MEMABA, Inc.
SINCE 1977
Stronger Ties. Uplifting Lives.

MERALCO EMPLOYEES MUTUAL AID AND BENEFITS ASSOCIATION, INC.
Employee Services Center, Meralco Compound, Ortigas Avenue, Pasig City
Telephone Numbers: 1622-6993, 6994, 3930 and 3936
Email Address : memaba staff@meralco.com.ph
Website : www.memaba.com.ph

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The Management of **MERALCO Employees Mutual Aid and Benefit Association, Inc.** is responsible for all information and representations in the Annual Income Tax Return for the year ended December 31, 2020. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other returns filed for the reporting period, including, but not limited to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2020 and the accompanying Annual Income Tax Return are in accordance with the books and records of **MERALCO Employees Mutual Aid and Benefit Association, Inc.** are complete and correct in all material respects. Management likewise affirms that:

(a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

(b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Foundation's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;

(c) **MERALCO Employees Mutual Aid and Benefit Association, Inc.** has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

ARIEL G. LUCAS
Chairman of the Board

PAUL RYAN C. GREGORIO
President

MARLON CORAZON G. GONSALVES
Treasurer

Diaz Murillo
Dalupan and Company

WE ARE AN INDEPENDENT MEMBER OF
THE GLOBAL ADVISORY
AND ACCOUNTING NETWORK

Statement Required by Section 8-A, Revenue Regulations No. V-1 and as Added by RR No. V-20

The Board of Trustees and Members
MERALCO EMPLOYEES MUTUAL AID AND BENEFIT ASSOCIATION, INC.
(A Non-stock, Non-profit Organization)
G/F Employee Services Center
MERALCO Compound, Ortigas Avenue
Pasig City, Philippines

None of the partners of the firm have any financial interest in the Association or any family relationships with principal members and key management personnel.

The supplementary information on taxes and licenses is presented in Note 19 to the financial statements.

Diaz Murillo Dalupan and Company
Tax Identification No. 003-294-822
BOA/PRC No. 0234, effective until August 4, 2023
SEC Accreditation No. 0192-FR-3, Group A, effective until April 2, 2022
BIR Accreditation No. 08-001911-000-2019, effective until March 27, 2022

Ofelia S. Barroga
Partner
CPA Certificate No. 47189
SEC Accreditation No. 1090-AR-2, Group A, effective until March 10, 2023
Tax Identification No. 104-576-733
PTR No. 8555597, January 15, 2021 Makati City
BIR Accreditation No. 08-001911-006-2019, effective until April 9, 2022

April 29, 2021

Meralco Employees Mutual Aid and Benefit Association, Inc.

Financial Statements
December 31, 2020 and 2019

and

Independent Auditors' Report

DMD Diaz Murillo Dalupan and Company

HLB WE ARE AN INDEPENDENT MEMBER OF THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

Independent Auditors' Report

The Board of Trustees and Members
MERALCO EMPLOYEES MUTUAL AID AND BENEFIT ASSOCIATION, INC.
(A Non-stock, Non-profit Organization)
G/F Employee Services Center
MERALCO Compound, Ortigas Avenue
Pasig City, Philippines

Report on the Audits of the Financial Statements

Opinion

We have audited the financial statements of **MERALCO Employees Mutual Aid and Benefit Association, Inc.**, which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in fund balance and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, 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 Audits of the Financial Statements

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

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

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

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

Report on the Supplementary Information Required under Revenue Regulation No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 19 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of MERALCO Employees Mutual Aid and Benefit Association, Inc. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Diaz Murillo Dalupan and Company
Tax Identification No. 003-294-822
BOA/PRC No. 0234, effective until August 4, 2023
SEC Accreditation No. 0192-FR-3, Group A, effective until April 2, 2022
BIR Accreditation No. 08-001911-000-2019, effective until March 27, 2022

Ofelia S. Barroga
Partner
CPA Certificate No. 47189
SEC Accreditation No. 1090-AR-2, Group A, effective until March 10, 2023
Tax Identification No. 104-576-733
PTR No. 8555597, January 15, 2021 Makati City
BIR Accreditation No. 08-001911-006-2019, effective until April 9, 2022

April 29, 2021

MERALCO EMPLOYEES MUTUAL AID AND BENEFIT ASSOCIATION, INC.
(A Non-Stock, Non-Profit Organization)
Statements of Financial Position

	December 31	
	2020	2019
ASSETS		
Cash - note 4	**₱40,195,446**	₱22,372,255
Loans and receivables (net) - note 5	**325,742,899**	316,129,996
Debt instruments at amortized cost - note 6	**21,210,900**	35,000,000
Property and equipment (net) - note 7	**331,527**	493,658
Other asset - note 14	**1,715,368**	1,715,701
TOTAL ASSETS	**₱389,196,140**	₱375,711,610
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable and other liabilities - note 8	**₱9,918,753**	₱6,431,768
Basic contingent benefit reserve - note 9	**174,668,670**	169,990,571
Liability on individual equity value - note 10	**105,955,912**	100,995,462
	290,543,335	277,417,801
Fund Balance - note 11		
Assigned fund balance	**26,699,908**	31,757,108
Free and unassigned fund balance	**71,952,897**	66,536,701
	98,652,805	98,293,809
TOTAL LIABILITIES AND FUND BALANCE	**₱389,196,140**	₱375,711,610

(The accompanying notes are an integral part of these financial statements.)

MERALCO EMPLOYEES MUTUAL AID AND BENEFIT ASSOCIATION, INC.
(A Non-Stock, Non-Profit Organization)
Statements of Comprehensive Income

	Years Ended December 31	
	2020	2019
REVENUES		
Interest income on loans receivable- note 5	**₱15,931,397**	₱17,798,809
Members' contributions - note 10	**13,917,608**	14,004,060
Investment and other income - note 12	**952,192**	1,541,954
	30,801,197	33,344,823
BENEFITS AND EXPENSES		
Benefits/claims expense	**8,952,215**	7,632,562
Increase in liability on individual equity value - note 10	**4,960,450**	5,292,022
Increase in reserve for basic contingent benefit - note 9	**4,678,099**	4,654,868
Salaries, wages and benefits - note 15	**3,106,080**	3,118,321
Board honorarium, allowances and benefits - note 14	**1,269,000**	1,269,000
Technical and professional fees	**693,253**	683,253
Meetings and conferences, and annual general assembly	**185,816**	155,130
Depreciation - note 7	**162,131**	145,765
Office supplies	**133,998**	201,719
Taxes, licenses and fees	**112,508**	123,944
Travel expenses	**29,848**	23,841
Provision for estimated credit losses - note 5	**27,742**	29,538
Representation	**24,637**	29,004
Insurance	**8,061**	11,540
Miscellaneous	**128,363**	364,516
	24,472,201	23,735,023
EXCESS OF REVENUES OVER EXPENSES FOR THE YEAR	**₱6,328,996**	₱9,609,800

(The accompanying notes are an integral part of these financial statements.)

