Financial Statements of

KCCDFI Mutual
Benefit Association, Inc.

December 31, 2017 and 2016

And

Report of Independent Auditors

QUILAB & GARSUTA
CERTIFIED PUBLIC ACCOUNTANTS

quilabgarsuta.com

2F KCCDFI Building
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 its financial statements for the years ended December 31, 2017 and 2016, 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 & Garsuta, CPAs, the independent auditors appointed by the Board of Directors for the period December 31, 2017, and Quilab, Cabilin, Bato & Co., CPAs for the period December 31, 2016, have audited the financial statements of the Organization in accordance with Philippine Standards on Auditing (PSAs), and in its report to the Board of Trustees, have expressed its opinion on the fairness of presentation upon completion of such audits.

April 13, 2018, in the City of Zamboanga, Philippines.

ELLEN M. BENITEZ
President

MARIA TERESA C. GONZALES
General Manager

MYRNA D.S GREGORIO
Treasurer

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 statement of financial position as at December 31, 2017, and the statement of profit and loss, statement of changes in fund balances and statement of cash flows for the year 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, 2017, and of its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

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

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

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

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

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

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

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

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

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

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

- 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 audit.

Other Matter

The financial statements of KCCDFI Mutual Benefit Association, Inc. as of and for the year ended December 31, 2016, were audited by the undersigned then as partner of Quilab, Cabilin, Bato & Co., CPAs, with our unqualified opinion thereon dated April 7, 2017.

Quilab & Garsuta, CPAs

PTR No. 2668893 A
January 3, 2018
Cagayan de Oro City

April 13, 2018
Cagayan de Oro City, Philippines

STATEMENTS OF FINANCIAL POSITION
KCCDFI Mutual Benefit Association, Inc.

December 31	**2017**	2016
		(As Restated) *(Note 5)*
ASSETS		
Current Assets		
Cash *(Note 4)*	**₱62,676,002**	₱58,182,436
Receivable from agents and others *(Note 5)*	**40,746,327**	42,778,419
Total Current Assets	**103,422,329**	100,960,855
Non-Current Assets		
Property and equipment *(Note 6)*	**196,997**	137,342
	₱103,619,326	₱101,098,197
LIABILITIES AND FUND BALANCES		
Current Liabilities		
Trade and other payables *(Note 7)*	**₱899,902**	₱209,479
Insurance contract liabilities *(Note 8)*	**483,386**	343,189
Total Current Liabilities	**1,383,288**	552,668
Non-Current Liabilities		
Reserve for credit life policies	**359,705**	332,437
Aggregate reserves for life policies	**163,153**	155,717
Aggregate reserves for member's equity	**46,708,113**	45,521,578
	47,230,971	46,009,732
Retirement Trust Fund	**29,510,089**	28,144,323
	76,741,060	74,154,055
Total Liabilities	**78,124,348**	74,706,723
Fund Balances		
Guaranty Fund *(Note 11)*	**14,620,363**	13,840,805
General Fund	**10,874,615**	12,550,669
Total Fund Balances	**25,494,978**	26,391,474
	₱103,619,326	₱101,098,197

See Notes to Financial Statements.

STATEMENTS OF REVENUE AND EXPENSES

KCCDFI Mutual Benefit Association, Inc.

Years Ended December 31	**2017**	2016
REVENUE		
Gross members' premium contributions on life *(Note 12)*	**₱12,359,995**	₱13,448,075
Gross members' premium contributions for credit life policies	**3,232,651**	3,071,053
Contributions to Guaranty Fund *(Note 11)*	**(779,558)**	(825,956)
Net premium contributions	**14,813,088**	15,693,172
Interest income on bank deposits *(Note 4)*	**516,728**	338,871
Membership fees	**274,900**	235,000
Interest income – LRF *(Note 5)*	**2,582,882**	3,014,962
Others	**647,956**	1,095,759
Total Revenue	**18,835,554**	20,377,764
BENEFITS AND OPERATING EXPENSES		
Increase in aggregate reserves for unexpired risks *(Note 10)*	**6,125,918**	6,719,068
Gross benefits and claims paid to members	**8,286,825**	6,636,572
Collection expenses	**1,214,344**	1,189,075
Interest *(Note 9)*	**580,282**	636,771
Total Members' Benefits and Expenses	**16,207,369**	15,181,486
Compensation and employees' benefits *(Note 13)*	**2,057,219**	2,617,080
General and administrative expenses *(Note 14)*	**2,145,963**	1,805,597
Depreciation *(Note 6)*	**101,057**	280,889
Total Benefits and Operating Expenses	**20,511,608**	19,885,052
NET (LOSS) SURPLUS FOR THE YEAR	**(₱1,676,054)**	₱492,712

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN FUND BALANCES

KCCDFI Mutual Benefit Association, Inc.

