ANNUAL REPORT 2018

Simbag sa Emerhensya asin Dagdag Paseguro
Mutual Benefit Association Inc. (SEDP MBA)

3rd Floor The Chancery, Cathedral Compound
Albay District, Legazpi City
Contact Nos.: (052) 481-4449; 09988685263
Email: sedp_mba@yahoo.com.ph
Website: www.sedpmba.com

CONTENTS

WHO WE ARE?

SEDP MBA is a non-stock non-profit Association registered with the Securities and Exchange Commission (SEC) with Reg. No. CN20092141 and licensed to operate as Microinsurance MBA by the Insurance Commission (IC).

It is a subsidiary of SEDP – Simbag sa Pag-Asenso Inc., a microfinance institution under the umbrella of SEDP Mutually Supporting Institution (MSI).

In 2018, the Management together with the Board of Trustees (BOT) conducted the Strategic Planning for the long term direction of the Association. With this, the BOT was able to review the Mission and Vision of SEDP MBA and incorporating the Core Values as stated below.

VISION

To be among the Leading Mutual Microinsurance provider in Bicol

MISSION

Improved Social Protection for SEDP members and Low income groups

Core Values

Members Satisfaction
Christ Centered
Good Governance
Employees Welfare
Trustworthiness
Service Excellence

CORPORATE OBJECTIVES

The purpose for which SEDP MBA is formed is to advance the interests and promote the welfare of the Catholic faithful who belong to the financially disadvantaged sector of the society in particular and the interest and welfare of the Philippines in general.

Specifically the SEDP MBA shall seek:

1. To extend financial assistance to its members, spouse, siblings, children and parents in the form of death benefit, sickness benefit and loan redemption and refund

2. To ensure continued access to benefits/resources by actively involving the members in the management of the SEDP MBA that will include implementation of policies and procedures geared towards sustainability and improved services.

SEDP

MICRO INSURANCE

SIMBAG SA EMERHENSIYA ASIN DAGDAG PASEGURO

MUTUAL BENEFIT ASSOCIATION, INC.

Telefax: (052) 481-4449
Cellphone no.: 09988685263

3/F The Chancery, Cathedral Compound Albay District, Legazpi City

sedp_mba@yahoo.com.ph

58, 585 membership as of September 2018

Area of Coverage

Basic Life Insurance Plan (BLIP)

Mga Benepisyo

1. Ang mga benepisyong matatanggap kapag namatay ang miyembero ay ibibigay maging natural man o aksidente ang sanhi ng kamatayan.
2. Bibigyan ng benepisyo ang mga miyembrong nagkaroon ng kapansanan dulot ng pagkakasakit o pagkaka aksidente.
3. Benepisyo habang nabubuhay pa ang miyembro: kapag natapos na mabayaran ang premium, kalahati nito o fifty percent ng kabuuang kontribusyon ay ibabalik sa miyembro.
4. Makakatanggap din ang bawat miyembro ng pang araw araw na benepisyong bayad kapag siya ay na-ospital

Table of BLIP

Lenght of Continuous Membership	Cause of Death	Basic Life Insurance Benefits					
		Burial					Disability
		Member	Dependents				Member
			Married		Single		
			Spouse	Child	Parent	Sibling	
Less than 6 mos.	Sickness/ accident	2,500.00	none	none	none	none	2,500.00
6 mos. but less than 1 year	sickness	10,000.00	5,000.00	2,000.00	5,000.00	2,000.00	10,000.00
	accident	20,000.00	10,000.00	4,000.00	10,000.00	4,000.00	
1 year but less than 2 years	sickness	20,000.00	7,500.00	4,000.00	7,500.00	4,000.00	20,000.00
	accident	40,000.00	15,000.00	8,000.00	15,000.00	8,000.00	
2 years but less than 3 years	sickness	30,000.00	10,000.00	6,000.00	10,000.00	6,000.00	30,000.00
	accident	60,000.00	20,000.00	12,000.00	20,000.00	12,000.00	
3 years above	sickness	50,000.00	15,000.00	10,000.00	15,000.00	10,000.00	50,000.00
	accident	100,000.00	30,000.00	20,000.00	30,000.00	20,000.00	

SEDP MBA

MICRO INSURANCE

SIMBAG SA EMERHENSIYA
ASIN DAGDAG PASEGURO

MUTUAL BENEFIT
ASSOCIATION, INC.

Telefax: (052) 481-4449
Cellphone no.: 09988685263

3/F The Chancery, Cathedral Compound
Albay District, Legazpi City

sedp_mba@yahoo.com.ph

Daily Hospitalization Income Benefit

Sino-sino ang maaring makatanggap ng benepisyong paloob sa DHIB

1. Na-ospital ang miyembro ng hindi bababa sa labindalawang oras.
2. Magbabayad ang SEDP MBA ng dalawandaang piso (P200.00) sa bawat araw na ma-ospital ang miyembro ng di hihigit sa limang araw sa loob ng isang taon.
3. Ang mga benepisyong ito ay maaaring matanggap kapag ang isang miyembro ay nananatiling miyembro ng SEDP MBA sa loob ng mula tatlong taon pataas.

Ang mga benepisyo ay di matatanggap sa ilalim ng DHIB kapag ang sanhi ay alinman sa mga sumusunod:

1. Sarili ang may gawa sa pagkakasakit
2. May kinalaman sa panganganak ang pananatili sa ospital
3. Paggamit ng ipinagbabawal na droga
4. Walang tigil na paggamit ng nakalalasing na alak
5. Kapag may giyera o matinding kaguluhan maging ito man ay idineklara o hindi
6. Mga gawaing paglabag sa Saligang Batas

Credit Life Insurance Plan (CLIP)

Mga Benepisyo

1. Loan Redemption
   Ituturing na bayad na ang balanse ng anumang utang kapag namatay ang miyembro na dapat sana'y ibabayad sa SEDP.
2. Loan Refund
   Babayaran ang principal na halaga ng namatay na kasapi at ang kabayarang ito ay mapupunta sa lehitimong benepisyaryo.

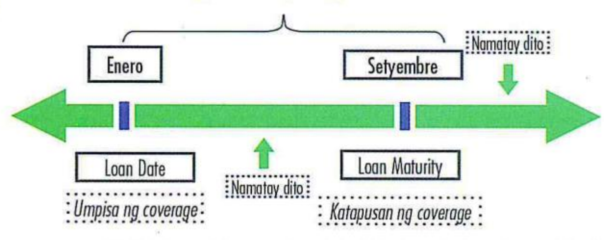
Premium Contribution

1.5% percent kada taon or (P15.00 per P1,000.00 per year)

Halimbawa:
P10,000.00 - Halaga ng loan
8 buwan - takdang panahon ng pagbabayad
1.5% bawat taon - ang halagang ibabayad buwan buwan

Halimbawang tuos o sample computation:
P10,000.00 x (1.5% ÷ 12 x 8) 1% = P100 premium

Panahong sakop ng Insurance



CORPORATE SOCIAL RESPONSIBILITY

SEDP MBA has been operationally and financially well managed through the 10 years of its existence as microinsurance provider. Sound investment management, strict implementation of its policies and guidelines particularly on members' mobilization, collection and remittance up to claims settlement. With this, SEDP MBA was able to generate savings from its efficient operations that resulted to a year end Surplus.

In connection, the approved Surplus allocation for members' additional benefit is maintained and generously distributed to members who are affected with Calamity particularly during Typhoon and Fire incidence through our Calamity Assistance Fund (CAF).

SEDP MBA does not practice dividend sharing to members instead an allocation for SEDP CARE Program was approved by the Board of Trustees so as the retiring members from the program will be ensured of their funeral benefits.

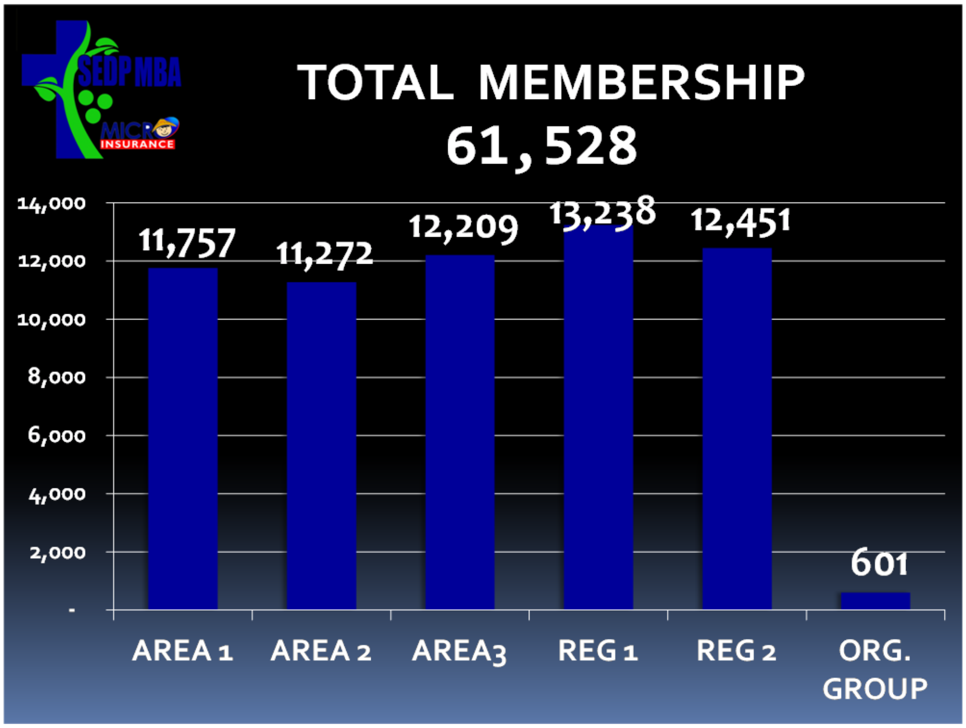
<u>Calamity Assistance fund disbursed:</u>

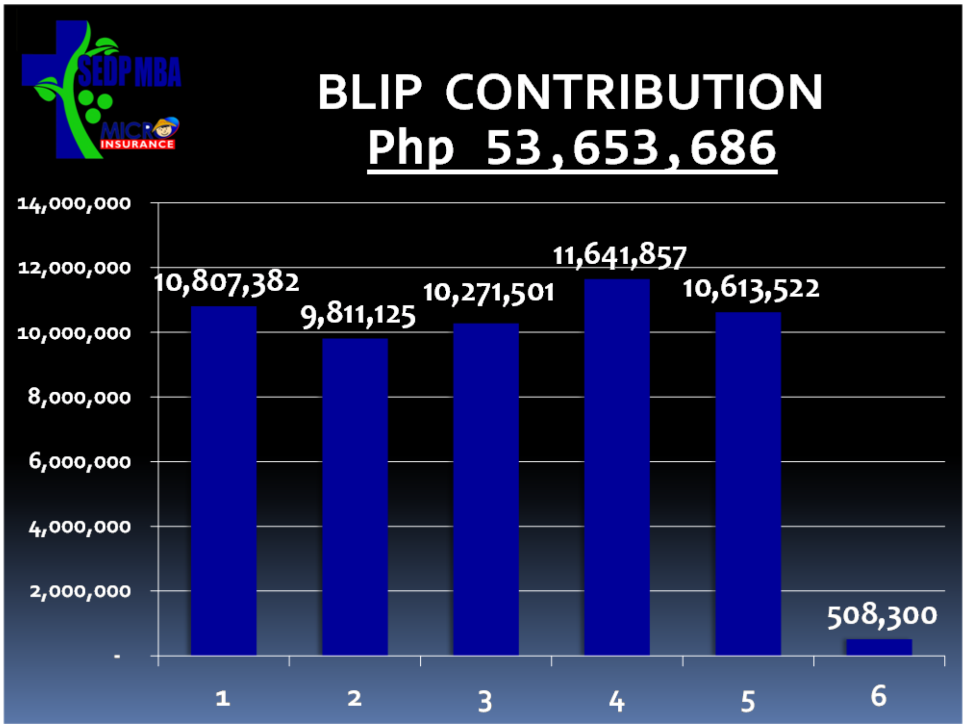
Fire Victims (29)	- P 58,000.00
Typhoon (4)	- P 8,000.00

