Financial Statements of

KCCDFI Mutual Benefit Association, Inc.

December 31, 2016 and 2015

And

Report of Independent Auditors

Quilab Cabilin Bato & Co., CPAs
A member firm of The Leading Edge Alliance

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KCCDFI Mutual Benefit Association, Inc.

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of KCCDFI Mutual Benefit Association, Inc. is responsible for the preparation and fair presentation of its financial statements for the years ended December 31, 2016 and 2015, in accordance with Philippine Financial Reporting Standards (PFRSs), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

The Board of Trustees reviews and approves the financial statements and submits the same to the members of the Association.

Quilab, Cabilin, Bato & Co., CPAs, the independent auditors appointed by the Board of Trustees for the periods December 31, 2016 and 2015, have audited the financial statements of the Association in accordance with Philippine Standards on Auditing, and in its report to the Board of Trustees, have expressed their opinion on the fairness of presentation upon completion of such audits.

April 7, 2017, in the City of Zamboanga, Philippines.

ELLEN M. BENITEZ
President

MARIA TERESA C. GONZALES
Officer in Charge

MYRNA D.S GREGORIO
Treasurer

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◆ **Accreditations**
SEC No. 0182-FR-1 (Jul. 27, 2019)
BOA/PRC Reg. No. 0250 (Dec. 31, 2019)
CDA CEA No 0015-AF (Mar. 2, 2017)
NEA No. 2013-07-00011 (Jul. 20, 2019)
IC No. F-2014/017 (Oct. 23, 2017)
BSP (Jun. 30, 2016) BIR (Oct. 4, 2019)

REPORT OF INDEPENDENT AUDITORS

The Board of Trustees and Members
KCCDFI Mutual Benefit Association, Inc.

Opinion
We have audited the financial statements of KCCDFI Mutual Benefit Association, Inc., which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of profit and loss, statements of changes in fund balances and statements of cash flows for the years then ended, and notes to the financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

In our opinion, the financial statements present fairly, in all material respects, the financial position of KCCDFI Mutual Benefit Association, Inc., as of December 31, 2016 and 2015, and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in

accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's 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.

PTR No. 3292738 A
January 3, 2017
Cagayan de Oro City

April 7, 2017
Cagayan de Oro City, Philippines

STATEMENTS OF FINANCIAL POSITION

KCCDFI Mutual Benefit Association, Inc.

December 31	**2016**	2015
ASSETS		
Current Assets		
Cash *(Note 4)*	**₱58,182,436**	₱51,303,065
Receivable from agents and others *(Note 5)*	**43,794,294**	47,473,916
Total Current Assets	**101,976,730**	98,776,981
Non-Current Assets		
Property and equipment *(Note 6)*	**137,342**	1,213,565
	₱102,114,072	₱99,990,546
LIABILITIES AND FUND BALANCES		
Current Liabilities		
Trade and other payables *(Note 8)*	**₱209,479**	₱1,815,999
Insurance contract liabilities *(Note 9)*	**343,189**	821,490
Total Current Liabilities	**552,668**	2,637,489
Non-Current Liabilities		
Retirement Trust Fund *(Note 10)*	**28,144,323**	26,658,995
Aggregate reserves for unexpired risks *(Note 11)*	**46,009,732**	44,605,381
Total Non-Current Liabilities	**74,154,055**	71,264,376
Total Liabilities	**74,706,723**	73,901,865
Fund Balances		
Guaranty Fund *(Note 12)*	**13,840,805**	13,014,849
General Fund	**13,566,544**	13,073,832
Total Fund Balances	**27,407,349**	26,088,681
	₱102,114,072	₱99,990,546

See Notes to Financial Statements.

STATEMENTS OF PROFIT OR LOSS

KCCDFI Mutual Benefit Association, Inc.

Years Ended December 31	**2016**	2015
REVENUE		
Gross members' premium contributions on life *(Note 13)*	**₱13,448,075**	₱16,916,834
Gross members' premium contributions for credit life policies	**3,071,053**	3,758,182
Contributions to Guaranty Fund *(Note 12)*	**(825,956)**	(1,033,878)
Net premium contributions	**15,693,172**	19,641,138
Investment income (loss) – net *(Note 7)*	**334,821**	(1,034,538)
Membership fees	**235,000**	496,800
Interest income – LRF *(Note 5)*	**3,014,962**	3,126,670
Others	**1,095,759**	1,688,073
Total Revenue	**20,373,714**	23,918,143
BENEFITS AND OPERATING EXPENSES		
Increase in aggregate reserves for unexpired risks *(Note 11)*	**6,719,068**	8,275,883
Gross benefits and claims paid to members	**6,636,572**	9,605,808
Collection expenses	**1,189,075**	1,465,991
Interest *(Note 10)*	**636,771**	688,526
Total Benefits and Expenses	**15,181,486**	20,036,208
Salaries, wages and employees' benefits *(Note 14)*	**2,617,080**	3,292,195
General and administrative expenses *(Note 15)*	**1,801,547**	2,807,886
Depreciation *(Note 6)*	**280,889**	406,163
Total Benefits and Operating Expenses	**19,881,002**	26,542,452
PROFIT (LOSS) FOR THE YEAR	**₱492,712**	(₱2,624,309)

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN FUND BALANCES

KCCDFI Mutual Benefit Association, Inc.