December 31	**2017**	2016 *(As Restated) (Note 5)*
GUARANTY FUND *(Note 11)*		
Opening balances	**₱13,840,805**	₱13,014,849
Contributions from members during the year	**779,558**	825,956
Closing balances	**14,620,363**	13,840,805
GENERAL FUND		
Opening balances as originally stated	**13,566,544**	13,073,832
Written-off receivables from reinsurer *(Note 5)*	**(873,118)**	(873,118)
Liquidation of advances and receivables in prior years *(Note 5)*	**(142,757)**	(142,757)
Opening balances as restated	**12,550,669**	12,057,957
Profit (loss) for the year	**(1,676,054)**	492,712
Closing balances	**10,874,615**	12,550,669
	₱25,494,978	₱26,391,474

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

KCCDFI Mutual Benefit Association, Inc.

Years Ended December 31	**2017**	2016 *(As Restated) (Note 5)*
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) for the year	**(₱1,676,054)**	₱492,712
Add (deduct) adjustments for:		
Depreciation *(Note 6)*	**101,057**	280,889
Increase in aggregate reserves for risks *(Note 10)*	**6,125,918**	6,733,294
Interest income on bank deposits *(Notes 4)*	**(516,728)**	(338,871)
Operating income before changes in working capital	**4,034,193**	7,168,024
Add (deduct) changes in working capital, excluding cash:		
Increase (decrease) in receivables from agents and others *(Note 5)*	**2,032,092**	3,679,622
Increase (decrease) in trade and other payables *(Note 7)*	**690,423**	(1,606,520)
Decrease in insurance contract liabilities *(Note 8)*	**140,197**	(478,301)
Net cash generated from operations	**6,896,905**	8,762,825
Interest income on bank deposits *(Notes 4)*	**516,728**	338,871
Net Cash Provided from Operating Activities	**7,413,633**	9,101,696
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in Retirement Trust Fund *(Note 9)*	**1,365,766**	1,485,328
Increase in contributions for Guaranty Fund *(Note 11)*	**779,558**	825,956
Net Cash Provided from Financing Activities	**2,145,324**	2,311,284
CASH FLOWS FOR INVESTING ACTIVITIES		
Additions to property and equipment *(Note 6)*	**(160,712)**	795,334
Termination value of withdrawn equity *(Note 10)*	**(4,904,679)**	(5,328,943)
Net Cash Used for Investing Activities	**(5,065,391)**	(4,533,609)
NET INCREASE IN CASH	**4,493,566**	6,879,371
OPENING CASH	**58,182,436**	51,303,065
CLOSING CASH *(Note 4)*	**₱62,676,002**	₱58,182,436

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

KCCDFI Mutual Benefit Association, Inc.
As of and for the Years Ended December 31, 2017 and 2016

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 17,046 members at the end of 2017.

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 of the Association have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs) and Philippine Interpretations-IFRIC. PFRSs include statements named PFRSs and Philippine

Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by SEC. To comply with IC Circular Letter No. 201-41, *Standard Chart of Accounts (SCA) for MBAs*, certain nomenclatures under PFRSs have been changed to the nomenclatures and presentation required under the said Circular, but the changes have no substantial impact on the compliance by the Association of PFRSs requirements.

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 year.

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 Association has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB), which are adopted by the Philippines Financial Reporting Standards Council (PFRSC) and approved by the Securities and Exchange Commission (SEC) as Philippine Financial Reporting Standards (PFRSs) that are mandatorily effective for accounting period that begins on or after January 1, 2017.

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, including both cash and non-cash changes. The Association has no external borrowings hence the amendments are not applied in these financial statements.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference. The application of these amendments has had no impact on the Association's financial statements as the Association's transactions are tax-exempt.

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 40 Transfer of Investment Property
- Amendments to IFRSs
- IFRIC 22
-

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.

<u>Amendments to IFRS 2 'Classification and Measurement of Share-based Payment Transactions'</u>
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
<u>Assets Between an Investor and its Associate or Joint Venture</u>
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.

<u>Amendments to IAS 40 Transfers of Investment Property</u>
The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in PAS/IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply.

The management of the Association does not anticipate any impact on the Association's financial statements of the amendments since it has no investment property presently.

