Association retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which these are earned.

Provisions
Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingent Liabilities and Contingent Assets
Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Change in Account Title
In 2019, the Association changed the account title for the collected contributions from the members under the basic and optional funds, respectively, from “Gross premiums on insurance contracts” to “Members’ Contributions and Premiums – Micro”. Said accounts still conform to the Standard Chart of Accounts for Mutual Benefit Associations per Insurance Commission (IC) Circular Letter 2014-41 dated September 25, 2014.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires the Association to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

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

Judgments

Product classification
The Association has determined that the insurance policies it issues have significant insurance risk and therefore meet the definition of an insurance contract and should be accounted for as such.

The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Association defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Classification of HTM investments.
The Association classifies non-derivative financial assets with fixed or determinable payments and fixed maturities as HTM investments. This classification requires significant judgment. In making this judgment, the Association evaluates its intention and ability to hold such investments to maturity. If the Association fails to keep these investments to maturity other than in certain specific circumstances, the Association will be required to reclassify the entire portfolio as AFS financial assets and to measure these at fair value and not at amortized cost. The Association has HTM investments amounting to ₱15.56 billion and ₱12.69 billion as of December 31, 2019 and 2018, respectively (see Note 7). As of December 31, 2019 and 2018, the fair value of HTM investments amounted to ₱15.85 billion and ₱11.59 billion, respectively (see Note 7).

Fair value of financial instruments
The Association carries certain financial assets at fair value, which requires extensive use of accounting estimates and judgments. Fair value determinations for financial assets and liabilities are based generally on listed or quoted market prices. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect market prices, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time.

While significant components of fair value were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value of these financial assets and liabilities would affect profit and loss and equity.

The fair values of the Association's financial instruments follow (see Note 26):

	2019	2018
Financial assets	**₱19,580,929,271**	₱14,226,410,928
Financial liabilities	**45,422,277**	59,488,522

Estimates

Impairment of nonfinancial assets
The Association assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Association considers important which could trigger an impairment review include the following:

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

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

The Association recognizes an impairment loss whenever the carrying amount of the asset exceeds its recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

For the year ended December 31, 2019, no impairment loss recognized for property and equipment and for investment properties. Impairment loss was recognized in 2018 amounting to ₱1,535,764 for property and equipment and ₱3,335,730 for investment properties.

The following table sets forth the fair values of investment properties as of December 31:

	2019	2018
Investment properties (Note 12)	**₱730,289,423**	₱435,537,408

Impairment of receivables
The Association reviews its receivables to assess impairment annually. In determining whether an impairment loss should be recorded in the statement of revenue and expenses, 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 a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Total receivables net of allowance for impairment losses amounted to ₱184.59 million and ₱54.56 million as of December 31, 2019 and 2018, respectively (see Note 8). Allowance for impairment losses amounted to ₱6.56 million and ₱2.97 million as of December 31, 2019 and 2018, respectively (see Note 8).

Impairment of AFS financial assets
The Association determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Association evaluates among other factors, the normal volatility in price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. As of December 31, 2019 and 2018, the fair value of AFS financial assets amounted to ₱1.65 billion and ₱1.27 billion, respectively (see Note 9). There were no impairment loss recognized on AFS financial assets in 2019 and 2018.

Retirement and other employee benefits
The cost of defined benefit pension plans and other post-employment benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The net pension asset amounted to ₱43.26 million and ₱35.19 million as of December 31, 2019 and 2018, respectively (see Note 25).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific

Provision for reserves
The estimation of ultimate liability arising from claims made under life insurance contracts is the Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Association will ultimately pay for such claims. Previous experience and trends are fundamentally considered in determining the liability. In determining the provision for reserves, estimates are made as to the expected number of deaths, illness or injury for each of the years in which the Association is exposed to risk. These estimates are based on standard industry and national mortality and morbidity tables. The estimated number of deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Estimates are also made to future investment income arising from the assets backing life insurance contracts. These estimates are based on weighted average rate of return arising from the assets backing life insurance contracts. Refer to Note 26 for the key assumptions used in the estimation of provision for reserves.

Contingencies
Basic contingency reserve is set on Membership Certificates to meet the contractual obligation, other than the Member's Equity Value, as it falls due.

6. Cash and Cash Equivalents

This account consists:

	2019	2018
Cash on hand	**₱216,900**	₱114,845
Cash in banks	**186,738,622**	106,167,182
Cash equivalents	**360,549,762**	209,013,925
	₱547,505,284	₱315,295,952

Cash in banks earns interest at the prevailing bank deposit rates ranging from 0.05% to 1.50% in 2019 and 2018.

Cash equivalents are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Association and earn interest at the prevailing rates ranging from 3.12% to 3.80% and 4.50% to 6.25% in 2019 and 2018, respectively.

Interest income earned from cash and cash equivalents amounted to ₱9.95 million and ₱4.24 million in 2019 and 2018, respectively (see Note 19). Accrued income from cash and cash equivalents amounted to ₱1.26 million and ₱0.53 million as of December 31, 2019 and 2018, respectively (see Note 10).

7. Held-to-Maturity Investments

As of December 31, 2019 and 2018, the carrying amounts and fair values of these securities follow:

	2019		2018	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Fixed treasury notes	**₱10,307,395,292**	**₱10,619,503,784**	₱8,286,368,025	₱7,625,242,371
Retail treasury bonds	**4,549,754,145**	**4,610,632,686**	3,858,047,629	3,468,140,496
Corporate bonds	**699,344,772**	**617,279,272**	545,000,000	492,617,628
Treasury bills	**1,581,177**	**1,609,341**	452,751	–
	₱15,558,075,386	**₱15,849,025,083**	₱12,689,868,405	₱11,586,000,495

These investments bear annual interest rates which ranged from 3.25% to 8.06% in 2019 and 2018 and will mature between one (1) and thirteen (13) years from the statements of financial position date. Interest income from these investments net of premium amortization amounted to ₱356.07 million and ₱329.84 million in 2019 and 2018, respectively (see Note 19). Accrued income from these investments amounted to ₱126.80 million and ₱96.37 million in 2019 and 2018, respectively (see Note 10).

The carrying value of HTM investments follows:

	2019	2018
At January 1	**₱12,689,868,405**	₱10,132,288,942
Additions	**3,098,694,594**	2,564,495,114
Amortization of bond discount (premium)	**10,398,377**	(6,915,651)
Maturities	**(240,885,990)**	–
At December 31	**₱15,558,075,386**	₱12,689,868,405

As of December 31, 2019 and 2018, HTM investments include government securities classified as guaranty fund amounting to ₱225.06 and ₱137.86 million, respectively. These investments are deposited with the IC, in accordance with the provisions of Section 405 of the 2013 Revised Insurance Code, as security for the benefit of policyholders and creditors of the Association.

8. Loans and Receivables

As of December 31, 2019 and 2018, the Association's loans and receivables are as follows:

	2019	2018
Receivables – net	**₱184,585,719**	₱54,561,901
Short-term investments	**276,551,385**	119,715,969
Long-term investments	**854,375,594**	854,375,594
	₱1,315,512,698	₱1,028,653,464

Receivables
This account consists of:

	2019	2018
Receivables from:		
Related parties (Note 22)	**₱27,007,901**	₱6,314,600
Members and employees	**1,752,094**	1,391,977
Loans receivable (Note 22)	**19,960,000**	6,460,000
Advances for future stock subscription	**121,273,000**	–
Others	**21,157,323**	43,363,198
	191,150,318	57,529,775
Less allowance for impairment losses	**6,564,599**	2,967,874
	₱184,585,719	₱54,561,901

Receivables from related parties pertain to premiums collected by related parties from the Association's members. These are generally on 1 to 30 day terms.

Receivables from members and employees include receivables from the Association's members of Build-Operate and Transfer (BOAT) program representing unremitted premiums. It also includes receivables from the Association's employees due to the excess claims and benefits disbursed to its members. These receivables are expected to be settled and collected within thirty (30) days.

Loans receivable pertain to loan agreements of the Association with UniHealth Quezon Hospital and Medical Center and CARD MRI Property Holdings, Inc (CMPHI). The movements in loans receivable follow:

	2019	2018
At January 1	**₱6,460,000**	₱6,460,000
Additions	**15,000,000**	–
Principal collections	**(1,500,000)**	–
At December 31	**₱19,960,000**	₱6,460,000

Significant terms and conditions of the loan follows:

	Outstanding balance	Release date	Interest rate	Terms
UniHealth Quezon Hospital and Medical Center	₱6,460,000	September 19, 2017	6% per annum payable quarterly	Quarterly interest on the first two years and Principal plus interest starting 3rd year of the loan.
CARD MRI Property Management, Inc.	₱15,000,000	May 16, 2019	5.711% per annum	

Total interest income received from the loans receivable amounted to ₱0.81 million and ₱0.39 million in 2019 and 2018, respectively (see Note 19). Accrued income from total loans and receivables amounted to ₱92.35 million and ₱53.02 million in 2019 and 2018, respectively (see Note 10).

Advances for future stock subscription pertains to the advance payment made by the Association for the subscription of additional stocks of CARD Bank, Inc. (CBI) amounting to ₱74.14 million paid on

August 8, 2019. The additional shares were not yet issued due to pending approval of SEC to CBI's proposal of capital increase. This also includes dividend income amounting to ₱47.13 million to be given as shares from the same entity upon the approval of the increase in issued share.

Other receivables represent claims from the different suppliers of the Association due to overpayment of services and products availed and purchased. These amounts are expected to be settled within seven (7) days.

As of December 31, 2019 and 2018, allowance for impairment losses for receivables determined based on specific identification and assessment follows:

	Receivables from Related Parties (Note 22)	**Other Receivables**	**Total**
At January 1, 2018	₱1,115,021	₱523,842	₱1,638,863
Write-off	–	(81,702)	(81,702)
Provision for probable losses	(639,292)	2,050,005	1,410,713
At December 31, 2018	**475,729**	**2,492,145**	**2,967,874**
Provision for probable losses	**1,279,120**	**2,317,605**	**3,596,725**
At December 31, 2019	**₱1,754,849**	**₱4,809,750**	**₱6,564,599**

Short Term Investments
Short-term investments are money market placements with maturities of more than three (3) months but less than one (1) year and bear annual interest at rates that ranged from 1.25% to 4.00% in 2019 and 0.88% to 5.25% in 2018. Interest income earned from these investments amounted to ₱4.30 million and ₱3.45 million in 2019 and 2018, respectively (see Note 19).

The rollforward analysis of short-term investments follows:

	2019	2018
At January 1	**₱119,715,969**	₱115,651,483
Additions	**293,504,437**	265,142,853
Maturities	**(136,669,020)**	(261,078,367)
At December 31	**₱276,551,385**	₱119,715,969

Long Term Investments
The long-term investments are placements with maturity of more than one (1) year but less than five (5) years that bear annual interest of 4.00% to 6.00% in 2019 and 2018. Interest income earned from these investments amounted to ₱18.35 million and ₱17.23 million in 2019 and 2018, respectively (see Note 19).