December 31	**2016**	2015 *(As Restated)*
GUARANTY FUND *(Note 12)*		
Opening balances	**₱13,014,849**	₱11,980,971
Contributions from members during the year	**825,956**	1,033,878
Closing balances	**13,840,805**	13,014,849
REVALUATION RESERVE ON AFS SECURITIES		
Opening balances	**–**	(733,867)
Derecognition of AFS investments during the year	**–**	733,687
Closing balances	**–**	–
GENERAL FUND		
Opening balances as originally stated	**14,051,014**	16,675,323
Liquidation of advances and receivables in prior years *(Note 5)*	**(388,140)**	(388,140)
Employees separation benefits in 2015 and prior years *(Note 8)*	**(589,042)**	(589,042)
Opening balances as restated	**13,073,832**	15,698,141
Profit (loss) for the year	**492,712**	(2,624,309)
Closing balances	**13,566,544**	13,073,832
	₱27,407,350	₱26,088,681

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

KCCDFI Mutual Benefit Association, Inc.

Years Ended December 31	**2016**	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) for the year	**₱492,712**	(₱2,624,309)
Add (deduct) adjustments for:		
Depreciation *(Note 6)*	**280,889**	406,163
Increase in aggregate reserves for risks *(Note 11)*	**6,733,294**	10,622,586
Investments income *(Notes 4 and 7)*	**334,821**	1,034,538
Operating income before changes in working capital	**7,841,716**	9,438,978
Add (deduct) changes in working capital, excluding cash:		
Increase (decrease) in receivables from agents and others *(Note 5)*	**3,679,622**	(5,366,651)
Increase (decrease) in trade and other payables *(Note 8)*	**(1,606,520)**	889,323
Decrease in insurance contract liabilities *(Note 9)*	**(478,301)**	(109,824)
Net Cash Provided from (Used in) Operating Activities	**9,436,517**	4,851,826
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in Retirement Trust Fund *(Note 10)*	**1,485,328**	526,391
Increase in contributions for Guaranty Fund *(Note 12)*	**825,956**	1,033,878
Net Cash Provided from Financing Activities	**2,311,284**	1,560,269
CASH FLOWS FOR INVESTING ACTIVITIES		
Additions to property and equipment *(Note 6)*	**795,334**	(1,183,420)
Investments (loss) income *(Notes 4 and 7)*	**(334,821)**	(1,034,538)
Termination value of withdrawn equity *(Note 11)*	**(5,328,943)**	(10,949,321)
Decrease in available for sale *(Note 7)*	**–**	9,900,000
Net Cash Used for Investing Activities	**(4,868,430)**	(3,267,279)
NET INCREASE IN CASH	**6,879,371**	3,144,816
OPENING CASH	**51,303,065**	48,158,249
CLOSING CASH *(Note 4)*	**₱58,182,436**	₱51,303,065

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

KCCDFI Mutual Benefit Association, Inc.

As of and for the Years Ended December 31, 2016 and 2015

Note 1
Organization and Tax Exemption

The KCCDFI Mutual Benefit Association, Inc. (henceforth referred to as "Association") is a mutual benefit association organized by the Kasanyangan Center for Community Development Foundation, Inc. (KCCDFI) for the primary purpose of providing life insurance and other allied services to the Foundation's members and beneficiaries. It was registered with the Securities and Exchange Commission (SEC) on June 12, 2008 and started operations on September 1, 2008, while still obtaining its secondary license from the Insurance Commission (IC), which the Association subsequently obtained on October 15, 2009. The Association has 17,232 members at the end of 2016.

The Association maintains Head Office at the Second Floor of KCCDFI Building located along Ma. Clara L. Lobregat Highway, Guiwan, Zamboanga City. The Head Office and the branches of KCCDFI act as the collecting agents of the Association for certain collection fees.

The Association was organized to: (1) extend financial assistance to its members, their spouses, children and parents in the form of death and sickness benefits, provident savings and loan redemption assistance, and (2) ensure continued access to benefits/resources by actively involving the members in the management of the Association that would include implementation of policies and procedures geared towards sustainability and improved services.

Besides providing benefits to members through the mutual benefit fund, the Association also undertakes the provision of micro-insurance and retirement savings to members. Its loan insurance package aims to cover members' loan payments to all accredited lending institutions in case of death or physical disability of member/borrower. The member-borrower contributes 1.5% of his principal loans payable in one (1) year, or .08% to .75% of his principal for loans payable in six (6) months, or 0.04 % to 0.38% of his principal for loans payable in three (3) months. The coverage of the Fund is co-terminus with the term of the loan.

The Retirement Savings Fund is a regular feature in the membership requirements of the Association. A member is required to pay a weekly contribution of ₱5.00, which is refunded to the member upon reaching the age of 65 or if a member resigns from the Association prior to reaching 65. The member is entitled to the payment of 100% of his total contributions plus interest earnings. Interest shall be credited to the fund every anniversary at 2% per annum.

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

Note 2
Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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

Basis of Preparation
The accompanying financial statements have been prepared using the historical cost basis, except for held-to-maturity investments, which have been measured at fair value. The financial statements are presented in Philippine peso, which is the Association's functional and presentation currency and all values are recorded to the nearest peso except when otherwise indicated. The accounting policies used in preparing these financial statements have been consistently applied since the previous period.

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

Amendments to IFRSs that are mandatorily effective for the current year

Amendments to IFRS 10, IFRS 12 and IAS 28 'Investment Entities: Applying the Consolidation Exception
The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

The application of these amendments has had no impact on the Association's financial statements as the Association is not an investment entity and does not have any holding company, subsidiary, associate of joint venture that qualifies as an investment entity.