<u>Annual Improvements to IFRSs 2014-2016 Cycle</u>
The Annual Improvements include amendments to PFRS 1 and PAS/IAS 28 which are not yet mandatorily effective for the Association. The package also includes amendments to PFRS 12 which is mandatorily effective for the current year but is not applicable to the Association as it has no associates or joint ventures.

The amendments to IAS 28 clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Both the amendments to PFRS 1 and PAS/IAS 28 are effective for annual periods beginning on or after January 1, 2018.

The management of the Association does not anticipate that the application of the amendments in the future will have any impact on the Association's financial statements as the Association is not a venture capital organization. Furthermore, the Association does not have any associate or joint venture that is an investment entity.

IFRIC 22 Foreign Currency Transactions and Advance Consideration
IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary liability (e.g. a non-refundable deposit or deferred revenue.)

The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transaction provisions apply to prospective application.

The management of the Association does not anticipate that the application of the amendments in the future will have an impact on the Association's financial statements. This is because the Association has no foreign currency transactions.

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.

Financial Instruments
Recognition, Initial Measurement and Derecognition
Financial assets and financial liabilities are recognized when the Association becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities is described below.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Classification and Subsequent Measurement of Financial Assets
For the purpose of subsequent measurement financial assets, other than those designated and effective as hedging instruments, are classified into the following categories upon initial recognition:

(a) Loans and receivables,
(b) Financial assets at fair value through profit or loss (FVTPL);
(c) Held-to-maturity (HTM) investments, and
(d) Available-for-sale (AFS) financial assets.

All financial assets except for those at FVTPL are reviewed for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

The Association has no financial assets at FVTPL, HTM Investments and AFS financial assets. The Association’s financial assets consist only of loans and receivables. The Association’s cash and receivables from agents and others fall into this category of financial instruments.

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, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

Cash and Cash Equivalents
Cash and cash equivalents comprise cash on hand, deposits with Associations 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.

Trade and Other Receivables (Receivables from Agents and Others)

Trade and other 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.

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 decrease, 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.

Classification and Subsequent Measurement of Financial Liabilities

Financial liabilities presently include trade and other payables, which are measured subsequently at amortized cost using the effective interest 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 statement of profit or loss under the caption Interest Expense. 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 statement 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) 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.

Compensation and Benefits Expense
Employee benefits are all forms of consideration given by the Association in exchange for services rendered by employees or for the termination of their employments in the Association. The Association recognizes: (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and (b) an expense when the Association consumes the economic benefit arising from the service provided by an employee in exchange for employee benefits. The following represent the accounting followed by the Association for all types of employee benefits, except share-based payment, to which there is none.

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

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

- *Post-Employment Benefit Plans*
  Post-employment benefit plans that are provided to employees only cover their retirement benefits, which are paid in lump sum payments at the time of their retirements. The retirement benefits are provided to employees through a defined benefit plan. A defined benefit plan is a retirement plan that defines an amount of retirement benefit an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for the benefits of the retirement plan remains

with the Association, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Association's defined benefit retirement plan covers all regular full-time employees.

- *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 than12 months after the statement of financial position date are discounted to present value.

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 Association'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	**2017**	2016
Cash in Associations	**₱62,666,002**	₱58,172,436
Revolving funds	**10,000**	10,000
	₱62,676,002	₱58,182,436

The Association's cash in Associations earn interest at market rates. Interest income earned from bank deposits amounted ₱516,728 in 2017 and ₱338,871 in 2016.

A portion of the cash in commercial Associations serves as funding for the Association's Guaranty Fund and is a restricted account *(Note 11).* The Association assigned about ₱14.5 million of the deposits in commercial Associations 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	**2017**	2016
Accounts receivable – agents	**₱40,494,520**	₱42,525,580
Advances to officers and employees	**191,632**	195,089
Accrued interest receivable	**60,175**	57,750
	₱40,746,327	₱42,778,419

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 2017. 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 ₱2,582,882 in 2017 and ₱3,014,962 in 2016.

During the year, long-standing receivables from a reinsurer and advances to resigned officers were liquidated and charged to prior years where the expenses were appropriately chargeable.

The following accounts were charged to the beginning balances of the General Fund:

December 31	**2017**
Written-off receivables from reinsurer	**₱873,118**
Liquidation of advances and receivables in prior years	**142,757**
	₱1,015,875

Accordingly, the 2016 and prior years' financial statements were restated. The restatement reduced the total assets and the fund balance of 2016 and prior years with the same amount.