The rollforward analysis of long-term investments follows:

	2019	2018
At January 1	**₱854,375,594**	₱592,591,045
Additions	–	261,784,549
At December 31	**₱854,375,594**	₱854,375,594

9. Available-for-Sale Financial Assets

This account consists of:

	2019	2018
Quoted securities		
Mutual funds	**₱464,070,729**	₱421,611,239
Unquoted securities		
Preferred shares	**1,108,241,463**	819,115,760
Unit Investment Trust Fund (UITF)	**73,058,084**	29,930,842
	₱1,645,370,276	₱1,270,657,841

The carrying values of AFS financial assets have been determined as follows:

	Investments in Mutual Funds	**Unquoted Equity Securities**	**UITF**	**Total**
At January 1, 2018	₱480,411,928	₱261,401,400	₱–	₱741,813,328
Additions	–	364,715,400	30,279,293	394,994,693
Fair value gains (losses)	(13,800,687)	192,998,960	(78,453)	179,119,820
Disposal	(45,000,002)	–	(269,998)	(45,270,000)
At December 31, 2018	**₱421,611,239**	**₱819,115,760**	**₱29,930,842**	**₱1,270,657,841**
Additions	**–**	**79,023,400**	**40,008,230**	**119,031,630**
Fair value gains	**42,459,490**	**210,102,303**	**3,128,612**	**255,690,405**
Disposal	**–**	**–**	**(9,600)**	**(9,600)**
At December 31, 2019	**₱464,070,729**	**₱1,108,241,463**	**₱73,058,084**	**₱1,645,370,276**

Investments in unquoted equity shares pertain to the Association's investments in preferred shares of CARD Bank, Inc., and CARD MRI Rizal Bank, and common shares of CARD Leasing and Finance Corporation, and UniHealth, Inc.

Details of the Association's investments in unquoted equity securities follow:

	2019			2018		
	Amount	**Shares**	**Percentage of ownership**	Amount	Shares	Percentage of ownership
CARD Bank, Inc.	**₱1,005,762,446**	**3,148,807**	**63.00%**	₱767,340,603	2,934,508	58.00%
CARD MRI Rizal Bank, Inc.	**86,138,833**	**354,394**	**70.88%**	35,434,973	173,576	64.29%
CLFC	**15,840,184**	**40,000**	**4.00%**	15,840,184	40,000	4.00%
UniHealth, Inc.	**500,000**	**500**	**0.13%**	500,000	500	0.13%
	₱1,108,241,463			₱819,115,760		

**Ownership in the preferred shares*

In 2019 and 2018, the Association subscribed to additional 214,299 and 1,795,101 preferred shares of CARD Bank, Inc., respectively, at ₱200 par value with a total amount ₱42.86 million and ₱359.02 million, respectively

Dividends received from this investment amounted to ₱169.89 million and ₱108.16 million in 2019 and 2018 (see Note 19). Accrued dividend amounted to nil in 2019 and 2018 (see Note 10).

In 2019 and 2018, the Association owns 354,394 and 173,576 preferred shares of CARD MRI Rizal Bank, Inc. amounting to ₱86.14 million and ₱35.32 million, respectively. In 2019 and 2018, the Association received dividend income from this investment amounting to ₱22.43 million and ₱14.84 million, respectively.

Investments in mutual funds have the following details:

	2019		2018	
	Amount	**Units**	Amount	Units
Sun Life Prosperity Bond Fund	**₱256,624,587**	**83,430,732**	₱230,702,657	83,430,732
Sun Life Peso Balance Fund	**101,643,932**	**26,306,727**	96,064,275	26,306,727
Philam Bond Fund	**105,802,210**	**24,194,976**	94,844,306	24,194,976
	₱464,070,729		₱421,611,238	

The increase and decrease in reserve for fluctuation in value of the investments in available-for-sale investments amounted to ₱255.69 million and ₱179.12 million in 2019 and 2018, respectively. This is presented as “Other comprehensive gain/(losses)” in the statements of comprehensive income.

The rollforward of the reserve for fluctuation in value of AFS financial assets follows:

	2019	2018
At January 1	**₱230,993,560**	₱51,873,740
Fair value gains (losses) on AFS financial assets		
Unquoted equity shares	**210,102,303**	192,998,960
Mutual funds	**42,459,490**	(13,800,687)
UITF	**3,128,612**	(78,453)
At December 31	**₱486,683,965**	₱230,993,560

10. Accrued Income

This account consists of:

	2019	2018
Interest receivable on:		
Cash and cash equivalents (Note 6)	**₱1,255,764**	₱533,733
Held-to-maturity investments (Note 7)	**126,799,215**	96,365,005
Loans and receivables (Note 8)	**92,352,239**	53,015,461
	₱220,407,218	₱149,914,199

11. **Property and Equipment -** net

The rollforward analysis of this account follow:

	2019								
	Land	**Land improvement**	**Transportation equipment**	**Computer and office equipment**	**Office furniture and fixtures**	**Building**	**Construction in - progress**	**Right-of-use Asset**	**Total**
Cost									
At January 1	**₱44,793,011**	**₱825,654**	**₱464,181**	**₱18,838,602**	**₱4,479,877**	**₱86,013,857**	**₱2,275,776**	**₱1,995,105**	**₱159,686,063**
Additions	–	**461,775**	–	**6,604,426**	**579,176**	**5,908,135**	–	**8,438,906**	**21,992,418**
Derecognition	–	–	–	–	–	**(7,344,929)**	–	–	**(7,344,929)**
Retirement/others	–	–	–	**(985,371)**	**(341,560)**	–	–	–	**(1,326,931)**
Reclassifications	–	–	–	–	–	**2,275,776**	**(2,275,776)**	–	–
At December 31	**44,793,011**	**1,287,429**	**464,181**	**24,457,657**	**4,717,493**	**86,852,839**	–	**10,434,011**	**173,006,621**
Accumulated Depreciation									
At January 1	–	**181,691**	**464,176**	**15,721,337**	**3,622,389**	**19,838,078**	–	–	**39,827,671**
Depreciation (Note 20)	–	**101,809**	–	**3,130,597**	**633,890**	**9,289,820**	–	**5,705,313**	**18,861,429**
Retirement	–	–	–	**(985,371)**	**(341,560)**	–	–	–	**(1,326,931)**
At December 31	–	**283,500**	**464,176**	**17,866,563**	**3,914,719**	**29,127,898**	–	**5,705,313**	**57,362,169**
Gain on Reversal	–	–	–	–	–	**425,816**	–	–	**425,816**
Net Book Value	**₱44,793,011**	**₱ 1,003,929**	**₱5**	**₱6,591,094**	**₱802,774**	**₱58,150,757**	**₱–**	**₱4,728,698**	**₱116,070,268**

	Land	Land improvement	Transportation equipment	Computer and office equipment	Office furniture and fixtures	Building	Construction in - progress	Total
Cost								
At January 1	₱160,177,952	₱825,654	₱464,181	₱16,575,139	₱4,066,982	₱79,031,673	₱5,235,867	₱266,377,448
Additions	–	–	–	2,297,263	412,895	1,091,922	20,595,507	24,397,587
Retirement	–	–	–	(33,800)	–	–	–	(33,800)
Reclassifications (Note 12)	(115,384,941)	–	–	–	–	7,426,026	(23,555,598)	(131,514,513)
At December 31	44,793,011	825,654	464,181	18,838,602	4,479,877	87,549,621	2,275,776	159,226,722
Accumulated Depreciation								
At January 1	–	99,122	460,798	13,154,932	2,965,370	11,489,145	–	28,169,367
Depreciation (Note 20)	–	82,569	3,378	2,600,205	657,019	8,348,933	–	11,692,104
Retirement	–	–	–	(33,800)	–	–	–	(33,800)
At December 31	–	181,691	464,176	15,721,337	3,622,389	19,838,078	–	39,827,671
Impairment loss (Notes 5 and 20)	–	–	–	–	–	1,535,764	–	1,535,764
Net Book Value	₱44,793,011	₱643,963	₱5	₱3,117,265	₱857,488	₱66,175,779	₱2,275,776	₱117,863,287

Gain on retirement of computer and office equipment, office furniture and fixtures and building amounted to nil in 2019 and 2018, respectively.

The cost of fully depreciated property and equipment still in use amounted to ₱13.51 million and ₱9.18 million as of December 31, 2019 and 2018, respectively.

12. Investment Properties

The rollforward analyses of this account follow:

		2019	
	Land	**Building**	**Total**
Cost			
At January 1	**₱210,873,040**	**₱136,196,389**	**₱347,069,429**
Additions	**60,550,686**	**3,478,415**	**64,029,101**
Retirement/Others	–	**(6,009,488)**	**(6,009,488)**
At December 31	**271,423,726**	**133,665,316**	**405,089,042**
Accumulated Depreciation			
At January 1	–	**38,925,644**	**38,925,644**
Depreciation (Note 20)	–	**13,886,576**	**13,886,576**
At December 31	–	**52,812,220**	**52,812,220**
Gain on Reversal	–	**672,609**	**672,609**
Net Book Value	**₱271,423,726**	**₱ 81,525,705**	**₱352,949,431**

		2018	
	Land	Building	Total
Cost			
At January 1	₱106,697,727	₱122,162,710	₱228,860,437
Additions	–	1,239,837	1,239,837
Sale	(11,209,628)	–	(11,209,628)
Transfers from property and equipment (Note 11)	115,384,941	16,129,572	131,514,513
At December 31	210,873,040	139,532,119	350,405,159
Accumulated Depreciation			
At January 1	–	25,807,229	25,807,228
Depreciation (Note 20)	–	13,118,416	13,118,416
At December 31	–	38,925,645	38,925,644
Impairment loss (Notes 5 and 20)	–	3,335,730	3,335,730
Net Book Value	₱210,873,040	₱97,270,744	₱308,143,784

In 2018, the Association transferred portion of its investment properties amounting to ₱131.51 million to property and equipment. The transfers from/to property and equipment were due to changes in management's intention over the use of the properties (see Note 11).

The investment properties have a total fair value of ₱730.29 million and ₱435.54 million as of December 31, 2019 and 2018, respectively. The fair value of the properties is based on valuation performed by an independent valuer of CARD MRI Organization and Administration Unit with a recognized and relevant professional qualification and with recent experience in the location and category of the investment properties being valued. The appraised value of investment property is classified under Level 3 of fair value hierarchy. This is determined using sales comparison approach. This is a comparative approach to value that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison. Listings and offerings may also be considered. The properties used as basis for comparison are situated within the subject building and land nearby. Comparison would be premised on the factors such as floor level location, interior finishes, parking slot allocation and facilities offered and the time element.

The Association has determined that the highest and best use of the property is its current use.

As of December 31, 2019 and 2018, no investment has been pledged as collateral or security for any of the Association's liabilities.

The Association earned rental income amounting to ₱16.24 million and ₱14.56 million from its investment properties in 2019 and 2018, respectively (see Note 21).

13. Investments in Associates

This account consists of the following:

	2019	2018
Acquisition cost	**₱769,350,788**	₱566,156,425
Placements	**40,311,980**	
Accumulated equity in net earnings	**138,062,443**	202,728,196
Accumulated equity in other comprehensive income (loss)	**(1,100,442)**	466,167
	₱946,624,769	₱769,350,788

Details of the Association's investments in associates follow:

	2019		2018	
	Amount	**Percentage***	Amount	Percentage*
CPMI	**₱677,532,697**	**46.10%**	₱557,326,231	46.10%
CMIT	**119,007,276**	**40.00%**	96,508,833	40.00%
CMPHI	**114,847,803**	**40.00%**	90,443,165	40.00%
BotiCARD	**19,468,228**	**30.00%**	16,840,784	30.00%
CMHI	**8,554,351**	**25.00%**	7,571,822	25.00%
CARD Astro Laboratories, Inc.	**6,015,095**	**28.00%**	–	–
CMPuHI	**779,373**	**30.00%**	539,310	30.00%
CMHTI	**419,946**	**20.00%**	120,643	20.00%
	₱946,624,769		₱769,350,788	

**Percentage ownership in the total outstanding number of shares of the Associates.*

CARD Pioneer Microinsurance, Inc.

