KCCDFI MUTUAL BENEFIT ASSOCIATION, INC

"Isang dekadang serbisyong SEGURADO"

ANNUAL REPORT 2019

TABLE OF CONTENTS

3 ABOUT THE COVER

4 VISION AND MISSION

5 MESSAGE TO KCCDFI MBA
Cong. Manuel Jose "Mannix" M. Dalipe
District II, Representative, Zamboanga City

6 PRESIDENT'S MESSAGE
Ellen M. Benitez
KCCDFI MBA Board of Trustees President

8 OPERATION &FINANCIAL HIGHLIGHT

10 COMMUNITY DEVELOPMENT

12 CORPORATE GOVERNANCE

23 BOARD OF TRUSTEES

24 MANAGEMENT & STAFF

25 ACTIVITIES

26 PHOTO GALLERY

31 AUDITED FINANCIAL STATEMENT

ABOUT THE COVER

In September 2009. KCCDFI Mutual Benefit Association, Inc. marked its legal birth following its registration with the Securities and Exchange Commission and licensed by Insurance Commission. Thus, allowing the Association to officially transact insurance business.

From that first step, the Association's journey has just begun. KCCDFI MBA went on to fulfill its mission by providing excellent financial and non-financial services to its members, legal dependents, and beneficiaries in the form of death benefits, hospitalization benefits, retirement savings, loan redemption, and by spearheading an outreach program.

Through the years and over the last ten years we have witnessed the biggest shifts and the various challenges which the association have gone through and continuous to move forward to help improve the quality of life of the marginalized sector.

With that, our cover symbolizes KCCDFI MBA's decade of true meaningful, compassionate and reliable services to all its clientele. And for the next ten years, KCCDFI MBA promises to do more and to do better for the interest of our members / partners.

Indeed, this is a decade to remember, - "a decade of trustworthy services to the Filipino people and beyond."

Kasanyangan Center For Community Development Foundation Incorporated
Mutual Benefit Association, Inc. (KCCDFI MBA)

VISION

"To be the best microinsurance institute of choice in the Philippines serving as as pillar of strength for the marginalized sector of society."

MISSION

KCCDFI MBA is a mutual benefit association formed:

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

Objectives

- To extend financial assistance to its members, spouse, children and parents in the form of death benefits, sickness benefits, provident savings and loan redemption assistance;
- To ensure continued access to benefits/resources by actively involving the members in the managements of the association that will include implementation of policies and procedures geared towards sustainability and improved service.

Working Values

Professionalism

Compassion for the poor

Commitment to Service

Gender sensitive

Sensitivity to the environment

Passion for Excellence

Teamwork

MESSAGE TO KCCDFI MBA

It is with great pleasure that I salute the KCCDFI Mutual Benefit Association (MBA) Inc. and its members on the occasion of you 10th Anniversary and Annual General Membership Meeting.
Truly, your theme "Isang Dekadang Serbisyong Segurado" holds true and cannot be emphazied enough.

In gallant act of compassion, the KCCDFI MBA has been making charitable works in our community. Through various financial services, the KCCDFI MBA empowers the marginalized sector economically and helps them fulfill their needs.
Your services truly made a difference in the lives of thousands of your members.
For the last ten years, You have always been their pillar of strength.
Indeed, you have taken service above self to maximum.

I am wholly supportive of all the initiatives that promotes financial inclusion beacuse I am convinced that if every Filipino has access to financial services, no matter how simple the service is, then our country will not remain poor forever.

As your representative in Congress, I am always committed to champion policies that aim to break the cycle of poverty and marginalization. But I cannot do this alone. We all must do our share to eradicate these social issues. It may be herculean task, but if we all join the fight against poverty and marginalization,
I know the Philippines can be great again.

Once again, I applaud your organization for envisioning a better future for your members. May God continue to bless you with His abundance and peace, and may He keep alive the flame that burns in your hearts with love for our country nad every Filipino.

To KCCDFI Mutual Benefit Association, Inc., I say, Mabuhay!