Amendments to IFRS 11 'Accounting for Acquisitions of Interest in Joint Operations
The amendments provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 'Business Combinations'. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The application of these amendments has had no impact on the Association's financial statements as the Association did not have any such transactions during the year.

Amendments to IAS1 'Disclosure Initiatives'.
The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Association, and should be separated into the share of items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to profit or loss, and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The Association has applied these amendments for the first time in the current year. The application of these amendments has not resulted in any impact on the financial performance or financial position of the Association.

Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortization'

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances: (i) when the intangible asset is expressed as a measure of revenue, or (ii) when it can be demonstrated that revenue and consumption of the economic benefit of the intangible asset are highly correlated.

The Association already uses the straight-line method for depreciation and amortization for its property and equipment; the application of these amendments has had no impact on the Association's financial statements.

Amendments to IAS 16 and IAS 41 'Agriculture: Bearer Plants'

The amendments define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

The application of these amendments has had no impact on the Association's financial statements in 2016 as the Association does not have bearer plants.

Annual Improvements to IFRSs 2012-2014 Cycle

The *Annual Improvements to IFRSs 2012-2014* include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 5 introduce specific guidance to IFRS 5 for when an entity reclassifies an asset from held for sale to be held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IFRS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used.

The application of these amendments has had no impact on the Association's financial statements.

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

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers (and the related Clarifications)'
- IFRS 16 'Leases'
- Amendments to IFRS 2 'Classification and Measurement of Share-based Payment Transactions'
- Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate of Joint Venture'
- Amendments to IAS 7 'Disclosure Initiative'
- Amendments to IAS 12 'Recognition of Deferred Tax Assets for Unrealized Losses'

IFRS 9 'Financial Instruments'
IFRS 9 issued on November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category by certain simple debt instruments. IFRS 9 will become effective for annual periods beginning on or after January 1, 2018.

The Association management is presently conducting analysis on the impact of IFRS 9 to the Association's financial statements.

IFRS 15 'Revenue from Contracts with Customers'
IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *'Revenue'*, IAS 11 *'Construction Contracts'* and the related interpretations when it becomes effective for annual periods beginning on or after January 1, 2018.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligation in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The management of the Association is still in the process of assessing the full impact of the application of IFRS 15 on the Association's financial statements and it is not practicable to provide a reasonable financial estimate of the effect until the completion of the detailed review.

IFRS 16 Leases
IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The management of the Association is still in the process of assessing the full impact of the application of IFRS 16 on the Association's financial statements and it is not practicable to provide a reasonable financial estimate of the effect until the completion of the detailed review.

Amendments to IFRS 2 'Classification and Measurement of Share-based Payment Transactions'
The amendments clarify the following:

1) In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

2) Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled hand it not included the net settlement feature.

3) A modification of a share-based payment that changes the transactions from cash-settled to equity-settled should be accounted for as follows: (i) the original liability is derecognized; (ii) the equity-settled share-based payment is recognized at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and (iii) any difference between the carrying amount of the liability at the modification date and the amount recognized in equity should be recognized in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after January 1, 2018, with earlier application permitted. Specific transition provisions apply. The management of the Association does not anticipate that the application for the amendments in the future will have a significant impact on the Association's financial statements as the Association does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture
The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

The management of the Association does not anticipate any impact on the Association's financial statements of the amendments since there are no such transactions presently.

Amendments to IAS 7 'Disclosure Initiative'
The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments apply prospectively for annual periods beginning on or after January 1, 2017 with earlier application permitted.

The management of the Association does not anticipate that the application of these amendments will have a material impact on the Association's financial statements.

Amendments to IAS 12 'Recognition of Deferred Tax Assets for Unrealized Losses'
The amendments clarify the following:

1) Decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying mount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows;

2) When an entity assesses whether taxable profits will be available against which it can utilize a deductible temporary difference, and the tax law restricts the utilization of losses to deduction against income of a specific type (e.g. capital losses can only be set off against capital gains), an entity assesses a deductible temporary difference in combination with other deductible temporary differences of that type, but separately from other types of deductible temporary differences;

3) The estimate of probable future taxable profit may include the recovery of some of an entity's assets form more than carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and

4) In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences.

The amendments apply restrospectively for annual periods beginning or after January 1, 2017 with earlier application permitted. The management of the Association does not anticipate that the application of these amendments will have a material impact on the Association's financial statements.

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Association.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Association uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

Cash and Cash Equivalents
Cash and cash equivalents comprise cash on hand, deposits with banks and other short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and are subject to an insignificant risk of changes in value and are free of any encumbrances. Cash and cash equivalents are carried in the books at cost. There are no cash equivalents in the Association.

Financial Assets
Financial assets, which are recognized when the Association becomes a party to a contractual term of the financial instrument, include cash and other financial instruments. The Association classifies its financial assets, when available, in the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity (HTM) investments and available for sale (AFS) securities. The classification depends on the purpose for which the financial assets were acquired.