MERALCO EMPLOYEES MUTUAL AID AND BENEFIT ASSOCIATION, INC.
(A Non-Stock, Non-Profit Organization)
Statements of Changes in Fund Balance

	Assigned Fund - note 11			Free and Unassigned Fund - note 11	Total
	Guaranty Fund	Members' Benefits	Total		
Balance, January 1, 2019	₱20,087,200	₱11,340,678	₱31,427,878	₱61,256,131	₱92,684,009
Total comprehensive income					
Excess of revenue over expenses for the year	-	-	-	9,609,800	9,609,800
Assignment of free and unassigned fund		6,480,030	6,480,030	(6,480,030)	-
Utilization during the year		(4,000,000)	(4,000,000)	-	(4,000,000)
Reversal of assigned fund to unassigned fund	-	(2,150,800)	(2,150,800)	2,150,800	-
Balance at December 31, 2019	20,087,200	11,669,908	31,757,108	66,536,701	98,293,809
Total comprehensive income					
Excess of revenue over expenses for the year	-	-	-	6,328,996	6,328,996
Assignment of free and unassigned fund	912,800	-	912,800	(912,800)	-
Utilization during the year		(5,970,000)	(5,970,000)	-	(5,970,000)
Reversal of assigned fund - members' benefit to unassigned fund	-	-	-	-	-
Balance at December 31, 2020	**₱21,000,000**	**₱5,699,908**	**₱26,699,908**	**₱71,952,897**	**₱98,652,805**

(The accompanying notes are an integral part of these financial statements.)

MERALCO EMPLOYEES MUTUAL AID AND BENEFIT ASSOCIATION, INC.
(A Non-Stock, Non-Profit Organization)
Statements of Cash Flows

	Years Ended December 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenses	**₱6,328,996**	₱9,609,800
Adjustments for:		
Interest income - notes 4, 5 and 6	**(16,641,045)**	(19,041,538)
Dividend income - note 14	**(240,100)**	(274,400)
Increase in reserve for basic contingent benefit - note 9	**4,678,099**	4,654,868
Depreciation - note 7	**162,131**	145,765
Provision for ECL - note 5	**27,742**	29,538
Premium amortization - note 6	**11,717**	-
Deficiency of revenues over expenses before working capital changes	**(5,672,460)**	(4,875,967)
Increase in loans and other receivables	**(9,640,312)**	(22,948,472)
Increase in accounts payable and other liabilities	**3,486,985**	10,345,722
Cash used in operations	**(11,825,787)**	(17,478,717)
Interest received	**16,641,045**	19,041,538
Net cash provided by operating activities	**4,815,258**	1,562,821
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividend received - note 14	**240,100**	274,400
Proceeds from debt instruments at amortized cost - note 6	**35,000,000**	-
Acquisition of debt instruments at amortized cost - note 6	**(21,222,617)**	-
Acquisition of property and equipment - note 7	**-**	(369,100)
Net cash provided by (used in) investing activities	**14,017,483**	(94,700)
CASH FLOWS FROM FINANCING ACTIVITIES		
Additional members' contribution - note 10	**6,957,064**	7,002,030
Refund of members' contribution - note 10	**(1,996,614)**	(1,710,008)
Additional members' benefit - note 11	**(5,970,000)**	(4,000,000)
Net cash provided by (used in) financing activities	**(1,009,550)**	1,292,022
NET INCREASE IN CASH	**17,823,191**	2,760,143
At beginning of year	**22,372,255**	19,612,112
At end of year - note 4	**₱40,195,446**	₱22,372,255

(The accompanying notes are an integral part of these financial statements.)

MERALCO EMPLOYEES MUTUAL AID AND BENEFIT ASSOCIATION, INC.
(A Non-stock, Non-profit Organization)
Notes to Financial Statements
As at and for the Years Ended December 31, 2020 and 2019

1. ASSOCIATION INFORMATION

MERALCO Employees Mutual Aid and Benefit Association, Inc. (the "Association") is a non-stock, non-profit organization established by the employees of Manila Electric Company (MERALCO) and its affiliated companies. The Association was registered with the Philippine Securities and Exchange Commission (SEC) on September 17, 1969 to carry out the following objectives:

a. To provide assistance for death, sickness or other mutual benefits and to render mutual aid and assistance to its members and their families who sustained serious physical injuries or suffered personal damages due to natural calamities;

b. To foster the interest and promote the mutual concern of the members by protecting and giving financial assistance to one another;

c. To encourage and foster growth and the general welfare of the members and/or their beneficiaries; and

d. In general, to carry on any other lawful business whatsoever in connection with any or all of the foregoing purposes and which are calculated directly or indirectly to promote the interest of the Association and its members.

The Insurance Commission (IC) granted the Association a license to transact business as a mutual benefit association (MBA) in September 1977 pursuant to the provisions of Insurance Code, as amended. The Association had renewed its license on June 11, 2019, effective until December 31, 2021.

The Association's registered office address and principal place of business is located at G/F Employee Services Center, MERALCO Compound, Ortigas Avenue, Pasig City, Philippines.

The accompanying financial statements were authorized for issue by the Board of Trustees (BOT) on April 29, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Statement of Compliance

The financial statements of the Association have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS) and Interpretations issued by the former Standing Interpretations Committee (SIC), the Philippine Interpretations Committee (PIC) and the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by SEC.

Basis of Preparation

The financial statements have been prepared on a historical cost basis except when otherwise indicated. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services and fair value of the consideration received in exchange for incurring a liability.

The financial statements are presented in Philippine peso (₱), the Association's functional currency. All amounts are rounded to the nearest peso except when otherwise indicated.

The Association presents its statements of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date and more than 12 months after the reporting date is presented in Note 18.

Standard chart of accounts (SCA)

IC released Circular No. 2014-41 containing the SCA for all new and existing mutual benefit associations doing business in the Philippines. This circular is in line with the requirements of Securities Regulation Code (SRC) Rule 68, Section 189 of the Amended Insurance Code, and the current accounting standards in the Philippines. On January 20, 2021, the IC released Circular No. 2021-04 amending certain provisions of Circular No. 2014-41. The amendments include new accounts and change in account codes of certain existing accounts. The amendments in the SCA have no significant impact to the Association.

The Association is in compliance with the SCA.

New accounting interpretations, revisions and amendments to PFRS

The accounting policies adopted are consistent with those of the previous financial years except for the following new and amended PFRS that are mandatorily effective for annual periods beginning on or after January 1, 2020.

Interest Rate Benchmark Reform (Amendments to PFRS 9 and PFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms. The amendments also introduce new disclosure requirements to PFRS 7 for hedging relationships that are subject to the exceptions introduced by the amendments to PFRS 9. The amendments have no impact on the Association's financial statements.

Definition of a Business (Amendments to PFRS 3). The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired. The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after January 1, 2020.

COVID-19-Related Rent Concessions (Amendments to PFRS 16). In May 2020, International Accounting Standards Board (IASB) issued *COVID-19-Related Rent Concessions* (Amendments to PFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to PFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying PFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

a. The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
b. Any reduction in lease payments affects only payments originally due on or before June 30, 2021 (a rent concession meets this condition if it results in reduced lease payments on or before June 30, 2021 and increased lease payments that extend beyond June 30, 2021); and
c. There is no substantive change to other terms and conditions of the lease.

The amendments have no impact on the Association's financial statements.

Definition of Material (Amendments to PAS 1 and PAS 8). The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. The amendments have no significant impact on the disclosures and amounts recognized on the financial statements.

Revised Conceptual Framework for Financial Reporting. The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

The amendments have no significant impact on the disclosures and amounts recognized on the financial statements.

New accounting standards, interpretations and amendments to existing standards effective subsequent to January 1, 2020

Standards issued but not yet effective up to the date of the Association's financial statements are listed below. This listing of standards and interpretations issued are those that the Association reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Association intends to adopt these standards when they become effective.

Property, Plant and Equipment before Intended Use (Amendments to PAS 16). The amendments to PAS 16, *Property, Plant and Equipment* prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. The amendments are effective for annual periods beginning on or after January 1, 2022.