Congressman Manual Jose " Mannix" M. Dalipe
2nd District House of Representative, Zamboanga City

PRESIDENT'S MESSAGE

One decade down and more years to go. Indeed, Ten Years is only the beginning. So long as we work togther as a team, the best it yet to come.

In my second and final term as President of KCCDFI Mutual Benefit Association, Inc., I am proud to say that despite all the challanges and obstacles which the association have gone through, still it managed to stand up and move forward as it continues to deliver quality and affordable services to the poor and marginalized sector of the society.

Back tracking a little bit, after it being in incubation for about one and a half year under the BOAT Program, KCCDFI tapped the technical services of RIMANSI Organization for Asia and the Pacific (RIMANSI), a resource center for microinsurance to establish its own mutual benefit association (MBA)and Micro-Insurance Program. And as the cliche goes, the rest is history.

2016 was indeed the toughest year for the Association, as the membership drop off over 50%, the management and staff was retrenched, our mother institution - KCCDMFI shut down 14 branches, and our status with the Insurance Commission has become shaky. All of these challenges have prompted us to take bolder steps to reorganize, reload, change and put everything back in place. And Yes! We have conquered them all. Thank you to the Board of Trustees, the new Management and Staff, and to all the stakeholders for believing in us.

Thus, for the past ten years KCCDFI MBA continues to provide assistance to its members, spouse, children and parents through death benefits, accidental hospitalization benefits, retirement saving, and loan redemption assistance. And we are able to settle claims in 1 - 3 - 5 days.

Today, the Association continues to be in solid financial ground. Therefore, again I want to thank everyone for your valuable contributions and untiring support given to the Association throughout the years.

Lastly, in order for us to achieve our goals, let us help our community strengthen their financial status in life and let's make sure that everyone gets fair service.

Cheers to a decade filled with genuine and meaningful service to my fellow members and stakeholders.

Ellen M. Benitez
KCCDFI MBA Board of Trustee President

AREAS OF OPERATION

KCCDFI MBA has been serving ther areas of Zamboanga City and the provinces of Zamboanga Sibugay, Zamboanga Del Sur, and Zamboanga Del Norte, and Marikina. Mostly, members of the KCCDFI MBA are from Region IX, and with partnerships with other organized groups.