Management determines the classification of its financial assets at initial recognition. Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Association commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

The Association has no financial assets at FVTPL and HTM Investments. The Association's financial assets consist only of the following:

- *Loans and Receivables*
  Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise with the Association provides money, goods and services directly to the debtor with no intention of trading the receivables. Included in this category are financial assets arising from insurance contracts, such as amounts due from policyholders and members of the mutual benefit association, agents and brokers, reinsures and accounts with officers and employees. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

  Loans and receivables are measured upon initial recognition at fair value plus transactions costs that are directly attributable to the acquisition of the loans and receivables. After initial recognition, the loans and receivables are measured at amortized cost using the effective interest method.

- *Available-for-Sale Financial Asset*
  Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

  Available-for-sale financial assets are measured upon initial recognition at their fair value plus transaction costs that are directly attributable to the acquisition of securities. After initial recognition, AFS securities are measured at their fair values, without any deduction for transaction costs it may incur on sale or other disposal. A gain or loss arising from a change in the fair value of an AFS security shall be recognized directly in equity under the account "Net Unrealized Gains/ (Losses) on AFS Financial Assets" and reflected in the statement of changes in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity shall be recognized in profit or loss. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as 'Gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognized in the statement of profit or loss as part of other income. Dividends on available-for-sale equity instruments are recognized in the statement of profit or loss as part of other income when the Association's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other comprehensive income.

Impairment of Financial Assets
The Association assesses at each time it prepares its financial statements whether there is any objective evidence that its financial assets are impaired. For assets carried at amortized cost, the Association assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Association may measure impairment on the basis of an instrument's fair value using an observable market price. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of profit or loss.

When a decline in the fair value of an AFS security is recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that has been recognized directly in equity shall be removed from equity and recognized in profit or loss even though the security has not been derecognized. The amount of the cumulative loss that is removed from equity and recognized in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that security previously recognized in profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as AFS shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss. The amount of impairment loss for the period shall be recognized in profit or loss under the account "Provision for Credit Losses".

Financial Liabilities
Financial liabilities include trade and other payables, which are measured at amortized cost using effective interest rate method. Financial liabilities are recognized when the Association becomes a party to the contractual agreement of the instrument. Trade and other payables and deposit liabilities are initially recognized at their nominal value and subsequently measured at amortized cost less settlement payments. Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the resulting net amount is reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Derecognition of Financial Assets and Liabilities
A financial assets is derecognized when (a) the rights to receive cash flows from the asset have expired; (b) the Association retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or (c) the Association has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability expires, is discharged or cancelled. 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 statement of income.

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

Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which is two (2) to five (5) years.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to income. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits arising from the renovations will flow to the organization. The carrying values of Association's furniture, fixtures and office equipment are reviewed for impairment when changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of Association's furniture, fixtures and office equipment is the greater of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction.

Impairment of Non-Financial Assets
The carrying values of furniture, fixtures and equipment are subject to impairment testing. All other individual assets are tested for impairment whether events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. The impairment loss is charged to profit and loss. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss. Any amount recovered is recognized in profit and loss.

Actuarial Policies
Actuarial liabilities (reserves for life policy and members' equity) are computed by the Consulting Actuary of the Association using actuarial practices generally accepted in the Philippines. Actuarial liabilities and other policy liabilities represent the estimated amounts which, together with estimated future premiums and net investment income, will provide for outstanding claims, estimated future benefits, and expenses on in-force policies. In calculating actuarial liabilities, assumptions must be made about the timing and amount of many events, including death, investment, inflation, policy termination, expenses, taxes, premiums/ commissions.

The Association uses best estimate assumptions for expected future experience. Uncertainty is inherent in the process, as no one can accurately predict the future. Some assumptions relate to events that are anticipated to occur many years in the future and are likely to require subsequent revision. Additional provisions are included in the actuarial liabilities to provide for possible adverse deviations from the best estimates. If the assumption is more susceptible to change or if the actuary is less certain about the underlying best estimate assumption, a correspondingly larger provision is included in the actuarial liabilities.

In determining these provisions, the Association ensures: (a) when taken one at a time, the provision is reasonable with respect to the underlying best estimate assumption, and the extent of uncertainty present in making that assumption, and (b) in total, the cumulative effect of all provisions is reasonable with respect to the total actuarial liabilities. With the passage of time and resulting reduction in estimation risk, the provisions are released into income. The best estimate assumptions and margins for adverse deviations are reviewed annually and revisions are made where deemed necessary and prudent.

Recording of Claims from Policyholders
Claims incurred comprise settlement and handling costs of paid and outstanding claims arising during the year and adjustments to prior year claim provisions. Outstanding claims comprise claims incurred up to, but not paid, at the end of the year, whether reported or not. Reinsurance recoveries, if any, are accounted for in the same period as the related claim.

Income and Cost Recognition
The Association recognizes income and expenses as follows:

(a) Members' premium contributions are recorded as income in the period in which the risk commences. The proportion of the premium contributions written relating to periods of risk after the reporting date is carried forward to subsequent accounting periods as unearned premium contributions so that earned premium contributions relate to risks carried during the accounting period.

(b) Members' gross contributions are allocated as follows:
    - 50% goes to the reserve for members' equity, intended for members' entitlements of equity value upon payment of the first contribution to the Association, representing 50% of the total membership dues collected;
    - 35% goes to cover basic benefits of members;
    - 5% goes to Guarantee Fund, and

- the remaining 10% goes to general operations, to cover administrative costs.

(c) Interests earned from Association deposits and investments are carried in the books net of taxes.

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

(e) Cost and expenses are recognized in the income statement upon utilization of the service or at the date they are incurred.

