KCCDFI Mutual Benefit Association, Inc.

Strong

in times of *Diversity*

MICRO INSURANCE

Vision

To be the best micro insurance institutions of choice in the Philippines serving as a pillar of strength for the marginalized sector of society.

Mission

To help improve the quality of life by providing excellent financial and non-financial service to our marginalized clients
To continue to sustain the welfare and professional development of our employees.
To uphold professionalism in our business relation with our partners

KCCDFI Mutual Benefit Association Inc.

Annual Report 2015

President's Message

A great privilege for me to express thoughts and set an example for being a simple woman.
First and foremost I acknowledge God before anything else.
Being the newly elected president of the Board of Trustees of KCCDFI MBA
I thank every members of this institution for trusting m this position and allowing me to handle an obligation towards thousands of people.
KCCDFI MBA is a very big help to the society that caters poor families.
Hence, for us, is a huge barrier that KCCDFI MBA was able to break.
The way KCCDFI MBA innovates their product is based on our needs, primarily considering our capacity to pay. Being the president has also allowed me to be representative of the thousands of members of KCCDFI MBA.

Through this, I can also voice out my ideas and opinions on how KCCDFI MBA's products is being designed. KCCDFI MBA has also taught me to become a strong woman.
I learned many things especially during our trainings. KCCDFI MBA and the management together with the Board of Trustees working hand in hand to reach the goal to expand and grow our institution especially to the marginalized sector of the society. As part of KCCDFI MBA, I will always be available and I will do my best. Encouraging people to be part of it.

Ellen M. Benitez
Board President

Vice-President's Message

I was a plain client struggling to meet the demand of each day before I came to know KCCDFI Mutual Benefit Association Inc. When I became a member of KCCDFI MBA, my life changed for the better.
It didn't only improve my knowledge on savings and insurance but also had given me the responsibility to become KCCDFI MBA's Board of Trustees President for a few years. Through the Institution,
I was able to report m learning experience to others as well as share some equal opportunities and blessings.

Truly, the institution has made a difference in me and have seen those growth opportunities over the years.

Arline B. Casimiro,
Vice-President, Board Vice-President

Board of Trustees

President
Ellen M. Benitez
Elected: October 15, 2015

Vice-President:
Arline B. Casimiro
Re-Elected: October 15, 2015
(First Elected President, October 15, 2012)

Secretary:
Safiah A. Amil
Elected: October 15, 2015

Treasurer:
Myrna DS. Gregorio
Elected: October 15, 2015

Board Members:
Daniela V. Barredo
Jessica A. Araneta
Imelda F. Bautista
Jocelyn P. Castillo

Independent Trustee:
Ms. Dezza S. Mohammad, Appointed June, 2015

Board Advisor

Rodolfo T. Quinday Sr.
KCCDFI CEO and President

General Manager's Report

"KCCDFI MBA is owned and will always be managed by members. With this thought, we will always have the members in the forefront of our plans and decisions. Striving hard to overcome barriers and push through adversity…"

Randy P. Quinday
KCCDFI MBA General Manager

Affiliations

RIMANSI - Mi-MBA Association of the Philippines Inc.

KFI Center for Community Development Foundation Inc.

Areas of Operation

Zamboanga City
Zamboanga Del Sur
Zamboanga Del Norte
Basilan
Sulu and Tawi Tawi

Meet the Team

Randy P. Quinday
KCCDFI MBA General Manager

Maria Teresa C. Gonzales
Supervisor

Jazel U. Janubas
Accounting Officer

Javelyn O. Consorte
Promotions and Underwriting Officer

Ceasar E. Molo Jr.
Management Information System Officer

Joelyn S. Felisilda
Underwriting Officer

Conchita A. Elumbra
Underwriting Officer

Olivia P. Antonio
Compliance Officer

Perla J. Medina
Marketing Assistant

Bernadette S. Bonifacio
Cash Custodian

Operations Update 2015

2015
Number of Insured individuals 60,818
Number of Active Members 19,048

Number of Claims Paid (Life Insurance) 318
Amount of Claims Paid (Life Insurance) 7,516,000

Number of Claims Paid (Credit Life) 133
Amount of Claims Paid (Credit Life) 1,477,000