The details of this investment follow:

	2019	2018
Acquisition cost:		
At January 1	**₱278,982,753**	₱278,982,753
Accumulated equity in net earnings		
At January 1	**277,357,677**	133,055,343
Equity in net earnings	**120,206,467**	144,302,334
At December 31	**397,564,142**	277,357,677
Accumulated equity in other comprehensive income:		
At January 1	**985,801**	(123,505)
Equity in other comprehensive income	**–**	1,109,306
At December 31	**985,801**	985,801
	₱677,532,697	₱557,326,231

On July 16, 2013, the Association entered into an agreement with CPMI for the purchase of 2,303,428 shares at ₱100 par value representing 47.00% ownership in CPMI. On September 30, 2013, the consideration paid to CPMI amounted to ₱257.98 million. No goodwill was recognized since the consideration paid is equal to the proportionate ownership in CPMI. In 2014, an amount of ₱0.06 million was added to the investment in CPMI representing adjustments at the time of its acquisition.

In 2016, the Association invested additional ₱27.74 million in CPMI representing contributed surplus in order for CPMI to meet the minimum capitalization requirement by IC. Moreover, the ₱65.47 million equity in net earnings is net of the ₱6.79 million dilution on investment in CPMI resulting from the decrease of the Association's percentage ownership from 47% to 46.1% in December 2016. This decrease is the result of the Association's waiver of its pre-emptive right over the remaining unissued authorized capital stock of CPMI.

CARD MRI Information Technology, Inc. (CMIT)

The details of this investment follow:

	2019	2018
Acquisition cost:		
At January 1	**₱79,087,000**	₱61,487,000
Placements	**6,913,000**	17,600,000
At December 31	**86,000,000**	79,087,000
Accumulated equity in net earnings:		
At January 1	**15,868,428**	17,126,923
Equity in net earnings	**32,465,443**	16,245,872
Dividend income	**(16,880,000)**	(17,504,367)
At December 31	**31,453,871**	15,868,428
Accumulated equity in other comprehensive income		
At January 1	**1,553,405**	2,156,610
Equity in other comprehensive loss	**–**	(603,205)
At December 31	**1,553,405**	1,553,405
	₱119,007,276	₱96,508,833

In 2011, the Association subscribed to 400,000 common shares at ₱100 par value representing 40% ownership in CMIT. In 2019, the Association subscribed additional 69,130 common shares at ₱100 par value amounting to ₱6.91 million. As of December 31, 2019 and 2018, the Association's investment in CMIT amounted to ₱119.00 million and ₱96.51 million, respectively.

BotiCARD, Inc.

The details of the investment follow:

	2019	2018
Acquisition cost		
At January 1	**₱11,697,000**	₱11,697,000
Placement	**1,203,980**	–
At December 31	**12,900,980**	11,697,000

(Forward)

	2019	2018
Accumulated equity in net earnings:		
At January 1	**₱3,820,895**	₱2,683,331
Equity in net earnings	**2,627,444**	1,685,367
Dividend income	**(1,203,980)**	(547,803)
At December 31	**5,244,359**	3,820,895
Accumulated equity in other comprehensive income		
At January 1	**1,322,889**	1,362,824
Equity in other comprehensive loss	**-**	(39,935)
At December 31	**1,322,889**	1,322,889
	₱19,468,228	₱16,840,784

In 2011, the Association purchased 780,000 common shares at ₱5.00 par value of BotiCARD amounting to ₱3.90 million.

In 2012, the Association deposited ₱3.00 million which will be used to subscribe to 600,000 additional common shares of BotiCARD initially recorded as advances for future stock subscription. On May 19, 2015, the SEC already approved BotiCARD's request for increase in authorized capital stock. The ₱3.00 million advances were reclassified from advances for future stock subscription as investment in BotiCARD as of December 31, 2015 together with the additional investment of ₱2.50 million. Additional investment amounting ₱1.95 million was made in 2017. As of December 31, 2019 and 2018, the Association's investment in BotiCARD amounted to ₱19.47 million and ₱16.84 million, respectively.

CARD MRI Property Holdings, Inc. (CMPHI)

The details of the investment follow:

	2019	2018
Acquisition cost		
At January 1	**₱90,000,000**	₱50,000,000
Placement	**25,495,000**	40,000,000
At December 31	**115,495,000**	90,000,000
Accumulated equity in net earnings:		
At January 1	**443,165**	(46,879)
Equity in net earnings (loss)	**383,732**	490,044
Dividend income	**(495,000)**	–
	331,897	443,165
Accumulated equity in Other Comprehensive Income		
At January 1	**–**	–
Equity in other comprehensive income	**(979,095)**	–
	(979,095)	–
	₱114,847,803	₱90,443,165

In October and November 2016, the Association invested in 146,001 shares of CMPHI with par value of ₱100 representing 40% ownership. In 2017, additional placement was made amounting to ₱35,999,900. As of December 31, 2019 and 2018, the Association's investment in CMPHI amounted to ₱114.85 million and ₱90.44 million, respectively.

CARD MRI Holdings, Inc. (CMHI)

The details of the investment follow:

	2019	2018
Acquisition cost:		
At January 1 and December 31	**₱7,812,500**	₱7,812,500
Accumulated equity in net loss:		
At January 1	**(409,309)**	(474,781)
Equity in net earnings	**982,529**	65,472
At December 31	**573,220**	(409,309)
Accumulated equity in other comprehensive income:		
At January 1 and December 31	**168,631**	168,631
	₱8,554,351	₱7,571,822

On February 5, 2016, the Association invested in 78,125 shares of CMHI with par value of ₱100 representing 25% ownership. As of December 31, 2019 and 2018, the Association's investment in CMHI amounted to ₱8.55 million and ₱7.51 million, respectively.

CARD MRI Hijos Tours, Inc. (CMHTI)

The details of the investment follow:

	2019	2018
Acquisition cost:		
At January 1	**₱100,000**	₱100,000
Placements	**300,000**	–
At December 31	**400,000**	100,000
Accumulated equity in net gain:		
At January 1	**20,643**	5,453
Equity in net earnings	**(697)**	15,190
Dividend income	–	–
	19,946	20,643
At December 31	**₱419,946**	₱120,643

On September 12, 2017, the Association invested in 20,000 shares of CMHTI with par value of ₱5.00 representing 20% ownership. As of December 31, 2019 and 2018, the Association's investment in CMHTI amounted to ₱0.42 million and ₱0.12 million, respectively.

CARD MRI Publishing House, Inc. (CMPuHI)

The details of the investment follow:

	2019	2018
Acquisition cost:		
At January 1	**₱150,000**	₱150,000
Placements	**–**	–
At December 31	**150,000**	150,000
Accumulated equity in net income:		
At January 1	**389,310**	13,222
Equity in net income (loss)	**361,411**	376,088
At December 31	**750,721**	389,310
Accumulated equity in Other Comprehensive Income		
At January 1	**–**	–
Equity in other comprehensive income	**(121,347)**	–
At December 31	**(121,347)**	–
-	**₱779,373**	₱539,310

On September 12, 2017, the Association invested in 30,000 shares of CMPuHI with par value of ₱5.00 representing 30% ownership. As of December 31, 2019 and 2018, the Association's investment in CMPuHI amounted to ₱0.78 million and ₱0.54 million, respectively.

CARD Astro Laboratories, Inc.

The details of the investment follow:

	2019
Acquisition cost:	
At January 1	₱6,400,000
Placements	–
At December 31	6,400,000
Accumulated equity in net gain:	
At January 1	–
Equity in net gain	(384,905)
At December 31	₱6,015,095

On August 6, 2019, the Association invested in 128,000 shares of CARD Astro with par value of ₱50.00 representing 28% ownership. As of December 31, 2019, the Association's investment in CARD Astro amounted to ₱6.20 million.

The total undistributed accumulated equity in associate's net earnings are included in the Association's unappropriated fund balance and are not available for dividend declaration until these are actually received.

Financial information of the Association's associates follows:

	2019	2018
CPMI		
Total assets	**₱2,803,139,535**	₱1,525,650,803
Total liabilities	**1,478,771,022**	622,634,845
Net income	**260,876,051**	210,342,091
Other comprehensive income (loss)	**–**	(619,675)
CMIT		
Total assets	**386,030,454**	267,563,566
Total liabilities	**87,984,766**	75,216,509
Net income	**81,163,608**	22,801,288
Other comprehensive income (loss)	**–**	–
BotiCARD		
Total assets	**60,847,669**	36,780,799
Total liabilities	**11,083,675**	4,152,121
Net income	**10,545,583**	1,120,267
Other comprehensive income (loss)	**–**	–
CMPHI		
Total assets	**396,675,887**	153,455,754
Total liabilities	**96,925,529**	28,612,451
Net income	**959,330**	888,864
Other comprehensive income (loss)	**(2,447,737)**	
CMHI		
Total assets	**41,673,176**	30,803,164
Total liabilities	**540,015**	50,000
Net income	**3,930,116**	1,327,338
CMHTI		
Total assets	**2,998,074**	₱784,362
Total liabilities	**891,881**	256,899
Net income	**(3,487)**	27,266
CMPuHI		
Total assets	**3,313,030**	869,270
Total liabilities	**1,209,999**	323,002
Net income	**1,204,703**	44,074
Other comprehensive income (loss)	**(404,491)**	
CARD Astro		
Total assets	**15,291,482**	–
Total liabilities	**1,666,044**	–
Net income	**(1,374,662)**	–

14. Other Assets

This account consists of:

	2019	2018
Prepaid expenses	**₱5,281,081**	₱5,181,229
Supplies inventory	**5,077,904**	6,549,212
Prepaid rent	**2,879,611**	2,238,485
Funds and deposits	**2,235,200**	1,540,583
Prepaid taxes	**1,096,022**	1,004,417
Deferred reinsurance premiums (Note 18)	**676,750**	869,583
	₱17,246,568	₱17,383,509

Prepaid expenses include advance payment to ARK KMFD Development, Inc. for the construction of the CARD MBA building in San Pablo, Laguna and advance payments for the acquisition of computer equipment of the Association's provincial offices.

Supplies inventory includes office items that are being used in the operations of the Association. Prepaid rent pertains to the payment made in advance to the owners of the spaces being leased by the Association as provincial offices.

Prepaid taxes of the Association pertain to the excess creditable withholding taxes over the income tax due from rental income and interest income from loans to related parties.

Funds and deposits pertain to mutual guaranty fund paid to Microinsurance Association of the Philippines (MiMAP). This fund represents a claim reserve fund held and being managed by MiMAP that will be subsequently used to satisfy the claims of the Association's members that cannot be met by the net assets of the members in case of insolvency.