Reference to the Conceptual Framework (Amendments to PFRS 3). Minor amendments were made to PFRS 3, *Business Combinations* to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of PAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRIC 21 *Levies*. The amendments also confirm that contingent assets should not be recognised at the acquisition date. The amendments are effective for annual periods beginning on or after January 1, 2022.

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to PAS 37). The amendment to PAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract. The amendment is effective for annual periods beginning on or after January 1, 2022.

Annual Improvements to PFRS Standards 2018–2020

- PFRS 9, *Financial Instruments* – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- PFRS 16, *Leases* – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards* – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same PFRS 1 exemption.
- PAS 41, *Agriculture* – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under PAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

Classification of Liabilities as Current or Noncurrent (Amendments to PAS 1). The narrow-scope amendments to PAS 1, *Presentation of Financial Statements* clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (eg the receipt of a waver or a breach of covenant). The amendments also clarify what PAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

The amendments will have no significant impact on the disclosures and amounts to be recognized on the financial statements.

Insurance Contracts (PFRS 17). The new standard will eventually replace PFRS 4, *Insurance Contracts*, that will set out the principles for the recognition, measurement, presentation and disclosure of insurance contracts within its scope. The new standard is effective for annual periods beginning on or after January 1, 2023.

This new standard requires a current measurement model where estimates are remeasured in each reporting period. Moreover, contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and,
- a contractual service margin (CSM) representing the unearned profit of the contract which is recognized as revenue over the coverage period.

PFRS 17 further allows a choice between recognizing changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for financial assets under PFRS 9.

In addition, the standard provides an optional, simplified premium allocation approach for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

Management is currently assessing the impact of this new standard on the Association's financial statements.

Financial Instruments

Initial recognition of financial instruments

The Association recognizes financial assets and financial liabilities in the statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

Financial assets and financial liabilities are recognized initially at fair value including transaction costs, except for those financial assets and liabilities at fair value through profit or loss (FVPL) where the transaction costs are charged to expense in the period incurred.

The Association classifies its financial assets as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) and FVPL.

The classification of debt instruments at amortized cost or at FVOCI depends on the financial asset's contractual cash flow characteristics and the Association's business model for managing the financial assets. The Association's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Association's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, debt instruments may be designated at FVPL on initial recognition if doing so eliminates or significantly reduces the measurement or recognition inconsistency and produce more relevant information.

Upon initial recognition, the Association may make an irrevocable election to present in other comprehensive income changes in the fair value of an equity instrument that is not held for trading.

The Association classifies its financial liabilities as subsequently measured at amortized cost using the effective interest method or at FVPL.

Financial Assets at FVPL

Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets at FVPL are carried in the statements of financial position at fair value with net changes in fair value recognized in the profit or loss.

As at December 31, 2020 and 2019, the Association has no financial assets at FVPL.

Financial assets at amortized cost

Financial assets are measured at amortized when both of the following conditions are met:

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

Financial assets at amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, financial assets at amortized cost are subsequently carried at amortized cost using the effective interest method less any allowance for estimated credit losses (ECL). Amortized cost is calculated, taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in statements of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

The Association's financial assets at amortized cost include cash, loans and receivables, debt instruments at amortized cost and other asset (see Notes 4, 5, 6 and 14).

Cash includes cash on hand and in banks.

Loans and receivables include loans and other receivables. Loans receivable are interest bearing loans granted to the members and paid through pension deduction for retired members and salary deduction for members working in MERALCO and affiliated companies.

Other receivables, on the other hand, include members' contributions due and uncollected and amortization of loans receivable deducted from members' payroll, which were not yet remitted by their employers to the Association.

Debt instruments at amortized cost consist of investments in government and corporate debt securities.

Debt instruments at FVOCI

The Association measures debt instruments at FVOCI when both of the following conditions are met:

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

Fair value gains and losses are recognized in other comprehensive income. Interest income, impairment losses or reversals, and foreign exchange gains and losses are recognized in profit or loss. Interest earned on investments is calculated using the effective interest method.

When the debt instrument is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. These financial assets are classified as noncurrent assets.

As at December 31, 2020 and 2019, the Association has no debt instruments at FVOCI.

Equity instruments designated at FVOCI

The classification is determined on an instrument-by-instrument basis.

When the equity instrument is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is not subsequently reclassified to profit or loss, but is transferred to retained earnings. Dividends on such investments are recognized in profit or loss when the right of payment has been established, except when the dividends represent a recovery of part of the cost of the investment, in which case, such gains are recorded in other comprehensive income. Equity instruments designated at FVOCI are not subject to impairment assessment. These financial assets are classified as noncurrent assets.

As at December 31, 2020 and 2019, the Association has no equity instruments designated at FVOCI.

Financial liabilities at amortized cost

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading, or designated as at FVPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

As at December 31, 2020 and 2019, the Association's financial liabilities at amortized cost consist of accounts payable and other liabilities (excluding liabilities to government agencies) and liability on individual equity value (see Notes 8 and 10).

Accounts payable and other liabilities consist of payable to members, claims payable on basic contingent benefit and other payables. Payable to members pertains to the unclaimed benefits, outstanding payable related to loan overpayments, interest rebates and refund of equity value of terminated members. It included claims due and unpaid, claims in the course of settlement and those which are incurred but not reported. Claims payable on basic contingent benefit represents benefit claims on membership certificates filed or reported to the Association but not yet paid as of end of the reporting period. Other liabilities include non-trade payables and accrued expenses.

Liability on individual equity value represents fifty percent (50%) of the total accumulated contributions of the members in the Association presented under the liability section of the statements of financial position. Under the Association's policies and guidelines, the account entitles the member to a benefit upon his death, or withdrawal from or termination of his membership in the Association.

Financial liabilities at FVPL

Financial liabilities are classified as at FVPL when the financial liability is contingent consideration of an acquirer in a business combination, held for trading or it is designated as at FVPL.

Financial liabilities at FVPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in profit or loss.

However, for financial liabilities that are designated as at FVPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss, instead, they are transferred to retained earnings upon derecognition of the financial liability.

The Association has no financial liabilities at FVPL as at December 31, 2020 and 2019.

Determination of Fair Value and Fair Value Hierarchy

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

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

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

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

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

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

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

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

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

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

Fair value measurement disclosures of financial and non-financial assets are presented in Note 17 to the financial statements.

"Day 1" difference

When the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Association recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the statements of comprehensive income unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statements of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Association determines the appropriate method of recognizing the "Day 1" difference amount.

<u>Offsetting of Financial Instruments</u>

Financial assets and liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

<u>Derecognition of Financial Instruments</u>

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Association retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to third party under a "pass-through" arrangement; or

- The Association has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

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

Financial liabilities

A financial liability is derecognized when the obligation under the liability was discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statements of comprehensive income.

Impairment of financial assets

The Association recognizes allowance for ECLs for all debt instruments that are measured at amortized cost. ECLs are a probability-weighted estimate of credit losses over the expected life of the financial asset.

Credit losses are the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Association expects to receive, discounted at the original effective interest rate. The expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Association assesses at each end of the reporting period whether the credit risk on a financial asset has increased significantly since initial recognition. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is measured at an amount equal to the lifetime ECLs. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, a loss allowance is measured at an amount equal to 12-month ECLs. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within twelve (12) months after the reporting period.

When the credit risk on financial instruments for which lifetime ECLs have been recognized subsequently improves, and the requirement for recognizing lifetime ECLs is no longer met, the loss allowance is measured at an amount equal to 12-month ECL at the current reporting period, except for assets for which simplified approach was used.