Number of Claims Paid (Retirement Savings Fund) 13,826
Number of Claims Paid (Refund of Contribution) 13,551

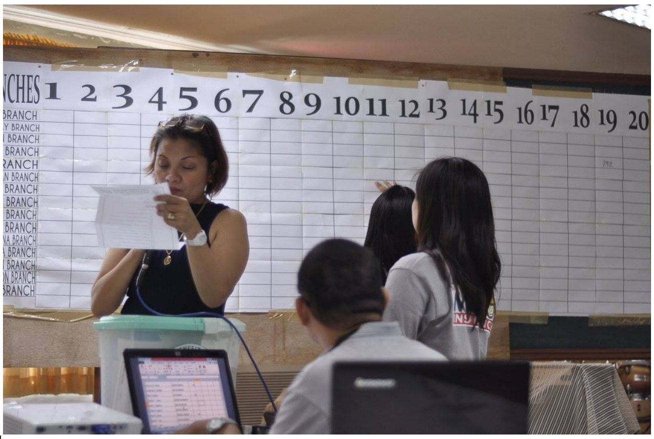
Amount of Claims Paid (Retirement Savings Fund) 5,802,730.25
Amount of Claims Paid (Refund of Contribution) 8, 605,093.40

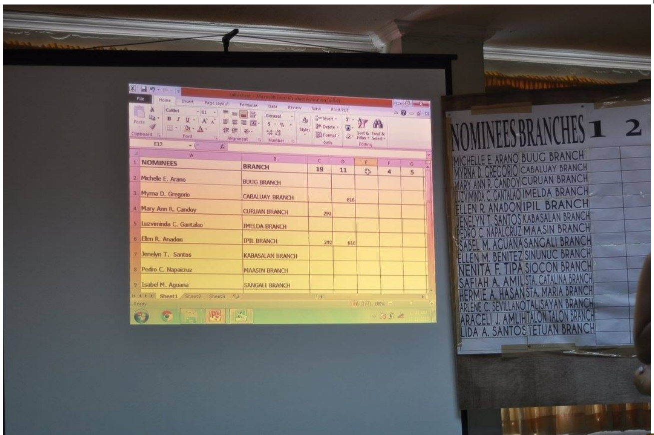
Number of MVAH 51
Amount of Claims Paid 217,085.35

Total number of Staff: 11
Total number of MBA Coordinators: 14
Total number of Branches: 20

Annual General Assembly and Board of Trustee Election

The Annual General Membership Meeting was held
at 3rd floor KCCDFI Building, MCLL Highway, Guiwan, Zamboanga City, 7000





Financial Statements

COPY FOR IC

Financial Statements of

KCCDFI Mutual Benefit Association, Inc.

December 31, 2015 and 2014

And

Report of Independent Auditors

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

2F KCCDFIBuilding
MCLL Highway, Guiwan
7000 Zamboanga City, Philippines
Tel. No. (062) 990-2429
Email: kccdfi_mba@yahoo.com

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 the financial statements for the years ended December 31, 2015 and 2014, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Trustees reviews and approves the financial statements before such statements are approved and submitted to the members of the Association.

The Quilab Cabilin Bato & Co., CPAs, the independent auditors appointed by the Board of Trustees, has audited the financial statements of the Association in accordance with Philippine Standards on Auditing (PSA) and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Trustees and members.

April 12, 2016, in the City of Zamboanga, Philippines.

ELLEN M. BENITEZ
Chairman/President

RANDY P. QUINDAY
General Manager

MYRNA D.S GREGORIO
Treasurer

QCB & Co

◆ **QUILAB CABILIN BATO & Co**
2F Executive Centrum Building
J.R. Borja St., Cagayan de Oro City
9000 Philippines

63 (08822) 72-7515, (088) 856-4401
qcb_co@yahoo.com

◆ **Accreditations**
SEC No. 0182-FR-1 (Apr. 30, 2016)
BOA/PRC Reg. No. 0250 (Dec. 31, 2017)
CDA CEA No 0015-AF (Mar. 2, 2017)
NEA No. 2013-07-00011 (Jul. 20, 2016)
IC No. F-2014/017 (Oct. 23, 2017)
BSP (Jun. 30, 2016), BIR (Jun. 4, 2018)