15. Accounts Payable and Accrued Expenses

This account consists of:

	2019	2018
Accrued expenses	**₱14,495,819**	₱11,009,927
Collection fee payable		
Related parties (Note 22)	**10,527,250**	2,059,982
Staff, members and employees	**2,363,511**	1,578,874
Accounts payable		
Suppliers and contractors	**7,606,373**	17,933,664
Related parties (Note 22)	**3,635,146**	25,094,563
Staff, members and employees	**41,168**	25,650
Lease liabilities (Note 21)	**4,801,734**	–
Rent deposits	**2,803,474**	2,776,124
Due to government agencies	**1,862,021**	1,388,428
Premium received in advance	–	1,155,400
Others	**89,255**	259,864
	₱48,225,751	₱63,282,476

Accounts payable to suppliers and contractors consist mainly of unpaid purchases of supplies, outstanding obligations for ongoing building constructions and unpaid balances for land properties acquired by the Association. These are settled within one year after the reporting date.

Accounts payable to staff, members and employees include amounts accrued for expenses related to the reunion of the Association's current and past Board of Trustees (BOT). These are settled within one year after reporting date.

Accrued expenses pertain to accruals for employee benefits, professional fees, utilities and supplies. These are non-interest bearing and are generally settled upon receipt of actual billings.

Collection fee payable pertains to the Association's payable to its collecting institutions (see Note 22), staff, members and employees regarding the amount of claims and expenses paid in excess of the premiums collected. These are non-interest-bearing and are generally on 1 to 30 day payment terms.

Rent deposits represent the amounts received from the Association's lessees as security deposit. These amounts are returnable to the lessees upon expiration of the lease agreement subject to the lessor's conditions.

Premium received in advances pertains to the premium payment of the CARD MRI members for Remitter Protek Plan for the year 2019.

Due to government agencies pertains to withholding taxes payable, SSS loan and contribution payable, PAG-IBIG loan and contribution payable and Medicare contribution payable which are subsequently remitted within one month after the reporting date based on the requirements of government agencies.

Other payables include unpaid balances for the services availed by the Association such as legal, actuarial valuation, driving services and lease liabilities. These are non-interest bearing and are generally settled within thirty (30) days.

16. Insurance Contract Liabilities

This account consists of:

	2019	2018
Life insurance contract liabilities	**₱9,080,796,917**	₱7,595,923,442
Loan redemption contract liabilities	**225,638,796**	187,474,635
	₱9,306,435,713	₱7,783,398,077

a) Life insurance contract liabilities

Details of the life insurance contract liabilities follow:

	2019	2018
Provision for unearned premiums	**₱8,990,033,345**	₱7,507,432,541
Outstanding claims provision	**90,763,572**	88,490,901
Total life insurance contract liabilities	**₱9,080,796,917**	₱7,595,923,442

This account represents reserves for life insurance which is computed in compliance with the statutory requirements as set by the IC which is equal to 50% of gross contributions to Basic Life Insurance for the year.

The rollforward analysis of provision for unearned premiums follows:

	2019	2018
At January 1	**₱7,507,432,541**	₱5,948,998,400
Premiums received	**1,859,987,552**	1,926,097,096
Liability released for payments of death, maturity and surrender benefits and claims	**(377,386,748)**	(367,662,955)
At December 31	**₱8,990,033,345**	₱7,507,432,541

The rollforward analysis of outstanding claims provision follows:

	2019	2018
At January 1	**₱88,490,901**	₱41,998,258
Claims incurred in the current year	**1,550,657,986**	1,266,190,935
Claims paid during the year	**(1,548,385,315)**	(1,219,698,292)
At December 31	**₱90,763,572**	₱88,490,901

b) Loan redemption contract liabilities

Details of the loan redemption contract liabilities follow:

	2019	2018
Provision for unearned premiums	**₱218,350,082**	₱180,568,421
Provision for claims incurred but not reported (IBNR)	**7,288,714**	6,906,214
Total loan redemption contract liabilities	**₱225,638,796**	₱187,474,635

The rollforward analysis of provision for unearned premiums follows:

	2019	2018
At January 1	**₱180,568,421**	₱145,584,308
Premiums received	**740,819,961**	645,300,995
Earned premiums	**(703,038,300)**	(610,316,882)
At December 31	**₱218,350,082**	₱180,568,421

This account represents reserves for loan redemption insurance computed using the unearned net premium reserves method.

The rollforward analysis of provision for claims IBNR follows:

	2019	2018
At January 1	**₱6,906,214**	₱1,948,803
Increase in IBNR	**382,500**	4,957,411
At December 31	**₱7,288,714**	₱6,906,214

The rollforward analysis of outstanding claims provision follows:

	2019	2018
At January 1	**₱–**	₱–
Claims incurred in the current year	**171,070,655**	137,286,331
Claims paid during the year	**(171,070,655)**	(137,286,331)
At December 31	**₱–**	₱–

The loan redemption insurance covers the outstanding loan balance of members from CARD, Inc., CARD SME Bank, Inc., CARD Bank, Inc., and CARD MRI Rizal Rural Bank, Inc., CARD Leasing and Finance Corporation and CARD Employees' Multi-purpose Cooperative and all BOAT partners in case of death of a member-borrower.

17. Retirement Fund

The retirement fund or provident fund represents contributions of members of the Association to the Retirement fund, net of administrative expenses. The retirement fund is being administered by the Association and is intended for the retirement of its members. The contributions are invested and the interests thereon are credited to the retirement fund. It can be availed of at the age of 65 if the member has completed a minimum of five (5) consecutive years of membership in the Association. The benefit shall be equal to all the contributions made by the member to the retirement fund plus interest earned. If a member decides to resign prior to age of 65, the member shall be entitled to refund of 100.00% of the member's total contributions plus interest based on prevailing interest rates for regular savings of commercial banks.

The rollforward analysis of retirement fund follows:

	2019	2018
At January 1	**₱4,839,250,994**	₱3,843,088,362
Contribution	**1,169,890,840**	1,034,952,503
Interest income	**266,369,240**	172,913,063
Claims and expenses	**(284,813,363)**	(211,702,934)
At December 31	**₱5,990,697,711**	₱4,839,250,994

The allocation of interest for retirement fund is equivalent to 3.87% in 2019 and 3.53% in 2018, of the beginning balance of the account plus contribution from members during the year.

Included in the 'Other income' are adjustments on interest income previously allocated to retirement fund amounting to ₱22.13 million as of December 31, 2019.

18. **Net Earned Premiums**

The net earned premiums consist of the following:

	2019	2018
Members' contribution and premiums – micro		
Life insurance premiums	**₱3,614,297,925**	₱3,145,947,322
Loan insurance premiums	**740,819,961**	645,300,995
Total members' contribution and premiums – micro	**4,355,117,886**	3,791,248,317
Less: Reinsurer's share on gross earned premium on insurance contracts		
Life insurance	**3,031,225**	3,050,435
Members' contribution and premiums – micro – net	**₱4,352,086,661**	₱3,788,197,882

Under the Association's basic life insurance program, members and its qualified dependents are entitled to receive a minimum amount of benefit upon death or permanent disability duly approved by the Association after meeting certain conditions as stated in the certificate of membership issued to members. The member's contribution is ₱15.00 every week.

Under the basic life insurance program is the golden life insurance program wherein members aging 70 years old are entitled to enroll in the program and have continued coverage up to 100 years old. The member has the option to choose between ₱50.00 or ₱100.00 premium every week with death benefit of ₱25,000 or ₱50,000, respectively. Premiums are payable for ten (10) years.

Under the basic life insurance program extension program, members retiring from the Basic Life Insurance Program shall pay a single premium amounting to ₱1,000.00 per year, 50% of which is Member's Equity Value refundable to the member upon termination of the policy.

Katuparan program provides protection ensuring that the member's target savings will be met after a loss. Under this plan, the member may choose between five (5) options with varying Target Savings Amount and term to meet the said target. The face amount ranges from ₱10,000.00 up to ₱100,000.00 with term of at least two (2) years up to a maximum of five (5) years.

Remitter Protek Plan is a group personal accident insurance cover that provides benefits for death, dismemberment/disablement and daily hospitalization caused by an accident. This insures member elected in a Center meeting who is tasked to remit the collection of the Center to the Unit Offices, Bank Lite Unit (BLU) or Branches of CARD MRI Microfinancing Institutions and other organizations recognized by and affiliated with CARD MBA. The corresponding premium for this plan is ₱200 per center per year.

The loan redemption insurance covers the outstanding principal loan balance of members to CARD Micro-finance institutions namely: CARD Inc., CARD Bank, Inc., CARD SME Bank Inc. and CARD MRI Rizal Rural Bank, Inc. in case of death. Under this program, the member contributes 1.5% per annum of his/her principal loan to be recognized by the Association as gross premiums.

In April 2014, the Association entered into a reinsurance agreement with National Reinsurance Corporation of the Philippines (PHILNARE) in response to the increased risk brought by severe calamities hitting the country. Portion of the premiums received amounting to ₱2.18 million and ₱3.18 million in 2018 and 2017, respectively, are allocated and ceded to the reinsurer.

Reinsurance will limit the possible loss that the Association would experience in case of disaster.

The rollforward of the deferred reinsurance premiums follows:

	2019	2018
At January 1	**₱869,583**	₱737,693
Premiums ceded to reinsurer	**2,838,392**	3,182,325
Reinsurer's share of gross earned premiums on insurance contracts	**(3,031,225)**	(3,050,435)
At December 31	**₱676,750**	₱869,583

Deferred reinsurance premiums pertain to the unamortized portion of the premiums ceded to PHILNARE (see Note 14).

19. Investment Income

This account consists of

	2019	2018
Interest income on:		
HTM investments (Note 7)	**₱356,072,560**	₱329,836,355
Cash and cash equivalents (Note 6)	**9,947,332**	4,241,345
Short-term investments (Note 8)	**4,301,188**	3,445,479
Long-term investments (Note 8)	**18,353,848**	17,232,436
Loans and receivable (Note 8)	**813,772**	385,446
Pension asset (Note 25)	**2,778,093**	2,354,601
Dividend income (Note 9)	**169,885,744**	124,249,320
	₱562,152,537	₱481,744,982

20. General and Administrative Expenses

This account consists of:

	2019	2018
Transportation and travel	**₱217,049,900**	₱187,519,010
Salaries and allowances	**124,970,973**	93,521,629
Professional fees	**42,418,370**	37,868,454
Depreciation (Notes 3, 5, 11 and 12)	**32,744,305**	24,810,520
Program, monitoring and evaluation	**27,678,433**	26,740,119
Supplies	**23,990,520**	21,699,803
Rental (Note 21)	**23,041,101**	22,645,692
Other members' benefit	**19,923,144**	20,719,615
Security and janitorial	**16,694,566**	14,058,706
Training and development	**12,582,991**	7,008,396
Meetings and seminars	**11,618,985**	9,068,974
Communication	**7,233,686**	6,131,070
Repairs and maintenance	**7,142,978**	10,295,874
Taxes and licenses	**5,589,490**	1,969,356

(Forward)

	2019	2018
Insurance	**₱5,529,295**	₱7,010,451
Light and water	**5,392,774**	4,216,964
Interest expense	**5,391,811**	5,959,535
Provision for probable losses (Notes 5, 8, 11 and 12)	**3,596,596**	1,696,502
Pension expense (Note 25)	**2,748,654**	2,964,267
Bank charges	**1,246,271**	923,966
Entertainment, amusement and recreation	**1,210,395**	492,604
Membership dues	**1,065,723**	1,041,907
Research and documentation	**44,734**	135,801
Impairment Expense	**–**	4,871,495
Miscellaneous	**1,830,662**	16,378,189
	₱600,736,357	₱529,748,899

21. Leases

The Association as a Lessee

Short-term and low-value leases

The Association leases vehicles, IT equipment and office spaces. The lease contracts are for the periods ranging from six (6) months to two (2) years and are renewable upon mutual agreement between the Company and the lessors such as CARD Leasing and Finance Corporation and other third-party lessors.

