# MOVING *FORWARD* TO THE CHALLENGES OF TIME


KCCDFI MUTUAL BENEFIT ASSOCIATION INC.
ANNUAL REPORT 2018

# ABOUT THE COVER

As an institution who have gone through changes and different challenges in the past few years, KCCDFI MBA continues to move forward to bring help and encouragement for our members. KCCDFI MBA continues to provide microinsurance products and services to its community.

Our cover signifies renewal and energy as new board members are elected into place. The color green is associated with the meanings of growth that we strive for our institution.

## VISION

To be the best microinsurance institution 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.


# CREATING IMPACT

**Total Active Member as of December 2018:**
**15,573**

**Total Insured Individual December 2018:**
**45,490**

**Total Assets:**
**P103,380,678**

**Total Contribution:**
**P14,742,829.00**

**Total Claims Paid:**
**P7,056,045.36**

BRANCHES 20

STAFF 8

COORDINATORS 14

**BASIC LIFE INSURANCE**

**NUMBER OF CLAIMS PAID:**
**259**

**AMOUNT:**
**P5,832,879**

**CREDIT LIFE INSURANCE**

**NUMBER OF CLAIMS PAID:**
**106**

**AMOUNT:**
**P1,395,000**

**RETIREMENT SAVINGS FUND**

**NUMBER OF CLAIMS PAID:**
**4546**

**AMOUNT:**
**P3,800,243**

**REFUND OF CONTRIBUTION**

**NUMBER OF CLAIMS PAID:**
**4546**

**AMOUNT:**
**P5,665,268**

# EVENTS: 2018 ELECTIONS





# BOARD OF TRUSTEES PROFILE

Ellen M. Benitez, 45, Filipino and was re-elected as president last October 15, 2018. She resides in Cawit, Zamboanga City.

Mary Ann R. Candoy, 42, Filipino. Elected as Vice-President last October 15, 2018. She resides in Presa, Curuan, Zamboanga City.

Araceli J. Amlih, 63, Filipino. Elected as Secretary last October 15, 2018. She resides in Mampang, Zamboanga City

# BOARD OF TRUSTEES PROFILE

Myrna D. Gregorio, 39, Filipino. Elected as Treasurer last October 15, 2018. She resides in Cabaluay, Zamboanga City.

Mercedes G. Faustino, 47, Filipino. She is currently the Chief Executive Officer of KCCDMFI. Resides in Tugbungan, Zamboanga City

Dezza S. Mohammad, CPA, RN. 39, Filipino. She is currently works at Western Mindanao State University. Currently resides at Tetuan, Zamboanga City

# BOARD OF TRUSTEES PROFILE

Nevilyn P. Abualas, CPA. 38, Filipino. Owns Perocho Abualas Accounting Services. Currently residing at Tetuan Zamboanga City

# THE MANAGEMENT


**Maria Teresa C. Gonzales**
**General Manager**

**Olivia P. Antonio**
Finance & Compliance Officer

**Joelyn S. Felisilda**
Insurance and Claims Processor

**Ma. Perla J. Medina**
Promotions and Underwriting Officer

**Roel P. Manuel**
Utility

**Jazel U. Janubas**
Accountant

**Bernadette Bonifacio**
Management Information System

**Conchita A. Elumbra**
Insurance and Claims Processor

# LIST OF BRANCHES

- CABALUAY
- CURUAN
- IMELDA
- IPIL
- KABASALAN
- LILOY
- MAASIN
- MARIKINA
- MERCEDES
- OLUTANGA
- PUTIK
- SANGALI
- SINUNUC
- SIOCON
- STA.CATALINA
- STA.MARIA
- TALISAYAN
- TALON-TALON
- TETUAN
- VITALI

# CORPORATE GOVERNANCE

KCCDFI MBA, together with its partner, KCCDMFI actively participates in building a community where everyone has access to affordable microinsurance.

We have set goals, mission and vision for the betterment of our community and not just the institution. In order to achieve what we have set forth, we believe that helping our community strengthen their financial status in life should come with a sound corporate governance.

We are standing believing our core values of professionalism, compassion for the poor, commitment to service, gender sensitive, sensitive to the environment, passion for excellence and teamwork.

When faced with tough decision making, we consider the values stated before making any decision for the institution. We remember such values when we plan what's best for our community. We always make sure that everyone gets fair service.

# BOARD OF TRUSTEES

Our Board of Trustees are occupied by members of the Association who were elected by 15,573 active members.

The Board of Trustees is the governing body of the Association. The Board of Trustees approves and oversees that there is proper implementation of the policies and procedures. The Board of Trustees is also responsible in overseeing the performance of the senior management of the company making sure the goals and objectives are attained.

The advantage of having Board of Trustees that are also members of the Association, they know first hand what is like being in the community. They know what is going on inside the community, the problems and challenges that the members are facing, thus making them better decision makers. Having them as leaders will lead to sound corporate governance for KCCDFI MBA. We make sure our Board of Trustees receive proper training and personal development seminars so that they can further enhance their capabilities.

The elected 5 members of the Board of Trustees are joined by 2 independent Board of Trustees who are professionals and experts in their own fields. Each of the members of the Board of Trustees receives a monthly allowance of P2,000.

# BOARD OF TRUSTEES

The Board holds regular meetings every month. Below is the attendance for the meetings in 2018:

| Name of Trustees | No. of meetings attended | Total Number of Meetings | Percentage Ratings: |
|---|---|---|---|
| Ellen M. Benitez | 9 | 9 | 100% |
| Arline B. Casimiro* | 9 | 7 | 100% |
| Imelda F. Bautista* | 9 | 7 | 100% |
| Myrna D. Gregorio | 9 | 9 | 100% |
| Daniela V. Barredo* | 9 | 7 | 100% |
| Mercedes G. Faustino | 9 | 9 | 100% |
| Jessica A. Araneta* | 9 | 7 | 100% |
| Dezza S. Mohammad | 6 | 9 | 67% |
| Nevilyn P. Abualas | 6 | 9 | 67% |
| Mary Ann R. Candoy** | 2 | 2 | 100% |
| Araceli J Amlih | 2 | 2 | 100% |
| *Term ended October 2018<br>**Term Started November 2018 and newly elected | | | |

# BOARD COMMITTEE

## Audit Committee

Chairman: Nevilyn P. Abualas
Members: Myrna Gregorio and Mary Ann Candoy

The Audit Committee shall be comprised of independent board members of good standing preferably with accounting and finance experiences. They shall provide oversight of the institution's internal and external auditors.