The Association recognizes impairment loss (reversals) in profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Association compares the risk of a default occurring on the financial instrument at the end of reporting period with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Association considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Association's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Association's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. the extent to which the fair value of a financial asset has been less than its amortized cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Association presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than thirty (30) days past due, unless the Association has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Association assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the end of reporting period. A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default;
- the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

The Association considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Association regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of Default

The Association considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Association, in full (without taking into account any collateral held by the Association).

Irrespective of the above analysis, the Association considers that default has occurred when a financial asset is more than ninety (90) days past due unless the Association has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired Financial Assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lenders of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower concessions that the lenders would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off Policy

The Association writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one (1) year past due, whichever occurs sooner.

Financial assets written off may still be subject to enforcement activities under the Association's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Property and Equipment

Property and equipment are initially measured at cost which comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location necessary for it to be capable of operating in the manner intended by management.

Property and equipment are subsequently carried at cost less accumulated depreciation and any impairment in value.

Expenses that provide incremental future economic benefits to the Association are added to the carrying amount of an item of property and equipment. All other expenses are recognized in the statements of comprehensive income as incurred.

Depreciation of property and equipment commences once the property and equipment are available for use and are calculated on a straight-line basis over the estimated useful life as follows:

	Number of years
Office equipment	3 to 5
Furniture and fixtures	3 to 5
IT equipment	3 to 5

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

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged against current operations.

When property and equipment are retired or otherwise disposed of, their cost and related accumulated depreciation and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Impairment of Non-financial Assets

At each reporting date, the Association reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When the asset does not generate cash flows that are independent from other assets, the Association estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income.

Basic Contingent Benefit Reserve

Basic contingent benefit reserve represents the total actuarial reserve set-up by the Association pertaining to the basic life benefit that is in force as at the end of the accounting period. It refers to the amount of liability which the Association establishes for a certificate to meet the contractual obligation as it falls due. It is computed as the net present value of benefits less present value of future contributions, calculated using actuarial methods and assumptions as approved by the IC, subject to the liability adequacy test.

Liability adequacy test

At each reporting date, a liability adequacy test is performed for the membership in force. In performing this test, current best estimate of future cash flows and benefits/claims handling and administration expenses, as well as investment income from the asset backing such liabilities are used. Any deficiency is immediately charged against current operations.

Liabilities for future membership benefits/claims have been computed based on methods and assumptions that are in accordance with generally accepted actuarial principles. Changes in the balance of legal policy reserves at each reporting date are taken to profit or loss.

Fund Balance

Fund balance represents the cumulative net income from current and prior periods. Fund balance represents the cumulative balance of net income or loss, prior period adjustments, effects of changes in accounting policy and other fund adjustments. Free and unassigned fund balance represents that portion which is free and can be declared for distribution to the members. Assigned fund balance represents that portion which is restricted and therefore not available for any experience refund declaration.

Revenue Recognition

Revenue is recognized when control of the goods or services are transferred to customer at an amount that reflects the consideration to which the Association expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties.

The Association recognizes revenue from the following sources:

a) *Members' contributions* – Revenue is recognized on accrual basis, when they become due from members. Contracts with members generally undertake to provide two performance obligations at a fixed price which are mainly to entitle the members for certain benefits of the Association (i.e. claims benefits, loan availment, nonfinancial benefits, dividends, etc.) and refund of 50% of the total contribution upon death, or withdrawal from or termination of membership by the member in the Association. Accordingly, the 50% of the membership contribution is recognized as revenue under "Members' contribution" while 50% is recognized as liability under "Liability on individual equity value".

b) *Interest on loans receivable* – Revenue is recognized using the effective interest method in accordance with the terms of the loan.

c) *Interest in bank deposits and investments* – Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).

d) *Dividends* – Revenue is recognized when the Association's right to receive payment is established.

e) *Other income* – Revenue is recognized when earned.

Revenue is measured by reference to the fair value of consideration received. Interest income and dividends are presented net of related final taxes.

Expense Recognition

Cost and expenses are recognized in the statements of comprehensive income when decrease in future economic benefits related to a decrease in an asset or an increase in liability has arisen that can be measured reliably.

Other costs and expenses are recognized in profit or loss upon utilization of service or when they are incurred.

Benefit/claims expenses

Members' benefits consist of funeral, fire victim aid, refund of 50% of total contributions and other benefits given to members. Benefits/claims expense are recorded when incurred. These are recorded when notices of claims have been received or when the members are entitled to the benefits. Unpaid benefits/claims expenses, including those incurred but not reported (IBNR) claims are based on the estimated cost of all claims incurred but not settled at the reporting date. These costs pertain to estimates of the Association's obligations to the members where the Association has not yet received notification on. Delays can be experienced in the notification and settlement of benefits/claims, therefore the ultimate cost could be known with certainty at the reporting date.

Employee Benefits

Short-term employee benefits

The Association recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period that are expected to be settled wholly before twelve (12) months after the end of the reporting period. Short-term benefits given by the Association to its employees include salaries and wages, fringe benefits, 13th month pay, Social Security System (SSS), Philhealth and Home Development Mutual Fund (HDMF) contribution. The Association recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period.

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

Provisions and Contingencies

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

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Association expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The expense relating to any provision is presented in the statements of comprehensive income, net of any reimbursement.

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements.

Related Party Transactions and Relationships

Related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

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

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

Events after the Reporting Date

The Association identifies post-year events as events that occurred after the reporting date but before the date when the Association financial statements were authorized for issue. Post year-end events that provide additional information about the Association's position at the reporting date (adjusting events) are reflected in the Association financial statements. Post year-end events that are not adjusting events are disclosed in the Association financial statements when material.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in compliance with PFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements. The estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances at the end of the reporting period. Actual results could differ materially from such estimates.

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.

Significant Accounting Judgments

Business model assessment

Classification and measurement of financial assets depends on the results of the business model and solely for payments of principal and interest test. The Association determines the business model at a level that reflects how Associations of financial assets are managed together to achieve a particular business objective. This assessment includes judgment 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 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 periods presented.

Distinction between debt and equity instrument

The Association's members' contribution takes the legal form of equity, but the substance of these financial instruments takes the form of a liability since the Association does not have an unconditional right to avoid delivering cash or another financial asset to the Association's members upon their termination or withdrawal.

Significant increase in credit risk

ECLs 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. The standard 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. Management assessed that there has no significant increase in credit risk on the Association's financial assets for the years ended December 31, 2020 and 2019.

Significant Accounting Estimates and Assumptions

Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Association uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Association's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

As at December 31, 2020 and 2019, loans and receivables (net of allowance for ECL of ₱810,007 in 2020 and ₱782,265 in 2019) amounted to ₱325,742,899 and ₱316,129,996, respectively (see Note 5).

No allowance for ECL is recognized for debt instruments at amortized cost, which are held by reputable banking and quasi-banking institutions. Carrying amount of the investment amounted to ₱21,210,900 and ₱35,000,000 as at December 31, 2020 and 2019, respectively (see Note 6).

Estimation of basic contingent benefit reserve

The determination of the Association's basic contingent benefit reserve is dependent on the selection of certain assumptions used by actuaries in calculating such amount. These estimates are based on standard mortality tables as required by the Insurance Code. Actual future experience could differ from the assumptions used to make the reserve estimates.

The carrying value of basic contingent benefit reserve amounted to ₱174,668,670 and ₱169,990,571 as at December 31, 2020 and 2019, respectively (see Note 9).