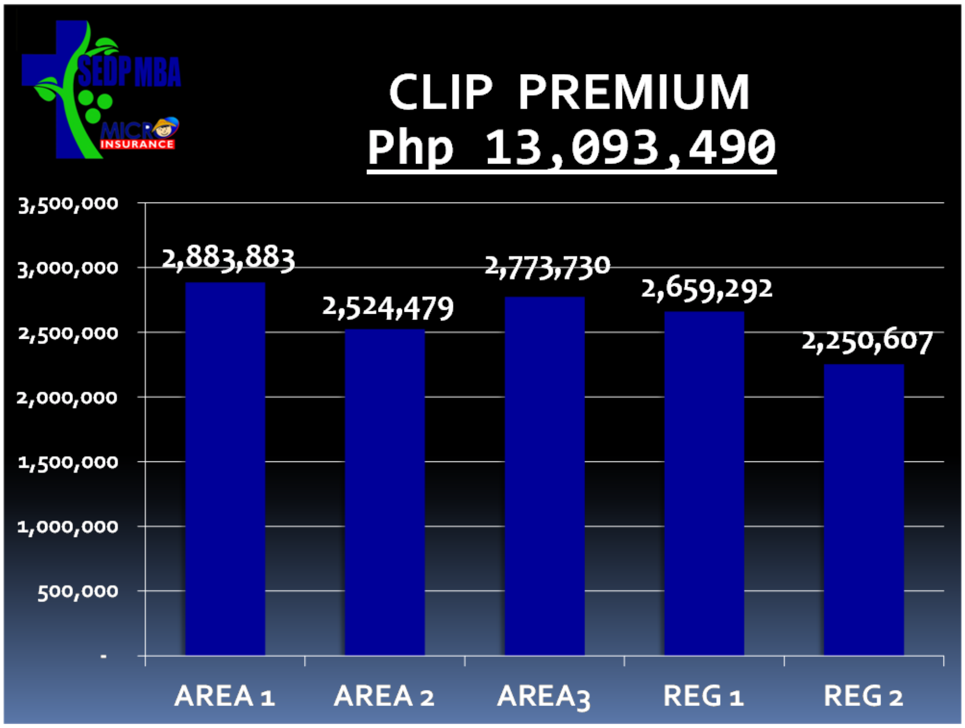
<u>SEDP CARE Program</u>

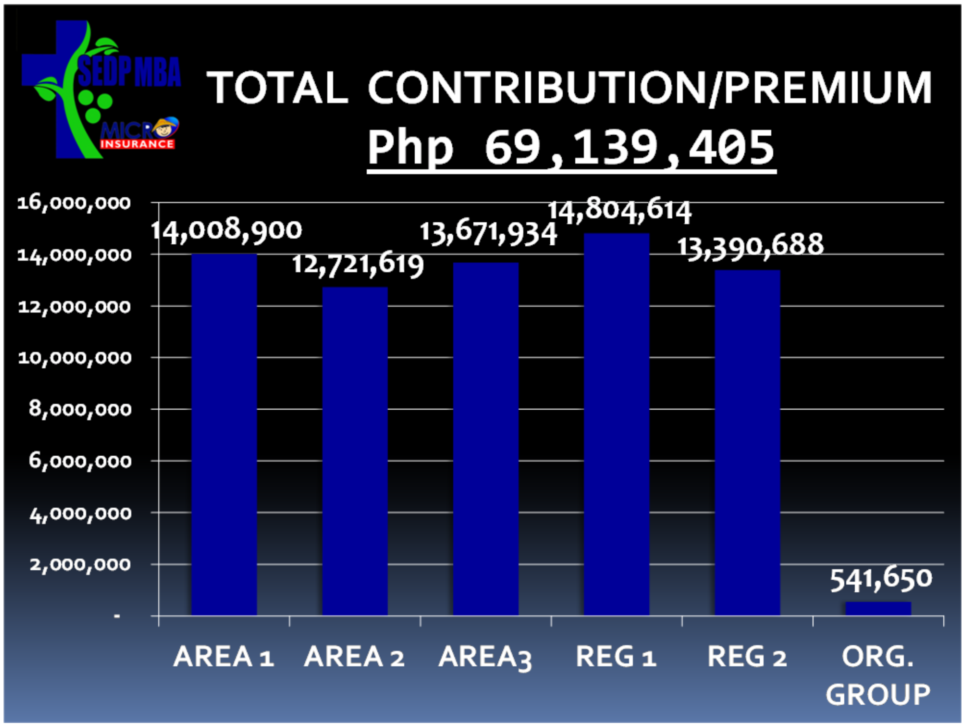
Fund Allocated - P3,663,100.00

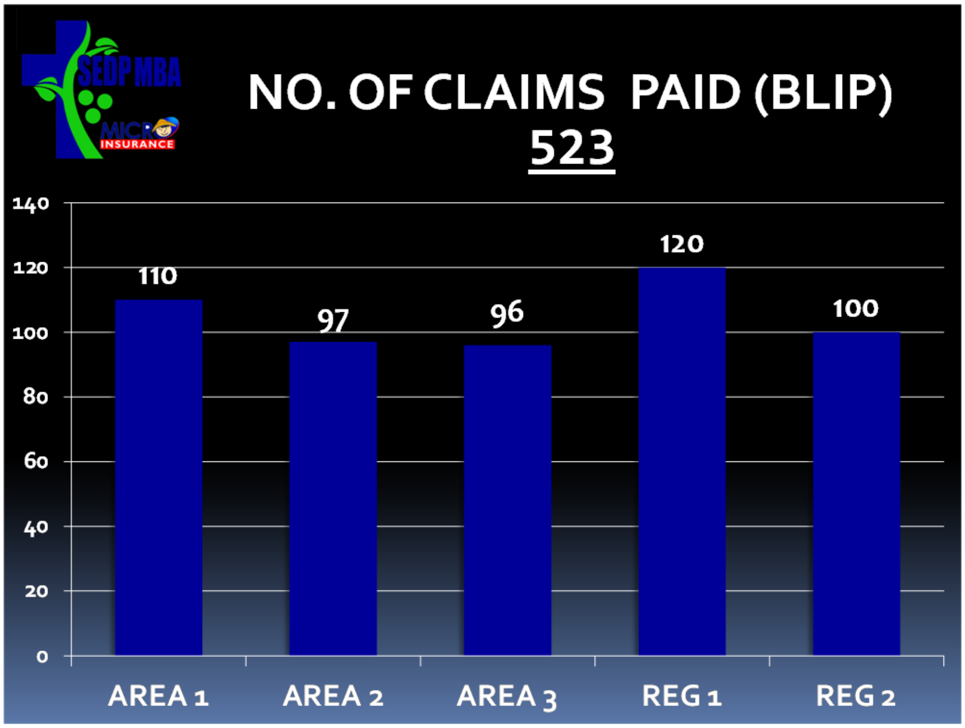
Another form of extending our corporate social responsibility to our members including non-members in the community is the provision of advocacy programs in partnership with the Diocesan Social Action Center (SAC). Before the conduct of Local Election in 2018, the Advocacy team of SAC conducted a simultaneous orientation of Good Barangay Governance with the aim including voters' education for the selection of capable and able Barangay officials who will serve them in the future.

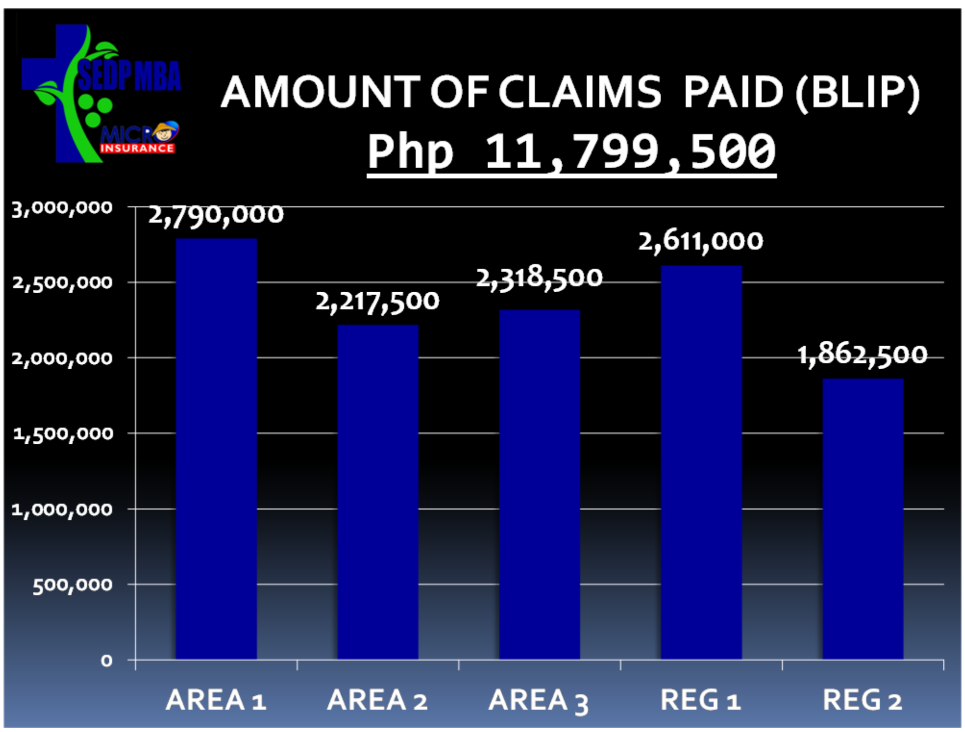

SEDP MBA
MICRO
INSURANCE
TOTAL MEMBERSHIP
61,528
14,000
12,000
10,000
8,000
6,000
4,000
2,000
-
11,757
11,272
12,209
13,238
12,451
601
AREA 1
AREA 2
AREA3
REG 1
REG 2
ORG. GROUP

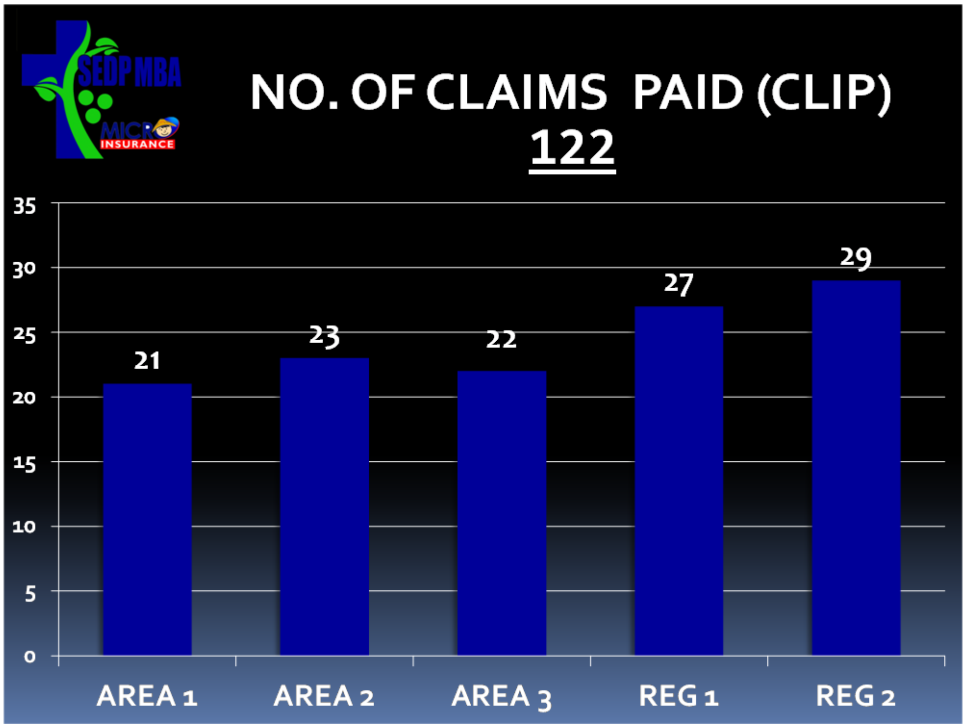

SEDP MBA
MICRO
INSURANCE
BLIP CONTRIBUTION
Php 53,653,686
14,000,000
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
-
10,807,382
9,811,125
10,271,501
11,641,857
10,613,522
508,300
1
2
3
4
5
6