Rent expense amounted to ₱23.04 million and ₱22.65 million in 2019 and 2018, respectively. Rent expense in 2019 pertains to expenses from short-term leases and leases of low-value assets.

As of December 31, 2019, and 2018, the Company has no contingent rent payable.

Long-term leases

The Association leases vehicles, IT equipment and office spaces. The lease contracts are for the periods ranging from one (1) year and five (5) months to two (2) years and are renewable upon mutual agreement between the Company and the lessors such as CARD Bank, Inc., CARD Inc., CARD Leasing and Finance Corporation, CARD MRI Development Institute, CARD MRI Property Holdings, CARD SME Bank and third-party lessors.

The movements in lease liabilities follows:

Balance at beginning of year	₱1,916,179
Additions	8,252,898
Interest expense	422,093
Payments	(5,789,436)
Balance at end of year	₱4,801,734

In 2019, the Association entered into new lease contracts with CLFC and other third-party lessor for the lease of office space and vehicles. These contracts have terms ranging from one (1) year and five (5) months to two (2) years.

The following are the amounts recognized in statement of income:

	2019
Lease payments relating to short-term leases and leases with low value assets	₱23,041,101
Depreciation expense of ROU assets included in property and equipment	5,705,313
Interest expense on lease liabilities	422,093
Total amount recognized in statement of income	₱29,168,507

Shown below is the maturity analysis of the undiscounted lease payments:

	2019	2018
Within one year	**₱9,700,422**	₱17,913,653
Beyond one to two years	**851,976**	32,515,060
	₱10,552,398	₱50,428,713

The Association as a lessor

The Association entered into operating lease agreements with its related parties with terms ranging from three (3) to five (5) years. Rent income included in the statements of comprehensive income under "rental income" account in 2019 and 2018 amounted to ₱16.24 million and ₱14.56 million, respectively.

As of December 31, the amount of future minimum rentals receivable based on the remaining term of the existing lease contracts are as follow:

	2019	2018
Within 1 year	**₱13,015,653**	**₱17,913,653**
More than 1 year but not more than 5 years	**13,858,768**	**32,515,060**
	₱26,874,421	**₱50,428,713**

22. Related Party Transactions

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The significant transactions of the Association with related parties in the normal course of business are as follow:

			2019		
Category	**Amount**	**Outstanding**	**Nature**	**Terms**	**Conditions**
Associates					
CMIT					
Account receivable	₱3,781,863	₱-	Unremitted Collection of members (staff contribution), share on electricity and other expense incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	699	-	Unpaid expenses	On-demand; noninterest-bearing	Unsecured; no impairment

2019					
Category	**Amount**	**Outstanding**	**Nature**	**Terms**	**Conditions**
Rental Income	250,596		Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment
BoTICARD					
Account receivable	₱601,752	₱18,346	Unremitted Collection of members (Staff contribution) and others expense incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	230,822	95,312	Unpaid medicines and others expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Rental Income	420,687				
CPMI					
Account receivable	50,031,520	2,825,892	Advance payment for claims to members who avail CPMI products and other related expenses	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	586,244,351	429,049	Unpaid Premiums uncollected from CPMI products	On-demand; noninterest-bearing	Unsecured; no impairment
Rental Income	133,368				
Affiliates					
MNLI					
Accounts receivable	6,000	-		On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	394,355	386,197	Unpaid expenses incurred in MNLI Product	On-demand; noninterest-bearing	Unsecured; no impairment
CaMIA					
Account receivable	7,547,061	565,119	Advance payment of claims to members who avail CaMIA products and other related expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable (Note 15)	12,616,709	1,338,860	Unpaid Premiums uncollected from CaMIA products	On-demand; noninterest-bearing	Unsecured; no impairment
Rental Income	389,053				
CMDI					
Account receivable	364,017	5,480	Unremitted Collection of Staff contribution & others expense incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	110,557	38,202	Unpaid expenses for administration and training cost of staff & coordinators	On-demand; noninterest-bearing	Unsecured; no impairment
CARD Inc.					
Account receivable	236,123,800	1,756,075	Unremitted Collection of members (Staff contribution) and others expense incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Collection fee payable	264,041,912	2,668,792	Unpaid claims and expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Rental Income	365,364				

(Forward)

2019					
Category	**Amount**	**Outstanding**	**Nature**	**Terms**	**Conditions**
CARD SME Bank Inc.					
Cash and cash equivalents		₱32,014,651	On-demand; interest at 1.50% for regular savings deposit		Unsecured; no impairment
Account receivable	₱65,857,689	5,511,075	Unremitted Collection of members (Staff contribution) and others expense incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Collection fee payable	46,289,928	1,750,313	Unpaid claims and expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Rental Income	4,841,300				
BDSFI					
Account receivable	13,520	300	Unremitted Collection of Staff contribution	On-demand; noninterest-bearing	Unsecured; no impairment
CARD EMPC					
Account receivable	-	901,428	Unremitted Collection of members (Staff contribution) and others expenses	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	43,320	-	Unpaid Claims & expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Rizal Bank Inc.					
Cash and cash equivalents	24,742,984				
Account receivable	22,652,693	5,439,389	Unremitted Collection of members (Staff contribution) and others expense incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Collection fee payable	18,717,278	(330,594)	Unpaid claims and expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Rental Income	1,987,727				
CLFC					
Loans receivable		–	Loans made by CARD LFC	Interest at 4.50% per annum	Unsecured; no impairment
Account receivable	114,532	5,136	Unremitted Collection of members (Staff contribution) and others expenses	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	1,501,585	1,347,445	Unpaid expenses incurred in leasing	On-demand; noninterest-bearing	Unsecured; no impairment
Income from Financial Assistance	–		Income from Financial Income from Financial Assistance	On-demand; noninterest-bearing	
CARD Bank Inc.					
Cash and cash equivalents	73,174,694				
Account receivable	185,749,445	6,826,641	Unremitted Collection of staff contributions, rental for year end and other expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Collection fee payable	63,474,165	3,303,018	Unpaid claims and expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Rental Income	7,801,758				
CMPHI					
Loans receivable		15,000,000	Loan granted to CMPH on May 16, 2019	3-year term; interest at 5.11%	Unsecured; no impairment

2018					
Category	Amount	Outstanding	Nature	Terms	Conditions
Associates					
CMIT					
Account receivable	₱479,392	₱21	Un-remitted contributions for staff and shares on expenses	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	170,077	38,441	Unpaid expenses	On-demand; Noninterest-bearing	Unsecured; no impairment
Rental Income	236,908	–	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment
BoTICARD					
Account receivable	161,718	14,804	Un-paid billing re: water and electricity.	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	5,058,885	4,959,022	Unpaid medicines and other expenses	On-demand; noninterest-bearing	Unsecured; no impairment
Rental Income	306,386	–	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment
CPMI					
Account receivable	77,650,271	2,882,225	Unpaid reimbursement on claims for members who avail CPMI products	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	926,675,124	888,568	Unpaid Premiums for CPMI products	On-demand; noninterest-bearing	Unsecured; no impairment
Rental Income	78,417	–	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment
Affiliates					
MNLI					
Accounts receivable	100,641	6,565		On-demand; Noninterest-bearing	Unsecured; no impairment
Accounts payable	89,986	26,216	Unpaid billings from MNLI re: products	On-demand; noninterest-bearing	Unsecured; no impairment
CaMIA					
Account receivable	6,591,829	463,774	Unpaid reimbursement on claims for members who avail CaMIA products and others expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	12,221,959	1,251,113	Unpaid Premiums for CaMIA products	On-demand; noninterest-bearing	Unsecured; no impairment
Rental Income	359,579	–	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment
CMDI					
Account receivable	151,243	45,272	Unpaid billing re: electricity	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	547,738	45,070	Unpaid expenses for administration and training cost of staff & coordinators	On-demand; noninterest-bearing	Unsecured; no impairment

(Forward)

2018					
Category	Amount	Outstanding	Nature	Terms	Conditions
CARD Inc.					
Account receivable	₱196,688,763	₱690,706	Unremitted collection from members contributions	On-demand; noninterest-bearing	Unsecured; no impairment
Collection fee payable	227,565,026	1,624,525	Amount of claims and expenses is much higher than the collected contributions	On-demand; noninterest-bearing	Unsecured; no impairment
Rental Income	350,520	–	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment
CARD SME Bank Inc.					
Cash and cash equivalents		11,309,942	Various	On-demand; interest at 1.50% for regular savings deposit	Unsecured; no impairment
Deposits	1,382,489,097				
Withdrawals	1,384,337,441				
Account receivable	11,357,391	58,347	Unremitted collection from members contributions	On-demand; noninterest-bearing	Unsecured; no impairment
Collection fee payable	17,881,156	6,717	Amount of claims and expenses is much higher than the collected contributions	On-demand; noninterest-bearing	Unsecured; no impairment
Rental Income	4,621,241	–	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment
Interest Income	318,608	–	Income from deposited made (including in cash and cash equivalents)	On-demand; noninterest-bearing	Unsecured; no impairment
BDSFI					
Account receivable	3,455	–	Uncollected of staff contribution	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	–	–	Unpaid billing re: repacking and delivery of relief goods	On-demand; noninterest-bearing	Unsecured; no impairment
CARD EMPC					
Account receivable	834,022	769,250	unremitted loan redemption premium and health reimbursement of staff	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	19,519	-	Unpaid claims benefit of staff for his loans.	On-demand; noninterest-bearing	Unsecured; no impairment
CARD MRI RIZAL BANK INC.					
Cash and cash equivalents		7,827,561	Various	On-demand; interest at 1.50% for regular savings deposit	Unsecured; no impairment
Deposits	636,469,311				
Withdrawals	632,719,209				
Account receivable	7,641,678	638,565	Unremitted collection from members contributions	On-demand; noninterest-bearing	Unsecured; no impairment
Collection fee payable	36,272,970	37,624	Amount of claims and expenses is much higher than the collected contributions	On-demand; noninterest-bearing	Unsecured; no impairment
Interest Income	171,666	–	Income from deposited made (including in cash and cash equivalents)	On-demand; noninterest-bearing	Unsecured; no impairment
Rental Income	1,858,653	–	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment

(Forward)

2018					
Category	Amount	Outstanding	Nature	Terms	Conditions
CLFC					
Account receivable					
	₱61,713	₱48,821	Unremitted loan redemption premium	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	7,901,309	1,676	Unpaid billing re: supplies	On-demand; noninterest-bearing	Unsecured; no impairment
CARD Bank Inc.					
Cash and cash equivalents		34,631,930	Various	On-demand; interest at 1.50% for regular savings deposit	Unsecured; no impairment
Deposits	4,000,726,698				
Withdrawals	632,719,209				
Account receivable	59,649,361	696,250	Unremitted collection from members contributions	On-demand; noninterest-bearing	Unsecured; no impairment
Collection fee payable	56,037,460	391,117	Amount of claims and expenses is much higher than the collected contributions	On-demand; noninterest-bearing	Unsecured; no impairment
Rental Income	6,752,245	–	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment
Interest Income	830,396		Income from deposited made (including in cash and cash equivalents)	On-demand; noninterest-bearing	Unsecured; no impairment

23. Income Tax

The provision for income tax consists of:

	2019	2018
Current tax	**₱720,767**	₱298,988
Final tax	**75,049,635**	69,062,398
Provision for income tax	**₱75,770,402**	₱69,361,386

The reconciliation of the income tax expense computed based on the excess of revenue over expenses before tax at the statutory income tax rate to the provision for income tax in the statements of comprehensive income follows:

	2019	2018
Statutory income tax	**₱381,633,349**	₱290,422,780
Add (deduct) the tax effect of:		
Gross premiums on insurance contracts	**(1,305,625,998)**	(1,136,459,365)
Gross change in insurance contract liabilities	**456,114,993**	478,025,476
Gross insurance contract benefits and claims Paid	**515,836,791**	407,095,387
General and administrative expenses	**176,812,407**	158,924,670
Equity in net earnings of associates	**(47,153,296)**	(48,954,110)
Dividend income	**(50,965,723)**	(37,274,796)
Interest income subjected to final tax	**(37,032,108)**	(32,194,555)
Interest income not subjected to final tax	**(5,506,154)**	(5,277,656)
Rental income	**(4,870,553)**	(4,077,906)
Other income	**(3,473,053)**	(866,647)
Surrender charge	**(253)**	(1,892)
Provision for income tax	**₱75,770,402**	₱69,361,386

24. Notes to Statement of Cash Flows

The Association's principal noncash investing activity in 2019 pertains to additions to ROU assets amounting to ₱8.44 million as of December 31, 2019.