4. CASH

This account consists of:

	2020	2019
Cash on hand	**₱5,000**	₱5,000
Cash in banks	**40,190,446**	22,367,255
	₱40,195,446	₱22,372,255

Cash in banks generally earn interest based on daily bank deposit rates. Interest income earned in 2020 and 2019 amounted to ₱114,295 and ₱47,729 respectively, and is presented under "Investment and other income" in the statements of comprehensive income (see Note 12).

There is no restriction on the Association's cash and these are available for general use.

5. LOANS AND RECEIVABLES (NET)

This account consists of:

	2020	2019
Loans receivable	**₱324,002,841**	₱312,905,944
Other receivables		
Unremitted members' contributions, dues and fees	**189,747**	183,930
Members' contribution due and uncollected	**408,134**	486,317
Accrued interest receivable	**56,978**	232,583
Others	**1,895,206**	3,103,487
	326,552,906	316,912,261
Less: Allowance for ECLs –loans receivable	**810,007**	782,265
	₱325,742,899	₱316,129,996

Loans receivable include Educational Loan, Hospitalization Loan, Fire Loan, Funeral Loan, Supplemental Loan, Calamity Loan and Medicine Loan.

Loans receivable bear 3.5% to 6.0% annual interest rate and have maximum term of one (1) to three (3) years depending on the type of loan. For MERALCO employees, all loans except educational loan are required to have a co-maker. The co-maker serves as the borrower's collateral or security in paying the loan.

Members' contribution due and uncollected pertains to the membership contributions that are already due but not yet collected or deducted from the members' salaries.

Other receivables pertain to loans receivable from deceased and withdrawn members which are subject for settlement. Other receivables also pertain to monthly amortizations of loans receivable deducted from the members' payroll but are not yet remitted by MERALCO and its affiliated companies to the Association as at December 31, 2019. These receivables are subsequently collected in the following month.

Based on Management's assessment, the other receivables as at December 31, 2020 and 2019 were fully performing and highly collectible.

A reconciliation of the allowance for ECL as at December 31 is shown below.

	2020	2019
Balance at beginning of year	**₱782,265**	₱752,727
Add: Provision for the year	**27,742**	29,538
Balance at end of year	**₱810,007**	₱782,265

Interest income on loans receivable amounted to ₱15,931,397 and ₱17,798,809 in 2020 and 2019, respectively, as presented in the statements of comprehensive income.

6. DEBT INSTRUMENTS AT AMORTIZED COST

This account consists of Philippine government securities and corporate bonds. Details follow:

	2020	2019
Government securities	**₱21,210,900**	₱30,000,000
Corporate bonds	**-**	5,000,000
	₱21,210,900	₱35,000,000

Government securities and corporate bonds have terms of three to seven years and bear fixed interest rates of 2.39% in 2020 and from 4.20% to 4.38% in 2019. The effective interest rates range from 1.68% to 3.50% in 2020 and 2019.

Government bonds are part of the Association's compliance to guaranty fund requirement of IC in accordance with the provision under Section 405 (formerly Section 392) of the Insurance Code of the Philippines, as amended under Republic Act (R.A.) No. 10607, "An Act Strengthening the Insurance Industry", as security for the benefit of members and creditors of the Association. These bonds are deposited with the Bureau of Treasury under the Registry of Scripless Securities System (RoSS).

The movements of debt instruments at amortized cost are as follow:

	2020	2019
Cost		
Balance at beginning of year	**₱35,000,000**	₱35,000,000
Acquisitions	**21,000,000**	-
Maturities	**(35,000,000)**	-
Balance at end of year	**21,000,000**	35,000,000
Premium (discount)		
Balance at beginning of year	**222,617**	-
Amortization – net	**(11,717)**	-
Balance at end of year	**210,900**	-
Carrying amount at December 31	**₱21,210,900**	₱35,000,000

Interest income for the years ended December 31, 2020 and 2019 amounted to ₱595,353 and ₱1,195,000, respectively, and is included under "Investment and other income" in the statements of comprehensive income (see Note 12).

7. PROPERTY AND EQUIPMENT (NET)

The reconciliation of property and equipment is as follows:

December 31, 2020	**Office equipment**	**Furniture and fixtures**	**IT equipment**	**Total**
Cost				
Balance at beginning and end of year	₱1,715,179	₱70,120	₱1,777,070	₱3,562,369
Accumulated depreciation				
Balance at beginning of year	1,402,418	70,120	1,596,173	3,068,711
Depreciation	78,833	-	83,298	162,131
Balance at end of year	1,481,251	70,120	1,679,471	3,230,842
Carrying amount at December 31, 2020	**₱233,928**	**₱-**	**₱97,599**	**₱331,527**

December 31, 2019	Office equipment	Furniture and fixtures	IT equipment	Total
Cost				
Balance at beginning of year	₱1,346,079	₱70,120	₱1,777,070	₱3,193,269
Additions	369,100	-	-	369,100
Balance at end of year	1,715,179	70,120	1,777,070	3,562,369
Accumulated depreciation				
Balance at beginning of year	1,339,951	70,120	1,512,875	2,922,946
Depreciation	62,467	-	83,298	145,765
Balance at end of year	1,402,418	70,120	1,596,173	3,068,711
Carrying amount at December 31, 2019	₱312,761	₱-	₱180,897	₱493,658

As at December 31, 2020 and 2019, the total cost of fully depreciated property and equipment that are still being used by the Association amounted to ₱2,749,135.

The Association's property and equipment as at December 31, 2020 and 2019 are not held as collateral for its liabilities and are free from any encumbrances. The Association did not enter into any contractual commitment for the acquisition of property and equipment.

Management believes that there is no indication that an impairment on its property and equipment.

8. ACCOUNTS PAYABLE AND OTHER LIABILITIES

This account consists of:

	2020	2019
Claims payable on basic contingent benefit	**₱5,804,853**	₱2,039,299
Payable to members	**3,334,295**	3,353,259
Accrued expenses	**370,048**	344,920
Members' contribution received in advance	**224,911**	269,166
Withholding taxes payable	**157,886**	150,468
SSS, Philhealth and Pag-ibig payables	**26,760**	27,857
Other payable	-	246,799
	₱9,918,753	₱6,431,768

Payable to members include outstanding payable related to loan overpayments, interest rebates and refund of equity value of terminated members.

Claims payable on basic contingent benefit pertains to the benefits not yet claimed by members' beneficiaries including those benefits IBNR as at December 31, 2020 and 2019.

Accrued expenses consist mainly of accrual for professional and technical fees.

Other payable in 2019 pertains to unpaid balance to supplier for the purchase of non-financial benefit to members.

9. BASIC CONTINGENT BENEFIT RESERVE

Under the Insurance Code, an MBA doing business in the Philippines shall establish a reserve liability in accordance with actuarial procedures, and shall be approved by the IC. The Association's latest actuarial valuation is as at December 31, 2020.

The table below shows the summary of valuation results based on actuarial valuation report under existing benefit guidelines:

	2020	2019
Number of members (A)	**9,922**	9,935
Estimated annual contributions (B)	**₱1,440**	₱1,440
Total estimated annual contributions (A x B)	**14,287,680**	14,306,400
Present value of benefits (D)	**335,052,955**	332,152,635
Present value of future contributions (E)	**160,384,285**	162,162,064
Reserves (D-E)	**₱174,668,670**	₱169,990,571

The reserves were computed as the present value of future benefits less the present value of future net annual contributions. The net annual contribution used is 80% of the gross annual contribution.