BRANCHES SERVED BY KCCDFI MBA

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

2019 Operations and Financial Highlight

Total Active Members

22, 435

Total Insured Individuals

68, 268

Total Amount Claims Paid

14, 103, 462

Total Assets

111, 804, 798

Total Contribution

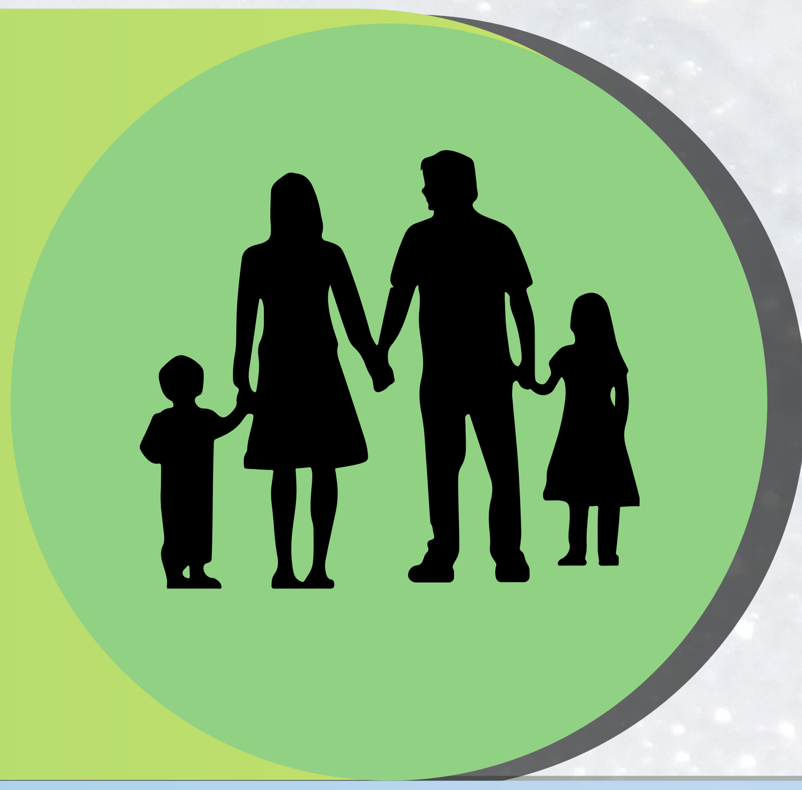
18, 516, 250

CLAIMS PAID

BASIC LIFE INSURANCE

Php 5, 751, 971.21

No. of Claims **271**



CREDIT LIFE INSURANCE

Php 1, 549, 834.62

No. of Claims **107**

REFUND OF CONTRIBUTION

Php 4, 048, 488.00

No. of Claims **3,140**

RETIREMENT SAVINGS FUND

Php 2, 753, 168.00

No. of Claims **3,140**

COMMUNITY DEVELOPMENT

In keeping with our objectives to advance the interests and promote the welfare of the poor in particular and the interest and welfare of the Philippines in general, KCCDFI MBA has conducted several financial literacy orientations with 4P's beneficiaries all over the country. As part of our expansion project, we were able to empower the 4P's members of barangays Fortune, Tumana, and Malanday of Marikina City, and some barangays in Montalban, Rizal and give them access to microinsurance.

Moreover, we have extended our expansion program here in Zamboanga City catering to 4P's beneficiaries and their families, Barangay Officials, Tanods, Barangay Volunteers, and other marginalized organized groups, covering 38 Barangays in the city.

Of support to our mother institution, KCCDMFI's community development projects, KCCDFI MBA were able to sponsor and participate in the various projects of the institution in different barangays and municipality.

Furthermore, under our social development program in education we are able to donate sets of school supplies to less fortunate children with the help of a fraternity group. And for health, the association with the assistance of the MBA Coordinators, have donated some food and utilities for the Mass Feeding Program of KCC Club at Talabaan Barangay this city, last July 22, 2019 together with some of the MBA Staff.

Concomitantly, we will continue to help improve and uplift the quality of life of the marginalized sector of society as part of our mission.

CORPORATE GOVERNANCE

For the past ten years as community servant, KCCDFI MBA continues to strive hard to institutionalize the principles of good corporate governance in all its dealings in the entire organization in order to enhance the accountability of the Association's Trustees, management and employees. In such a way we are able to uphold and protect the interest of our policy holders who had put their trust and confidence in the man and woman running the association.

CORPORATE GOVERNANCE CONFIRMATION STATEMENT

KCCCDFI MBA's Board of Trustees and Management entirely confirm its adherence to comply with the Code of Corporate Governance. As it aims to exemplify the national policy to institute corporate governance reforms anchored on its corporate values of professionalism, compassion for the poor, commitment to service, gender sensitive, sensitivity to the environment, passion for excellence, and teamwork. The Association furthermore, believe that corporate governance constitutes sound strategic business management and the best practices will guide us in the attainment of our corporate goals. In furtherance, KCCDFI MBA commit themselves to deliver honest and assured services to its clients and stakeholder partners.

BOARD OF TRUSTEES

The Board of Trustees is a body of elected and appointed members who jointly oversee the activities of the association. Evidently, it is the highest governing body of the Association who approves and sees to it that there is a proper implementation of the policies and procedures being layed down by them. A trustees office is a position of trust and confidence. Hence, their actions are primarily characterized by transparency, accountability and fairness. They are also responsible in overseeing the performance of the senior management making sure that short and long-term strategic objectives and goals of the Association are attained.

The composition of the Board of Trustees consist of seven (7) members, to wit: Five (5) trustees are elected by the active members and two (2) independent trustee who are professionals and experts in their field and are appointed by the general assembly. The Trustees are elected every three (3) years by majority of the members during its annual meeting and the independent trustees has a term limit of nine (9) years. As such they hold no executive position in the Association. Thus, our Board of Trustees has undergone training and seminar - workshops to develop their individual capabilities as leaders.