In 2018, noncash activity pertains to the transfer of advances for future stock subscription from AFS financial assets to loans and receivables amounting to ₱6.46 million (see Notes 8 and 9).

25. Employee Benefits

The Association, CARD Bank, CARD Inc., CARD SME Bank, CAMIA, CARD BDSFI, CMIT, BotiCARD, CMDI, MLNI, RBI, CLFC, RISE and EMPC maintain a funded and formal noncontributory defined benefit retirement plan - the CARD MRI Multi-Employer Retirement Plan (MERP) - covering all of their regular employees and CARD Group Employees' Retirement Plan (Hybrid Plan) applicable to employees hired on or after July 1, 2016. MERP is valued using the projected unit cost method and is financed solely by the Parent Company and its related parties.

MERP and the Hybrid Plan are compliant with the requirements of RA No. 7641 (Retirement Law). MERP provides lump sum benefits equivalent to up to 120% of final salary for every year of credited service, a fraction of at least six (6) months being considered as one whole year, upon retirement, death, total and permanent disability, or voluntary separation after completion of at least one year of service with the participating companies.

The Hybrid Plan provides a retirement benefit equal to 100% of the member's employer accumulated value (the Parent Company's contributions of 8% plan salary to Fund A plus credited earnings) and 100% of the member's employee accumulated value (member's own contributions up to 10% of plan salary to Fund B plus credited earnings), if any. Provided that in no case shall 100% of the employer accumulated value in Fund A be less than 100% of plan salary for every year of credited service.

Total retirement expense in related to Hybrid Plan amounted to ₱0.99 million in 2019 and ₱0.91 million in 2018.

The latest actuarial valuation report covers reporting period as of December 31, 2019.

Changes in funded retirement plan are as follow:

	2019													
	Net benefit cost in statement of comprehensive income							**Remeasurements in other comprehensive income**						
	At January 1	**Current service cost (Note 20)**	**Net interest (Note 19)**	**Subtotal**	**Benefits paid**	**Transfer to plan**	**Return on plan assets (excluding amount included in net interest)**	**Actuarial changes arising from changes in demographic assumptions**	**Actuarial changes arising from changes in financial assumptions**	**Actuarial changes arising from changes in experience**	**Effect of changes in asset ceiling**	**Subtotal**	**Contribution by employer**	**At December 31**
Present value of defined benefit obligation	**₱25,263,141**	**₱2,748,654**	**₱1,945,262**	**₱4,693,916**	**₱–**	**₱–**	**₱–**	**₱374,715**	**₱8,993,127**	**(₱1,129,550)**	**₱–**	**₱ 8,238,292**	**₱–**	**₱38,195,349**
Fair value of plan assets	**(94,556,008)**	**–**	**(7,348,913)**	**(7,348,913)**	**–**	**–**	**3,376,797**	**–**	**–**	**–**	**–**	**3,376,797**	**(1,768,847)**	**(100,296,971)**
Effect of changes in asset ceiling	**34,098,157**	**–**	**2,625,558**	**2,625,558**	**–**	**–**	**–**	**–**	**–**	**–**	**(17,883,875)**	**(17,883,875)**	**–**	**18,839,840**
Retirement liability (asset)	**(₱35,194,710)**	**₱2,748,654**	**(₱2,778,093)**	**(₱29,439)**	**₱–**	**₱–**	**₱3,376,797**	**₱ 374,715**	**₱ 8,993,127**	**(₱1,129,550)**	**(₱17,883,875)**	**(₱6,268,786)**	**(₱1,768,847)**	**(₱43,261,782)**

	2018													
	Net benefit cost in statement of comprehensive income							Remeasurements in other comprehensive income						
	At January 1	Current service cost (Note 20)	Net interest (Note 19)	Subtotal	Benefits paid	Transfer to plan	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from changes in experience	Effect of changes in asset ceiling	Subtotal	Contribution by employer	At December 31
Present value of defined benefit obligation	₱25,349,370	₱2,964,267	₱1,462,659	₱4,426,926	(₱90,883)	(₱1,437,995)	₱–	(₱422,109)	(₱7,730,661)	₱2,292,503	₱–	(₱5,860,267)	₱–	₱25,263,141
Fair value of plan assets	(88,502,279)		(5,175,551)	(5,175,551)	₱90,883	₱1,437,995	1,512,452	–	–	–	–	1,512,452	(1,043,518)	(94,556,008)
Effect of changes in asset ceiling	23,540,569	–	1,358,291	1,358,291	–	–	–	–	–	–	9,199,297	9,199,297	–	34,098,157
Retirement liability (asset)	(₱39,612,340)	₱2,964,267	(₱2,354,601)	₱609,666	₱–	₱–	₱1,512,452	(₱422,109)	(₱7,730,661)	₱2,292,503	₱9,199,297	₱4,851,482	(₱1,043,518)	(₱35,194,710)

The principal actuarial assumptions used in determining retirement liability for the Association's retirement plan are shown below:

	2019	2018
Discount rate	**5.54%**	7.70%
Salary increase rate	**5.00%**	5.00%
Average remaining working lives	**31.8 years**	31.1 years

The fair value of net plan assets by each class is as follows:

	2019	2018
Investment in bonds	**₱45,854,646**	₱47,334,738
Cash and cash equivalents	**43,913,402**	42,001,779
Loans receivable	**8,262,907**	−
Investment in mutual funds	**501,902**	−
Others	**1,764,114**	5,219,491
	₱100,296,971	₱94,556,008

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2019, assuming if all other assumptions were held constant:

		Effect on defined pension plan	
	Increase (decrease)	**2019**	2018
Discount rate	+100 basis points	**(₱4,612,127)**	(₱3,002,726)
	-100 basis points	**5,595,562**	3,635,936
Future salary increase	+100 basis points	**5,568,815**	3,700,254
	-100 basis points	**(4,674,112)**	(3,099,592)

The Association expects to contribute ₱5.29 million to the defined pension plan in 2020.

As of December 31, 2019, the maturity profiles of undiscounted benefit payments of the Association follow:

Less than one year	₱1,896,770
More than one year to five years	9,969,794
More than five years	20,219,723
	₱ 32,086,287

The average duration of the defined benefit obligation at the end of the reporting period is 13.1 years.

26. **Management of Insurance and Financial Risks**

Governance Framework

The Association has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risk. It also supports the effective implementation of policies at the overall association and individual business unit levels.

The policies define the Association's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals and specify reporting requirements.

Regulatory Framework
Regulators are interested in protecting the rights of the members and maintain close vigil to ensure that the Association is satisfactorily managing affairs for the member's benefit. At the same time, the regulators are also interested in ensuring that the Association maintains appropriate solvency position to meet liabilities arising from claims and that the risk levels are at acceptable levels.

The operations of the Association are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., margin of solvency to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise, minimum guaranty fund, risk-based capital requirements).

Guaranty fund
As a mutual benefit association, IC requires the Association to possess a guaranty fund of ₱5.00 million. This minimum amount shall be maintained at all times and it must be increased by an amount equivalent to 5.00% of the Association's gross premium collections until the guaranty fund reaches 12.50% of the minimum paid up capital for domestic life insurance companies or ₱125.00 million. As of December 31, 2019 and 2018, the Association has a total of ₱225.06 and ₱137.86 million, respectively, representing guaranty fund which is deposited with the IC.

Risk-based capital requirements (RBC)
On December 8, 2006, the IC issued IMC NO. 11-2006 adopting the RBC framework for the mutual benefit associations to establish the required amounts of capital to be maintained by entities in relation to their investment and insurance risks. Every mutual benefit association is annually required to maintain a minimum RBC ratio of 100.00% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance entity to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as member's equity divided by the RBC requirement whereas, members' equity is defined as admitted assets minus all liabilities inclusive of actuarial reserves and other policy obligations.

The following table shows how the RBC ratio was determined by the Association based on its calculation:

	2019	2018
Member's equity	**₱4,576,314,812**	₱3,424,570,960
RBC requirement	**1,107,625,917**	873,509,195
RBC ratio	**413.16%**	392.05%

The final amount of the RBC ratio can be determined only after the accounts of the Association have been examined by the IC specifically as to admitted and non-admitted assets as defined under the same Code.

Standard chart of accounts
IC has released Circular No. 2014-41 containing the standard chart of accounts for all new and existing mutual benefit associations doing business in the Philippines. This circular is in line with the requirements of SRC Rule 68, Section 189 of the Amended Insurance Code, and the current accounting standards in the Philippines. This circular is effective immediately and should be used in the annual statement filed with IC starting calendar year 2014. In 2019, the Association changed the account title for the collected contributions from the members under the basic and optional funds, respectively, from 'Gross premiums on insurance contracts' to 'Members' Contributions" and "Premiums – Micro". Said accounts still conform with this circular.

Valuation of reserves
IC has released Circular No. 2016-66 on the Valuation Standards for Life Insurance Policy Reserves which provides a change in the basis of valuation of the life insurance policy reserves from Net Premium Valuation (NPV) to Gross Premium Valuation (GPV). Whereas, the methods and assumptions shall be in accordance with the internationally accepted actuarial standards and consider the generally accepted actuarial principles concerning financial reporting framework promulgated by the Actuarial Society of the Philippines (ASP) which now considers other assumptions such as morbidity, lapse and/or persistency, expenses, non-guaranteed benefits and margin for adverse deviation. This valuation method is applicable to the Association's golden life insurance product which takes effect beginning January 1, 2017. However, in 2018 per advisory no. 6-2018 as released by IC, the Association shift back to NPV as the implementation of GPV for mutual benefit associations (MBAs) is meantime deferred as there appears a pressing need to issue a new Financial Reporting Framework for MBAs which shall be implemented simultaneously to avoid asset-liability mismatch. As a result of Advisory No. 6-2018, the Association retrospectively changed its insurance remeasurement policy from GPV to NPV.