The valuation method interest rate used was 4.25% per annum for 2020 and 2019. The mortality rates used were based on the 1958 Commissioners Reserve Ordinary (1958 CSO) for members and on 150% of the 1958 CSO for dependents. No withdrawals were assumed.

The basic contingent benefit reserve was certified by the Association's independent actuary who is accredited by the IC and who also issued an unqualified opinion on the account.

The movement in basic contingent benefit reserve is as follows:

	2020	2019
Beginning balance	**₱169,990,571**	₱165,335,703
Additions	**4,678,099**	4,654,868
Ending balance	**₱174,668,670**	₱169,990,571

10. LIABILITY ON INDIVIDUAL EQUITY VALUE

This account pertains to the 50% of accumulated contributions received from members, which represents the withdrawal benefit they will receive upon death or withdrawal or termination of membership.

The following table summarizes the movements of the members' contributions as at December 31:

	2020	2019
Balance at beginning of year	**₱100,995,462**	₱95,703,440
Contributions during the year	**6,958,804**	7,002,030
Refunds during the year	**(1,959,215)**	(1,698,562)
Others	**(39,139)**	(11,446)
Balance at end of year	**₱105,955,912**	₱100,995,462

11. FUND BALANCE

Section 408 of R. A. No. 10607, "An Act Strengthening the Insurance Industry" further amending Presidential Decree no. 612, otherwise known as "The Insurance Code", which was approved on August 15, 2013, provides that an MBA shall only maintain free and unassigned fund balance of not more than twenty percent (20%) of its total liabilities as verified by the Commissioner. Excess amount shall be returned to the members by way of dividends, enhancing the equity value or providing benefits in kind and other relevant services.

Under Insurance Memorandum Circular No. 2-2006, all existing MBAs should maintain a guaranty fund of at least ₱12,500,000. The guaranty fund maintained by the Company is in compliance with IC amounted to ₱21,000,000 and ₱20,087,200 as at December 31, 2020 and 2019, respectively.

In 2020, the Association assigned a portion of the free and unassigned fund balance amounting to ₱912,800 to guaranty fund.

In 2019, the IC interposed no objection to the allocation of additional assigned fund balance amounting to ₱6,480,030, which pertains to the 20% excess of free and unassigned fund balance over the total liabilities. On the same year, ₱2,150,800 assigned fund balance was reverted to free and unassigned fund balance.

The Association utilized portion of its assigned fund to members' benefits by providing nonfinancial benefits to members amounting to ₱5,970,000 and ₱4,000,000 in 2020 and 2019, respectively.

Nonfinancial benefits to members are directly deducted from the "Assigned fund for members' equity" in the statements of changes in fund balance.

12. INVESTMENT AND OTHER INCOME

Details of investment and other income for the years ended December 31 are as follow:

	2020	2019
Interest income on investments – note 6	**₱595,353**	₱1,195,000
Dividend income – note 14	**240,100**	274,400
Interest income on bank deposits – notes 4 and 14	**114,295**	47,729
Miscellaneous	**2,444**	24,825
	₱952,192	₱1,541,954

Miscellaneous consists of revenue from cancelled obligations and petty income transactions.

13. INCOME TAXES

The Association was granted by the Bureau of Internal Revenue (BIR) on August 31, 2001, an exemption from the payment on income received by it and therefore need not file income tax returns concerning such income. However, income derived by the Association from any of its properties and interest on money market placements and royalties derived from within the Philippines shall be reported for taxation.

On July 22, 2013, the BIR issued Revenue Memorandum Order (RMO) no. 20-2013 prescribing the policies and guidelines in the issuance of tax exemption rulings for non-stock, non-profit corporations and associations under Section 30 of the National Internal Revenue Code (NIRC) of 1997, as amended. Under the RMO, corporations and associations qualified under Section 30 of NIRC shall be issued Tax Exemptions/Revalidation after the submission of required documents to BIR. Pursuant thereto, the Association submitted the required documents to the BIR on October 23, 2013. On July 26, 2016, RMO no.44-2016 was issued by the BIR amending RMO no. 20-2013. For all legal intents and purposes therefore, the Association has complied with the legal requirements for Tax Exemption/Revalidation.

On July 24, 2019, BIR issued RMO 38-2019 clarifying the nature, character and tax treatment of corporations under Section 30 of the NIRC of 1997, as amended, and to devolve to the Revenue Regions the issuance of Certificate of Tax Exemptions to said corporations. In July 2020, the Association submitted the required documents to BIR in accordance with RMO 38-2019. The application is still pending as of December 31, 2020.

14. RELATED PARTY TRANSACTIONS

The Association's related party transactions are as follow:

a) Transactions with the BOT who are considered the key management personnel of the Association. Total loans granted to key management personnel of the Association amounted to ₱632,000 and ₱806,349 in 2020 and 2019, respectively. The outstanding balance of the loans amounted to ₱776,190 and ₱465,344 as at December 31, 2020 and 2019, respectively, and is included in "Loans receivable" under "Loans and receivables" in the statements of financial position (see Note 5). Loans are paid through salary deductions.

b) The Association is a member of MERALCO Savings and Loans Association (MESALA) and invested capital contribution amounting to ₱1,715,000, which is included in "Other assets" in the statements of financial position. This investment earned dividend income amounting to ₱240,100 in 2020 and ₱274,400 in 2019, and are included under "Investment and other income" account in the statements of comprehensive income (see note 12).

The Association also has a savings deposit in MESALA amounting to ₱544,460 and ₱296,916 as at December 31, 2020 and 2019, respectively and is not restricted for withdrawal. Interest income earned in 2020 and 2019 amounted to ₱7,444 and ₱3,749 respectively, and is presented under "Investment and other income" (see Note 12).

c) The Association occupies the office space owned by MERALCO, an affiliate, free of rental charges.

Remuneration of Key Management Personnel

The remuneration of the key management personnel of the Association is as follows:

	2020	2019
Bonus	**₱1,053,000**	₱1,053,000
Per diem	**595,333**	595,333
	₱1,648,333	₱1,648,333

15. EMPLOYEE BENEFITS

Short term benefits

The Association's short-term employee benefits amounting to ₱3,106,080 and ₱3,118,321 in 2020 and 2019, respectively, consist of salaries and wages, social security costs and allowances.

Retirement benefits

The Association is not covered by the provisions of R. A. No. 7641, also known as "Retirement Pay Law" since the Association has less than ten (10) employees. Under R.A. No. 7641, operations employing not more than ten (10) employees are not covered by the provisions of the said law. R.A. No. 7641 defines the amount of pension benefit that an employee will receive on retirement, depending on certain factors such as age, years of credited service and salary.

16. FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES

The Association is exposed to a variety of financial risks which result from both its operating and investing activities. The Association's risk management policies focus on actively securing the Association's short-term to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Association's principal financial instruments comprise of cash and accounts payable and other liabilities (excluding liabilities to government agencies). These financial instruments are used mainly for working capital management purposes. The Association has other financial assets such as receivables, loans receivable, debt instruments at amortized cost and other assets.

Credit Risk

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

The Association continuously monitors defaults of members and other counterparties, identified either individually or by Association, and incorporate this information into its credit risk controls. The Association's policy is to deal only with creditworthy counterparties.

Credit risk exposure

The Association's maximum exposure to credit risk without taking into account any collateral held or other credit enhancements arises from the carrying amount of financial assets recognized in the statements of financial position.

The table below shows the maximum exposure to credit risk of the Association as at December 31.