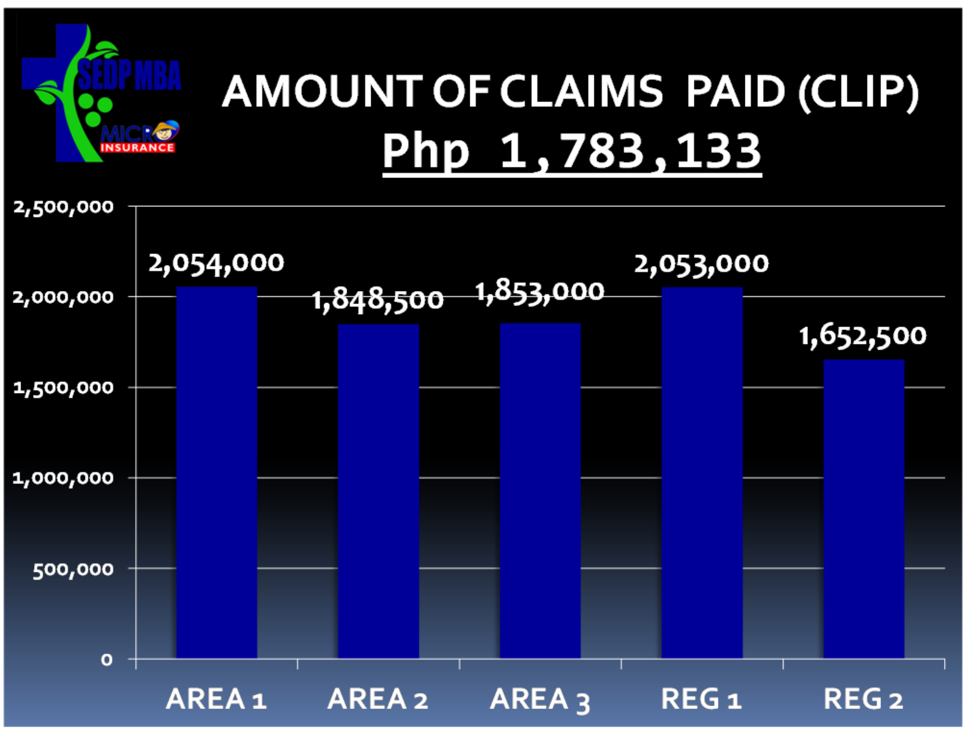

SEDP MBA
MICRO INSURANCE
CLIP PREMIUM
Php 13,093,490
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
-
2,883,883
2,524,479
2,773,730
2,659,292
2,250,607
AREA 1
AREA 2
AREA3
REG 1
REG 2

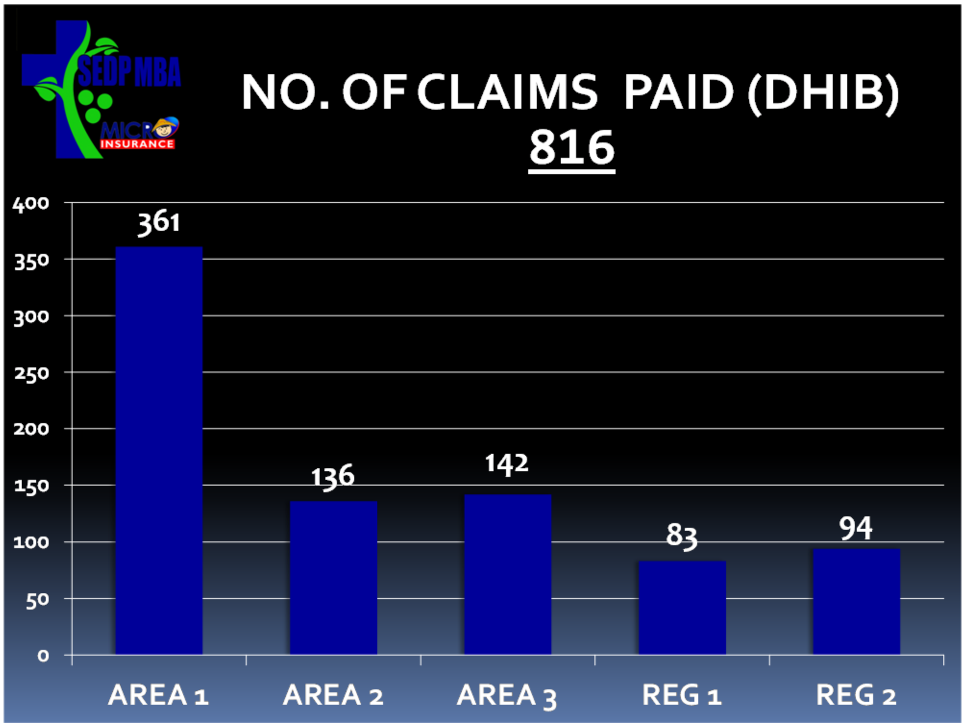

SEDP MBA
MICRO INSURANCE
TOTAL CONTRIBUTION/PREMIUM
Php 69,139,405
16,000,000
14,000,000
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
-
14,008,900
12,721,619
13,671,934
14,804,614
13,390,688
541,650
AREA 1
AREA 2
AREA3
REG 1
REG 2
ORG. GROUP

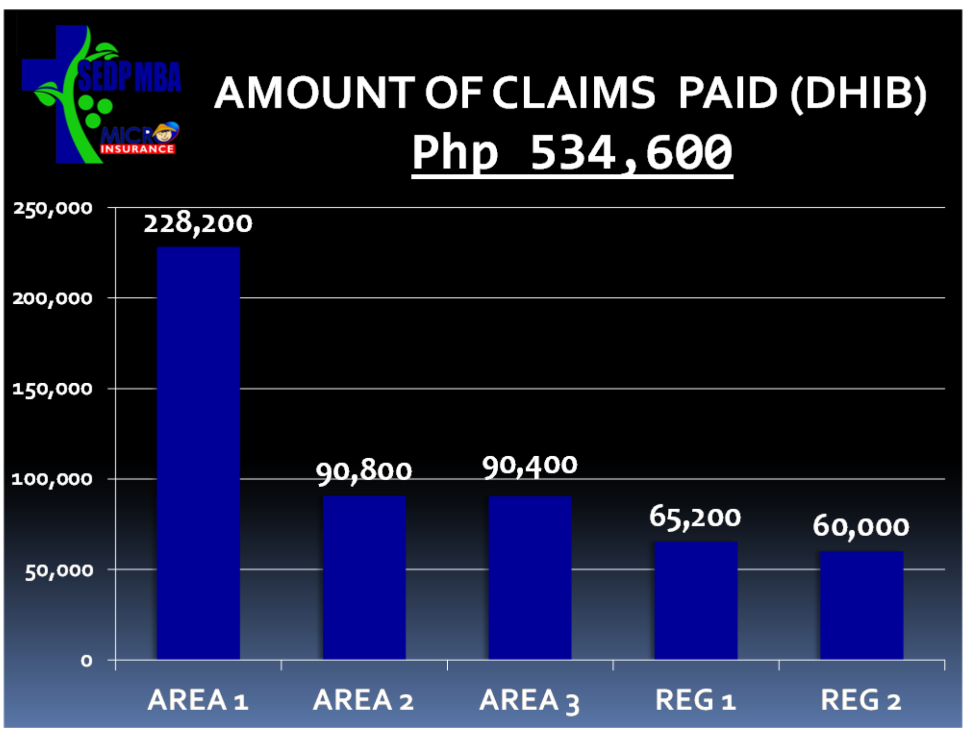

SEDP MBA
MICRO INSURANCE
NO. OF CLAIMS PAID (BLIP)
523
140
120
100
80
60
40
20
0
110
97
96
120
100
AREA 1
AREA 2
AREA 3
REG 1
REG 2


SEDP MBA
MICRO INSURANCE
AMOUNT OF CLAIMS PAID (BLIP)
Php 11,799,500
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
2,790,000
2,217,500
2,318,500
2,611,000
1,862,500
AREA 1
AREA 2
AREA 3
REG 1
REG 2


SEDP MBA
MICRO INSURANCE
NO. OF CLAIMS PAID (CLIP)
122
35
30
25
20
15
10
5
0
21
23
22
27
29
AREA 1
AREA 2
AREA 3
REG 1
REG 2


SEDP MBA
MICRO INSURANCE
AMOUNT OF CLAIMS PAID (CLIP)
Php 1,783,133
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
2,054,000
1,848,500
1,853,000
2,053,000
1,652,500
AREA 1
AREA 2
AREA 3
REG 1
REG 2


SEDP MBA
MICRO INSURANCE
NO. OF CLAIMS PAID (DHIB)
816
400
350
300
250
200
150
100
50
0
361
136
142
83
94
AREA 1
AREA 2
AREA 3
REG 1
REG 2


SEDP MBA
MICRO INSURANCE
AMOUNT OF CLAIMS PAID (DHIB)
Php 534,600
250,000
200,000
150,000
100,000
50,000
0
228,200
90,800
90,400
65,200
60,000
AREA 1
AREA 2
AREA 3
REG 1
REG 2

GOVERNANCE

SEDP MBA is committed in the promotion of corporate good governance within its organization and among its stakeholders. The Board of Trustees together with the Management, SEDP MBA will remain steadfast in monitoring the performance of the organization, strive to make good and sound decisions, and will hold its governing board accountable for its execution in achieving our corporate goals.

The Board of Trustees is the governing body elected by the members that exercises the corporate powers of the association.

BOARD OF TRUSTEES

2015-2018

REV. FR. REX PAUL B. ARJONA
President

Date of First Appointment: **January 1, 2015**

Age: **40**

Academic Qualifications:

M.A. Pastoral Ministry
Loyola School of Theology
Ateneo de Manila University

Master in Development Management
Asian Institute of Management

Diploma in Local Government Mgt.
Bicol University
Legazpi City

Relative Experience:

Executive Director
Social Action Center
Diocese of Legazpi

Trainings & Seminars Attended:

AMLA & Governance Workshop
Microinsurance Forum
Management Forum
Investment Management Seminar
Learning Session on Governance
ACGS Orientation

Other Corporate Directorship:

SEDP-Simbag sa Pag-Asenso Inc.

MS. REMEGIA L. BALUCIO
Vice President

MS. MARY ANN BONEO
Secretary

Date of First Appointment: **January 1, 2015**

Age: **57**

Academic Qualifications:

Master in Business Administration (MBA)
Divine Word College Legazpi

Diploma in Program Development Managers (PDM)
Asian Institute of Management

AB Economics
Bicol University
Legazpi City

Relative Experience:

Executive Director
SEDP Multi Purpose Cooperative

Trainings & Seminars Attended:

AMLA & Governance Workshop
Microinsurance Forum
Management Forum
Investment Management Seminar
Learning Session on Governance
ACGS Orientation

Other Corporate Directorship:

None

Date of First Appointment: **January 1, 2015**

Age: **56**

Academic Qualifications:

B.A. in Secondary Education
D.B. Pena Memorial College
Tabaco City

Relative Experience:

Center Chief
SEDP-Simbag sa Pag-Asenso Inc.

17 Years as SEDP member

100% Attendance & Repayment

Formator

Trainings & Seminars Attended:

AMLA & Governance Workshop
Microinsurance Forum
Management Forum
Learning Session on Governance
ACGS Orientation

Other Corporate Directorship:

None

MS. MARILYN IBARRETA
Treasurer

Date of First Appointment: **January 1, 2015**

Age: **54**

Academic Qualifications:

Secretarial
School for Philippine Craftsmen
Polangui, Albay

Relative Experience:

Center Chief
SEDP-Simbag sa Pag-Asenso Inc.

12 Years as SEDP member

100% Attendance & Repayment

Punong Barangay
Polangui, Albay

Trainings & Seminars Attended:

AMLA & Governance Workshop
Microinsurance Forum
Management Forum
Learning Session on Governance
ACGS Orientation

Other Corporate Directorship:

None

MS. MERLE PAETE
Trustee

Date of First Appointment: **January 1, 2015**

Age: **58**

Academic Qualifications:

Medical Secretary
MCU
Caloocan City

Relative Experience:

Center Chief
SEDP-Simbag sa Pag-Asenso Inc.