They shall be responsible for the setting-up of internal audit department and the appointment of the internal auditors as well as of independent external auditors. They shall monitor and evaluate the adequacy and effectiveness of the internal control system of the association.

The committee shall meet at least quarterly at the head office of KCCDFI Mutual Benefit Association Inc.

The members of the Oversight Committee shall not be entitled to any salary but shall be entitled to per diem and reimbursement of actual expenses for attendance of official meetings equal to those received by members of the Board of Trustees.

The members of the Oversight Committee shall serve for three years, or coterminus with the Board of Trustees

# BOARD COMMITTEE

## Remuneration Committee

Chairman: Mercedes G. Faustino
Members: Ellen M. Benitez and Araceli J. Amlih

The Remuneration Committee is a separate and independent body establied to ensure that remuneration arrangement support the strategic aims of the association and enable recruitment, motivation and retention of personnel while complying with the requirements of regulatory and governance bodies, satisfying the expectations of the members and remaining consistent with the expectations of the wider employee population.

The Remunation committee meets at least twice a year and as the need arises.

# BOARD COMMITTEE

## Nomination and Election Committee

Chairman: Dezza S. Mohammad
Members: Ellen M. Benitez Myrna D. Gregorio

Nomination Committee shall be composed of at least three (3) members of the board of trustees, one of whom must be independent.

They shall review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Trustees. It should prepare a description of the roles and capabilities required of a particular appointment.

The nomination committee is hereby vested sole authority to conduct and supervise the elections for the members of the Board of Trustees and other officers and proclaim the winners. The nomination committee shall likewise be the judge of all electoral contests, including questions on the qualification of candidates and its decision shall be final unless appealed to the Board of KCCDFI MBA Corporate Governance Manual 2015 20 Trustees whose decision shall be final. Further, the nomination committee may be tasked to supervise the election of KCCDFI Mutual Benefit Association Inc.

# NOMINATION COMMITTEE

| Name of Trustees | No. of meetings attended | Total Number of Meetings | Percentage Ratings: |
|---|---|---|---|
| Nevilyn P. Abualas | 1 | 1 | 100% |
| Arline B. Casimiro* | 1 | 1 | 100% |
| Daniela V. Barredo | 1 | 1 | 100% |

# BOARD COMMITTEE

The elected members of the nomination committee shall serve immediately after their election until after the next election.

The nomination committee may deputize such personnel of the head office of the KCCDFI Mutual Benefit Association Inc., which it may deem necessary to enable it to perform its function.

The members of the nomination committee shall not be entitled to any salary but shall be entitled to per diem and reimbursement of actual expenses for attendance of official meetings equal to those received by members of the Board of Trustees.

No member elected as a member of the Nomination committee shall be eligible for election.

# INDEPENDENT CHECKS AND BALANCES

To ensure the soundness of our operations, we are implementing the following independent functions:

**INTERNAL AUDITOR:**
Under the direct supervision of the Board Audit Committee and KCCDMFI, they are tasked to provide independent assessment and reasonable assurance of the adequacy and effective of KCCDFI MBA’s internal controls. The Internal Audit Unit is headed by Marsha D. Villarubia.

**External Auditor**
Quilab & Garsuta, CPAs is authorized to certify financial statements of the association. The external auditor was paid P67,200 including tax for its engagement to audit the financial statements for the year 2018.

**Company Compliance**
The compliance unit ensures full compliance to the requirements, policies, circulars, memoranda, and guidelines issued by regulatory agencies such as SEC, BIR, Local Government Units and other government agencies.

The unit is headed by a compliance officer, Olivia P. Antonio who is appointed by the BOT.

# CODE OF CONDUCT AND BUSINESS ETHICS

The Association institutionalizes the highest ethical standards through the strict implementation of KCCDFI MBA Code of Conduct that outlines the policies governing the activities of the institutions, its trustees, officers and employees. The Code specifies the fair treatment of employees and business partners.

**Related Party Transactions**

The Association complies with the legal and regulatory requirements pertaining to the approval and disclosure of the related party transactions. All related party transactions are presented to the Board of Trustees for their approval and ensured that these are conducted to the best interest of the Association, its members and stakeholders.

**Details of Related Party transactions (RPTs) are provided in Note 18 of the Audited Financial Statement.**

**Transparency and Disclosures**

The Board together with the management and employees commit to promote and ensure full disclosure, transparency and accountability. This is a commitment and a policy of the Board. To ensure wider access by the members and stakeholder, these disclosures and other corporate information are also uploaded in the KCCDFI MBA's official website - www.kccdfimba.com, including the Corporate Governance Manual.

# ANTI-CORRUPTION PROGRAM

As KCCDFI MBA is committed to observe the value of integrity in all its transactions, the Board and the Management ensure that there is a strict implementation of the control over cash policy. Moreover, they strictly observe the code of discipline stated in the Human Resource Manual, otherwise, a corresponding action will be imposed for committing any fraud against the Association.

# EMPLOYEE DEVELOPMENT PROGRAM

The Association places high value on its human resources including Board of Trustees and recognizes the importance of competence, hence, all Board Members and Officers shall be eligible for continuous development program such as local and international trainings, seminars, workshops and conferences.

As part of the management's goal to give more training and development of staff.

Further, below are the trainings and seminars attended by the Staff and Board of Trustees.