REPORT OF INDEPENDENT AUDITORS

The Board of Trustees and Members
KCCDFI Mutual Benefit Association, Inc.
2nd Floor, KCCDFI Building, MCLL Highway
Guiwan, Zamboanga City

Report on the Financial Statements

We have audited the accompanying financial statements of KCCDFI Mutual Benefit Association, Inc., which comprise the statements of financial position as at December 31, 2015 and 2014, and the related statements of profit or loss and other comprehensive income, changes in fund balances and cash flows for years then ended and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
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, 2015 and 2014, and of its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, license and fees in Note 22 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 management. The information has been subjected to the auditing procedures applied in our audit 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 whole.

QUILAB CABILIN BATO & Co
By:

RICO P. QUILAB
Partner
CPA Cert. No.46034
TIN No. 129-040-841
PRC/BOA Cert. No. 00250 (12.31.2017)
BIR No. 16-005287-002-2015 (12.29.18)
SEC No. 0906-AR-1 (4.30.2016)
IC No. SP-2014/029-R (10.23.17)
PTR No. 3030792 A
January 5, 2016
Cagayan de Oro City

April 12, 2016
Cagayan de Oro City, Philippines

STATEMENTS OF FINANCIAL POSITION

KCCDFI Mutual Benefit Association, Inc.

December 31	2015	2014
ASSETS		
Current Assets		
Cash *(Note 4)*	₱51,303,065	₱48,158,249
Receivable from agents and others *(Note 5)*	47,862,056	42,495,405
Total Current Assets	99,165,121	90,653,654
Non-Current Assets		
Property and equipment *(Note 6)*	1,213,565	436,308
Available-for-sale financial assets *(Note 7)*	–	9,166,132
Total Non-Current Assets	1,213,565	9,602,440
	₱100,378,686	₱100,256,094
LIABILITIES AND FUND BALANCES		
Current Liabilities		
Aggregate reserves for unexpired risks *(Note 8)*	₱44,605,381	₱44,932,116
Other liabilities *(Note 9)*	1,848,447	1,068,947
Total Current Liabilities	46,453,828	46,001,063
Non-Current Liabilities		
Retirement Trust Fund *(Note 10)*	26,658,995	26,132,604
Trust Funds payable *(Note 11)*	200,000	200,000
Total Non-Current Liabilities	26,858,995	26,332,604
Total Liabilities	73,312,823	72,333,667
Fund Balances		
Guaranty Fund *(Note 12)*	13,014,849	11,980,971
Revaluation reserve on available for sale financial assets *(Note 7)*	–	(733,867)
General Fund	14,051,014	16,675,323
Total Fund Balances	27,065,863	27,922,427
	₱100,378,686	₱100,256,094

See Notes to Financial Statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

KCCDFI Mutual Benefit Association, Inc.

Years Ended December 31	2015	2014
REVENUE		
Gross members’ premium contributions on life *(Note 13)*	₱16,916,834	₱18,421,844
Gross members' premium contributions for credit life policies	3,758,182	4,459,828
Contributions to Guaranty Fund *(Note 12)*	(1,033,878)	(1,144,087)
Net premium contributions	19,641,138	21,737,585
Membership fees	496,800	663,500
Others	4,814,743	3,486,471
Total Revenue	24,952,681	25,887,556
BENEFITS AND EXPENSES		
Gross benefits and claims paid to members	9,605,808	7,565,504
Increase in aggregate reserves for unexpired risks *(Note 8)*	8,275,883	8,960,969
Collection expenses	1,465,991	1,705,864
Interest *(Note 10)*	688,526	369,069
Total Benefits and Expenses	20,036,208	18,601,406
PROFIT BEFORE OPERATING EXPENSES	4,916,473	7,286,150
OPERATING EXPENSES		
Salaries, wages and employees’ benefits *(Note 14)*	3,292,195	2,751,186
General and administrative expenses *(Note 15)*	2,807,886	2,165,236
Depreciation *(Note 6)*	406,163	201,613
Total Operating Expenses	6,506,244	5,118,035
PROFIT (LOSS) FOR THE YEAR BEFORE INVESTMENTS INCOME	(1,589,771)	2,168,115
INVESTMENT INCOME (LOSS) *(Note 7)*	(1,034,538)	355,921
PROFIT (LOSS) FOR THE YEAR	2,624,309	2,524,036
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that maybe subsequently reclassified to profit or loss:		
Change in value of available-for-sale financial assets *(Note 7)*	–	310,860
COMPREHENSIVE (LOSS) INCOME FOR THE YEAR	(₱2,624,309)	₱2,834,896

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN FUND BALANCES

KCCDFI Mutual Benefit Association, Inc.