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

The Association accounts for its lease of the office space of KCCDFI as an operating lease. The Association's lease to the office space does not transfer to the Association all the risks and benefits of ownership of the assets. For capitalized leasehold improvements, the Association depreciates the assets over the shorter of the estimated useful lives of the asset or the lease term.

Employee Benefits
The Association does not provide any post-employment benefits to its officers and employees. The Association's employees are provided with the following benefits:

- *Retirement Benefits Payable at Retirement Date*
  Retirement benefits are provided to the Association's employees at the time of their retirement computed largely based on the provisions of R.A. 7641, *An Act Amending Article 287 of Presidential Decree No. 442, as Amended, Otherwise Known as the Labor Code of the Philippines, by Providing for Retirement Pay to Qualified Private Sector Employees in the Absence of any Retirement Plan in the Establishment.* The computation of the retirement benefits due to each employee is based on the employees' compensation and number of years in service. This simple calculation is a measure of the Association's obligation called the accumulated benefit obligation method (as opposed to the projected credit unit method). Under this simplified method, the Association ignores factors such as estimated future salary increases, future service of current employees and possible in-service mortality of current employees between reporting date and date the employees are expected to retire. The Association feels that the amount derived by this simplified computation represents the approximation of its liability to all its regular employees.

  The Association's retirement benefit program, although not based on the provisions of PAS/IAS 19, *Employees Benefits* and PAS/IAS 26, *Accounting and Reporting by Retirement Benefit Plans,* is a defined benefit plan, which is a retirement plan that defines an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for the benefits of the retirement plan remains with the Association, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Association's defined benefit retirement plan covers all regular personnel. The retirement plan is noncontributory and is presently unfunded.

- *Termination Benefits*
  Termination benefits are payable when employment is terminated by the Association before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Association recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to

encourage voluntary redundancy. Benefits falling due more than 12 months after the statement of financial condition date are discounted to present value.

- *Compensated Absences*
  Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the statement of financial condition date. The amounts recognized are included in Trade and Other Payables account in the statement of financial condition at the undiscounted amount that the Association expects to pay as a result of the unused entitlement.

Provisions and Contingent Liabilities
Provisions, if any, are recognized when the Association has legal or constructive obligations as a result of a past event: it is probable that an outflow of resources will be required to settle the obligation and estimate can be made of the amount obligation. Provisions are recognized when present obligation will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the statement of financial condition date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of related provision. Provisions are reviewed at each statement of financial condition date and adjusted to reflect the current best estimate. In those cases where the possible outflow of the economic resources as a result of present obligation is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Probable inflows of economic benefits that do not yet meet the recognition criteria of the asset are considered contingent assets, hence, are not recognized in the financial statements. No contingent liabilities have been incurred during the year.

Events After the End of the Reporting Period
Any post year-end events that provide additional information about the Association Bank's financial position at the end of the reporting period (adjusting events), are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed in the notes to financial statements when material.

Note 3
Significant Accounting Judgment and Estimates

The preparation of the financial statements in accordance with PFRS requires the Association to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following critical accounting estimates and judgments may be applicable, among many other possible areas not presented in the Association's financial statements:

Impairment Losses on Insurance Contracts Receivable
The Association reviews its receivable portfolios to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Association makes judgment as to whether there is any observable data indicating that there has been measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be

identified with an individual account in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors or local economic condition that correlates with defaults on assets in the Association. Management uses estimates based on historical experience and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

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

Note 4
Cash

This account consists of the following:

December 31	**2016**	2015
Cash in banks	**₱58,172,436**	₱51,293,065
Revolving funds	**10,000**	10,000
	₱58,182,436	₱51,303,065

The Association's cash in banks earn interest at market rates. Interest income earned from bank deposits amounted ₱334,821 in 2016 and ₱107,857 in 2015.

A portion of the cash in commercial banks serves as funding for the Association's Guaranty Fund and is a restricted account *(Note 12).* The Association assigned about ₱14 million of the deposits in commercial banks to the Insurance Commission (IC) for the benefit and security of policyholders and creditors of the Association, in accordance with the provisions of the Insurance Code of the Philippines.

Note 5
Receivables from Agents and Others

This account consists of the following:

December 31	**2016**	2015
Accounts receivable – agents	**₱43,541,455**	₱46,633,658
Advances to officers and employees	**195,089**	786,958
Accrued interest receivable	**57,750**	53,300
	₱43,794,294	₱47,473,916

The main office and branches of KCCDFI serve as the collecting agents of the Association. The recorded receivables from agents represents the actual collections of agents at the end of the year but subsequently remitted to the Association in 2016. The Association recognizes the delay in the remittances of the agents of its collection of members' contributions. As agreed with the agents, the Association charges the unremitted collections with interest at 6% per annum. Total interest income earned amounted to ₱3,014,962 in 2016 and ₱3,126,670 in 2015.

During the year, long-standing advances of officers were liquidated and charged to prior years where the expenses were appropriately charged. A total of ₱388,140 was charged to the beginning balances of the General Fund. Accordingly, the 2015 and prior years' financial statements were restated.

Management believes its receivables were not impaired at the end of the year.

Note 6
Property and Equipment

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

December 31	**2016**	2015
Furniture, fixtures and office equipment	**₱819,671**	₱819,671
Leasehold improvements	**71,942**	71,942
Transportation equipment	**–**	1,795,800
	891,613	2,687,413
Less accumulated depreciation	**754,271**	1,473,848
	₱137,342	₱1,213,565

The Association's rental of building amounted ₱217,800 in 2016 and ₱198,000 in 2015.