Microinsurance Forum – January 25, 2018
Attended by:
Maria Teresa C. Gonzales
Mercedes G. Faustino
Nevilyn P. Abualas

TAX Update– Astoria Plaza – February 9, 2018
Attended by:
Jazel U. Janubas
Olivia P. Antonio

Technical Compliance Workshop – February 20, 2018
Attended by:
Jazel U. Janubas
Bernadette S. Bonifacio

TRAIN Law Briefing – February 28, 2018
Attended by:
Maria Teresa C. Gonzales
Olivia P. Antonio
Jazel U. Janubas

Annual General Meeting – MiMap – March 26-29, 2019
Attended by:
Ellen M. Benitez
Mercedes G. Faustino

Annual Statement Workshop – April 24-25, 2018
Attended by:
Maria Teresa C. Gonzales
Jazel U. Janubas

Leadership Training/Workshop for Mi MBAs – July 25-27,2018
Attended by:
Maria Teresa C. Gonzales
Ma. Perla J. Medina

Management Forum – August 16-17, 2018
Attended by:
Maria Teresa C. Gonzales
Mercedes G. Faustino

# PERFORMANCE INDICATOR for MICROINSURANCE

The indicators are divided into the following categories: Solvency and Stability; Efficiency; Governance; Understanding of the Product by the insured; Rate of Growth; and outreach (SEGURO).

Indicators under Solvency and Stability apply to a microinsurance risk carrier's (insurer, MBA, or other) entire operations while the scrope of the remaining categories are limited to the provider's microinsurance operations.

For purposes of reporting to the regulator, performance indicators should be calculated on the entire microinsurance portfolio unless indicated otherwise in this document. To better ascertain the performance of certain products or product categories, it is helpful to calculate the performance indicators separately for each product or category.

**FOR FULL INFORMATION – READ MORE HERE**

# 2018 AUDITED FINANCIAL STATEMENT

Financial Statements of

# KCCDFI Mutual Benefit Association, Inc.

**December 31, 2018 and 2017**

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
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KCCDFI Mutual Benefit Association, Inc.

## STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of KCCDFI Mutual Benefit Association, Inc. is responsible for the preparation and fair presentation of its financial statements for the years ended December 31, 2018 and 2017, 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 Trustees for the periods December 31, 2018 and 2017, have audited the financial statements of the Organization in accordance with Philippine Standards on Auditing (PSAs), and in their reports to the Board of Trustees, have expressed its opinion on the fairness of presentation upon completion of such audits.

April 13, 2019, in the City of Zamboanga, Philippines.

**ELLEN M. BENITEZ**
President

**MARIA TERESA C. GONZALES**
General Manager

**MYRNA D. 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 statements of financial position as at December 31, 2018 and 2017, and the statements of revenue and expenses, statements of changes in fund balances and statements of cash flows for the years then ended, and notes to the financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of KCCDFI Mutual Benefit Association, Inc., as of December 31, 2018 and 2017, and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

*Basis for Opinion*
We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Association in accordance with the *Code of Ethics for Professional Accountants in the Philippines* (Code of Ethics), together with the ethical requirements that are relevant to our audits 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 audits.

Quilab & Garsuta, CPAs

PTR No. 4070911 A
January 3, 2019
Cagayan de Oro City

April 13, 2019
Cagayan de Oro City, Philippines

# STATEMENTS OF FINANCIAL POSITION

KCCDFI Mutual Benefit Association, Inc.

| *December 31* | **2018** | 2017 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash *(Note 4)* | **₱17,938,612** | ₱62,676,002 |
| Receivable from agents and others *(Note 5)* | **35,956,684** | 40,746,327 |
| Prepayments *(Note 6)* | **225,850** | – |
| Total Current Assets | **54,121,146** | 103,422,329 |
| **Non-Current Assets** | | |
| Property and equipment – net *(Note 7)* | **177,456** | 196,997 |
| Investments in debt securities – at amortized cost *(Note 8)* | **43,120,476** | – |
| Investment in equity security – at FVOCI *(Note 8)* | **5,961,600** | – |
| Total Non-Current Assets | **49,259,532** | 196,997 |
| | **₱103,380,678** | ₱103,619,326 |
| **LIABILITIES AND FUND BALANCES** | | |
| **Current Liabilities** | | |
| Trade and other payables *(Note 9)* | **₱1,165,160** | ₱899,902 |
| Insurance contract liabilities *(Note 10)* | **570,833** | 483,386 |
| Total Current Liabilities | **1,735,993** | 1,383,288 |
| **Non-Current Liabilities** | | |
| Aggregate reserves for unexpired risks *(Note 11)* | **37,533,426** | 47,230,971 |
| Retirement Trust Fund *(Note 12)* | **30,091,720** | 29,510,089 |
| Total Non-Current Liabilities | **67,625,146** | 76,741,060 |
| Total Liabilities | **69,361,139** | 78,124,348 |
| **Fund Balances** | | |
| Guaranty Fund *(Note 13)* | **15,357,504** | 14,620,363 |
| General Fund *(Note 15)* | **18,700,435** | 10,874,615 |
| Revaluation reserve on financial asset at fair value thru OCI *(Note 8)* | **(38,400)** | – |
| Total Fund Balances | **34,019,539** | 25,494,978 |
| | **₱103,380,678** | ₱103,619,326 |

*See Notes to Financial Statements.*

## STATEMENTS OF REVENUE AND EXPENSES AND OTHER COMPREHENSIVE INCOME

KCCDFI Mutual Benefit Association, Inc.