December 31	2015	2014
GUARANTY FUND *(Note 12)*		
Opening balances	₱11,980,971	₱10,836,884
Contributions from members during the year	1,033,878	1,144,087
Closing balances	13,014,849	11,980,971
REVALUATION RESERVE ON AFS SECURITIES		
Opening balances	(733,867)	(1,044,727)
Change in value of AFS securities during the year *(Note 7)*	–	310,860
Derecognition of AFS investments during the year	733,687	–
Closing balances	–	(733,867)
GENERAL FUND		
Opening balances	16,675,323	14,151,287
Loss /Profit for the year	(2,624,309)	2,524,036
Closing balances	14,051,014	16,675,323
	₱27,065,863	₱27,922,427

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

KCCDFI Mutual Benefit Association, Inc.

Years Ended December 31	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) for the year	(₱2,624,309)	₱2,524,036
Add (deduct) adjustments for:		
Depreciation *(Note 6)*	406,163	201,613
Increase in aggregate reserves for risks *(Note 8)*	8,275,883	8,960,969
Investments (loss) income *(Notes 4 and 7)*	1,034,538	(355,921)
Operating income before changes in working capital	7,092,275	11,330,697
Add (deduct) changes in working capital, excluding cash:		
Increase in receivables from agents and others	(5,366,651)	(24,780,953)
Decrease in other liabilities *(Note 9)*	1,415,715	2,157,392
Decrease in insurance contract liabilities	(109,824)	(512,474)
Net Cash Provided from (Used in) Operating Activities	3,031,515	(11,805,338)
CASH FLOW FROM FINANCING ACTIVITY		
Increase in contributions for Guaranty Fund *(Note 12)*	1,033,878	1,144,087
CASH FLOWS FOR INVESTING ACTIVITIES		
Additions to property and equipment *(Note 6*	(1,183,420)	(315,497)
Decrease in held-to-maturity investments	–	2,841,581
Decrease in available for sale *(Note 7)*	9,900,000	–
Investments (loss) income *(Notes 4 and 7)*	(1,034,538)	355,921
Termination value of withdrawn equity *(Note 8)*	(8,602,619)	(6,855,586)
Net Cash Provided from (Used in) Investing Activities	(920,577)	(3,973,580)
NET INCREASE (DECREASE) IN CASH	3,144,816	(14,634,832)
OPENING CASH	48,158,249	62,793,081
CLOSING CASH *(Note 4)*	₱51,303,065	₱48,158,249

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

KCCDFI Mutual Benefit Association, Inc.

As of and for the Years Ended December 31, 2015 and 2014

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 19,048 members at the end of 2015.

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.

New and Amended Standards and Interpretations
The Philippines adopted the full IFRS as Philippine Financial Reporting Standards (PFRS) with several limited modifications to IFRS, except on IFRIC 15. The Securities and Exchange Commission (SEC) deferred the mandatory effective date of IFRIC 15 *Agreements for the Construction of Real Estate*, until the revised IASB Revenue standard is issued and the FRSC has evaluated the requirements of the revised Revenue standard against the practices of the Philippine real estate industry. IASB issued IFRS 15 *Revenue* in June 2014. This modification of IFRS affects only companies in the real estate industry.

The following are a summary of (a) new standards and amendments that are effective for the first time for periods commencing on or after January 1, and (b) forthcoming requirements, being standards and amendments that will become effective on or after January 1, 2015.