		December 31, 2020			
		Basis of ECL	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
Cash*	(a)		**₱38,602,920**	**₱-**	**₱38,602,920**
Loans and receivables (net)	(b)	Lifetime ECL	**326,552,906**	**810,007**	**325,742,899**
Debt instruments at amortized cost	(a)		**21,210,900**	**-**	**21,210,900**
Other asset**	(a)		**1,715,000**	**-**	**1,715,000**
			₱388,081,726	**₱810,007**	**₱387,271,719**

**Excluding cash on hand amounting to P5,000 and cash in banks amounting to P1,587,526 which are secured by Philippine Deposit Insurance Corporation (PDIC)*
***Excluding prepaid insurance of P368*

		December 31, 2019			
		Basis of ECL	Gross carrying amount	Loss allowance	Net carrying amount
Cash*	(a)		₱20,549,407	₱-	₱20,549,407
Loans and receivables (net)	(b)	Lifetime ECL	316,912,261	782,265	316,129,996
Debt instruments at amortized cost	(a)		35,000,000	-	35,000,000
Other asset**	(a)		1,715,000	-	1,715,000
			₱374,176,668	₱782,265	₱373,394,403

**Excluding cash on hand amounting to P5,000 and cash in banks amounting to P1,817,848 which are secured by PDIC*
***Excluding prepaid insurance of P701*

a) Cash, debt instruments at amortized cost and other asset are assessed to have low credit risk at each reporting period. These are held by reputable banking and quasi-banking institutions.

b) For loans and receivables, the Association has applied the simplified approach to measure the loss allowance at lifetime ECLs. The Association determines the ECL based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

The Association computed ECL rate of the loans and receivables based on the payment profiles of member-borrowers over a period of twenty-four (24) months before December 31, 2020 and 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. In 2020 and 2019, the Association's ECL rate was 0.25% for the current accounts under loans and receivables.

Trade and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Association and if past due for more than one (1) year.

In addition, the Association ensures that all members who wish to avail loans are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The following are the specific qualifications needed in order for a member to avail a loan:

a) For managerial and rank and file employees of MERALCO and its affiliated companies that are members of the Association.

   Members availing the loan are required to have a co-maker which will make them jointly and severally liable in paying the loan. The co-maker will serve as the borrower's collateral or security in paying the loan. Once the borrower defaulted in paying the loan, the outstanding balance of the loan will be automatically transferred to the co-maker.

   Also, computation of borrowing capacity from employer is required indicating the applicable amount that a member may loan from the Association. A certain percentage of take home pay must be met to assure that the amortization for the loan will be deducted or applied to his salary.

   In case the member has been suspended or terminated, has retired, resigned or defaulted from paying his loan, the Association may deduct from whatever wages or cash benefits due to him from his employer.

b) Retired employees that are members of the Association with pension

   Member can avail loan from the Association as the retiree has a net pension provided that the pension is enough to cover the monthly amortization.

c) Retired employees that are members of the Association without pension

   Members availing loan are required to issue a post-dated check or a deed of assignment authorizing the Association to deduct the monthly loan amortization of the availed loan to his/her MESALA savings or capital contribution. Co-maker is also required.

   All members availing loan are required to fill up a form, giving the Association the authority to deduct and collect.

The other receivables, which consists of unremitted collections and due and uncollected members' contribution from counterparties with strong capacity to meet its obligations, are assessed to be with low credit risk.

To measure the ECL, loans and receivables of the Association are based on shared credit risk characteristic and the days past due.

The loss allowance for loans and receivables as at December 31 is determined as follows:

	(Amount in thousands)				
	Current	1-30 days past due	> 90 days past due	> 1 year	Total
December 31, 2020					
Gross carrying amount					
Loans receivable	**₱324,003**	**₱-**	**₱-**	**₱-**	**₱324,003**
Other receivables	**2,550**	**-**	**-**	**-**	**2,550**
Loss allowance	**₱810**	**₱-**	**₱-**	**₱-**	**₱810**
December 31, 2019					
Gross carrying amount					
Loans receivable	₱312,906	₱-	₱-	₱-	₱312,906
Other receivables	4,006	-	-	-	4,006
Loss allowance	₱782	₱-	₱-	₱-	₱782

The table below provides information regarding the credit risk exposure of the Association by classifying assets according to the Association's credit ratings of counterparties.

December 31, 2020

	Neither past due nor impaired		Past due but not impaired	Impaired financial assets	Total
	High	**Medium**			
Cash	**₱38,602,920**	**₱-**	**₱-**	**₱-**	**₱38,602,920**
Loans and receivables	**325,742,899**	**-**	**-**	**810,007**	**326,552,906**
Debt instrument at amortized cost	**21,210,900**	**-**	**-**	**-**	**21,210,900**
Other assets	**1,715,000**	**-**	**-**	**-**	**1,715,000**
	₱387,271,719	**₱-**	**₱-**	**₱810,007**	**₱388,081,726**

December 31, 2019

	Neither past due nor impaired		Past due but not impaired	Impaired financial assets	Total
	High	Medium			
Cash	₱20,549,407	₱-	₱-	₱-	₱20,549,407
Loans and receivables	316,129,996	-	-	782,265	316,912,261
Debt instrument at amortized cost	35,000,000	-	-	-	35,000,000
Other assets	1,715,000	-	-	-	1,715,000
	₱373,394,403	₱-	₱-	₱782,265	₱374,176,668

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. There are two types of interest rate risk:

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

The Association's interest risk policy requires it to manage interest rate risk by managing the maturities of interest-bearing financial assets. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until the maturity. As at December 31, 2020 and 2019, the Association does not have financial instruments which have repricing interest.

The Association is exposed to fair value interest rate risk on its interest-bearing debt instruments as at December 31, 2020 and 2019. If interest rate increases/decreases by 100 basis points, with all variables held constant (through the impact of changes in fair value of these instruments) the Association's income and fund balance would increase or decrease by ₱136,718 and ₱164,600 for the years 2020 and 2019, respectively.

Liquidity Risk

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

The Association manages its liquidity needs by carefully monitoring scheduled payments. The Association maintains cash to meet its liquidity requirements. Excess cash are invested in time deposits or short-term marketable securities.

The Association's accounts payable and other liabilities (excluding liabilities to government agencies and members' contributions received in advance) amounting to ₱9,509,196 in 2020 and ₱5,984,277 in 2019 has contractual maturities of less than three months.

The table below summarizes the maturity profile of the Association's financial assets and financial liabilities based on contractual undiscounted payments.

December 31, 2020	Up to one year	One to 3 years	3 to 5 years	Over 5 years	Total
Assets					
Cash	₱40,190,446	₱-	₱-	₱-	₱40,190,446
Loans and receivables	193,562,720	132,180,179	-	-	325,742,899
Debt instruments at amortized cost	21,210,900	-	-	-	21,210,900
Other asset	-	-	-	1,715,000	1,715,000
	254,964,066	132,180,179	-	1,715,000	388,859,245
Liabilities					
Accounts payable and other liabilities	9,918,753	-	-	-	9,918,753
Liability on individual equity value	105,955,912	-	-	-	105,955,912
	115,874,665	-	-	-	115,874,665
Liquidity position gap	₱139,089,401	₱132,180,179	₱-	₱1,715,000	₱272,984,580

December 31, 2019	Up to one year	One to 3 years	3 to 5 years	Over 5 years	Total
Assets					
Cash	₱22,367,255	₱-	₱-	₱-	₱22,367,255
Loans and receivables	170,558,239	145,571,757	-	-	316,129,996
Debt instruments at amortized cost	35,000,000	-	-	-	35,000,000
Other asset	-	-	-	1,715,000	1,715,000
	227,925,494	145,571,757	-	1,715,000	375,212,251
Liabilities					
Accounts payable and other liabilities	6,431,768	-	-	-	6,431,768
Liability on individual equity value	100,995,462	-	-	-	100,995,462
	107,427,230	-	-	-	107,427,230
Liquidity position gap	₱120,498,264	₱145,571,757	₱-	₱1,715,000	₱267,785,021

Fund Risk Objective and Management

The primary objective of the Association's fund management is to ensure that the Association complies with externally-imposed capital requirements and that the Association maintains strong credit ratings and healthy capital ratios in order to support its business and maximize members' value.