| *Years Ended December 31* | **2018** | 2017 |
|---|---|---|
| **REVENUE** | | |
| Gross members' premium contributions *(Note 14)* | **₱14,742,829** | ₱15,592,646 |
| Contributions to Guaranty Fund *(Note 13)* | **(737,141)** | (779,558) |
| Net premium contributions | **14,005,688** | 14,813,088 |
| Interest and investment income *(Notes 4 and 8)* | **1,289,402** | 516,728 |
| Membership fees *(Note 14)* | **255,950** | 274,900 |
| Interest income *(Note 5)* | **2,241,647** | 2,582,882 |
| Others *(Note 11)* | **1,196,665** | 647,956 |
| Total Revenue | **18,989,352** | 18,835,554 |
| **BENEFITS AND OPERATING EXPENSES** | | |
| Increase (decrease) in aggregate reserves for unexpired risks *(Note 11)* | **(9,697,545)** | 1,221,238 |
| Gross benefits and claims paid to members *(Notes 10 and 11)* | **14,137,145** | 13,191,505 |
| Collection expenses *(Note 18)* | **1,240,718** | 1,214,344 |
| Interest *(Note 12)* | **594,578** | 580,282 |
| Total Members' Benefits and Expenses | **6,274,896** | 16,207,369 |
| General and administrative expenses *(Note 16)* | **2,536,390** | 2,145,963 |
| Compensation and employees' benefits *(Note 17)* | **2,260,821** | 2,057,219 |
| Depreciation *(Note 7)* | **91,425** | 101,057 |
| Total Benefits and Operating Expenses | **11,163,532** | 20,511,608 |
| **NET SURPLUS (DEFICIT) FOR THE YEAR** | **7,825,820** | (1,676,054) |
| **OTHER COMPREHENSIVE INCOME** | | |
| *Item that may not be subsequently reclassified to profit or loss:* | | |
| Decline in value of investment in financial assets at FVOCI *(Note 8)* | **(38,400)** | – |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **₱7,787,420** | (₱1,676,054) |

*See Notes to Financial Statements.*

## STATEMENTS OF CHANGES IN FUND BALANCES

KCCDFI Mutual Benefit Association, Inc.

| *December 31* | **2018** | 2017 |
| --- | --- | --- |
| **GUARANTY FUND** *(Note 13)* | | |
| Opening balances | **₱14,620,363** | ₱13,840,805 |
| Contributions from members during the year | **737,141** | 779,558 |
| Closing balances | **15,357,504** | 14,620,363 |
| **GENERAL FUND** *(Note 15)* | | |
| Opening balances, as originally stated | **10,874,615** | 13,566,544 |
| Written-off receivables from reinsurer *(Note 5)* | **–** | (873,118) |
| Liquidation of advances and receivables in prior years *(Note 5)* | **–** | (142,757) |
| Opening balances, as restated | **10,874,615** | 12,550,669 |
| Surplus (deficit) for the year | **7,825,820** | (1,676,054) |
| Closing balances | **18,700,435** | 10,874,615 |
| **REVALUATION RESERVE ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)** | | |
| Opening balances | **–** | – |
| Decline in value of investment during the year *(Note 8)* | **(38,400)** | – |
| Closing balances | **(38,400)** | – |
| | **₱34,019,539** | ₱25,494,978 |

*See Notes to Financial Statements.*

## STATEMENTS OF CASH FLOWS

KCCDFI Mutual Benefit Association, Inc.

| *Years Ended December 31* | **2018** | 2017 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net surplus (deficit) for the year | **₱7,825,820** | (₱1,676,054) |
| Add (deduct) adjustments for: | | |
| Depreciation *(Note 7)* | **91,425** | 101,057 |
| Increase (decrease) in aggregate reserves for risks *(Note 11)* | **(9,697,545)** | 1,221,238 |
| Interest and investment income *(Notes 4 and 8)* | **(1,289,402)** | (516,728) |
| Operating income before changes in working capital | **(3,069,702)** | (870,487) |
| Add (deduct) changes in working capital, excluding cash: | | |
| Decrease in receivables from agents and others *(Note 5)* | **4,789,643** | 2,032,092 |
| Increase in prepayments *(Note 6)* | **(225,850)** | – |
| Increase in trade and other payables *(Note 9)* | **265,258** | 690,424 |
| Increase in insurance contract liabilities *(Note 10)* | **87,447** | 140,197 |
| Net Cash Provided from Operating Activities | **1,846,796** | 1,992,226 |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Increase in Retirement Trust Fund *(Note 12)* | **581,631** | 1,365,766 |
| Increase in contributions for Guaranty Fund *(Note 13)* | **737,141** | 779,558 |
| Net Cash Provided from Financing Activities | **1,318,772** | 2,145,324 |
| **CASH FLOWS FOR INVESTING ACTIVITIES** | | |
| Interest and investment income *(Notes 4 and 8)* | **1,289,402** | 516,728 |
| Additions to property and equipment *(Note 7)* | **(71,884)** | (160,712) |
| Acquisitions of financial assets *(Note 8)* | **(49,120,476)** | – |
| Net Cash Used for Investing Activities | **(47,902,958)** | 356,016 |
| **NET (DECREASE) INCREASE IN CASH** | **(44,737,390)** | 4,493,566 |
| **OPENING CASH** | **62,676,002** | 58,182,436 |
| **CLOSING CASH** *(Note 4)* | **₱17,938,612** | ₱62,676,002 |

*See Notes to Financial Statements.*

# NOTES TO FINANCIAL STATEMENTS

KCCDFI Mutual Benefit Association, Inc.
*As of and for the Years Ended December 31, 2018 and 2017*

**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 15,573 members at the end of 2018.

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 0.08% to 0.75% 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.

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.

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

**Note 2**
**Summary of Significant Accounting Policies**

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

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

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

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

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

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

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

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

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

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

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

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

In implementing PFRS 9, the Association made the following classifications:

| *Financial Assets and Liabilities* | *Category* |
|---|---|
| Cash | Fair value through profit or loss |
| Receivable from agents and others | Amortized cost |
| Investments in debt securities | Amortized cost |
| Investment in equity securities | Fair value through other comprehensive income |
| Insurance contract liabilities | Amortized cost |
| Trade and other payables | Amortized cost |

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

- *PFRS 15 Revenue from Contracts with Customers*

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

  The standard provides a single comprehensive model for revenue recognition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of PFRS 9.
The Association management does not anticipate that the application of the Standard in the future will have an impact on the Association's financial statements.