The main risks arising from the Association's financial instruments follow:

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

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines, as well as the use of reinsurance arrangements for the loan redemption fund. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. Although the Association has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus, a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Association's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Association substantially dependent upon any single reinsurance contract.

Underwriting risk
Underwriting risk represents the exposure to loss resulting from actual policy experience adversely deviating from assumptions made in the product pricing. Underwriting risks are brought about by a combination of the following:

- *Mortality risk* - risk of loss arising due to policyholder death experience being different than expected.
- *Morbidity risk* - risk of loss arising due to policyholder health experience being different than expected.
- *Investment return risk* - risk of loss arising from actual returns being different than expected.
- *Expense risk* - risk of loss arising from expense experience being different than expected.
- *Policyholder decision risk* - risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

These risks do not vary significantly in relation to the location of the risk insured by the Association, type of risk insured and by industry. Undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Association's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Association has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the Association to pursue third parties for payment of some or all cost. The Association further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Association.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

Mortality and morbidity rates
Assumptions are based on standard industry and national tables, according to the type of contract written, reflecting recent historical experience and which are adjusted where appropriate to reflect the Association's own experiences. An appropriate but not excessive prudent allowance is made for expected future improvements.

An increase in rates will lead to a larger number of claims and claims could occur sooner than anticipated, which will increase the expenditure and decrease the funds of the Association.

Investment return
The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long-term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments.

An increase in investment return would lead to a reduction in expenditure and an increase in the funds of the Association.

Expenses
Operating expenses assumptions reflect the projected costs of maintaining and servicing in force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation adjustments if appropriate. An increase in the level of expenses would result in an increase in expenditure thereby reducing the funds of the Association.

Lapse and surrender rates
Lapses relate to the termination of policies due to nonpayment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on Association's experience and vary by product type, policy duration and sales trends.

An increase in lapse rates early in the life of the policy would tend to reduce the funds of the Association, but later increases are broadly neutral in effect.

Discount rate
Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on current industry risk rates, adjusted for the Association's own risk exposure.

A decrease in the discount rate will increase the value of the liability.

Sensitivities
The analysis below is performed for a reasonable possible movement in key assumptions with all other assumptions held constant, on the statement of revenue and expenses. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities. It should also be stressed that these assumptions are nonlinear and larger or smaller impacts cannot easily be gleaned from these results. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees.

2019

	Increase of 1.00% on discount rate and decrease of 25.00% on mortality rate	**Increase of 1.00% on discount rate and decrease of 25.00% on mortality rate**
Increase (decrease) on liabilities	**₱7,688,000,118**	**(₱399,369,648)**
Increase (decrease) on revenue	**(7,688,000,118)**	**399,369,648**

2018

	Increase of 1.00% on discount rate and decrease of 25.00% on mortality rate	Increase of 1.00% on discount rate and decrease of 25.00% on mortality rate
Increase (decrease) on liabilities	₱6,094,577,512	(₱418,615,574)
Increase (decrease) on revenue	(6,094,577,512)	418,615,574

The sensitivity analyses consider upward movements in the discount rates and upward and downward movements in mortality and morbidity rates. These do not necessarily represent management's view of expected future rate changes.

Fair value hierarchy
The Association uses the following hierarchy for determining and disclosing the fair value of its financial instruments and other non-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.

Financial instruments
The Association's principal financial instruments are cash and cash equivalents, loans and receivables, AFS financial assets, HTM investments, accounts payable and accrued expenses. The main purpose of these financial instruments is to finance their operations.

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities recognized as of December 31, 2019 and 2018:

	2019		2018	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Cash and cash equivalents	**₱547,505,284**	**₱547,505,284**	₱315,295,952	₱315,295,952
HTM investments	**15,558,075,386**	**15,849,025,083**	12,689,868,405	11,586,000,495
Loans and Receivables				
Short-term investments	**276,551,385**	**276,551,385**	119,715,969	119,715,969
Long-term investments	**854,375,594**	**854,375,594**	854,375,594	728,560,686
Receivables				
Accounts receivables	**29,119,251**	**25,961,427**	8,545,024	8,545,024
Loans receivable	**19,960,000**	**19,960,000**	6,460,000	5,192,010
Other receivables	**142,071,067**	**141,773,004**	42,524,752	42,524,752
AFS financial assets				
Quoted	**537,128,813**	**537,128,813**	451,542,081	451,542,081
Unquoted	**1,108,241,463**	**1,108,241,463**	819,115,760	819,115,760
Accrued interest receivable	**220,407,218**	**220,407,218**	149,918,199	149,918,199
	₱19,293,435,461	**₱19,580,929,271**	₱15,457,361,736	₱14,226,410,928
Financial Liabilities				
Accounts payable and accrued expenses	**₱45,422,277**	**₱45,422,277**	₱59,488,522	₱59,488,522

Due to the short-term nature of transactions, the carrying amounts of financial instruments such as cash and cash equivalents, short-term investments, receivables except loan receivable, quoted equity securities classified as AFS financial assets, accounts payable and accrued expenses approximate their fair values.

For unquoted equity investments classified as AFS, these investments are carried at a reliable fair value.

For loans receivable and long-term investments classified under loans and receivable, fair value are based on discounted value of future cash flows using applicable rates for similar types of instruments. The discount rate used ranged from 4.00% to 6.00% and 4.00% to 6.00% as of December 31, 2019 and 2018, respectively.

For investments in mutual fund companies under AFS investments, fair values are established by reference to the published net asset value.

As of December 31, 2019 and 2018, the fair value of the investments in mutual funds designated as AFS financial assets of the Association amounted to ₱464.07 million and ₱421.61 million, respectively.

As of December 31, 2019 and 2018, the investment in Unit Investment Trust Fund (UITF) with BPI Bayanihan Balanced Fund amounted to ₱73.06 and ₱29.93 million, respectively.

The Association classifies AFS financial assets under Level 1 of the fair value hierarchy, except for the unquoted equity securities that do not have quoted market prices in an active market which are measured using dividend yield model. During the reporting period ended December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

Starting in 2018, the Association determined the fair value of its unquoted equity securities classified as AFS financial assets using the dividend yield model. This method are based on inputs other than quoted prices that are observable for the asset such as weighted cost of capital.

The assumptions above were used in the "Base Case" projections. These assumptions were individually changed (while holding other assumptions steady as in the Base Case) and the resulting valuations derived, to show sensitivity of the valuation to various changes in assumptions.

		Increase (decrease) in fair value	
Significant Unobservable Input	Movement in basis points	2019	2018
Weighted cost of capital	+500%	(₱83,494,663)	(₱39,019,418)
	-500%	98,051,182	43,043,355

Financial Risks

The Association is exposed to financial risk through its financial assets, financial liabilities and insurance liabilities. In particular, the key financial risk that the Association is exposed to is that the proceeds from its financial assets may not be sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk.

These risks arise from open positions in interest rate, currency and debt securities products, all of which are exposed to general and specific market movements.

Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the Association's exposure to credit risk:

a. The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document or when the policy is either paid up or terminated.

b. Reinsurance is placed with highly rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and update the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

c. The Association sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long-term credit ratings.

The table below shows the maximum exposure to credit risk for the components of the statements of financial position.

	2019	2018
Financial Assets		
Cash and cash equivalents (excluding cash on hand amounting ₱0.22 million and ₱0.11 million in 2019 and 2018, respectively)	**₱547,288,384**	₱315,181,107
HTM investments	**15,558,075,386**	12,689,868,405
Loans and Receivables		
Short-term investments	**276,551,385**	119,715,969
Long-term investment	**854,375,594**	854,375,594
Receivables		
Accounts receivable	**29,119,251**	8,545,024
Loans receivable	**19,960,000**	6,460,000
Advances for future stocks subscriptions	**121,273,000**	–
Other receivables	**20,798,067**	42,524,752
Available-for-sale financial assets		
Unquoted	**1,108,241,463**	819,115,760
Quoted	**537,128,813**	451,542,080
Accrued income	**220,407,218**	149,918,199
	₱19,293,218,561	₱15,457,246,890

The table below provides information regarding the credit risk exposure of the Association by classifying assets according to the Association's credit ratings of counterparties as of December 31, 2019 and 2018.

2019

	Neither Past-Due nor Impaired			
	Investment Grade	Non-investment Grade	Past Due and Impaired	Total
Financial Assets				
HTM investments	**₱15,558,075,386**	**₱–**	**₱–**	**₱ 15,558,075,386**
Cash and cash equivalents	**547,505,284**	–	–	**547,505,284**
Loans and Receivables				
Long-term investments	**854,375,594**	–	–	**854,375,594**
Short-term investments	**276,551,385**	–	–	**276,551,385**
Accrued interest receivable	**220,407,218**	–	–	**220,407,218**
Loans receivable	**19,960,000**	–	–	**19,960,000**
Accounts receivables	**27,364,402**	–	**1,754,849**	**29,119,251**
Other receivables	**137,261,317**	–	**4,809,750**	**142,071,067**
AFS financial assets				
Quoted	**537,128,813**	–	–	**537,128,813**
Unquoted	**1,108,241,463**	–	–	**1,108,241,463**
	₱19,286,870,862	**₱–**	**₱ 6,564,599**	**₱19,293,435,461**

2018

	Neither Past-Due nor Impaired			
	Investment Grade	Non-investment Grade	Past Due and Impaired	Total
Financial Assets				
HTM investments	₱12,689,868,405	₱–	₱–	₱12,689,868,405
Cash and cash equivalents	315,295,952	–	–	315,295,952
Loans and Receivables				
Long-term investments	854,375,594	–	–	854,375,594
Short-term investments	119,715,969	–	–	119,715,969
Accrued interest receivable	149,918,199	–	–	149,918,199
Loans receivable	6,460,000	–	–	6,460,000
Accounts receivables	8,008,383	–	536,641	8,545,024
Other receivables	40,597,082	–	1,927,670	42,524,752
AFS financial assets				
Quoted	451,542,080	–	–	451,542,080
Unquoted	819,115,760	–	–	819,115,760
	₱15,454,897,424	₱–	₱2,464,311	₱15,457,361,735

The Association uses a credit rating concept based on the borrowers and counterparties' overall credit worthiness, as follows:

Investment grade	-	Rating given to borrowers and counterparties who possess strong to very strong capacity to meet its obligations.
Non-investment grade	-	Rating given to borrowers and counterparties who possess above average capacity to meet its obligations.

The Association trades only with members who are also members of the related parties. The receivables represent mostly collections of the related parties pertaining to contributions for premiums for life insurance, loan redemption assistance and provident fund unremitted to the Association. Receivables are generally on a 1-30 days terms and are all current. All receivables are neither past due nor impaired.

The Association conducts periodic review of allowance for credit losses each financial year through examining the financial position of the related party and the market in which the related party operates.

Liquidity risk
This risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

The following policies and procedures are in place to mitigate the Association's exposure to liquidity risk:

a) The Association's liquidity risk policy sets out the assessment and determination of what constitutes liquidity risk for the Association. Compliance with the policy is monitored and exposures and breaches are reported to the management. The policy is regularly reviewed for pertinence and for changes in the risk environment.

b) Set guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance and investment contracts obligations.