Management believes the remaining 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	**2017**	2016
Furniture, fixtures and office equipment	**₱921,383**	₱819,671
Leasehold improvements	**71,942**	71,942
Transportation equipment	**59,000**	–
	1,052,325	891,613
Less accumulated depreciation	**855,328**	754,271
	₱196,997	₱137,342

The Association is leasing the premises it is using as its Headquarters. Total lease expenses amounted ₱220,000 in 2017 and ₱217,800 in 2016.

The reconciliation of the movements of the accounts during 2017 and 2016 follows:

December 31, 2017	*Opening Balances*	*Additions*	*Retirement*	***Closing Balances***
Cost				
Furniture, fixtures & office equipt.	₱819,671	₱101,712	–	**₱921,383**
Transportation equipment	–	59,000	–	**59,000**
Leasehold improvements	71,942	–	–	**71,942**
	891,613	160,712	–	**1,052,325**
Accumulated Depreciation				
Furniture, fixtures & office equipt.	682,329	97,124	–	**779,453**
Transportation equipment	–	3,933	–	**3,933**
Leasehold improvements	71,942	–	–	**71,942**
	754,271	101,057	–	**855,328**
Net Book Value	₱137,342	₱59,655	–	**₱196,997**
December 31, 2016				
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**

Note 7
Trade and Other Payables

This account consists of the following:

December 31	**2017**	2016
Accrued expenses	**₱662,152**	₱9,479
Accrued employee's benefits	**37,750**	–
Accounts payable – others	**200,000**	200,000
	₱899,902	₱209,479

Note 8
Insurance Contract Liabilities

This account consists of the following:

December 31	**2017**	2016
Incurred but not reported claims	**₱220,761**	₱260,242
Claims in the course of settlement	**147,000**	24,947
Claims due and unpaid	**115,625**	58,000
	₱483,386	₱343,189

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 2017, claims reported in the months of November 2017, December 2017 and January 2018 whose date of death/claim is before November 1, 2017 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 9
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 ₱580,282 in 2017 and ₱636,771 in 2016.

Note 10
Aggregate Reserves for Unexpired Risks

This consists of the following reserves:

December 31	**2017**	2016
Aggregate reserves for members' equity	**₱46,708,113**	₱45,521,578
Aggregate reserves for credit policies	**359,705**	332,437
Aggregate reserve for life policies	**163,153**	155,717
	₱47,230,971	₱46,009,732

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, 2016 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 ₱647,956 during 2017 and ₱1,095,759 during 2016.

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

December 31, 2017	*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)**
Provisions during 2017	27,268	6,179,997	393,022	**6,600,287**
Returned contributions in 2017		(4,993,462)	(385,586)	**(5,379,048)**
	₱359,705	₱46,708,113	₱163,153	**₱47,230,971**

Note 11
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 Association. (See Note 4.) The Fund is increased by the 5% contributions from members.

The following is the accounting of the Fund:

December 31	**2017**	2016
Opening balances	**₱13,840,805**	₱13,014,849
Contribution from members representing 5% of total premiums received	**779,558**	825,956
Closing balances	**₱14,620,363**	₱13,840,805

Note 12
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 13
Details of Compensation and Employees' Benefits

Years Ended December 31	**2017**	2016
Compensation and employees' benefits:		
Salaries and wages	**₱1,261,396**	₱1,667,092
Employees' benefits	**758,073**	949,988
Post-employment benefits	**37,750**	–
	₱2,057,219	₱2,617,080

The post-employment benefits in 2017 were based on the provisions of R. A. 7641. The Association's employees have all been hired recently and have not yet accumulated years of service to the Association.

Note 14
Details of General and Administrative Expenses

Years Ended December 31	**2017**	2016
Board and management meetings and related expenses	**₱718,246**	₱251,360
Professional fees	**356,055**	469,575
Travel and transportation	**265,499**	253,786
Rent *(Note 6)*	**220,000**	217,800
Dues and subscriptions	**165,492**	181,837
Light and water	**139,991**	94,282
Taxes and licenses *(Note 22)*	**121,084**	146,671
Materials and supplies	**81,522**	47,594
Repairs and maintenance	**25,800**	29,550
Assistance to members	**–**	47,003
Insurance	**–**	29,420
Miscellaneous	**52,274**	36,719
	₱2,145,963	₱1,805,597

Note 15
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 ₱15,592,646 in 2017 and ₱16,519,128 in 2016.

b. The key management personnel of the Association include all personnel having a position of General Manager and above. The key management compensation follows: (Please see table next page.)