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

PAS/IAS 12 *Income Taxes*
The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

PAS/IAS 23 *Borrowing Costs*
The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

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

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

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted. The Association management does not anticipate that the application of the Standards in the future will have impact on the Association's financial statements.

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

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

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to PAS/IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so. The Association management does not anticipate that the application of the Standard in the future will have an impact on the Association's financial statements.

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

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

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

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

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

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively. The Association management does not anticipate that the application of the Standard in the future will have an impact on the Association's financial statements.

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

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

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

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

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

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

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

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

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

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

*ii.* *Classification and Subsequent Measurement*

Financial assets – Policy applicable beginning January 1, 2018
On initial recognition, a financial asset is classified as measured at: amortized cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. This classification depends on the Association's business model for managing the financial assets and on contractual terms enabling to determine whether the cash flows are solely payments of principal and interest (SPPI). The financial assets that contain an imbedded derivative are considered in their entirety to determine whether their cash flows are SPPI. Financial assets are not reclassified subsequent to their initial recognition unless the Association changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.
A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

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

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

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

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

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

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

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Association's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

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

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

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

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

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

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

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

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

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

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

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

Financial assets – Policy applicable before January 1, 2018
The Association classified its financial assets into one of the following categories: (1) loans and receivables; (2) held to maturity; (3) available for sale; and (4) at FVTPL, and within this category as: (1) held for trading; (2) derivative hedging instruments; or (3) designated as at FVTPL.

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

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

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

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

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

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

*iii.* *Derecognition*

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

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

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

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

*iv.* *Offsetting*
Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Association currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

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

*Impairment of Financial Instruments and Contract Assets*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- *Financial assets measured at amortized cost*
  The Association considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively

assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.

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

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

– *Available-for-Sale Financial Assets*
  Impairment losses on available-for-sale financial assets were recognized by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified was the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss previously recognized in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increased and the increase was related objectively to an event occurring after the impairment loss was recognized, then the impairment loss was reversed through profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale were not reversed through profit or loss.

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

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

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

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

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

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

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

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

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

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

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

*Revenue and Cost Recognition*
The Association recognizes revenue as follows:

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

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

The members' gross premium contributions are allocated as follows:

- 50% goes to the reserve for members' equity, intended for members' entitlements of equity value upon payment of the first contribution to the Association, representing 50% of the total membership dues collected;
- 35% goes to cover basic benefits of members;
- 5% goes to Guaranty Fund; and
- the remaining 10% goes to general operations, to cover administrative costs.

The Association collects its premiums through KCCDFI Mutual Benefit Association, Inc., an affiliate.

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

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

For each contract with a customer, the Association:

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

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

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

Insurance-related costs are accounted as follows:

- Changes in the required actuarial and other reserves are recognized as expense during the year.
- Plan benefits and claims paid to members, including refund of members' equity value, are recognized for benefits availed of by members/beneficiaries.
- Collection costs (representing commissions to collecting affiliate) are due and payable for every premium income recognized. Commission rates are based on IC-approved rates.

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

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

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

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

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

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

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

- *Termination Benefits*
  Termination benefits are payable when employment is terminated by the Association before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. 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 is a lessee of the building it uses as its Head Office.

The Association accounts for this lease as follows:

– Leases which transfer to the Association substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the statements of financial position at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the leased liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are directly charged against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

– Leases which do not transfer to the Association substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the statement of profit or loss on a straight-line basis over the lease term. The existing leases of all branch offices are treated as operating leases.

*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 consolidated 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.

*Subsequent Events*
Post year-end events that provide additional information about the Association's position at the reporting date (adjusting events), are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

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**Note 3**
**Significant Accounting Estimates and Judgments**

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

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

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

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

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

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

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

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

## Note 4
## Cash

This account consists of the following:

| *December 31* | **2018** | 2017 |
|---|---|---|
| Petty cash fund | **₱10,000** | ₱10,000 |
| Cash in banks – unrestricted | **2,748,612** | 48,166,002 |
| Cash in banks – restricted | **15,180,000** | 14,500,000 |
| | **₱17,938,612** | ₱62,676,002 |

The cash in banks earn interest at the prevailing market rates. Interest income earned from bank deposits amounted ₱1,234,345 in 2018 and ₱516,728 in 2017. The cash in banks – restricted include the Guaranty Fund required by the Insurance Commission to be maintained by the Association.

**Note 5**
**Receivables from Agents and Others**

This account consists of the following:

| *December 31* | **2018** | 2017 |
|---|---|---|
| Accounts receivable – agents | **₱35,964,538** | ₱40,494,520 |
| Advances to officers and employees | **161,800** | 191,632 |
| Accrued interest receivable | **193,545** | 60,175 |
| | **36,319,883** | 40,746,327 |
| Less allowance for expected credit losses (ECL) | **363,199** | – |
| | **₱35,956,684** | ₱40,746,327 |

*Nature of the Receivables*
The receivable from agent consists principally of receivables from KCCDFI. Its 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 2018. 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 ₱2,241,647 in 2018 and ₱2,582,882 in 2017.

*Write-Off of Accounts*
During the year 2017, long-standing receivables from a reinsurer and advances to resigned officers were written-off and duly liquidated with receipts 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** |

*By age of the Accounts in 2018*

| *December 31, 2018* | *Current* | *Past Due* | ***Total*** |
|---|---|---|---|
| Accounts receivable – agents | ₱35,964,538 | ₱– | **₱35,964,538** |
| Advances to officers and employees | 161,800 | – | **161,800** |
| Accrued interest receivable | 193,545 | – | **193,545** |
| | ₱36,319,883 | ₱– | **₱36,319,883** |

*Allowance for ECL*
The recorded ECL pertains to members' contributions due and uncollected and accounts receivable – others. The receivables are provided with 12-month ECL at 1% of principal for current 30 days and 34% for past due less than one year. Accounts past due for over 1 year have been provided with lifetime ECL at 100%. A total ECL of ₱363,199 was provided during the year.