The reconciliation of the movements of the accounts during 2016 and 2015 follows:

December 31, 2016	*Opening Balances*	*Additions*	*Retirement*	***Closing Balances***
Cost				
Furniture, fixtures & office equipt.	₱819,671			**₱819,671**
Transportation equipment	1,795,800		₱1,795,800	**–**
Leasehold improvements	71,942			**71,942**
	2,687,413		1,795,800	**891,613**
Accumulated Depreciation				
Furniture, fixtures & office equipt.	580,506	₱101,823		**682,329**
Transportation equipment	821,400	179,066	1,000,466	**–**
Leasehold improvements	71,942			**71,942**
	1,473,848	280,889	1,000,466	**754,271**
Net Book Value	₱1,213,565	(₱280,889)	₱795,334	**₱137,342**
December 31, 2015				
Cost				
Furniture, fixtures & office equipt.	₱1,017,680	₱205,020	₱403,029	**₱819,671**
Transportation equipment	817,400	978,400		**1,795,800**
Leasehold improvements	71,942			**71,942**
	1,907,022	1,183,420	403,029	**2,687,413**
Accumulated Depreciation				
Furniture, fixtures & office equipt.	820,972	162,563	403,029	**580,506**
Transportation equipment	577,800	243,600		**821,400**
Leasehold improvements	71,942			**71,942**
	1,470,714	406,163	403,029	**1,473,848**
Net Book Value	₱436,308	₱777,257	₱–	**₱1,213,565**

Note 7
Available for Sale Financial Assets

On June 2013, the Association invested a portion of its cash with the Bank of Philippine Islands' Invest Plus Peso at totaling ₱9,900,000, 80% of which (₱7,920,000) was placed as Bond Fund and 20% (₱1,980,000) placed as High Conviction Equity Fund. The fair value gains or losses in the following years were credited or charged to comprehensive income. The cumulative fair value gains or losses are established as a reserve account in the equity section of the statement of financial position.

On the advice of the Insurance Commission (IC), the investment was terminated on October 27, 2015 at a net realized loss ₱1,195,695, including the surrender charges amounting ₱317,384. The loss on the termination of AFS investment was reduced by the recorded investments income of the same AFS investments of ₱53,300, reducing the losses to ₱1,142,395.

Note 8
Trade and Other Payables

This account consists of the following:

December 31	**2016**	2015
Accrued expenses	**₱9,479**	₱32,035
Bank financing loan payable (transportation equipment)	**–**	707,130
Accrued employee's benefits	**–**	589,042
Accounts payable – others	**200,000**	487,792
	₱209,479	₱1,815,999

The loans payable pertains to the auto loan availed on February 4, 2015 with BPI Family Savings Bank to finance the purchase of the Montero GLX M/T 2WD M/T 2015. The loan is payable in 60 monthly installments amounting ₱21,697 starting March 4, 2015. The subject vehicle had been sold in September 2016 and the loan was also extinguished.

On October 22, 2016, the Board of Trustees of the Association approved the retrenchment of all its employees in order to prevent further deterioration of its financial operations. The employees were paid their past service benefits in accordance with the provisions of R. A. 7641. The total benefits computed were determined to be in excess of the established retirement benefit obligation. The difference of ₱589,042 was treated as a prior period adjustment charged against the General Fund. The 2015 and prior year's financial statements have been restated to reflect the difference in the actual cost of retrenching employees.

Note 9
Insurance Contract Liabilities

This account consists of the following:

December 31	**2016**	2015
Incurred but not reported claims	**₱260,242**	₱413,148
Claims in the course of settlement	**24,947**	212,000
Claims due and unpaid	**58,000**	162,000
Claims resisted/denied	**–**	34,342
	₱343,189	₱821,490

Incurred but not reported claims is the sum of individual claims on membership certificates that have already occurred but notice has not been received by MBA before reporting date. Incurred but not reported claims are claims reported beyond the reporting date whose date of claim happened three months before the reporting date. For 2016, claims reported in the months of November 2016, December 2016 and January 2017 whose date of death/claim is before November 1, 2016 are included in this category.

Claims in the course of settlement are claims reported and unpaid at the end of the year pending submission of documentary requirements. No decision has yet been made whether to deny or to pay the claim.

Claims due and unpaid benefits represent claim benefits that have been processed and that the Association recognizes liability on the claims by the member or its beneficiaries. The aggregate liability includes checks payments that are still outstanding at the accounting office for various reasons like returned/staled checks, undelivered checks to addressees either because the addressees changed addresses or refused to accept payment, etc. Resisted or denied claims are claim benefit applications whose benefit payments are being contested/resisted by the Association due to infraction(s) of the Association's Rules and Regulations.

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

Note 10
Retirement Trust Fund

This account consists principally of the Retirement Savings Trust Fund (See Note 1), which the members contribute. The fund incurs interest at 2% per annum.

Interest incurred on the trust fund amounted ₱636,771 in 2016 and ₱688,526 in 2015.