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after January 1, 2015:

Annual Improvements to IFRSs 2010-2012 and 2011-2013 Cycles
In December 2013, the IASB has made the following amendments:

- IFRS 1 – confirms that first-time adopters of AASs can adopt standards that are not yet mandatory, but do not have to do so.
- IFRS 2 – clarifies the definition of 'vesting condition' and now distinguishes between 'performance condition' and 'service condition.
- IFRS 3 – clarifies that an obligation to pay contingent consideration is classified as financial liability or equity under the principles in IAS 32 and that all non-equity contingent consideration (financial and non-financial) is measured at fair value at each reporting date.
- IFRS 3 – clarifies that IFRS 3 does not apply to the accounting for the formation of any joint arrangement.
- IFRS 8 – requires disclosure of the judgments made by management in aggregating operating segments and clarifies that a reconciliation of segment assets must only be disclosed if segment assets are reported.
- IFRS 13 confirms that short-term receivables and payables can continue to be measured at invoice amounts if the impact of discounting is immaterial.
- IFRS 13 – clarifies that the portfolio exception in IFRS 13 (measuring the fair value of a group of financial assets and financial liabilities on a net basis) applies to all contracts within the scope of IAS 39 or IFRS 9.

- IAS 16 and IAS 38 – clarifies how the gross carrying amount and accumulated depreciation are treated where an entity measures its assets at revalued amounts.
- IAS 24 – where an entity receives management personnel services from a third party (a management entity), the fees paid for those services must be disclosed by the reporting entity, but not the compensation paid by the management entity to its employees or directors.
- IAS 40 – clarifies that IAS 40 and IFRS 3 are not mutually exclusive when distinguishing between investment property and owner-occupied property and determining whether the acquisition of an investment property is a business combination.

The Association has applied the amendments to IFRS included in the Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle for the first time in the current year.

The application of the amendments has had no impact on the disclosures or amounts recognized in the Association's financial statements.

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

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such as 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 provided additional guidance to clarify whether the servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify 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 instead.

The Association does not anticipate that the application of these amendments will have a material effect on the financial statements as at and for the year ended December 31, 2015.

Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)
The amendments clarify the accounting for defined benefit plans that require employees or third parties to contribute towards the cost of the benefits.

Under the previous version of IAS 19, most entities deducted the contributions from the cost of the benefits earned in the year the contributions were paid. However, the treatment under the 2011 revised standard was not so clear. It could be quite complex to apply, as it requires an estimation of the future contributions receivable and an allocation over future service periods.

To provide relief, changes were made to IAS 19. These allow contributions that are linked to service, but that do not vary with the length of employee service (e.g. a fixed % of salary), to be deducted from the cost of benefits earned in the period that the service is provided. Therefore many entities will be able to (but not be required) continue accounting for employee contributions using their existing accounting policy. The amendment did not result in any effect on the Association's financial statements since employees are not contributing to the recorded retirement benefit plans.

The following standards and interpretations had been issued but were not mandatory for annual reporting periods ending December 31, 2015.

IFRS 9 Financial Instruments and associated amendments to various other standards
IFRS 9 replaces the multiple classification and measurement models in IAS 39 *Financial instruments: Recognition and* measurement with a single model that has initially only two classification categories: amortized cost and fair value.

Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognized at fair value.

All fair value movements on financial assets are taken through the statement of profit or loss, except for equity investments that are not held for trading, which may be recorded in the statement of profit or loss or in reserves (without subsequent recycling to profit or loss).

For financial liabilities that are measured under the fair value option entities will need to recognize the part of the fair value change that is due to changes in the their own credit risk in other comprehensive income rather than profit or loss.

The new hedge accounting rules (released in December 2013) align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation. In December 2014, IASB made further changes to the classification and measurement rules and introduced a new impairment model. With these amendments, IFRS 9 is now complete. The changes introduce:

- a third measurement category (FVOCI) for certain financial assets that are debt instruments
- a new expected credit loss (ECL) model which involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component (e.g. trade receivables). On initial recognition, entities will record a day-1 loss equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired.

For financial years commencing before February 1, 2015, entities can elect to apply IFRS 9 early for any of the following: (a) the own credit risk requirements for financial liabilities, (b) classification and measurement (C&M) requirements for financial assets, (c) C&M requirements for financial assets and financial liabilities, or (d) C&M requirements for financial assets and liabilities and hedge accounting. After February 1, 2015, the new rules must be adopted in their entirety.

The effective date of implementation is January 1, 2018.