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

**Note 6**
**Details of Prepayments**

| *December 31* | **2018** | 2017 |
|---|---|---|
| Dues and subscriptions | **₱108,000** | ₱– |
| Taxes and licenses | **85,850** | – |
| Uniforms | **32,000** | – |
| | **₱225,850** | ₱– |

**Note 7**
**Property and Equipment – At Cost**

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

| *December 31* | **2018** | 2017 |
|---|---|---|
| Furniture, fixtures and office equipment | **₱953,651** | ₱921,383 |
| Leasehold improvements | **111,558** | 71,942 |
| Transportation equipment | **59,000** | 59,000 |
| | **1,124,209** | 1,052,325 |
| Less accumulated depreciation | **946,753** | 855,328 |
| | **₱177,456** | ₱196,997 |

The Association is leasing the premises it is using as its Headquarters. Total lease expenses amounted ₱180,000 in 2018 and ₱220,000 in 2017.

*Reconciliation of the Movements of the Accounts*

| *December 31, 2018* | *Opening Balances* | *Additions* | *Retirement* | ***Closing Balances*** |
|---|---|---|---|---|
| **Cost** | | | | |
| Furniture, fixtures & office equipt. | ₱921,383 | ₱32,268 | ₱– | **₱953,651** |
| Transportation equipment | 59,000 | – | – | **59,000** |
| Leasehold improvements | 71,942 | 39,616 | – | **111,558** |
| | 1,052,325 | 71,884 | – | **1,124,209** |
| **Accumulated Depreciation** | | | | |
| Furniture, fixtures & office equipt. | 779,453 | 75,787 | – | **855,240** |
| Transportation equipment | 3,933 | 11,800 | – | **15,733** |
| Leasehold improvements | 71,942 | 3,838 | – | **75,780** |
| | 855,328 | 91,425 | – | **946,753** |
| **Net Book Value** | ₱196,997 | (₱19,541) | ₱ – | **₱177,456** |

| *December 31, 2017* | | | | |
|---|---|---|---|---|
| **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** |

**Note 8**
**Investments in Debt and Equity Securities**

This account consists of the following investments in:

| *December 31* | **2018** | 2017 |
|---|---|---|
| Government debt securities (treasury bills and bonds) | **₱43,120,476** | ₱– |
| Investment in BPI's Bayanihan Balanced Fund (UITF) | **5,961,600** | – |
| | **₱49,082,076** | ₱– |

*Investments in Debt Securities Accounted at Amortized Cost*
These investments were acquired through the following banks:

| *December 31* | **2018** | 2017 |
|---|---|---|
| *Treasury Bills* | | |
| Land Bank of the Philippines (LBP) | **₱18,491,198** | ₱– |
| Metropolitan Bank and Trust Company (MBTC) | **11,418,135** | – |
| *Retail Treasury Bonds* | | |
| Land Bank of the Philippines (LBP) | **13,211,143** | – |
| | **₱43,120,476** | ₱– |

The treasury bills purchased through Land Bank of the Philippines (LBP) during the year will mature in 2019 on the following dates: March 6, June 26 and December 11. These were issued at a discount. The treasury bills purchased at a discount through Metropolitan Bank and Trust Company (MBTC) will mature in 2019 on the following dates: February 6, February 13, May 29 and December 28.

The retail treasury bonds purchased through Land Bank of the Philippines (LBP) have a coupon rate at 4.875% that will mature on June 13, 2021.

The Association earned interest income from the investments amounting ₱55,057 in 2018.

*Investment in Equity Securities Accounted at Fair Value through Other Comprehensive Income (FVOCI)*
This consists of Unit Investment Trust Fund (UITF) investments in BPI's Bayanihan Balanced Fund, initially purchased at ₱6,000,000, and the fair value of the investment at the end of 2018 amounted ₱5,961,600. The decline in value of the investment, amounting ₱38,400, was recorded in the other comprehensive income for the year.

**Note 9**
**Trade and Other Payables**

This account consists of the following:

| *December 31* | **2018** | 2017 |
|---|---|---|
| Accrued expenses | **₱806,410** | ₱662,152 |
| Accrued employee's benefits | **158,750** | 37,750 |
| Accounts payable – others | **200,000** | 200,000 |
| | **₱1,165,160** | ₱899,902 |

Trade and other payables are non-interest-bearing and are generally on a 30-day or 60-day credit terms.

**Note 10**
**Insurance Contract Liabilities**

This account consists of the following:

| *December 31* | **2018** | 2017 |
|---|---|---|
| Incurred but not reported claims | **₱374,000** | ₱220,761 |
| Claims due and unpaid | **186,833** | 115,625 |
| Claims in the course of settlement | **10,000** | 147,000 |
| | **₱570,833** | ₱483,386 |

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 2018, claims reported in the months of November 2018, December 2018 and January 2019 whose date of death/claim is before November 1, 2018 are included in this category.

Claims 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.

Total basic benefits paid to members amounted ₱7,626,879 in 2018 and ₱8,198,042 in 2017.

The amount of aggregate reserves for members' equity, reserves for life policies and reserves for credit policies for the years ended December 31, 2018 and 2017, 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.

**Note 11**
**Aggregate Reserves for Unexpired Risks**

This consists of the following reserves:

| *December 31* | **2018** | 2017 |
|---|---|---|
| Aggregate reserves for members' equity | **₱36,993,693** | ₱46,708,113 |
| Aggregate reserves for credit policies | **389,823** | 359,705 |
| Aggregate reserve for life policies | **149,910** | 163,153 |
| | **₱37,533,426** | ₱47,230,971 |

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, 2018 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.

Every year, a number of members withdrew their equity from the Association. During 2018 and 2017, the total value of equity withdrawn amounted ₱6,510,266 and ₱4,904,680, respectively. The withdrawal of equity is treated as part of the benefits paid to members.