Note 11
Aggregate Reserves for Unexpired Risks

This consists of the following reserves:

December 31	**2016**	2015
Aggregate reserves for members' equity	**₱45,521,578**	₱44,112,257
Aggregate reserves for credit policies	**332,437**	323,181
Aggregate reserve for life policies	**155,717**	169,943
	₱46,009,732	₱44,605,381

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

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

The amount of aggregate reserves for members' equity, reserves for life policies and reserves for credit policies for the year ended December 31, 2015 have been computed and certified by the Consulting Actuary of the Association to be in accordance with commonly accepted actuarial standards consistently applied and that the legal policy reserves and other actuarial items are fairly stated in accordance with sound actuarial principles.

During the year, a number of members withdrew their equity from the Association. In accordance with its policies, those that withdrew their equity and were below the required three (3) full years of being continuously in force were charged with 40% surcharges. The Association recognized income on the surrender charges amounting ₱1,095,759 during 2016 and ₱1,688,073 during 2015.

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

December 31, 2016	*Reserves for Credit Policies*	*Reserves for Members' Equity*	*Reserves for Life Policies*	***Total***
Provisions during 2008	₱–	₱13,562,425	₱–	**₱13,562,425**
Provisions during 2009	608,497	7,044,721	199,282	**7,852,500**
Provisions during 2010	201,500	6,241,570	84,297	**6,527,367**
Provisions during 2011	315,117	9,311,239	(71,374)	**9,554,982**
Returned contributions in 2011	–	(3,950,078)	–	**(3,950,078)**
Provisions during 2012	(108,107)	9,803,965	8,659	**9,704,517**
Returned contributions in 2012	–	(4,485,191)	–	**(4,485,191)**
Provisions during 2013	–	9,806,231	(14,421)	**9,791,810**
Returned contributions in 2013	(300,315)	(5,431,285)	–	**(5,731,600)**
Provisions during 2014	–	9,210,923	719,333	**9,930,256**
Returned contributions in 2014	(251,350)	(6,855,586)	(717,936)	**(7,824,872)**
Provisions during 2015	–	8,455,942	2,166,644	**10,622,586**
Returned contributions in 2015	(142,161)	(8,602,619)	(2,204,541)	**(10,949,321)**
Provisions during 2016	9,256	6,724,038	–	**6,733,294**
Returned contributions in 2016	–	(5,314,717)	(14,226)	**(5,328,943)**
	₱332,437	₱45,521,578	₱155,717	**₱46,009,732**

Note 12
Guaranty Fund

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

The following is the accounting of the Fund:

December 31	**2016**	2015
Opening balances	**₱13,014,849**	₱11,980,971
Contribution from members representing 5% of total premiums received	**825,956**	1,033,878
Closing balances	**₱13,840,805**	₱13,014,849

Note 13
Members' Equity Contribution and Fund Balances

The Association's members are charged twenty pesos (₱20.00) per week, during their active membership in the Association for basic life insurance (₱15.00) and for retirement savings fund (₱5.00). In accordance with the Implementing Rules and Regulations of the Association's Basic Life Insurance Plan approved by the Insurance Commission (IC) on October 29, 2010, the Association disaggregates the members' contributions for basic life insurance of ₱15.00 into the following funds: (a) 50% for Equity Account which is intended to support the members' equity or termination value and any other promised accrued interest earnings on equity value; (b) 35% for Benefit Account which is intended to cover contractual benefits in the insurance plan such as death, disability or hospitalization; (c) 5% for Guarantee Fund which is intended to build-up the guaranty fund as required by the Insurance Commission, and (d) 10% for General Account which is intended to finance the general administrative costs and expenses in administering the insurance program.

The ₱5.00 contributions for retirement savings fund and any interest accruals shall go to the Retirement Savings Account which is intended to finance the retirement obligations in the event of the members' resignation and termination of coverage.

The interest income or capital gains net of investment expenses that would be derived from the prudent account management of the Association's funds is allocated to the Investment Income Account which may be distributed to the Equity Account. After satisfying the minimum interest that must be credited to the Equity Account the remaining Investment Account may be allocated to the General Account.

The members are also charged with one-time membership fee of ₱50.00, which is non-refundable and does not form part of the members' accumulated and refundable contributions. The membership fee is intended to cover expenses incurred in processing the membership application.

Note 14
Details of Salaries, Wages and Employees' Benefits

Years Ended December 31	**2016**	2015
Salaries and wages	**₱1,667,092**	₱1,928,010
Employees' benefits	**949,988**	1,364,185
	₱2,617,080	₱3,292,195

Note 15
Details of General and Administrative Expenses

Years Ended December 31	**2016**	2015
Professional fees	**₱469,575**	₱392,657
Travel and transportation	**253,786**	366,109
Board and management meetings and related expenses	**251,360**	646,773
Rent *(Note 6)*	**217,800**	198,000
Dues and Subscriptions	**181,837**	432,337
Taxes and licenses *(Note 23)*	**146,671**	231,349
Light and water	**94,282**	184,574
Materials and supplies	**47,594**	138,681
Assistance to members	**47,003**	3,000
Repairs and maintenance	**29,550**	74,791
Insurance expense	**29,420**	–
Other operating expenses	**32,669**	139,615
	₱1,801,547	₱2,807,886

Note 16
Related Party Transactions

Parties are considered to be 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 or common significant influence. Transactions with related parties are made at normal market prices. None of the transactions incorporate special terms and conditions and no guarantee is given or received. Outstanding balances are usually settled in cash.