8 Years as SEDP member

100% Attendance & Repayment

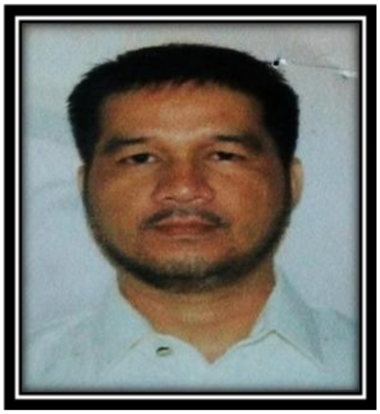
Outstanding Entrepreneur Awardee
CITI Foundation

Trainings & Seminars Attended:

AMLA & Governance Workshop
Microinsurance Forum
Management Forum
Learning Session on Governance
ACGS Orientation

Other Corporate Directorship:

None



REV. FR. JONNATHAN CALLEJA
Independent Trustee

Date of First Appointment: **January 1, 2015**

Age: **44**

Academic Qualifications:

Degree in AB Sacred Theology
Holy Rosary Major Seminary
Naga City

Degree in AB Philosophy
Mater Salutis College Seminary
Sipi, Daraga, Albay

Relative Experience:

FORMATOR/PROFESSOR
Mater Salutis College Seminary
Sipi, Daraga, Albay

ADMINISTRATOR
St. Joseph Quasi-Parish
Rawis, Legazpi City

Trainings & Seminars Attended:

AMLA & Governance Workshop
Microinsurance Forum
Management Forum
Investment Management Seminar
Learning Session on Governance

Other Corporate Directorship:

SEDP-Simbag sa Pag-Asenso Inc

REV. FR. EDUARDO BELLEN
Independent Trustee

Date of First Appointment: **January 1, 2015**

Age: **57**

Academic Qualifications:

Diploma in Pastoral Counselling
Center for Family Ministries
Ateneo de Manila

Bachelor of Arts Major in Philosophy
Holy Rosary Major Seminary
Naga City

Relative Experience:

ASSISTANT CHAIR
Commission on the Clergy
Diocese of Legazpi
Legazpi City

PASTOR
Our Lady of Fatima Parish
Tahao Road, Legazpi City

Trainings & Seminars Attended:

AMLA & Governance Workshop
Microinsurance Forum
Management Forum
Anti-Fraud Seminar Workshop
Learning Session on Governance

Other Corporate Directorship:

SEDP-Simbag sa Pag-Asenso Inc.

RENUMERATION OF THE MEMBERS OF THE BOARD OF TRUSTEES

TRUSTEE NAME	PARTICULARS	AMOUNT RECEIVED
FR. REX PAUL ARJONA	Reimbursements of Transportation and Incidental Expenses during attendance to Board of Trustees and Committee Meetings	P 25,500.00
FR. JONNATHAN CALLEJA		P 11,000.00
FR. EDUARDO BELLEN		P 13,500.00
MS. REMEGIA BALUCIO		P 29,000.00
MS. MARY ANN BONEO		P 13,000.00
MS. MARILYN IBARRETA		P 18,000.00
MS. MERLE PAETE		P 29,000.00

WHISTLEBLOWER PTROTECTION POLICY

Simbag sa Emerhensya asin Dagdag Paseguro Mutual Benefit Association Inc. (SEDP MBA) requires Board of Trustees, Management and Employees to observe high standards of service and personal ethics in the conduct of their duties and responsibilities. As employees and representatives of SEDP MBA we must practice honesty and integrity in fulfilling our responsibilities and comply with all applicable laws and regulations.

Whistleblower Policy is intended to encourage and enable employees and others to raise serious concerns internally so that SEDP MBA can address and correct inappropriate conduct and actions. It is the responsibility of all board members, officers, employees and volunteers to report concerns about violations of SEDP MBA's code of ethics or suspected violations of law or regulations that govern SEDP MBA's operations.

BOARD MEETINGS

NAME OF TRUSTEE	NO. OF MEETINGS	NO. OF MEETINGS ATTENDED	PERCENTAGE RATING
FR. REX PAUL ARJONA	4	4	100%
REMEGIA BALUCIO	4	4	100%
FR. JONNATHAN CALLEJA	4	4	100%
FR. EDUARDO BELLEN	4	1	25%
MARY ANN BONEO	4	4	100%
MARILYN IBARRETA	4	4	100%
MERLE PAETE	4	4	100%

BOARD COMMITTEES

AUDIT COMMITTEE

Chairperson: Fr. Eduardo Bellen
Members:
Ms. Remegia Balucio
Fr. Rex Paul Arjona

HR & REMUNERATION COMMITTEE

Chairperson: Fr. Ms. Merle Paete
Members:
Ms. Remegia Balucio
Fr. Jonnathan Calleja
Ms. Mary Ann Boneo

NOMINATION COMMITTEE

Chairperson: Fr. Jonnathan Calleja
Members:
Ms. Mary Ann Boneo
Ms. Marilyn Ibarreta
Ms. Merle Paete

GOVERNANCE COMMITTEE

Chairperson: Fr. Rex Paul Arjona
Members:
Ms. Remegia Balucio
Fr. Eduardo Bellen

EMPLOYEES & MEMBERS WELFARE AND DEVELOPMENT

SEDP MBA is committed to maintain a healthy work environment by protecting the physical, emotional health, and well-being of all employees in the Association. SEDP MBA is concerned about the use of alcohol, illegal drugs or controlled substances that can adversely affect an employee's work performance, efficiency, safety, and health and seriously impair the person's value. The use or possession of these substances on the job constitutes a potential danger to the welfare and safety of other employees and exposes SEDP MBA to the risks of property loss or damage or injury to employees. This policy aims to enforce the Republic Act No. 9165 known as the Comprehensive Dangerous Drugs Act of 2002.

As part of Employees & Members Welfare, continuous education is always provided through training/seminars, formation activities and as well as Annual Physical Examination for a healthy workforce.

STAFF	MEMBERS
Advance Management Training Course	Voters Education
Lenten/Advent Recollection	Orientation and Re-Orientation of IRR
Annual Physical Examination	MBA Coordinators Orientation/Workshop
Management Forum	Marketing Workshop
Microinsurance Forum	Enterprise Development Trainings
Annual Statement Workshop	
Peer Learning Session	

Financial Statements of

Simbag sa Emerhensya Asin Dagdag Paseguro Mutual Benefit Association (SEDP MBA), Inc.

December 31, 2018 and 2017

And

Report of Independent Auditors

REPORT OF INDEPENDENT AUDITORS

The Board of Trustees and Members
Simbag sa Emerhensya Asin Dagdag Paseguro Mutual Benefit Association (SEDP MBA), Inc.

Opinion
We have audited the financial statements of Simbag sa Emerhensya Asin Dagdag Paseguro Mutual Benefit Association (SEDP MBA), Inc., which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of revenue and expenses, statements of changes in fund balances and statements of cash flows for the years then ended, and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all materials respects, the financial position of Simbag sa Emerhensya Asin Dagdag Paseguro Mutual Benefit Association (SEDP MBA), Inc. as at December 31, 2018 and 2017, and of its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards (PFRSs).

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

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

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

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

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

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

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

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

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

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

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

Quilab & Garsuta, CPAs
PTR No. 4070911 A
January 3, 2019
Cagayan de Oro City

April 11, 2019
Cagayan de Oro City, Philippines

STATEMENTS OF FINANCIAL POSITION

Simbag sa Emerhensya Asin Dagdag Paseguro Mutual Benefit Association (SEDP MBA), Inc.

December 31	**2018**	2017
ASSETS		
Current Assets		
Cash and cash equivalents *(Note 4)*	**₱40,001,225**	₱53,987,520
Trade and other receivables *(Note 5)*	**20,595,285**	667,555
Prepayments and other current assets	**56,279**	139,993
Total Current Assets	**60,652,789**	54,795,068
Non-Current Assets		
Furniture, fixtures and office equipment (net) *(Note 6)*	**78,301**	122,599
Investments in debt and equity securities – at amortized cost *(Note 7)*	**178,579,465**	149,262,741
Total Non-Current Assets	**178,657,766**	149,385,340
	₱239,310,555	₱204,180,408
LIABILITIES AND FUND BALANCES		
Current Liabilities		
Trade and other payables *(Note 8)*	**₱6,687,808**	₱6,543,192
Insurance contract liabilities *(Note 9)*	**1,774,594**	667,621
Total Current Liabilities	**8,462,402**	7,210,813
Non-Current Liabilities		
Aggregate reserves for unexpired risks *(Note 10)*	**130,468,832**	110,894,040
Total Liabilities	**138,931,234**	118,104,853
Fund Balances		
Guaranty Fund *(Note 11)*	**24,319,679**	20,982,320
Special Funds *(Note 12)*	**48,273,395**	41,472,265
General Fund	**27,786,247**	23,620,970
Total Fund Balances	**100,379,321**	86,075,555
	₱239,310,555	₱204,180,408

See Note to Financial Statements

STATEMENTS OF REVENUE AND EXPENSES

Simbag sa Emerhensya Asin Dagdag Paseguro Mutual Benefit Association (SEDP MBA), Inc.

Years Ended December 31	**2018**	2017
REVENUE		
Members' gross premium contributions *(Note 13)*	**₱66,747,177**	₱63,297,026
Less contributions to Guaranty Fund *(Note 11)*	**3,337,359**	3,164,851
Net members' premium contributions	**63,409,818**	60,132,175
Interest and investments income *(Notes 4, 7)*	**5,461,114**	4,313,575
Membership fees *(Note 13)*	**2,392,228**	1,632,585
Other income	**5,553**	4,341
Total Revenue	**71,268,713**	66,082,676
BENEFITS AND OPERATING EXPENSES		
Benefits and claims paid to members *(Notes 9 and 13)*	**25,452,905**	23,464,774
Increase in aggregate reserves for unexpired risks *(Note 10)*	**19,574,792**	15,033,845
Collection costs *(Note 16)*	**4,919,345**	4,306,285
Membership enrollment and marketing expenses	**954,736**	869,364
Net insurance benefits and claims	**50,901,778**	43,674,268
General and administrative expenses *(Note 14)*	**2,256,081**	1,911,486
Compensation and employees' benefits *(Note 15)*	**1,983,254**	2,041,068
Depreciation *(Note 6)*	**55,998**	57,174
Total Benefits and Operating Expenses	**55,197,111**	47,683,996
NET SUPLUS FOR THE YEAR	**₱16,071,602**	₱18,398,680

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN FUND BALANCES

Simbag sa Emerhensya Asin Dagdag Paseguro Mutual Benefit Association (SEDP MBA), Inc.

December 31	**2018**	2017
GUARANTY FUND *(Note 11)*		
Opening balances	**₱20,982,320**	₱17,817,469
5% contributions during the year	**3,337,359**	3,164,851
Closing balances	**24,319,679**	20,982,320
APPROPRIATED SPECIAL FUNDS *(Note 12)*		
Members' Benefits Fund	**26,488,244**	22,109,011
Capacity Building Fund	**6,938,331**	5,947,698
Member's Education Fund	**6,468,681**	5,532,732
Research & Development Fund	**4,895,151**	4,597,962
Acquisition of Systems & Equipment Fund	**3,482,988**	3,284,862
Closing balances	**48,273,395**	41,472,265
GENERAL FUND		
Opening balances	**23,620,970**	42,943,580
Appropriations to Special Funds for 2016 *(Note 12)*	**–**	(23,110,422)
Appropriations to Special Funds for 2017 *(Note 12)*	**–**	(14,610,868)
Appropriations to Special Funds for 2018 *(Note 12)*	**(11,906,325)**	–
Net surplus for the year	**16,071,602**	18,398,680
Closing balances	**27,786,247**	23,620,970
	₱100,379,321	₱86,075,555

See Notes to Financial Statements

STATEMENTS OF CASH FLOWS

Simbag sa Emerhensya Asin Dagdag Paseguro Mutual Benefit Association (SEDP MBA), Inc.