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 other income on the surrender charges amounting ₱1,196,665 during 2018 and ₱647,956 during 2017.

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

| *December 31, 2018* | *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 | 5,361,161 | (71,374) | **5,604,904** |
| Provisions during 2012 | (108,107) | 5,318,774 | 8,659 | **5,219,326** |
| Provisions during 2013 | (300,315) | 4,374,946 | (14,421) | **4,060,210** |
| Provisions during 2014 | (251,350) | 2,355,337 | 1,397 | **2,105,384** |
| Provisions during 2015 | (142,161) | (146,676) | (37,897) | **(326,734)** |
| Provisions during 2016 | 9,256 | 1,409,321 | (14,226) | **1,404,351** |
| Balances, January 31, 2017 | 332,437 | 45,521,579 | 155,717 | **46,009,733** |
| Provisions during 2017 | 27,268 | 1,186,534 | 7,436 | **1,221,238** |
| Balances, December 31, 2017 | 359,705 | 46,708,113 | 163,153 | **47,230,971** |
| Provisions during 2018 | 30,118 | (9,714,420) | (13,243) | **(9,697,545)** |
| Balances, December 31, 2018 | ₱389,823 | ₱36,993,693 | ₱149,910 | **₱37,533,426** |

**Note 12**
**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 ₱594,578 in 2018 and ₱580,282 in 2017.

**Note 13**
**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* | **2018** | 2017 |
|---|---|---|
| Opening balances | **₱14,620,363** | ₱13,840,805 |
| Contribution from members representing 5% of total premiums received | **737,141** | 779,558 |
| Closing balances | **₱15,357,504** | ₱14,620,363 |

The Guaranty Fund is funded by the restricted cash in banks (see Note 4) which is assigned to the Insurance Commission (IC).

**Note 14**
**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). Total premiums collected are as follows:

| *Years Ended December 31,* | **2018** | 2017 |
|---|---|---|
| Gross members' premium contributions on life | **₱11,361,615** | ₱12,359,995 |
| Gross members' premium contributions for credit life policies | **3,381,214** | 3,232,651 |
| | **₱14,742,829** | ₱15,592,646 |

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 Guaranty 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.

*Retirement Savings Account*
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 cumulative retirement trust fund amounted ₱30,091,720 at the end of 2018 and ₱29,510,089 at the end of 2017.

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.

*Membership Fees*
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. Total membership fees collected amounted ₱255,950 in 2018 and ₱274,900 in 2017.

**Note 15**
**General Fund**

This represents portion of the fund balance that is not restricted. In accordance with Section 408, paragraph 3 of the Insurance Code, as amended (R.A. No. 10607), a mutual benefit association shall only maintain free and unassigned surplus of not more than twenty percent (20%) of its total liabilities. Any amount in excess shall be returned to the members by way of dividends, enhancing the equity value or providing benefits in kind and other relevant services. In addition, subject to the approval of the Commissioner, a mutual benefit association may allocate a portion for capacity building and research and development, upgrading and improving operating systems and equipment, and continuing member education.

The Association's General Fund already breached the 20% threshold of its total liabilities at the end of 2018. The Association's management will propose to the Insurance Commission (IC) the establishment of special funds to absorb the excess portion of the Fund.

**Note 16**
**Details of General and Administrative Expenses**

| *Years Ended December 31* | **2018** | 2017 |
|---|---|---|
| Board and management meetings and related expenses | **₱727,701** | ₱718,246 |
| Provision for expected credit losses | **363,199** | – |
| Professional fees | **284,690** | 356,055 |
| Travel and transportation | **246,547** | 265,499 |
| Rent *(Note 7)* | **180,000** | 220,000 |
| Taxes and licenses *(Note 25)* | **163,540** | 121,084 |
| Light and water | **157,825** | 139,991 |
| Dues and subscriptions | **136,676** | 165,492 |
| Materials and supplies | **105,479** | 81,522 |
| Repairs and maintenance | **14,044** | 25,800 |
| Assistance to members | **5,000** | – |
| Insurance | **4,408** | – |
| Miscellaneous | **147,281** | 52,274 |
| | **₱2,536,390** | ₱2,145,963 |

**Note 17**
**Details of Compensation and Employees' Benefits**

| *Years Ended December 31* | **2018** | 2017 |
|---|---|---|
| Compensation and employees' benefits | **₱2,139,821** | ₱2,019,469 |
| Post-employment benefits | **121,000** | 37,750 |
| | **₱2,260,821** | ₱2,057,219 |

The post-employment benefits in 2018 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 18
## 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:

1) 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 ₱14,742,829 in 2018 and ₱15,592,646 in 2017.

2) The Head Office and branches of KCCDFI act as the collecting agents of the Association for certain collection fees. Total collection costs incurred amounted ₱1,240,718 in 2018 and ₱1,214,344 in 2017.

3) The collecting agent has unremitted collections from Association's members amounting ₱35,964,538 in 2018 and ₱40,494,520 in 2017, of which, interest is charged to the collecting agent for the period the accounts remain unremitted. Total interest earned from the receivables amounted ₱2,241,647 in 2018 and ₱2,582,882 in 2017.