Moreover, as part of their responsibility, the Board of Trustees act as our representative in the different communities. Having them deliver first hand information directly to their fellow members and serves as our voice in echoing our services to the people. The members of the Board of Trustees are all entitled to receive a monthly allowance of Php 2,000.00 each for their attendance and expenses during meeting and center visits.

The Board hold regular meetings every month. Below is the attendance for the meeting in 2019:

Name of Trustee	Total no. of Meetings	No. of Meetings Attended	Percentage Rating
Ellen M. Benitez BOT President, KCCDFI MBA	10	10	100%
Mary Ann R. Candoy BOT Vice - President, KCCDFI MBA	10	10	100%
Araceli J. Amlih BOT Secretary, KCCDFI MBA	10	10	100%
Myrna D. Gregorio BOT Treasurer, KCCDFI MBA	10	10	100%
Mercedes G. Fasutino COO / Vice President, KCCDMFI	10	10	100%
Dezza S. Mohammad Independent Board, KCCDFI MBA	10	9	90%
Nevilyn P. Abualas Independent Board, KCCDFI MBA	10	9	90%

BOARD COMMITTEE

AUDIT COMMITEE

KCCDFI MBA's Audit Committee assists the Board of Trustees in its oversight responsibilities regarding, the association's compliance with legal and regulatory requirements, the management's compliance with existing policies and procedures and the performance of the internal and external audit functions.

It is comprised of an independent trustee, as the Chairman and two members who are selected from among the members of the Board of Trustees. In the meeting, the committee makes the necessary recommendations affecting the association's operations and regulations on internal control which would be beneficial to it. And the committee makes a timely report of its actions to the Board.

The Audit Committee of KCCDFI MBA, Inc. certified that the Association has an adequate and effective internal control system.

The Audit Committee meet quarterly or as necessary in fulfilling its responsibilities.
Below is the 2019 attendance of each member in the meeting.

Name of Trustee	No. of Audit Committee Meeting	No. of Meetings Attended	Percentage Rating
Nevilyn P. Abualas Chairman - Independent Board, KCCDFI MBA	2	2	100%
Mary Ann R. Candoy Member - BOT Vice - President, KCCDFI MBA	2	2	100%
Myrna D. Gregorio Member - BOT Treasurer, KCCDFI MBA	2	2	100%

** Term started on November 05, 2018
** Term will end on October 15, 2021

REMUNERATION COMMITTEE

The Remuneration Committee is a separate and independent body 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 of the wider employee population.

For the year 2019, the Committee have conducted two meetings to discuss and decide on the following matters: (1) The proposed adoption of the Salary Scheme 2019 of the employees, and (2) The Honorarium of the MBA Coordinators. The Committee have presented their recommendations to the Board of Trustees for approval. And the Board unanimously approved.

The Committee meetings were held on July 29, 2019 and September 23, 2019 with the details of the attendance as follows:

Name of Trustee	No. of Remuneration Committee Meetings	No. of Meetings Attended	Percentage Rating
Mercedes G. Faustino Chairman - BOT Member, KCCDFI MBA	2	2	100%
Ellen M. Benitez BOT President, KCCDFI MBA	2	2	100%
Araceli J. Amlih BOT Secretary, KCCDFI MBA	2	2	100%

NOMINATION AND ELECTION COMMITTEE

The composition of the Nomination and Election Committee, to wit:

Dezza S. Mohammad - *Chairman - Independent Trustee*

Ellen M. Benitez - *Member - BOT President*

Myrna D. Gregorio - *Member - BOT Treasurer*

For this year 2019, we do not have election because the Association hold its election every three (3) years during its Annual Meeting.

However, before and after nomination and during election, the Nomination Committee is vested sole authority to conduct and supervise the elections for the members of the Board of Trustees and other Officers and proclaim the winners. In addition, the Nomination Committee may deputize other personnel from the Head Office to perform its function when it deems necessary.

INVESTMENT COMMITTEE

As a result of the successful investment venture last year, the Board decided to formally compose the Investment Committee for consultation and strategizing investment of available funds.

The following are the appointed members of the Investment Committee:

Chairman: *Mercedes G. Faustino - BOT Member*

Members: *Ellen M. Benitez - BOT President*
Maria Teresa C. Gonzales - General Manager
Atty. Ibarra A. Malonzo - Advisory Board
Nevilyn P. Abualas - Independent Board

The Investment Committee decided to meet quarterly to ensure that the members' fund are properly invested in a good investment channel.