Years Ended December 31	**2018**	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net surplus for the year	**₱16,071,602**	₱18,398,680
Add back adjustments for:		
Increase in aggregate reserves for unexpired risks *(Note 10)*	**19,574,792**	15,033,845
Provision for expected credit losses (ECL) *(Note 5)*	**103,494**	–
Depreciation *(Note 6)*	**55,998**	57,174
Interest and investments income *(Notes 4 and 7)*	**(5,461,114)**	(4,313,575)
Operating income before changes in working capital	**30,344,772**	29,176,124
Add (deduct) changes in working capital, excluding cash and cash equivalents:		
Increase (decrease) in trade and other receivables *(Note 5)*	**(20,031,224)**	137,619
Decrease (increase) in prepayments and other current assets	**83,714**	(75,120)
Increase in insurance contract liabilities *(Note 9)*	**1,106,973**	9,901
Increase (decrease) in trade and other payables *(Note 8)*	**144,616**	(4,323,949)
Net Cash Provided from Operating Activities	**11,648,851**	24,924,575
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in guaranty fund *(Note 11)*	**3,337,359**	3,164,851
Increase in members' benefits *(Note 12)*	**(5,105,195)**	(10,271,128)
Net Cash Used for Financing Activities	**(1,767,836)**	(7,106,277)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in investments in financial assets at amortized cost *(Note 7)*	**(29,316,724)**	(41,044,113)
Interest and investment income *(Notes 4 and 7)*	**5,461,114**	4,313,575
Additions to furniture, fixtures and office equipment *(Note 6)*	**(11,700)**	(85,499)
Net Cash Used for Investing Activities	**(23,867,310)**	(36,816,037)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(13,986,295)**	(18,997,739)
OPENING CASH AND CASH EQUIVALENTS	**53,987,520**	72,985,259
CLOSING CASH AND CASH EQUIVALENTS *(Note 4)*	**₱40,001,225**	₱53,987,520

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

Simbag sa Emerhensya Asin Dagdag Paseguro Mutual Benefit Association (SEDP MBA), Inc.
As of and the Years Ended December 31, 2018 and 2017

Note 1
Organization and Tax Exemption

The Simbag sa Emerhensya Asin Dagdag Paseguro Mutual Benefit Association (SEDP MBA), Inc. (referred to in the following sections as 'Association') was organized by the members of Simbag sa Emerhensya Asin Dagdag Paseguro, Inc., 'to extend financial assistance to its members, spouse, siblings, children and parents in the form of death benefits, sickness benefits, provident savings and loan redemption assistance; to ensure continued access to benefits/resources by actively involving the members in the management of the Association that will include the implementation of policies and procedures geared towards sustainability and improved services.' It was registered with the Securities and Exchange Commission (SEC) on February 17, 2009 and obtained its secondary license from the Insurance Commission (IC) on August 27, 2009. It is governed by a Board of Trustees which receives no compensation. It devotes all its incomes for the purposes enumerated in its Articles of Incorporation.

The Association is holding office at the 3rd Floor of The Chancery Building, Cathedral Compound, Albay District, Legazpi City, Albay, free of charge, but its shares for the cost of utilities. As at December 31, 2018, the Association has a total membership of 61,528.

In accordance with Section 30 (C) of the National Internal Revenue Code, as amended, the Association is exempted from the payment of taxes from income derived by it.

Note 2
Summary of Significant Accounting Policies

The significant accounting policies that have been used in the preparation of these financial statements are summarized below.

Statement of Compliance

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs) and Philippine Interpretations-IFRIC. PFRSs include statements named PFRSs and Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by SEC.

Because the Association is a supervised entity by the Insurance Commission (IC), it also abides by the regulations of the Commission particularly those that are set forth under Section 189 of The Amended Insurance Code and with IC Circular Letter No. 2014-41 *Standard Chart of Accounts (SCA) for MBAs,* and all applicable IC Circular Letters and accounting requirements. These regulations and requirements are substantially compliant with PFRSs and the SRC Rule 68.

Basis of Preparation

The accompanying financial statements have been prepared using the historical cost basis. The financial statements are presented in Philippine peso, which is the Association's functional and presentation currency and all values are recorded to the nearest peso except when otherwise indicated. The accounting policies used in preparing these financial statements have been consistently applied since the previous period.

The preparation of the financial statements made use of estimates, assumptions and judgments by management based on management's best knowledge of current and historical facts as at statement of financial condition date. These estimates and judgments affect the reported amounts of assets and liabilities and contingent liabilities as at statement of financial condition date, as well as affecting the reported income and expenses for the year. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Presentation of Financial Statements
The Association's statements of financial position are presented in the classified model, separating current and non-current assets and liabilities. This presentation is basically an analysis regarding recovery (asset) or settlement (liability) within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current). The Association's financial statements are presented side by side with previous year's figures.

Changes in Accounting Policies Beginning January 1, 2018
New financial reporting standards impacting the Association have been adopted beginning January 1, 2018. These standards are the following:

- *PFRS 9 Financial Instruments*
  The Association has adopted PFRS 9 from January 1, 2018. The Association adopted the new guidance for accounting for financial instruments and applied the Standard using the transitional relief allowing the Association not to restate prior periods. Differences, if any, arising from the adoption of PFRS 9 in relation to classification, measurement, and impairment were recognized in General Fund account. Accordingly, the Association is not required to present a third statement of financial position as at that date.

  The standard introduced new classification and measurement models for financial assets.

  A financial asset shall be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest (SPPI). A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognized in a business combination) in other comprehensive income (OCI). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch.

  For financial liabilities designated at fair value through profit or loss, the Standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity.

  Under PFRS 9, the new impairment requirements use an 'expected credit loss' (ECL) model to recognize an allowance for impairment losses. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

  In implementing PFRS 9, the Association made the following classifications: (Please see table next page.)

Financial Assets and Liabilities	*Category*
Cash	Fair value through profit or loss
Trade and other receivables	Amortized cost
Investments in debt and equity securities	Amortized cost
Insurance contract liabilities	Amortized cost
Trade and other payables	Amortized cost

The adoption of PFRS 9 beginning January 1, 2018 did not have any impact in the new classifications of financial assets since the business models adopted by the Association under PFRS 9 were considered a continuation of the nature of classifications of the said financial assets under PAS/IAS 39. The adoption of new impairment requirements resulted in booking in 2018 of 12-month ECLs on its financial assets.

- *PFRS 15 Revenue from Contracts with Customers*
  The Association also adopted PFRS 15 for non-insurance contracts (where applicable) with the new guidance for the recognition of revenue from contracts with customers adopted beginning January 1, 2018. This guidance was applied using a modified retrospective ('cumulative catch-up') approach under which changes having a material effect on the statement of financial position as at January 1, 2018 are presented together as a single adjustment to the opening balance of General Fund account. Accordingly, the Association is not required to present a third statement of financial position as at that date.

  The standard provides a single comprehensive model for revenue recognition.

  The core principle of the standard is that the Association shall recognize revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the Association expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the following specific accounting policies on revenue. Credit risk is presented separately as an expense rather than adjusted against revenue.

  Contracts with customers are presented in the Association's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the Association's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalized as an asset and amortized over the contract period.

  The Association is recognizing its main revenue stream under PFRS 4 *Insurance Contracts*. The initial adoption of PFRS 15 beginning January 1, 2018 did not have a material effect on the Association's financial statements since the Association's revenue from non-insurance products are presently nil. Its other revenue streams are accounted for using PFRS 9 *Financial Instruments*.

New and Revised PFRSs in Issue but not yet Effective
The Association has not yet applied the following new and revised PFRS standards that have been issued but not yet effective:

- PFRS 16, *Leases*
- PFRS 17, *Insurance Contracts*
- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS/IAS 28 *Long-term Interests in Associates and Joint Ventures*
- Annual Improvements to PFRS Standards 2015-2017 *Cycle Amendments to PFRS 3 Business Combinations*, PFRS 11 *Joint Arrangements*, PAS/IAS 12 *Income Taxes* and PAS/IAS 23 *Borrowing Costs*
- Amendments to PAS/IAS 19 *Employee Benefits* 'Plan Amendment, Curtailment or Settlement'
- PFRS 10 *Consolidated Financial Statements* and IAS 28 (amendments)
- PFRIC 23 *Uncertainty over Income Tax Treatments*'

The Association management does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Association in future periods, except as noted below:

PFRS 16 Leases
PFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. PFRS 16 will supersede the current lease guidance including PAS/IAS 17 *Leases* and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019.

The Association management anticipates minimal impact of leases on its financial statements hence it decided to devote attention to this matter only when the required adoption begins by January 1, 2019.

PFRS 17 Insurance Contracts
The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes PFRS 4 *Insurance Contracts*.

The Standard outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach. The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty, it takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard and the transition date is the beginning of the period immediately preceding the date of initial application.

The Association management anticipates that the application of the Standard in the future will have an impact on the Association's financial statements. The management however decided that the Association will devote attention to this matter only when the required adoption begins by January 1, 2022.

Amendments to PFRS 9 Prepayment Features with Negative Compensation
The amendments to PFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI. The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of PFRS 9.

The Association management does not anticipate that the application of the Standard in the future will have an impact on the Association's financial statements.

Amendments to PAS/IAS 28 Long-term Interests in Associates and Joint Ventures
The amendment clarifies that PFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying PFRS 9 to long-term interests, the Association does not take into account adjustments to their carrying amount required by PAS/IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with PAS/IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of PFRS 9.

The Association management does not anticipate that the application of the Standard in the future will have an impact on the Association's financial statements.

Annual Improvements to PFRS Standards 2015–2017 Cycle Amendments to PFRS 3 Business Combinations, PFRS 11 Joint Arrangements, PAS/IAS 12 Income Taxes and PAS/IAS 23 Borrowing Costs

The *Annual Improvements* include amendments to four Standards.

PAS/IAS 12 *Income Taxes*

The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

PAS/IAS 23 *Borrowing Costs*

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

PFRS 3 *Business Combinations*

The amendments to PFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation.

PFRS 11 *Joint Arrangements*

The amendments to PFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

The Association management does not anticipate that the application of the Standards in the future will have impact on the Association's financial statements.

Amendments to PAS/IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). PAS/IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognized in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under PAS/IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied.

The amendments to PAS/IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so.

The Association management does not anticipate that the application of the Standard in the future will have an impact on the Association's financial statements.

PFRS 10 Consolidated Financial Statements and PAS/IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to PFRS 10 and PAS/IAS 28 deal with situations where there are a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

The Association management does not anticipate that the application of the Standard in the future will have an impact on the Association's financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- Determine whether uncertain tax positions are assessed separately or as a group; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings: (i) if yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings, and (ii) f no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The Association management does not anticipate that the application of the Standard in the future will have an impact on the Association's financial statements.

Fair Value Measurement

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: (a) in the principal market for the asset or liability; or (b) 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 by 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 nonfinancial 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 reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Cash and Cash Equivalents
Cash and cash equivalents are carried in the financial statements at cost. Cash comprise unrestricted cash on hand, deposits held at call with banks, and time deposits with banks that can be pre-terminated anytime without significant risk of change in value. Cash equivalents (including those invested in a trust fund) represent short-term, highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial Instruments
Financial assets and financial liabilities are recognized in the Association's statement of financial position when the Association becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

i. Recognition and Initial Measurement
Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Association becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii. Classification and Subsequent Measurement

Financial assets – Policy applicable beginning January 1, 2018
On initial recognition, a financial asset is classified as measured at: amortized cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. This classification depends on the Association's business model for managing the financial assets and on contractual terms enabling to determine whether the cash flows are solely payments of principal and interest (SPPI). The financial assets that contain an imbedded derivative are considered in their entirety to determine whether their cash flows are SPPI.

Financial assets are not reclassified subsequent to their initial recognition unless the Association changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Association's cash and cash equivalents and trade and most other receivables fall into this category of financial instruments.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Association may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Association may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

<u>Financial assets – Business model assessment: Policy applicable beginning January 1, 2018</u>
The Association makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Association's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Association's continuing recognition of the assets. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable beginning January 1, 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Association considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Association considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Association's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par-amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement and gains and losses: Policy applicable beginning January 1, 2018

- Financial assets at FVTPL
  These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

- Financial assets at amortized cost
  These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

- Debt investments at FVOCI
  These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

- Equity investments at FVOCI
  These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Financial assets – Policy applicable before January 1, 2018

The Association classified its financial assets into one of the following categories: (1) loans and receivables; (2) held to maturity; (3) available for sale; and (4) at FVTPL, and within this category as: (1) held for trading; (2) derivative hedging instruments; or (3) designated as at FVTPL.

Financial assets – Subsequent measurement and gains and losses: Policy applicable before January 1, 2018

- Financial assets at FVTPL
  Measured at fair value and changes therein, including any interest or dividend income, were recognized in profit or loss.

- Held-to-maturity financial assets
  Measured at amortized cost using the effective interest method.

- Loans and receivables
  Measured at amortized cost using the effective interest method.