4) 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* | **2018** | 2017 |
|---|---|---|
| Salaries and wages | **₱578,500** | ₱264,500 |
| Employees' benefits | **134,300** | 64,700 |
| | **₱712,800** | ₱329,200 |

## Note 19
## Fair Value Measurement

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

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

| *December 31, 2018* | *Level 1* | *Level 2* | *Level 3* | ***Total*** |
|---|---|---|---|---|
| *Financial assets* | | | | |
| Cash *(Note 4)* | ₱17,938,612 | ₱– | ₱– | **₱17,938,612** |
| Receivable from agents, etc. *(Note 5)* | – | – | 35,956,684 | **35,956,684** |
| Invstmnts in debt/equity secu. *(Note 8)* | 49,120,476 | | | **49,120,476** |
| | ₱67,059,088 | ₱– | ₱35,956,684 | **₱103,015,772** |
| *Financial liabilities* | | | | |
| Trade and other payables *(Note 9)* | ₱– | ₱– | ₱1,165,160 | **₱1,165,160** |
| Insurance contract liab. *(Note 10)* | – | – | 570,833 | **570,833** |
| Retirement trust fund *(Note 12)* | – | – | 30,091,720 | **30,091,720** |
| | ₱– | ₱– | ₱31,827,713 | **₱31,827,713** |

| *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 9)* | ₱– | ₱– | ₱899,902 | **₱899,902** |
| Insurance contract liab. *(Note 10)* | – | – | 483,386 | **483,386** |
| Retirement trust fund *(Note 12)* | – | – | 29,510,089 | **29,510,089** |
| | ₱– | ₱– | ₱30,893,377 | **₱30,893,377** |

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

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

*Fair Value Measurement for Non-Financial Assets*
The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as of December 31, 2018 and 2017.

| *December 31, 2018* | *Level 1* | *Level 2* | *Level 3* | ***Total*** |
|---|---|---|---|---|
| Property and equipment *(Note 7)* | ₱– | ₱– | ₱177,456 | **₱177,456** |
| *December 31, 2017* | | | | |
| Property and equipment *(Note 7)* | ₱– | ₱– | ₱196,997 | **₱196,997** |

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 20
## Capital Management Objectives, Policies and Procedures

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

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

*Compliance with Capitalization Requirements*
In accordance with the provisions of Chapter VII, Title 1, Section 405 of R.A. 10607, *The Amended Insurance Code*, a mutual benefit association incorporated after the effectivity of the Code shall constitute and establish a Guaranty Fund with initial amount of ₱5 million, in cash or in government securities, to answer for any valid benefit claim of any of its members. The Association has complied with this requirement by having established its Guaranty Fund of ₱15,357,504 (See Note 14) and having funded it with restricted bank deposits at the end of 2018, amounting ₱15,180,000 and the balance still co-mingled with the general fund. The Association will increase these deposits at the beginning of the year to match with the reported Guaranty Fund.

**Note 21**
**Risk Management Objectives and Policies**

The Association is exposed to a variety of financial risks, which result from both its operating and financing activities. The Association's principal financial instruments are its cash, trade and other receivables, insurance contract liabilities and trade and other payables. The existing policies and guidelines cover credit risk, liquidity risk and market risk. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Association's financial performance and financial position. The Association actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties principle.

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

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

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

The Association deals only with creditworthy counterparties duly approved by the Board of Trustees. Its maximum exposure to credit risk for the components of the statements of financial positions the carrying amounts as shown in the following table:

| *December 31, 2018* | *Neither Past Due Nor Impaired* | *Past Due But Not Impaired* | ***Total*** |
|---|---|---|---|
| Cash *(Note 4)* | ₱17,938,612 | ₱– | **₱17,938,612** |
| Receivable from agents and others *(Note 5)* | 35,956,684 | – | **35,956,684** |
| Investments in debt and equity securities *(Note 8)* | 49,120,476 | – | **49,120,476** |
| | ₱103,015,772 | ₱– | **₱103,015,772** |
| | 100% | 0.00% | **100%** |

The following table shows the credit quality by class of financial assets based on the Association's rating system:

| *December 31, 2018* | *High Grade* | *Standard Grade* | *Impaired* | ***Total*** |
|---|---|---|---|---|
| Cash *(Note 4)* | ₱17,938,612 | ₱– | ₱– | **₱17,938,612** |
| Receivable from agents & others *(Note 5)* | 35,956,684 | – | – | **35,956,684** |
| Investments in securities *(Note 8)* | – | 49,120,476 | – | **49,120,476** |
| | ₱53,895,296 | ₱49,120,476 | ₱– | **₱103,015,772** |

Financial instruments classified as "high grade" are those cash transacted with reputable local banks and receivables with no history of default on the agreed contract terms. Financial instruments classified as "standard grade" are those receivables from parties who need to be reminded of their duties. No financial assets were deemed by management as impaired.

*Market Risks*
Market risk is the possibility that changes in equity prices or interest rates will adversely affect the value of the Association's assets, liabilities or expected future cash flows. The Association has no exposure arising from complex investments since it is not engaging in high risk investments, forward contracts, hedging, and the likes, whether local or foreign transactions.

*(a)* *Price risk.*
The Association has no exposure to price risks as it has no investment in quoted equity and debt securities.

*(b)* *Interest rate risk.*
The Association's interest rate risk arises from its time deposits with banks. The Association invested in fixed rate deposits to mitigate the risks.

*(c)* *Foreign currency exchange rate risk.*
The Association is not exposed to foreign currency risks as it has no assets nor liabilities denominated in foreign currency.

*Liquidity Risks*
The Association is likewise exposed to liquidity risk, the risk that it will encounter difficulty in meeting its obligation 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 scheduled servicing payments for financial liabilities as well as its cash flows due on its day–to–day business.

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

| *December 31, 2018* | *Due in One Year* | *Due Over One Year* | ***Total*** |
|---|---|---|---|
| Trade and other payables *(Note 9)* | ₱1,165,160 | ₱– | **₱1,165,160** |
| Insurance contract liabilities *(Note 10)* | 570,833 | – | **570,833** |
| Retirement trust fund *(Note 12)* | – | 30,091,720 | **30,091,720** |
| | ₱1,735,993 | ₱30,091,720 | **₱31,827,713** |
| | 5.45% | 94.55% | **100.00%** |

## Note 22
## 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 23
## 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 24
## Authorization of Financial Statements

The Association's financial statements as of December 31, 2018, and for the year then ended, were authorized for issue by its Executive Committee on April 13, 2019.

## Note 25
## 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* | **2018** | 2017 |
|---|---|---|
| Insurance filing fee and renewal of license | **₱155,917** | ₱116,150 |
| Business permits | **6,623** | 4,934 |
| Penalties and surcharges | **1,000** | – |
| | **₱163,540** | ₱121,084 |

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