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one (1) year and beyond one (1) year from reporting date:

2019

	Up to 1 year	**1-3 years**	**over 5 years**	**No term**	**Total**
Financial assets					
Cash and cash equivalents	**547,505,284**	–	–	**–**	**547,505,284**
HTM investments	**220,640,616**	**4,816,249,964**	**10,521,184,806**	**–**	**15,558,075,386**
Loans and receivables					
Accounts receivable	**24,845,505**	**1,070,935**	**–**	**–**	**25,916,440**
Accrued interest receivable	**220,407,218**	**-**	**–**	**–**	**220,407,218**
Loans receivable	**-**	**19,960,000**	**–**	**–**	**19,960,000**
Advances for future stocks subscriptions	**121,273,000**	**-**	**–**	**–**	**121,273,000**
Other receivables	**17,170,676**	**3,149,817**	**–**	**–**	**20,320,493**
Short-term investments	**276,551,385**	**–**	**–**	**–**	**276,551,385**
Long-term investments	**–**	**–**	**854,375,594**	**–**	**854,375,594**
AFS financial assets	**–**	**–**	–	**1,645,370,276**	**1,645,370,276**
	1,428,393,684	**4,840,430,716**	**11,375,560,400**	**1,645,370,276**	**19,289,755,076**
Financial liabilities					
Other financial liabilities					
Accounts payable -CaMIA	**1,340,685**	**–**	**–**	**–**	**1,340,685**
Claims payable	**98,052,285**	**–**	**–**	**–**	**98,052,285**
Collection fee payable	**22,902,073**	**–**	**–**	**–**	**22,902,073**
Accrued expenses	**21,179,520**	**–**	**–**	**–**	**21,179,520**
	143,474,563	**–**	**–**	**–**	**143,474,563**

2018

	Up to one year	1-3 years	Over 5 years	No term	Total
Financial assets					
Cash and other cash items	₱315,295,952	₱–	₱–	₱–	₱315,295,952
HTM investments	84,182,645	1,760,224,980	7,423,278,827	–	9,267,686,452
Loans and Receivables					
Accounts receivables	11,009,856	144,543	–	–	11,154,399
Accrued interest receivable	114,037,287	–	–	–	114,037,287
Loans receivables	–	6,460,000	–	–	6,460,000
Advances for future stock Subscription	4,000,000	–	–	–	4,000,000
Other receivables	10,215,897	579,976	–	–	10,795,873
Short-term investments	119,715,969	–	–	–	119,715,969
Long-term investments	–	–	854,375,594	–	854,375,594
AFS financial assets	–	–	–	1,270,657,841	1,270,657,841
	₱658,457,606	₱1,767,409,499	₱8,277,654,421	₱1,270,657,841	₱11,974,179,367
Financial liabilities					
Other financial liabilities					
Accounts payable – CAMIA	₱1,406,063	₱–	₱–	₱–	₱1,406,063
Claims payable	95,397,115	–	–	–	95,397,115
Collection fee payable	45,542,935		–	–	45,542,935
Accrued expenses	7,215,972	–	–	–	7,215,972
	₱149,562,085	₱-	₱–	₱–	₱149,562,085

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

The following policies and procedures are in place to mitigate the Association's exposure to market risk:

a. The market risk policy sets out the assessment and determination of what constitutes market risk for the Association. Compliance with the policy is monitored and exposures and breaches are reported to the association risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.

b. Set asset allocation and portfolio limit structure, to ensure that assets back specific member liabilities and that assets are held to deliver income and gains for members which are in line with expectations of the members.

c. Stipulated diversification benchmarks by type of instrument, as the association is exposed to guaranteed bonuses, cash and annuity options when interest rates falls.

Currency risk
The Association's principal transactions are carried out in Philippine peso and its foreign exchange risk arises primarily with respect to U.S. dollars, in which some of its investments are denominated.

The following table shows the details of the Association's foreign currency denominated monetary assets and liabilities and their Philippine peso equivalents.

	2019		2018	
	U.S. Dollar[1]	**Peso Equivalent**	U.S. Dollar[1]	Peso Equivalent
Short-term investments	**$487,676**	**₱24,693,053**	$5,623	₱295,638
Cash in bank	**12,681**	**642,112**	495,128	26,033,842
Total	**$500,357**	**₱25,335,165**	$500,751	₱26,329,480

[1] The exchange rate used was ₱50.64 to US$1.00 in 2019 and ₱52.58 to US$1.00 in 2018.

Sensitivity analysis
The following table demonstrates sensitivity to a reasonably possible change in the Philippine Peso exchange rate, with all other variables held constant, of the Association's income before income tax (due to changes in the fair value of currency sensitive monetary assets and liabilities).

	Currency	**Increase (decrease) in Philippine Peso rate**	**Effect on Profit**
2019	**USD**	**+0.10**	**₱2,533,807**
		-0.10	**(2,533,807)**
2018	USD	+0.10	₱2,632,949
		-0.10	(2,632,949)

Interest rate risk
This interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Association to cash flow interest risk, whereas fixed interest rate instruments expose the Association to fair value interest risk.

The Association's interest risk policy requires it to manage interest rate risk by maintaining appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest-bearing financial assets and interest-bearing financial liabilities. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until the maturity.

As of December 31, 2019 and 2018, the Association does not have financial instruments which have repricing interest.

2019

	Range of interest rate	Up to a year	Over one (1) year
Cash and cash equivalents-regular deposit	0.10% to 1.50%	₱186,955,522	₱–
Cash and cash equivalents-time deposits	3.50% to 3.75%	360,549,762	–
Short-term investments	3.50% to 4.00%	276,551,385	–
Long term investments	4.00% to 6.00%	–	854,375,594
HTM investments	3.25% to 8.06%	–	15,558,075,386
Total financial assets		₱824,056,669	₱ 16,412,450,980

2018

	Range of interest rate	Up to a year	Over one (1) year
Cash and cash equivalents-regular deposit	0.05% to 1.50%	₱106,282,027	₱–
Cash and cash equivalents-time deposits	1.575 % to 2.125 %	209,013,925	–
Short-term investments	0.875 % to 2.125 %	119,715,969	–
Long term investments	4.00% to 6.00%	–	854,375,594
HTM investments	3.25% to 8.06%	–	12,689,868,405
Total financial assets		₱435,011,921	₱13,544,243,999

Price risk

The Association's price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, AFS investments. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Association's investment policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plan, and limits on investment in each country, sector and market. Investments in derivatives are also not allowed.

Sensitivity analysis

The following table demonstrates sensitivity to a reasonably possible change in the market value of investments in mutual fund companies and unit investment trust fund, with all other variables held constant, of the Association's equity (due to changes in the net asset value of mutual funds).

	2019		2018	
Change in NAVPS	**+10%**	**-10%**	+10%	-10%
Mutual Funds	**₱44,323,038**	**(₱44,323,038)**	₱4,354,784	(₱4,354,784)
Unit Investment Trust Fund	**7,312,364**	**(7,312,364)**	32,913,666	(32,913,666)

27. Commitment and Contingencies

There were no commitments, guarantees and contingent liabilities that arose in the normal course of the Association's operations which are not reflected in the Association's financial statements. As of December 31, 2019 and 2018, management is of the opinion that losses, if any, from these commitments, guarantees and contingent liabilities will not have a material effect on the Association's financial statements.

28. Appropriated Fund Balance

The Association's BOT approved the appropriation of the following:

	Guaranty fund	CARD MRI Disaster Relief Assistance Program	Experience Refund	Enhancement of IT system	Total
At January 1, 2018	₱137,861,701	₱–	₱542,756	₱10,322,396	₱148,726,853
Appropriation	–	50,000,000	–	72,000,000	122,000,000
Reversal of Appropriation	–	–	–	–	–
Utilization of Appropriation	–	(46,421,909)	–	–	(46,421,909)
At December 31, 2018	137,861,701	3,578,091	542,756	82,322,396	224,304,944
Appropriation	87,200,000	80,000,000	–	197,632,531	364,832,531
Reversal of Appropriation	–	(3,578,072)	–	–	(3,578,072)
Utilization of Appropriation	–	(55,929,693)	–	–	(55,929,693)
At December 31, 2019	₱225,061,701	₱24,070,326	₱542,756	₱279,954,927	₱529,629,710

The Association is required to increase the guaranty fund based on the 5.00% annual gross premium collections until the guaranty fund reaches 12.50% of the minimum paid up capital for domestic life insurance companies or ₱125.00 million, whichever is higher.

The Association appropriated ₱80.00 million and ₱50.00 in 2019 and 2018, respectively for CDRAP aimed at providing relief assistance to its members and dependents during calamities and other disasters in the form of cash or relief goods. In 2019 and 2018, reversal and utilization of appropriation amounted to ₱59.51 and ₱46.42, respectively. These reversals, approved by the BOT, pertain to unused funds at year-end.

29. Events after the Reporting Date

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020, which was subsequently extended to April 30. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

The Association considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Association cannot determine at this time the impact to its financial position, performance and cash flows. The Association will continue to monitor the situation.

30. Approval of the Financial Statements

The accompanying financial statements of the Association were approved and authorized for issue by the Board of Trustees on May 23, 2020.

31. Supplementary Tax Information Required Under Revenue Regulations 15-2010

The Association reported and/or paid the following types of taxes in 2019:

Value added tax (VAT)
As a nonstock, not-for-profit and mutual benefit association, the Association was granted tax exemption with respect to income and value-added taxes as provided under the National Internal Revenue Code of 1997 as amended by Republic Act 8424 known as the Comprehensive Tax Reform Program by the Bureau of Internal Revenue (see Note 1).

a. Net Sales/Receipts and Output VAT declared in the Association's VAT returns follows:

   The Association paid Output VAT from its rental income and interest earned from loans receivables amounting ₱1.95 million and ₱0.10 million, respectively.

b. The Association did not incur any input VAT in 2019.

Information on the Association's importations

The Association does not undertake importation activities.

Taxes and Licenses
This includes all other taxes, local and national, including real estate taxes, license and permit fees lodged under the caption 'Taxes and Licenses' under the 'General and Administrative Expenses' section in the Association's Statement of Comprehensive Income.

Details consist of the following in 2018:

Local tax	
License and permit fees	₱ 4,205,869
Real property taxes	1,275,569
Others	15,162
	5,496,600
National tax	
Registration fees	92,890
	₱5,589,490

c. Withholding Taxes

Details consist of the following:

	Remitted	December 31, 2019
Withholding taxes on compensation and benefits	₱520,669	₱71,512
Expanded withholding taxes	3,467,799	432,150
	₱3,988,468	₱503,662

d. Tax Assessments and Cases

On January 23, 2020, the Association received a letter from the OIC-Revenue District Officer of BIR Revenue District Office No. 055-East Laguna, in response to the Association's request for the issuance of certificate of tax exemption, opining that the Association "does not qualify for exemption under Section 30 (G) of the NIRC , as amended, and, therefore, is liable for regular corporate income tax imposed under Title II of the same Code and other applicable taxes such as Value Added Tax (VAT) or Percentage Tax on the alleged ground that its primary source of income is the gross premiums on insurance contracts as this indicates that the Association is a credit facility or a financing enterprise administered for profit.

The Association's Legal Counsel duly protested the same and filed on February 20, 2020 its position paper thereto.

Currently, the matter has been referred to the Legal Division of the BIR's Revenue Region No. 09 for appropriate action. The resolution on this matter is on-going.

Management together with its Legal Counsel assessed that it is highly probable that BIR will accept the uncertain tax treatment.