Risk-Based Capital (RBC) Requirements

Based on Circular Letter No. 11-2006 dated December 8, 2006, the IC approved the guidelines on the adoption of RBC framework for MBAs. This requires every MBA to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the Association to corresponding regulatory intervention which has been defined in various levels.

The RBC ratio shall be calculated as Members' Equity divided by the RBC requirement. Members' Equity is defined as Admitted assets minus all liabilities inclusive of actuarial reserve and other obligations under the policies and membership certificate.

The RBC ratio as determined by the Association as follows:

	2020	2019
Members' equity	**₱96,546,331**	₱80,060,656
RBC requirement	**44,434,627**	37,243,207
RBC ratio	**217%**	215%

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

As at December 31, 2020 and 2019, the Association is in compliance with the required RBC ratio by the IC.

Insurance Risk

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

The main insurance risks the Association is exposed to are:

- Mortality risk – risk of loss arising due to member death experience being different than expected.
- Longevity risk – risk of loss arising due to annuitant living longer than expected.
- Investment return risk – risk of loss arising from returns being different from expected.
- Expense risk – risk of loss arising from expense experience being different from expected.
- Member decision risk – risk of loss arising due to member experiences being different than expected.

The Association's main insurance policy entitles a member to life insurance with accidental death benefit and dismemberment coverage.

The significant factors that could increase the overall frequency of claims are terrorisms, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected.

The Association manages its insurance risk by ensuring it generates lasting returns from its financial assets, so that it will be able to fund its obligation arising from its insurance contracts. The Association also closely monitors its assets and liabilities to attempt to match the expected pattern of claim payments with the maturity dates of its assets.

The Association determines its concentration of insurance risk base or sectoral concentration. Majority of the Association's members are from MERALCO, its subsidiaries and affiliates, which composes 100% of the total membership base of the Association as at December 31, 2020 and 2019.

The Association's exposure to insurance risk pertains to Basic contingent benefit reserve of ₱174.67 million and ₱169.99 million as at December 31, 2020 and 2019, respectively.

As at December 31, 2020 and 2019, it is estimated that a general increase of one percent (1%) in basic contingent benefit reserve, with all other variables held constant, would decrease the Association's net income and fund balance by approximately ₱1.75 million and ₱1.70 million, respectively. An equal change in the opposite direction would have increased net income and fund balance by an equal but opposite amount.

17. FAIR VALUE INFORMATION

Financial assets and liabilities measured at amortized cost for which fair value is disclosed

The following gives information about how the fair values of the Association's financial assets and liabilities, which are not measured at fair value but the fair values, are disclosed at the end of each reporting period are determined.

Cash, loans receivable (current portion), other receivables, liability on individual equity value and accounts payable and other liabilities

Due to the short-term nature of these financial instruments, their fair value approximates the carrying amount as at reporting date.

The carrying amount and fair value of the categories of noncurrent financial assets presented in the statements of financial position are shown below:

	2020			
	Carrying values	**Fair values**	**Fair value hierarchy**	**Valuation techniques**
Financial assets				
Loans and receivables	**₱132,180,179**	**₱132,180,179**	**Level 2**	**(a)**
Debt instruments at amortized cost	**21,210,900**	**19,367,499**	**Level 2**	**(b)**
Other asset	**1,715,000**	**1,686,133**	**Level 2**	**(c)**
	₱155,106,079	**₱153,233,811**		

	2019			
	Carrying values	Fair values	Fair value hierarchy	Valuation techniques
Financial assets				
Loans and receivables	₱145,571,757	₱145,571,757	Level 2	(a)
Debt instruments at amortized cost	35,000,000	32,523,128	Level 2	(b)
Other asset	1,715,000	1,658,367	Level 2	(c)
	₱182,286,757	₱179,753,252		

(a) Loans and receivables

The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at the loan's interest rates ranging from 3.50% to 6.00% in 2020 and 4.50% to 6.00% in 2019.

(b) Debt instrument at amortized cost

The fair value of the Association's debt instrument at amortized cost is determined based on the present value of estimated future cash flows using prevailing market rates. Fair values are based on quoted rates of 2.3% in 2020 and 3.1% to 3.7% in 2019.

(c) Other assets

Estimated fair value is determined based on the present value of estimated future cash flows using prevailing market rates. The discount rate used is 1.71% and 3.42% in 2020 and 2019, respectively.

18. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

December 31, 2020	**Less than 12 months**	**Over 12 months**	**Total**
Assets			
Cash	**₱40,195,446**	**₱-**	**₱40,195,446**
Loans and receivables (net)	**193,562,720**	**132,180,179**	**325,742,899**
Debt instruments at amortized cost	**21,210,900**	**-**	**21,210,900**
Property and equipment (net)	**-**	**331,527**	**331,527**
Others assets	**368**	**1,715,000**	**1,715,368**
Total assets	**₱254,969,434**	**₱134,226,706**	**₱389,196,140**
Liabilities			
Accounts payable and other liabilities	**₱9,918,753**	**₱-**	**₱9,918,753**
Basic contingent benefit reserve	**-**	**174,668,670**	**174,668,670**
Liability on individual equity value	**105,955,912**	**-**	**105,955,912**
Total liabilities	**₱115,874,665**	**₱174,668,670**	**₱290,543,335**

December 31, 2019	Less than 12 months	Over 12 months	Total
Assets			
Cash	₱22,372,255	₱-	₱22,372,255
Loans and receivables (net)	170,558,239	145,571,757	316,129,996
Debt instruments at amortized cost	35,000,000	-	35,000,000
Property and equipment (net)	-	493,658	493,658
Others assets	701	1,715,000	1,715,701
Total assets	₱227,931,195	₱147,780,415	₱375,711,610
Liabilities			
Accounts payable and other liabilities	₱6,431,768	₱-	₱6,431,768
Basic contingent benefit reserve	-	169,990,571	169,990,571
Liability on individual equity value	100,995,462	-	100,995,462
Total liabilities	₱107,427,230	₱169,990,571	₱277,417,801

19. SUPPLEMENTARY INFORMATION REQUIRED BY BIR

Revenue Regulation (RR) No. 15-2010

Presented below is the detailed information for the year ended December 31, 2020:

a. As a non-stock, non-profit organization, the Association is exempted from VAT.

b. The schedule of taxes, licenses and fees follows:

IC supervision fee	**₱50,500**
IC audit fee and filing fee	**20,200**
Business permit	**19,558**
RoSS subscription	**12,000**
IC payment for penalty	**8,750**
BIR payment for penalty	**1,000**
BIR Annual Registration Fee	**500**
	₱112,508

c. The amount of withholding taxes follows:

Taxes on compensation and benefits	**₱26,634**
Expanded withholding taxes	**131,252**
	₱157,886

d. The Association has no tax cases under preliminary investigation and/or prosecution in courts or bodies outside the BIR.

RR No. 34-2020

The Association is not covered by the requirements and procedures for related party transactions under RR No. 34-2020.

*   *   *