Significant of these related party transactions are as follows:

a. In the ordinary course of trade or business, the Association accepts insurance business from the members of Kasanyangan Center for Community Development Foundation, Inc. (KCCDFI) – Microfinance Operations. Total annual gross members' premium contributions for life and credit life policies amounted ₱16,519,128 in 2016 and ₱20,675,016 in 2015.

b. The key management personnel of the Association include all personnel having a position of General Manager and above. The key management compensation follows:

Years Ended December 31	**2016**	2015
Salaries and wages	**₱694,417**	₱547,829
Employees' benefits	**126,600**	148,171
	₱821,017	₱696,000

Note 17
Fair Value Measurement

Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed
The table in the following page summarizes the fair value hierarchy of the Association's financial assets and financial liabilities which are not measured at fair value in the 2016 statement of financial condition but for which fair value is disclosed.

December 31, 2016	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Cash *(Note 4)*	₱58,182,436			**₱58,182,436**
Receivable from agents and others *(Note 5)*			₱43,794,294	**43,794,294**
	₱58,182,436		₱43,794,294	**₱101,976,730**
Financial liabilities				
Trade and other payables *(Note 8)*			₱209,479	**₱209,479**
Insurance contract liabilities *(Note 9)*			343,189	**343,189**
Retirement Trust Fund *(Note 10)*			28,144,322	**28,144,322**
Agg. reserves-unexpired risks *(Note 11)*			46,009,732	**46,009,732**
			₱74,706,722	**₱74,706,722**
December 31, 2015				
Financial assets				
Cash *(Note 4)*	₱51,303,065			**₱51,303,065**
Receivable from agents and others *(Note 5)*			₱47,473,916	**47,473,916**
	₱51,303,065		₱47,473,916	**₱98,776,981**

(Carried Forward.)

(Brought Forward.) *December 31, 2015*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial liabilities				
Trade and other payables *(Note 8)*			₱1,815,999	**₱1,815,999**
Insurance contract liabilities *(Note 9)*			821,490	**821,490**
Retirement Trust Fund *(Note 10)*			26,658,995	**26,658,995**
Agg. reserves-unexpired risks *(Note 11)*			44,605,381	**44,605,381**
			₱73,901,865	**₱73,901,865**

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments equal their fair values. The fair values of the financial assets and financial liabilities included in Level 3 above which are not traded in an active market is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counter-parties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Association uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

Fair Value Measurement for Non-financial Assets

The table in the following page shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as of December 31, 2016 and 2015.

December 31, 2016	*Level 1*	*Level 2*	*Level 3*	*Total*
Property and equipment *(Note7)*			₱137,342	**₱137,342**
December 31, 2015				
Property and equipment *(Note7)*			₱1,213,565	**₱1,213,565**

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

Note 18
Risk Management Objectives and Policies

The Association is exposed to a variety of risks in performing its activities. Its risk management is coordinated by its Board of Trustees. It is principally exposed to insurance risk, the risk that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. Management addresses this issue by ceding portion of the risks to reinsurers. The Association is also exposed to a variety of financial risks. Its strategy focuses principally on securing short to medium term cash flows by minimizing exposures to financial markets. The Association does not actively engage in the trading of financial assets nor does it write options. It has no significant exposure to foreign currency risks as most transactions are denominated in Philippine peso, its functional currency. It likewise has little exposure to interest rate risk as its investments and deposits have fixed interest rates. Its exposure to credit risk is limited to the carrying amount of financial assets recognized at the statement of financial condition date. Among these assets, the potential effect of losses from its HTM financial assets is significantly reduced by placing the investments in safe Government securities.

As at December 31, 2016, the Association's financial assets are composed of the following:

December 31, 2016	*Neither Past Due Nor Impaired*	*Past Due But Not Impaired*	*Total*
Cash *(Note 4)*	₱58,182,436	₱–	**₱58,182,436**
Receivable from agents and others *(Note 5)*	43,794,294	–	**43,794,294**
	₱101,976,730	–	**₱101,976,730**
	100%	₱–	**100%**

The Association is likewise exposed to liquidity or funding risk, the risk that it will encounter difficulty in raising funds to meet commitments associated with financial instruments. It may result from either the inability to sell financial assets quickly at their fair values; or the counterparty failing to repay a contractual obligation; or insurance liabilities falling due for payment earlier than expected; or inability to generate cash inflows as anticipated. Management addresses this issue by maintaining its available cash resources in demand deposits or time deposits that can be pre-terminated anytime and in such volume as to ensure that it meets its obligations on time.

Note 19
Capital Management Objectives, Policies and Procedures

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

Note 20
Commitments and Contingencies

In the normal course of its operations, the Association makes various commitments and incurs certain contingent liabilities which are not reflected in the accompanying financial statements. Management anticipates no material losses, if any, that may arise from these commitments and contingencies.

Note 21
Events After Reporting Date

There were no events after reporting date that would require disclosures or adjustments on the financial statements of the Association.

Note 22
Approval of Financial Statements

The Association's financial statements as of December 31, 2016, and for the year then ended, were authorized for issue by its Executive Committee on April 7, 2017.

Note 23
Details of Taxes, Licenses and Fees

In accordance with the supplementary information required under Revenue Regulations No. 15-2010, the Association discloses the following:

Years Ended December 31	**2016**	2015
Insurance filing fee and renewal of license	**₱116,150**	₱213,175
Business permits	**4,521**	3,206
Penalties and surcharges	**26,000**	–
Comprehensive registration and vehicle insurance	**–**	14,968
	₱146,671	₱231,349

There are no pending assessments related to tax deficiencies at the end of the year.