- Available-for-sale financial assets
  Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognized in OCI and accumulated in the fair value reserve. When these assets were derecognized, the gain or loss accumulated in equity was reclassified to profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses
Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

iii. Derecognition

Financial assets
The Association derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Association neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Association enters into transactions whereby it transfers assets recognized in its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

Financial liabilities
The Association derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired. The Association also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

iv. Offsetting
Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Association currently has a legally enforceable right to set off

the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

v. *Derivative financial instruments and hedge accounting*
(Policies on derivative financial instruments and hedge accounting have been purposely omitted since the Association does not hold derivative financial instruments.)

Impairment of Financial Instruments and Contract Assets

Policy applicable from January 1, 2018
The Association recognizes loss allowances for ECLs on: (i) financial assets measured at amortized cost; (ii) debt investments measured at FVOCI; and (iii) contract assets.

The Association measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs: (i) debt securities that are determined to have low credit risk at the reporting date; and (ii) other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Association considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Association's historical experience and informed credit assessment and including forward-looking information.

The Association assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Association considers a financial asset to be in default when (a) the debtor is unlikely to pay its credit obligations to the Association in full, without recourse by the Association to actions such as realizing security (if any is held); or (2) the financial asset is more than 90 days past due.

The Association considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Association is exposed to credit risk.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-Impaired Financial Assets
At each reporting date, the Association assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data: (i) significant financial difficulty of the borrower or issuer; (ii) a breach of contract such as a default or being more than 90 days past due; (iii) the restructuring of a loan or advance by the Association on terms that the Association would not consider otherwise; (iv) it is probable that the borrower will enter bankruptcy or other financial reorganization; or (vi) the disappearance of an active market for a security because of financial difficulties.

Presentation of Allowance for ECL in the Statement of Financial Position
Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognized in OCI.

Policy applicable before 1 January 2018
Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment. Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Association on terms that the Association would not consider otherwise;
- indications that a debtor or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity instrument, objective evidence of impairment included a significant or prolonged decline in its fair value below its cost. The Association considered a decline of 20% to be significant and a period of nine months to be prolonged.

- *Financial assets measured at amortized cost*
  The Association considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.

  In assessing collective impairment, the Association used historical information on the timing of recoveries and the amount of loss incurred and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.

  An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognized in profit or loss and reflected in an allowance account. When the Association considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written-off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss was reversed through profit or loss.

- *Available-for-Sale Financial Assets*
  Impairment losses on available-for-sale financial assets were recognized by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified was the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair

value, less any impairment loss previously recognized in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increased and the increase was related objectively to an event occurring after the impairment loss was recognized, then the impairment loss was reversed through profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale were not reversed through profit or loss.

Write-off

The gross carrying amount of a financial asset is written-off when the Association has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Association has a policy of writing-off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. The Association expects no significant recovery from the amount written-off. However, financial assets that are written-off could still be subject to enforcement activities in order to comply with the Association's procedures for recovery of amounts due.

Furniture, Fixtures and Office Equipment

Furniture, fixtures and office equipment are stated at cost less accumulated depreciation. Such cost includes the cost of replacing part of such furniture, fixtures and office equipment when that cost is incurred, if the recognition criteria are met. Interests incurred on borrowed funds used to finance the construction of properties during the construction period are capitalized. Other borrowing costs are expensed. An item of furniture, fixtures and office equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized

Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which is five (5) years.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to income. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits arising from the renovations will flow to the organization.

The carrying values of Association's furniture, fixtures and office equipment are reviewed for impairment when changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of Association's furniture, fixtures and office equipment is the greater of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction.

Impairment of Non-Financial Assets

The Association's furniture, fixtures and office equipment and other assets are subject to impairment testing. Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting the market conditions less cost to sell, and value in use, based on an internal evaluation of discounted cash flow. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the previously recognized impairment loss.

Actuarial Policies
Actuarial liabilities (reserves for life policy and members' equity) are computed by the Consulting Actuary of the Association using actuarial practices generally accepted in the Philippines. Actuarial liabilities and other policy liabilities represent the estimated amounts which, together with estimated future premiums and net investment income, will provide for outstanding claims, estimated future benefits, and expenses on in-force policies.

In calculating actuarial liabilities, assumptions must be made about the timing and amount of many events, including death, investment, inflation, policy termination, expenses, taxes, premiums and commissions. The Association uses best estimate assumptions for expected future experience. Uncertainty is inherent in the process, as no one can accurately predict the future. Some assumptions relate to events that are anticipated to occur many years in the future and are likely to require subsequent revision.

Additional provisions are included in the actuarial liabilities to provide for possible adverse deviations from the best estimates. If the assumption is more susceptible to change or if the actuary is less certain about the underlying best estimate assumption, a correspondingly larger provision is included in the actuarial liabilities. In determining these provisions, the Association ensures: (a) when taken one at a time, the provision is reasonable with respect to the underlying best estimate assumption, and the extent of uncertainty present in making that assumption, and (b) in total, the cumulative effect of all provisions is reasonable with respect to the total actuarial liabilities. With the passage of time and resulting reduction in estimation risk, the provisions are released into income. The best estimate assumptions and margins for adverse deviations are reviewed annually and revisions are made where deemed necessary and prudent.

Recording of Claims from Policyholders
Claims incurred comprise settlement and handling costs of paid and outstanding claims arising during the year and adjustments to prior year claim provisions. Outstanding claims comprise claims incurred up to, but not paid, at the end of the year, whether reported or not.

Revenue and Cost Recognition
The Association recognizes revenue as follows:

(1) *Premium Contributions*
Revenue from insurance products is recognized under PFRS 4 *Insurance Contracts*, which defines an insurance contract as a 'contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.' PFRS 4 temporarily exempts the Association from some requirements of other PFRSs until the efficacy of PFRS 17, beginning January 1, 2022 .

Under the provisions of PFRS 4, the Association recognizes premium contributions as earned when collected with corresponding allocation as approved by the Insurance Commission (IC). The proportion of the premiums collected pertaining to periods after reporting date is carried forward to subsequent accounting periods as unearned premiums, so that earned premiums relate to risks carried during the accounting period.

The members' gross premium contributions are allocated as follows:

- 50% goes to the reserve for members' equity, intended for members' entitlements of equity value upon payment of the first contribution to the Association, representing 50% of the total membership dues collected;
- 35% goes to cover basic benefits of members;

- 5% goes to Guarantee Fund, and the remaining
- 10% goes to general operations, to cover administrative costs.

The association collects its premiums through SEDP-Simbag sa Pag-Asenso, Inc, an affiliate.

(2) *Investments Income*
Income from investments are accounted for under PFRS 9 *Financial Instruments*. Income from investments in debt and equity securities held to collect contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realize its fair value changes) are recognized at amortized cost, with interest income recognized at the effective interest rate.

(3) *Non-Insurance Revenues*
The Association recognizes non-insurance revenues in accordance with PFRS 15 *Revenue from Contracts with Customers* at an amount that reflects the consideration to which the Association is expected to be entitled in exchange for transferring goods or services to a customer.

For each contract with a customer, the Association:

(1) Identifies the contract with a customer;
(2) Identifies the performance obligations in the contract;
(3) Determines the transaction price which takes into account estimates of variable consideration and the time value of money;
(4) Allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and
(5) Recognizes revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognized as deferred revenue in the form of a separate refund liability.

(4) *Cost and Expenses*
Costs and expenses are recognized in the statement of profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen which can be measured reliably. Costs and expenses are recognized in the statement of profit or loss : i) on the basis of a direct association between the cost incurred and the earnings of specific items of income; ii) on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or iii) immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

Insurance-related costs are accounted as follows:

- Changes in the required actuarial and other reserves are recognized as expense during the year.
- Plan benefits and claims paid to members, including refund of members' equity value, are recognized for benefits availed of by members/beneficiaries.

– Collection costs (representing commissions to collecting affiliate) are due and payable for every premium income recognized. Commission rates are based on IC-approved rates.

(5) *Grants and Donations*
Grants and donations received are valued at fair market value at the time the grants are received.

Compensation and Employees Benefits Expense
Employee benefits are all forms of consideration given by the Association in exchange for services rendered by employees or for the termination of their employments in the Association. The Association recognizes: (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and (b) an expense when the Association consumes the economic benefit arising from the service provided by an employee in exchange for employee benefits.

The following represent the accounting followed by the Association for all types of employee benefits, except share-based payment, to which there is none.

- *Short-Term Employee Benefits*
  Short-term employee benefits are those expected to be settled wholly before twelve months after the end of the annual reporting period during which employee services are rendered, but do not include termination benefits. These benefits include wages, salaries and bonuses (if there are any) and non-monetary benefits paid to current employees. These are recognized when the employee has rendered the service and are measured at the undiscounted amount of benefits expected to be paid in exchange for that service.

  The benefits also include compensated absences which are recognized for the number of paid leave days (including holiday entitlement) remaining at the reporting date. The expected cost of short-term compensated absences is recognized as the employees render service that increases their entitlement or, in the case of non-accumulating absences, when the absences occur, and includes any additional amounts the Association expects to pay as a result of unused entitlements at end of period. The amounts recognized are included in Trade and Other Payables account in the statement of financial position at undiscounted amount that the Association expects to pay as a result of the unused entitlement.

- *Post-Employment Benefit Plans*
  Post-employment benefit plans that are provided to employees only cover their retirement benefits, which are paid in lump sum payments at the time of their retirements. The retirement benefits are provided to employees through a defined benefit plan. A defined benefit plan is a retirement plan that defines an amount of retirement benefit an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for the benefits of the retirement plan remains with the Association, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Association's defined benefit retirement plan covers all regular full-time employees.

  The Association has not yet computed its retirement benefit obligations at the end of the reporting periods as it considers its retirement liability to be still immaterial considering that the operations of the Association is just less than five years old and just three years under operating status. The Association's work force is considered young. The Board of Directors is cognizant of the need to provide post-employment benefits to its employees; however, the cost-benefit estimate favors postponement of any action at this time on the issue of the immateriality of the amount involved.

- *Termination Benefits*
  Termination benefits are payable when employment is terminated by the Association before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

Note 3
Significant Accounting Estimates and Judgments

The preparation of the financial statements in accordance with PFRS requires the Association to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and 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. The following critical accounting estimates and judgments may be applicable, among many other possible areas not presented in the Association's financial statements:

Business Model Assessment
Classification and measurement of financial assets depends on the results of the SPPI and the business model tests. The Association determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Association monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Association's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the

Significant Increase in Credit Risk
Expected credit losses (ECL) are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. PFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Association takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Fair Value Measurements
Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible; but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date

Estimating Useful Lives of Property and Equipment
The Association reviews annually the estimated useful lives of its property and equipment based on expected asset utilization. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of these properties would increase recorded depreciation and amortization expense and decrease the related asset accounts.

Impairment of Non-Financial Assets
The Association assesses the impairment of its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is

the higher of an asset's net selling price and the value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific asset, the recoverable amount represents the net selling price. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Association is required to make estimates and assumptions that can materially affect the Association's financial statements.

Retirement Benefits
The determination of the Association's obligation and cost for pension and other employee benefits is dependent on the selection of certain assumptions used by management in calculating such amounts. While the Association believes that the assumptions used are reasonable and appropriate, significant differences in the actual experience or significant changes in assumptions may materially affect employee benefit obligations.

Provisions and Contingencies
Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.

Note 4
Cash and Cash Equivalents

This account is composed of the following:

December 31	**2018**	2017
Short-term investments	**₱28,098,384**	₱40,358,812
Cash in banks	**11,872,841**	13,598,708
Revolving Fund	**30,000**	30,000
	₱40,001,225	₱53,987,520

The cash in banks include the Guaranty Fund required by the Insurance Commission to be maintained by the Association. The cash in banks earn interest at the prevailing market rates. The effective interest rate on short-term investments ranges from 0.10% to 4.125%, maturing in 90 days to 365 days.

Interest earned on cash and cash equivalents amounted ₱65,658 in 2018 and ₱1,123,566 in 2017.

Note 5
Trade and Other Receivables

This account consists of the following:

December 31	**2018**	2017
Accounts receivable from SEDP-Simbag sa Pag-asenso, Inc.	**₱20,000,000**	₱–
Accrued interest receivable	**663,925**	667,555
Accounts receivable – others	**31,000**	–
Advances to officers and employees	**3,854**	–
Total	**20,698,779**	667,555
Less allowance for expected credit losses (ECL)	**103,494**	–
	₱20,595,285	₱667,555

The accounts receivable from SEDP-Simbag sa Pag-asenso, Inc. represents the funds borrowed by the Microfinance NGO on December 17, 2018 and is collectible over a period of six (6) months at 6% per annum.