Years Ended December 31	**2017**	2016
Salaries and wages	**₱264,500**	₱694,417
Employees' benefits	**64,700**	126,600
	₱329,200	₱821,017

Note 16
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 2017 statement of financial condition but for which fair value is disclosed.

December 31, 2017	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Cash *(Note 4)*	₱62,676,002			**₱62,676,002**
Receivable from agents, etc. *(Note 5)*			₱40,746,327	**40,746,327**
	₱62,676,002		₱40,746,327	**₱103,422,329**
Financial liabilities				
Trade and other payables *(Note 7)*			₱899,902	**₱899,902**
Insurance contract liabilities *(Note 8)*			483,386	**483,386**
Retirement Trust Fund *(Note 9)*			29,510,089	**29,510,089**
Aggregate reserves *(Note 10)*			47,230,971	**47,230,971**
			₱78,124,348	**₱78,124,348**
December 31, 2016				
Financial assets				
Cash *(Note 4)*	₱58,182,436			**₱58,182,436**
Receivable from agents, etc. *(Note 5)*			₱43,794,294	**43,794,294**
	₱58,182,436		₱43,794,294	**₱101,976,730**

(Carried Forward.)

(Brought Forward.) *December 31, 2016*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial liabilities				
Trade and other payables *(Note 7)*			₱209,479	**₱209,479**
Insurance contract liabilities *(Note 8)*			343,189	**343,189**
Retirement Trust Fund *(Note 9)*			28,144,322	**28,144,322**
Aggregate reserves *(Note 10)*			46,009,732	**46,009,732**
			₱74,706,722	**₱74,706,722**

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, 2017 and 2016.

December 31, 2017	*Level 1*	*Level 2*	*Level 3*	*Total*
Property and equipment *(Note 6)*			₱196,997	**₱196,997**
December 31, 2016				
Property and equipment *(Note 6)*			₱137,342	**₱137,342**

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, labor 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 17
Risk Management Objectives and Policies

The Association is exposed to various risks in relation to its financial instruments. The main types of risks it is facing are market risk, credit risk and liquidity risk. The Association's risk management is coordinated by its Board of Trustees and focuses principally on actively securing the Association's short to medium-term cash flows by minimizing the exposure to volatile financial markets. The Association does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Association is exposed are described as follows:

Market Risk Analysis
The Association is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which result from both its operating and investing activities. Most of

the Association's transactions are carried out in Philippine currency, its functional currency. It has limited or no exposures to currency exchange rates since it has no transactions involving foreign currencies. The Association does not actively engage in the trading of financial assets nor does it write options. Its exposure to credit risk is limited to the carrying amount of financial assets recognized at the reporting period date.

Credit Risk Analysis
Credit risk refers to the probability of loss due to a debtor's failure to make payments on any type of debt. The Association is exposed to this risk for various financial instruments, more particularly for its trade and other receivables and its HTM investments. The Association's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized at the end of the reporting period, as summarized in the following:

December 31, 2017	*Neither Past Due Nor Impaired*	*Past Due But Not Impaired*	*Total*
Cash *(Note 4)*	₱62,676,002	₱–	**₱62,676,002**
Receivable from agents and others *(Note 5)*	40,746,327	–	**40,746,327**
	₱103,422,329	–	**₱103,422,329**
	100%	₱–	**100%**

The Association continuously monitors defaults of counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Association's policy is to deal only with members who have undergone adequate training and orientation. The Association's management and its Board of Trustees consider that all of the financial assets that are not impaired or past due for each of reporting dates under review are of good credit quality.

Liquidity Risk Analysis
The Association is likewise exposed to liquidity risk, the risk that it will encounter difficulty in meeting its obligations as they become due without incurring unacceptable losses or costs. The Association's objectives to manage its liquidity profile are: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs, and (c) to be able to access funding when needed at the least possible cost.

The Association manages its liquidity by carefully monitoring its cash flows on its day-to-day business 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.

The maturity profile of the Association's financial liabilities is as follows:

December 31, 2017	*Due in One Year*	*Due Over One ear*	***Total***
Trade and other payables *(Note 7)*	₱899,902	₱–	**₱899,902**
Insurance contract liabilities *(Note 8)*	483,386		**483,386**
	₱1,383,288	₱–	**₱1,383,288**
	100.00%	0.00%	**100.00%**

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, 2017, and for the year then ended, were authorized for issue by its Executive Committee on April 13, 2018.

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	**2017**	2016
Insurance filing fee and renewal of license	**₱116,150**	₱116,150
Business permits	**4,934**	4,521
Penalties and surcharges	**–**	26,000
	₱121,084	₱146,671

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