IFRS 15 Revenue from contracts with customers and associated amendments to various other standards
The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognized: (1) identify contracts with customers; (2) identify the separate performance obligation; (3) determine the transaction price of the contract; (4) allocate the transaction price to each of the separate performance obligations, and (5) recognize the revenue as each performance obligation is satisfied.

Key changes to current practice are:

- Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- Revenue may be recognized earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc.) – minimum amounts must be recognized if they are not at significant risk of reversal.
- The point at which revenue is able to be recognized may shift: some revenue which is currently recognized at a point in time at the end of a contract may have to be recognized over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

These accounting changes may have flow-on effects on the entity's business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications. Entities will have a choice of full retrospective application, or prospective application with additional disclosures. The effective date of implementation is January 1, 2017.

IFRS 14 Regulatory Deferral Accounts
IFRS 14 is an interim standard which provides relief for first-adopters of IFRS in relation to the accounting for certain balances that arise from rate-regulated activities ('regulatory deferral accounts'). The standard permits these entities to continue to apply their previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral accounts. The effective date of implementation is January 1, 2016.

Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11
The amendments to IFRS 11 clarify the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. They require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business.

This includes: (a) measuring identifiable assets and liabilities at fair value, (b) expensing acquisition-related costs, (c) recognizing deferred tax, and (d) recognizing the residual as goodwill, and testing this for impairment annually. Existing interests in the joint operation are not re-measured on acquisition of an additional interest, provided joint control is maintained.

The amendments also apply when a joint operation is formed and an existing business is contributed. The effective date of implementation is January 1, 2016.

Clarification of Acceptable Methods of Depreciation and Amortization – Amendments to IAS 16 and IAS 38
The amendments clarify that a revenue-based method of depreciation or amortization is generally not appropriate. The IASB has amended IAS 16 *Property, Plant and Equipment* to clarify that a revenue-based method should not be used to calculate the depreciation of items of property, plant and equipment.

IAS 38 Intangible Assets now includes a rebuttable presumption that the amortization of intangible assets based on revenue is inappropriate. This presumption can be overcome if either (a) the intangible asset is expressed as a measure of revenue (i.e. where a measure of revenue is the limiting factor on the value that can be derived from the asset), or (b) it can be shown that revenue and the consumption of economic benefits generated by the asset are highly correlated. The effective date of implementation is January 1, 2016.

Equity method in separate financial statements – Amendments to IAS 27
The IASB has made amendments to IAS 27 *Separate Financial Statements* which will allow entities to use the equity method in their separate financial statements to measure investments in subsidiaries, joint ventures and associates.

IAS 27 currently allows entities to measure their investments in subsidiaries, joint ventures and associates either at cost or as a financial asset in their separate financial statements. The amendments introduce the equity method as a third option. The election can be made independently for each category of investment (subsidiaries, joint ventures and associates). Entities wishing to change to the equity method must do so retrospectively. The effective date of implementation is January 1, 2016.

Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41
AS 41 *Agriculture* now distinguishes between bearer plants and other biological asset. Bearer plants must be accounted for as property plant and equipment and measured either at cost or revalued amounts, less accumulated depreciation and impairment losses. A bearer plant is defined as a living plant that: (a) is used in the production or supply of agricultural produce, (b) is expected to bear produce for more than one period, and (c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. Agricultural produce growing on bearer plants remains within the scope of IAS 41 and is measured at fair value less costs to sell with changes recognized in profit or loss as the produce grows.

The effective date of implementation is January 1, 2016.

Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28
The IASB has made limited scope amendments to IFRS 10 *Consolidated financial statements* and IAS 28 *Investments in associates and joint ventures*.

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitutes a ‘business’ (as defined in IFRS 3 Business Combinations). Where the non-monetary assets constitute a business, the investor will recognize the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognized by the investor only to the extent of the other investor’s investors in the associate or joint venture. The amendments apply prospectively.

The effective date of implementation is January 1, 2016.

Annual Improvements to IFRSs 2012-2014 cycle
The latest annual improvements clarify:

- IFRS 5 – when an asset (or disposal group) is reclassified from ‘held for sale’ to ‘held for distribution’ or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such
- IFRS 7 – specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute ‘continuing involvement’ and, therefore, whether the asset qualifies for derecognition
- IFRS 7 – that the additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34
- IAS 19 – that when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise

- IAS 34 – what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report' and adds a requirement to cross-reference from the interim financial statements to the location of that information.