This accounts receivable has been secured with post-dated checks. The transaction was duly approved by the Insurance Commission (IC).

Allowance for ECL

The receivables are provided with 12-month ECL at 0.5% of principal for current 30 days and 34% for past due less than one year. Accounts past due for over 1 year have been provided with lifetime ECL at 100%. A total ECL of ₱103,494 was provided during the year.

Note 6

Furniture, Fixtures and Office Equipment

This consists of the following items which are recorded in the books at costs.

December 31	**2018**	2017
IT equipment	**₱563,959**	₱552,259
Furniture, fixtures and office equipment	**169,117**	169,117
	733,076	721,376
Less accumulated depreciation	**654,775**	598,777
	₱78,301	₱122,599

The Association enjoys free use of the building facilities of the Roman Catholic Bishop of Legaspi, Inc. It shares on the costs of monthly utilities of the building.

The accounting of the movements of the accounts during the year follows:

December 31, 2018	*Opening Balance*	*Additions*	*Retirement*	***Closing Balance***
Cost				
IT equipment	₱552,259	₱11,700	₱–	**₱563,959**
Furniture, fixtures and office eqpmnt	169,117			**169,117**
	721,376	11,700	–	**733,076**
Accumulated Depreciation				
IT equipment	429,660	55,998		**485,658**
Furniture, fixtures and office eqpmnt	169,117	–		**169,117**
	598,777	55,998		**654,775**
Net Book Value	₱122,599	(₱44,298)	₱–	**₱78,301**
December 31, 2017				
Cost				
IT equipment	₱466,760	₱85,499	₱–	**₱552,259**
Furniture, fixtures and office eqpmnt	169,117			**169,117**
	635,877	85,499		**721,376**
Accumulated Depreciation				
IT equipment	₱372,486	57,174		**429,660**
Furniture, fixtures and office eqpmnt	169,117	–		**169,117**
	541,603	57,174		**598,777**
Net Book Value	₱94,274	₱28,325	₱–	**₱122,599**

Note 7
Investments in Debt and Equity Securities at Amortized Cost/HTM Investments

This account consists of the following investments in:

December 31	**2018**	2017
Government debt securities (treasury bills and bonds)	**₱100,579,465**	₱82,330,600
Investments in corporate bonds	**60,000,000**	66,932,141
Investments in equity securities	**18,000,000**	–
	₱178,579,465	₱149,262,741

These investments were acquired through the following banks:

December 31	**2018**	2017
Metropolitan Bank & Trust Company (MBTC)	**₱47,835,356**	₱39,851,254
Philippine National Bank (PNB)	**46,000,000**	33,000,000
Bank of the Philippine Islands (BPI)	**38,022,176**	29,747,698
Banco de Oro (BDO)	**31,804,049**	31,763,952
Security Bank & Trust Company	**9,917,884**	9,899,837
Rizal Commercial & Banking Corporation (RCBC)	**5,000,000**	5,000,000
	₱178,579,465	₱149,262,741

Nature of the Investments
These investments are debt securities with the following features:

a) The treasury notes purchased through Metropolitan Bank and Trust Company (MBTC) have coupon rates at 3.25% to 3.50% with maturities on March 20, 2021 and March 21, 2023. The bonds purchased through this bank has a yield rate at 4.259999% with trade date on July 30, 2018 and will mature on July 23, 2019.

b) The treasury notes purchased through Philippine National Bank (PNB) have coupon rates at 3.25% to 3.625% and will mature on August 15, 2023. It also includes Unsecured Subordinated Notes with a face value of ₱5 million, at 5.875% interest per annum.

c) The money placement with Bank of the Philippine Islands represents debt securities with a coupon rate at 3.6351% which will mature on August 15, 2023

d) The investment in Rizal Commercial & Banking Corporation (RCBC) represents fixed rate bond at 5.9721% which will mature on December 15, 2026.

e) The money placements with Banco de Oro are debt securities that will mature on September 20, 2026.

f) The money placement with Security Bank & Trust Company represents debt securities with a coupon rate at 3.25% which will mature on August 15, 2023.

The Association earned interest income from the investments amounting ₱5,395,456 in 2018 ₱3,190,009 in 2017.

Effects of Adopting PFRS9
Beginning January 1, 2018, the Association classified its HTM investments of 2017 as 'financial assets at amortized costs.' The adoption of the new requirements of PFRS9 did not have material impact on the reporting of the accounts as well as in the accounting of investments income since the business model adopted by management in 2017 is the same business model under financial assets at amortized costs.

Note 8
Trade and Other Payables

This account consists of the following:

December 31	**2018**	2017
Accrued expenses	**₱4,864,232**	₱4,139,977
Retirement benefit obligations	**708,548**	627,084
Accounts payable – others	**676,819**	195,098
Accounts payable to SEDP Foundation, Inc.	**210,000**	1,415,000
Savings fund of employees	**197,859**	159,868
Accounts payable for surrendered membership	**30,350**	6,165
	₱6,687,808	₱6,543,192

Accrued expenses represents the accrued collection costs subsequently paid in January 2019. Total collection costs paid to SEDP Foundation, Inc. amounted ₱4,919,345 in 2018 and ₱4,306,285 in 2017.

Accounts payable to SEDP Foundation, Inc. represents the excess of the budgeted benefits to 283 members who had reached the age 66 years old representing ₱5,000 per member accrued at the end of 2017 and paid in 2018. The total members benefits amounted ₱1,415,000, has been turned over to the SEDP Foundation, Inc. in 2018 and been distributed to the corresponding members.

Retirement Benefit Obligations
The Association's regular/permanent employees are provided with retirement benefits beginning 2010, based on the 67% of the gross salaries of the entitled employees plus one-twelfth (1/12) of the 13th month pay. The policy defines the amount of retirement benefit an employee will receive at the time of retirement or separation from service. The legal obligation on the payment of the retirement benefits to the employees remains with the Association. The retirement plan is noncontributory and is presently unfunded. Total pension expenses charged to operations amounted to ₱175,764 in 2018 and ₱175,764 in 2017.

Note 9
Insurance Contract Liabilities

This consists of the following:

December 31	**2018**	2017
Claims incurred but not reported	**₱1,774,594**	₱642,621
Claims due and unpaid	**–**	25,000
	₱1,774,594	₱667,621

Incurred but not reported claims are claims reported beyond the reporting date whose date of claim happened three months before the reporting date. For 2018, claims reported in the months of November 2018, December 2018 and January 2019 whose date of death/claim is before November 1, 2018, are included in this category. Claims due and unpaid benefits represent claim benefits that have been processed and that the Association recognizes liability on the claims by the member or its beneficiaries.

The amounts recorded as insurance contract liabilities were certified by the Association's Actuary to be in accordance with sound actuarial principles.

Total basic benefits and claims paid to members amounted ₱16,638,273 in 2018 and ₱14,847,021 in 2017.

Note 10
Aggregate Reserves for Unexpired Risks

This consists of the following reserves:

December 31	**2018**	2017
Reserves for members' equity	**₱127,362,078**	₱108,507,309
Reserves for credit policies	**2,478,910**	2,127,716
Reserves for life policies	**627,844**	259,015
	₱130,468,832	₱110,894,040

The aggregate policy reserves represent the amount which is considered adequate to cover future guaranteed benefits as they become payable under the provisions of the policies in force. The reserve is the aggregate value of future guaranteed benefits less the present value of future net premiums.

The movements of the reserves during the year are as follows:

December 31, 2018	*Reserves for Members' Equity*	*Reserves for Credit Policies*	*Reserves for Life Policies*	***Total***
Provisions during 2014	₱65,986,915	₱2,351,536	₱1,206,266	**₱69,544,717**
Provisions during 2015	13,243,621	(615,593)	(812,754)	**11,815,274**
Provisions during 2016	14,554,323	171,844	(225,963)	**14,500,204**
Provisions during 2017	14,722,450	219,929	91,466	**15,033,845**
	108,507,309	2,127,716	259,015	**110,894,040**
Provisions during 2018	18,854,769	351,194	368,829	**19,574,792**
	₱127,362,078	₱2,478,910	₱627,844	**₱130,468,832**

In accordance with the provisions of the Insurance Code, every outstanding membership certificate must have, after three (3) full years of being continuously in force, an equity value to at least 50% of the total membership dues collected from the member. The equity is payable to the members upon termination of their membership in the Association. In accordance with the same Code, the Association is required to put up a reserve liability not lower than the equity value of all in-force, active certificates as at the end of each calendar year; hence, the Association sets up the 50% of its gross premium collections as its reserves for members' equity.

The reserve for life policies represents the amount which is considered adequate to cover future guaranteed benefits as they become payable under the provisions of the policies in force. The reserve is the aggregate value of future guaranteed benefits less the present value of future net premiums.

The amounts of aggregate reserves for members' equity, credit policies and reserves for life policies for the years reported have been computed and certified by the Consulting Actuary of the Association to be in accordance with commonly accepted actuarial standards and with the Guidelines and Standards of the Actuarial Society of the Philippines consistently applied and are fairly stated in accordance with sound actuarial principles.

Note 11
Guaranty Fund

This represents the amount required by the Insurance Commission (IC) to be established as a guaranty of the benefits and security of policyholders and creditors of the Association, in accordance with the provisions of the Insurance Code of the Philippines, deposited in a local depository bank. (See Note 4.). The Association complied with the IC requirements using its own saved funds. The Fund is increased by the 5% contributions from members.

Accounting of Guaranty Fund

December 31	**2018**	2017
Opening balances	**₱20,982,320**	₱17,817,469
Members' contributions representing 5% of total premiums received	**3,337,359**	3,164,851
Closing balances	**₱24,319,679**	₱20,982,320

Funding of Guaranty Fund

December 31	**2018**	2017
Short-term investments *(Note 4)*	**₱21,000,000**	₱16,000,000
Portion of cash in banks and time deposits *(Note 4)*	**3,319,679**	4,982,320
	₱24,319,679	₱20,982,320

The Guaranty Fund is maintained in time deposit accounts with a local government banks. The management of the Association endorsed an additional time deposit amounting to ₱5,000,000 on January 28, 2019 to cover the deficiency of funds restricted for guaranty fund.

Note 12
Special Funds

In accordance with the recommendations of the Insurance Commission, the Association's Board of Trustees approved appropriations of the following special funds from the General Fund:

December 31	**2018**	2017
Members' Benefits Fund	**₱26,488,244**	₱22,109,011
Capacity Building Fund	**6,938,331**	5,947,698
Members' Education Fund	**6,468,680**	5,532,732
Research and Development Fund	**4,895,152**	4,597,962
Acquisition of Systems and Equipment	**3,482,988**	3,284,862
	₱48,273,395	₱41,472,265

The movements of the appropriated funds during 2018 and 2017, as follows:

December 31, 2018	*Beg. Balance*	*Allocations of Net Surplus*	*Disbursements*	*End Balance*
Members' Benefits Fund	₱22,109,012	₱8,934,427	₱4,555,195	**₱26,488,244**
Capacity Building Fund	5,947,698	990,633	–	**6,938,331**
Members' Education Fund	5,532,731	1,485,949	550,000	**6,468,680**
Research and Dev.	4,597,962	297,190	–	**4,895,152**
Acquisition of Systems & Equip Fund	3,284,862	198,126	–	**3,482,988**
	₱41,472,265	₱11,906,325	₱5,105,195	**₱48,273,395**
*December 31, 2017***				
Members' Benefits Fund	₱2,971,705	₱27,608,435	₱8,471,128	**₱22,109,012**
Capacity Building Fund	2,375,569	3,572,129	–	**5,947,698**
Members' Education Fund	1,792,086	5,540,645	1,800,000	**5,532,731**
Research and Dev.	3,526,323	1,071,639	–	**4,597,962**
Acquisition of Systems & Equip Fund	2,570,436	714,426	–	**3,284,862**
Social & Community Dev't. Fund	785,984	(785,9804)	–	**–**
	₱14,022,103	₱37,721,290	₱10,271,128	**₱41,472,265**

***The allocation of net surplus in 2017 included the net surplus of 2016.*

The appropriated funds are funded by the cash and cash equivalents of the Association. The disbursements of special funds are considered as benefits paid to members.