The effective date of implementation is January 1, 2016.

Disclosure Initiative - Amendments to IAS 1
The amendments to IAS 1 *Presentation of Financial Statements* are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments provide clarifications on a number of issues, including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.
- Notes – confirmation that the notes do not need to be presented in a particular order.
- OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/ accounting policies are not required for these amendments.

The effective date of implementation is January 1, 2016.

Investment entities: Applying the consolidation exception – Amendments to IFRS 10, IFRS 12 and IAS 28
Amendments made to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in associates and joint ventures* clarify that:

- The exception from preparing consolidated financial statements is also available to intermediate parent entities which are subsidiaries of investment entities.
- An investment entity should consolidate a subsidiary which is not an investment entity and whose main purpose and activity is to provide services in support of the investment entity's investment activities.
- Entities which are not investment entities but have an interest in an associate or joint venture which is an investment entity have a policy choice when applying the equity method of accounting. The fair value measurement applied by the investment entity associate or joint venture can either be retained, or a consolidation may be performed at the level of the associate or joint venture, which would then unwind the fair value measurement.

The effective date of implementation is January 1, 2016. Early adoption is permitted.

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. As at December 31, 2015, there are no cash equivalents.

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, claims payable and unearned premium contributions, 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. All interest and related charges are recognized as an expense in the income statement under the caption Interest Expense.

Trade and other payables are initially recognized at their nominal value and subsequently measured at amortized cost less settlement payments.

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.

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

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

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

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.

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.

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	2015	2014
Cash in banks	₱51,293,065	₱48,148,249
Revolving funds	10,000	10,000
	₱51,303,065	₱48,158,249

The Association's cash in banks earn interest at market rates. Interest income earned from bank deposits amounted ₱107,857 in 2015 and ₱79,587 in 2014.

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 ₱10 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
<u>Receivables from Agents and Others</u>

This account consists of the following:

December 31	2015	2014
Accounts receivable – agents	₱46,633,657	₱41,876,093
Advances to officers and employees	1,175,099	581,512
Accrued interest receivable	53,300	37,800
	₱47,862,056	₱42,495,405

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 2015.

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

Note 6
<u>Property and Equipment</u>

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

December 31	2015	2014
Furniture, fixtures and office equipment	₱819,671	₱1,017,680
Transportation equipment	1,795,800	817,400
Leasehold improvements	71,942	71,942
	2,687,413	1,907,022
Less accumulated depreciation	1,473,848	1,470,714
	₱1,213,565	₱436,308

The reconciliation of the movements of the accounts during 2015 and 2014 follows:

December 31, 2015	*Opening Balances*	*Additions*	*Retirement*	*Closing Balances*
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

(Carried Forward.)

(Brought Forward.)

December 31, 2014	*Opening Balances*	*Additions*	*Retirement*	*Closing Balances*
Cost				
Furniture, fixtures & office equipt.	₱577,800	₱239,600	–	₱1,017,680
Transportation equipment	71,942	–	–	817,400
Leasehold improvements	941,783	75,897	–	71,942
	1,591,525	315,497	–	1,907,022
Accumulated Depreciation				
Furniture, fixtures & office equipt.	515,050	62,750	–	820,972
Transportation equipment	71,942	–	–	577,800
Leasehold improvements	682,109	138,863	–	71,942
	1,269,101	201,613	–	1,470,714
Net Book Value	₱322,424	₱113,884	–	₱436,308

The Association's rental of building amounted ₱198,000 in 2015 and ₱180,000 in 2014.

Note 7
Available for Sale Financial Assets

On June 2013, the Association invested a portion of its cash at 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 amount remains in cash in bank at the end of 2015.

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. Together with interest income from time deposits of ₱107,857, the net losses from investments amounted ₱1,034,538.

Note 8
Aggregate Reserves for Unexpired Risks

This consists of the following reserves:

December 31	2015	2014
Aggregate reserves for members' equity	₱44,112,257	₱44,258,934
Aggregate reserves for credit policies	323,181	465,342
Aggregate reserve for life policies	169,943	207,840
	₱44,605,381	₱44,932,116

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 ₱1,688,073 during 2015 and ₱1,540,929 during 2014.

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

December 31, 2015	*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)
	₱323,181	₱44,112,257	₱169,943	₱44,605,381

Note 9
<u>Other Liabilities</u>

This account consists of the following:

December 31	2015	2014
Claims payable		
Incurred but not reported claims	₱413,148	₱408,989
Claims in the course of settlement	212,000	255,150
Claims due and unpaid	162,000	232,833
Claims resisted/denied	34,341	–
Outstanding claims reserve	–	34,341
	821,489	931,313
Retirement benefit obligation	287,792	135,458
Loans payable	707,130	–
Trade and other payables	32,036	2,176
	₱1,848,447	₱1,068,947

Incurred but not reported claims are claims reported beyond the reporting date whose date of claim happened three months before the reporting date. For 2015, claims reported in the months of November 2015, December 2015 and January 2016 whose date of death/claim is before November 1, 2015 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.

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.

Retirement Benefit Obligations

The Association's regular/permanent employees are provided with retirement benefits beginning 2014, equal to a full-month basic salary of the entitled employees. The policy defines the amount of retirement benefit an employee will receive at the time of retirement or separation from service. The legal obligation on the payment of the retirement benefits to the employees remains with the Association. The Association however has not yet established funding for its retirement benefit obligations. Total pension expenses charged to operations amounted to ₱152,334 and ₱135,458 in 2015 and 2014, respectively.

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.

Note 11
Trust Funds Payable

This refers to the small grant from the Canadian Association Cooperative obtained through its partnership with RIMANSI Organization for Asia and the Pacific, Inc. to serve as "Revolving Calamity Fund" for the rehabilitation and recovery support to the Association that was hit by typhoons ' Labuyo' and 'Maring; The Fund is intended for relending to the Association's members through low-interest, extended-term loans with priority given to the victims of the typhoons. The Association has the responsibility of encouraging partners to augment the revolving fund. At present, the Fund remains unspent pending the finalization of the guidelines that would govern the disbursements of the Fund.

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	2014	2012
Opening balances	₱11,980,971	₱10,836,884
Contribution from members representing 5% of total premiums received	1,033,878	1,144,087
Closing balances	₱13,014,849	₱11,980,971

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	2015	2014
Salaries and wages	₱1,928,010	₱1,472,215
Employees' benefits	1,364,185	1,278,971
	₱3,292,195	₱2,751,186

Note 15
Details of Administrative and General Expenses

Years Ended December 31	2015	2014
Board and management meetings and related expenses	₱646,773	₱401,703
Dues and Subscriptions	432,337	–
Professional fees	392,657	349,950
Travel and transportation	366,109	429,866
Taxes and licenses *(Note 21)*	231,349	168,541
Rent	198,000	180,000
Light and water	184,574	93,598
Materials and supplies	138,681	170,251
Repairs and maintenance	74,791	95,543
Assistance to members	3,000	9,992
Other operating expenses	139,615	265,792
	₱2,807,886	₱2,165,236

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 ₱20,675,016 in 2015 and ₱22,881,672 in 2014.

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	2015	2014
Salaries and wages	₱547,829	₱600,000
Employees' benefits	148,171	101,163
	₱696,000	₱701,163

Note 17
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, 2015, the Association's financial assets are composed of the following:

December 31, 2015	*Neither Past Due Nor Impaired*	*Past Due But Not Impaired*	*Total*
Cash	₱51,303,065	₱–	₱51,303,065
Receivables from agents and others	47,862,056	–	47,862,056
	₱99,165,121	–	₱99,165,121
	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 18
Capital Management Objectives, Policies and Procedures

The Association maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect its members. The 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 19
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 20
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 21
Approval of Financial Statements

The Association's financial statements as of December 31, 2015, and for the year then ended, were authorized for issue by its Executive Committee on April 12, 2016.

Note 22
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	2015	2014
Insurance filing fee and renewal of license	₱213,175	₱150,788
Comprehensive registration and vehicle insurance	14,968	15,244
Business permits	3,206	2,509
	₱231,349	₱168,541

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