Note 13
Members' Premium Contribution

The Association's members are charged twenty pesos (₱20.00) per week, during their active membership in the Association. In accordance with its Rules and Regulations approved by the Insurance Commission (IC), the Association allocates the contributions as follows:

a) 50% is allocated as reserve for members' equity intended for the members' entitlements of equity value;

b) 35% is intended to cover basic benefits such as payments for death or permanent disability claims of a member or its legal spouse below sixty-six (66) years old; or four (4) single, biological and/or legally adopted children who are two weeks old but not more than twenty-one (21) years old single, disabled and incapacitated to work. If single without children, the members' legal dependents include the member's biological parents not more than 65 years. If a member's parents are both deceased upon membership, the member can declare two (2) eldest siblings, at least two (2) weeks old but not more than twenty-one (21) years old.

c) 5% is intended as additional guaranty fund, and

d) 10% is intended to cover administrative costs and expenses.

The members are also charged with one-time membership fee of ₱150, which is non-refundable and does not form part of the members' accumulated and refundable contributions. The amount is treated as income to finance part of the requirements for general and administrative expenses not covered by the 10% allocation from gross premium contributions. Gross premiums on credit life insurance are income from loans on member's which are included in the monthly payments of the loans. The amount of contribution is based on the principal amount and term of loans. Total membership fees collected amounted ₱2,392,228 in 2018 and ₱1,632,585 in 2017.

The Association's withdrawal of equity amounted to ₱8,814,632 in 2018 and ₱8,617,753 in 2017.

Note 14
Details of General and Administrative Expenses

Years Ended December 31	**2018**	2017
Meetings and seminars	**₱783,933**	₱732,636
General assembly expenses	**299,742**	289,163
Association dues	**289,112**	274,545
Taxes and licenses *(Note 23)*	**202,590**	112,112
Supplies and materials	**190,748**	107,702
Repairs and maintenance	**105,000**	158,184
Provision for expected credit losses (ECL) *(Note 5)*	**103,494**	–
Professional fees	**90,860**	76,624
Transportation and travel	**67,652**	60,538
Insurance	**45,482**	33,000
Communication	**32,243**	32,395
Miscellaneous expenses	**45,225**	34,587
	₱2,256,081	₱1,911,486

Note 15
Details of Compensation and Employees' Benefits

Years Ended December 31	**2018**	2017
Short-term employee benefits	**₱1,209,087**	₱1,239,086
Post-employment benefits	**774,167**	801,982
	₱1,983,254	₱2,041,068

Note 16
Related Party Transactions

In the ordinary course of trade or business, the Association has transactions with its related parties which include its Board of Trustees, members of various committees and its officers and employees, who are also members of the Association. These transactions are made substantially on the same terms and conditions as with other members of comparable risks. None of the transactions incorporate special terms and conditions and no guarantee is given or received. Outstanding balances are usually settled in cash.

Among these related transactions are the following:

(a) The Association accepts insurance business from the borrowers of SEDP-Simbag sa Pag-Asenso, Inc. and authorizes the institution to collect premium contributions from these members for certain commissions. Total collection costs incurred amounted ₱4,919,345 in 2018 and ₱4,306,285 in 2017.

(b) SEDP-Simbag sa Pag-Asenso, Inc. obtained an unsecured, interest-bearing loan from the Association amounting ₱20 million in 2018. (See Note 5.)

(c) The Chairman of the Board of Trustees of the Association is also the Chairman of the Board of Trustees of SEDP-Simbag sa Pag-Asenso, Inc.

(d) The Association is enjoying free use of the facilities of the Catholic Church in Legaspi City, Albay although it shares the cost of utilities.

(e) The key management compensation follows:

Years Ended December 31	**2018**	2017
Short-term employee benefits	**₱368,709**	₱368,709
Post-employment benefits	**57,352**	26,378
	₱426,061	₱395,087

Note 17
Fair Value Measurement

Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The following table summarizes the fair value hierarchy of the Association's financial assets and liabilities which are not measured at fair value in the 2018 statement of financial position but for which fair value is disclosed.

December 31, 2018	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Cash and cash equivalents *(Note 4)*	₱40,001,225			**₱40,001,225**
Trade and other receivables *(Note 5)*			₱20,595,285	**20,595,285**

(Carried Forward.)

(Brought Forward.)

December 31, 2018	Level 1	Level 2	Level 3	Total
Fin. assets at amortized cost (Note 7)			178,579,465	**178,579,465**
	₱40,001,225		₱197,174,150	**₱239,175,975**
Financial liabilities				
Trade and other payables (Note 8)			₱6,687,808	**₱6,687,808**
Insurance contract liabilities (Note 9)			1,774,594	**1,774,594**
			₱8,462,402	**₱8,462,402**
December 31, 2017				
Financial assets				
Cash and cash equivalents (Note 4)	₱53,987,520			**₱53,987,520**
Trade and other receivables (Note 5)			₱667,555	**667,555**
Fin. assets at amortized cost (Note 7)			149,262,741	**149,262,741**
	₱53,987,520		₱149,930,296	**₱203,917,816**
Financial liabilities				
Trade and other payables (Note 8)			₱6,543,192	**₱6,543,192**
Insurance contract liabilities (Note 9)			667,621	**667,621**
			₱7,210,813	**₱7,210,813**

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments equal their fair values. The fair values of the financial assets and financial liabilities included in Level 3 above which are not traded in an active market is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counter-parties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument. When the Association uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

Fair Value Measurement for Non-Financial Assets

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as of December 31, 2018 and 2017.

December 31, 2018	Level 1	Level 2	Level 3	Total
Furn., fixt./office equipt (net) (Note 6)			₱78,300	**₱78,300**
Prepayments & other current assets			56,280	**56,280**
			₱134,580	**₱134,580**
December 31, 2017				
Furn., fixt./ office equipt (net) (Note 6)			₱122,599	**₱122,599**
Prepayments & other current assets			139,993	**139,993**
			₱262,592	₱262,592

The Level 3 fair value of the buildings and improvements included under the Property and Equipment account was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labour and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

Note 18
Capital Management Objectives, Policies and Procedures

The Association maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect its members. The level of capital maintained is always aimed to be higher than the minimum capital requirements of the IC. The Association considers the entire equity in determining the capital.

The Association maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect its members. The Association's Board of Trustees reviews regularly its capital structure and considers the cost of capital and the risks associated with each class of capital. Management regularly monitors the capital requirements of the Association, taking account of future balance sheet growth, profitability, and any anticipated regulatory changes, in order to ensure that the Association is at all times able to meet the forecast future minimum capital requirements. The Association's overall strategy remains unchanged from the past year.

Compliance with Capitalization Requirements
In accordance with the provisions of Chapter VII, Title 1, Section 405 of R.A. 10607, *The Amended Insurance Code*, a mutual benefit association incorporated after the effectivity of the Code shall constitute and establish a Guaranty Fund with initial amount of ₱5 million, in cash or in government securities, to answer for any valid benefit claim of any of its members. The Association has complied with this requirement by having established its Guaranty Fund of ₱24,319,679 (See Note 11.) and having funded it with short-term investments and cash in banks at the end of 2018.

Note 19
Risk Management Objectives and Policies

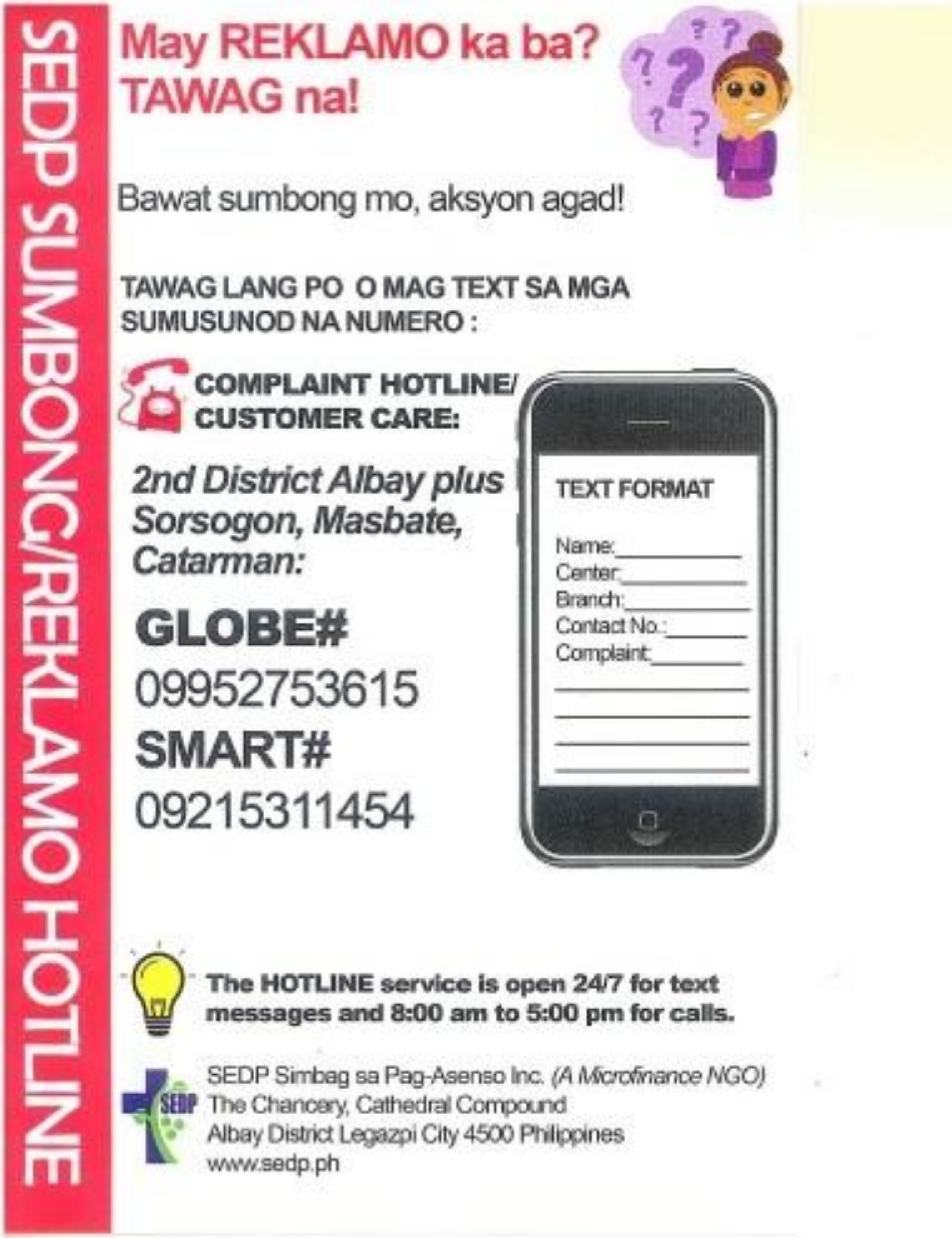
The Association is exposed to a variety of financial risks, which result from both its operating and financing activities. The Association's principal financial instruments are its cash, trade and other receivables, insurance contract liabilities and trade and other payables.

The existing policies and guidelines cover credit risk, liquidity risk and market risk. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Association's financial performance and financial position. The Association actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties principle.

Risk Management Structure
The Board of Trustees is mainly responsible for the overall risk management and for the approval of risk strategies and principles of the Association. The Board of Trustees also has the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Association's approach to risk issues in order to make relevant decisions.

Insurance Risk
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.

Credit and Concentration Risks
Credit risk refers to the risk that counterparty will default and/or not honor its financial or contractual obligations resulting in financial losses to the Association. The trade and other receivable balances are monitored on an ongoing basis with the result that the Association's exposure to impairment is not significant. The cash in banks are deposited in strong financial institutions and are regularly monitored. The Association deals only with


SEDP SUMBONG/REKLAMO HOTLINE
May REKLAMO ka ba? TAWAG na!
Bawat sumbong mo, aksyon agad!
TAWAG LANG PO O MAG TEXT SA MGA SUMUSUNOD NA NUMERO :
COMPLAINT HOTLINE/ CUSTOMER CARE:
2nd District Albay plus Sorsogon, Masbate, Catarman:
GLOBE#
09952753615
SMART#
09215311454
TEXT FORMAT
Name:
Center:
Branch:
Contact No.:
Complaint:
The HOTLINE service is open 24/7 for text messages and 8:00 am to 5:00 pm for calls.
SEDP Simbag sa Pag-Asenso Inc. (A Microfinance NGO)
The Chancery, Cathedral Compound
Albay District Legazpi City 4500 Philippines
www.sedp.ph