Below shows the attendance details:

Name of Trustee	No. of Investment Committee Meetings	No. of Meetings Attended	Percentage Rating
Mercedes G. Faustino Chairman - BOT Member, KCCDFI MBA	4	4	100%
Ellen M. Benitez BOT President, KCCDFI MBA	4	4	100%
Maria Teresa C. Gonzales General Manager, KCCDFI MBA	4	4	100%
Atty. Ibarra A. Malonzo Advisory Board, KCCDFI MBA	4	4	100%
Nevilyn P. Abualas Independent Board, KCCDFI MBA	4	4	100%

RELATED PARTY TRANSACTION COMMITTEE

The Related Party Transaction Committee is appointed and authorized by the Board of Trustees to assist the Board in fulfilling its responsibility to strengthen corporate governance and practices particularly on related party transactions.

To ensure that the Association's dealing with the public and various stakeholders are imbued with the highest standards of integrity and are in arms-length transaction, the Board has appointed its own Related Party Transaction Committee last July 29, 2019, namely:

Chairman: *Nevilyn P. Abualas - Independent Trustee*

Members: *Dezza S. Mohammad - Independent Board*
Ellen M. Benitez - BOT President

Name of Trustee	No. of RPT Meetings	No. of Meetings Attended	Percentage Rating
Nevilyn P. Abualas Chairman - Independent Trustee, KCCDFI MBA	1	1	100%
Dezza S. Mohammad Member - Independent Board, KCCDFI MBA	1	1	100%
Ellen M. Benitez BOT President, KCCDFI MBA	1	1	100%

RISK OVERSIGHT COMMITTEE

In the last quarter of 2019, the Board convened to appoint Risk Oversight Committee which are responsible to identify and evaluate risk exposures, develop risk management strategy, oversee the implementation of the risk management plan, and review and revise the plan as necessary.

After due deliberations, the Board has appointed the members of the Risk Oversight Committee, as follows:

Chairman:	*Dezza S. Mohammad*
Vice - Chairman:	*Ellen M. Benitez*
Members:	*Mary Ann R. Candoy*
	Mercedes G. Faustino
Adviser:	*Atty. Ibarra A. Malonzo*

This Committee is established in preparation for the Year 2020 and for the next 10 years.

INDEPENDENT CHECKS AND BALANCES

To ensure the soundness of our operations, KCCDFI MBA regularly practice independent checks and balances through the implementation of the following functions:

INTERNAL AUDITOR

*The internal auditor mandate, Organizational Structure and Senior Management and Board Oversight. The Internal Audit Unit is headed by **Ms. Marsha D. Villarubia**, who is under the direct supervision of the Board Audit Committee and KCCDMFI. The Internal Audit are tasked to provide independent assessment and reasonable assurance of the adequacy and effectiveness of of KCCDFI MBA's internal controls.*

EXTERNAL AUDITOR

*The Audit Committee appointed Quilab & Garsuta, CPAs and is hereby authorized to certify financial statements of the association. The External Auditor is headed by **Mr. Rico P. Quilab** was engaged in the amount of Seventy - Five Thousand Pesos (Php 75,000.00) only as professional fees inclusive of tax to conduct the external audit of the Association. The Board of Trustees affirmed the result of the Audited Financial Statement during its meeting on June 10, 2020.*

The Association is in compliance with Insurance Commission Circular no. 29-2009 dated November 10, 2009 in the selection of external auditors.

COMPANY COMPLIANCE

The Board of Trustees appointed a compliance officer, in the person of Ms. Olivia P. Antonio to ensure full compliance of the Association to laws, policies, circulars, memoranda, requirements and guidelines issued by the regulatory agencies such as Insurance Commission, Securities and Exchange Commission, Bureau of Internal Revenue and other government agencies.

CODE OF ETHICS AND BUSINESS ETHICS

KCCDFI MBA institutionalizes the highest ethical standards throught the strict implementation of the Association's Code of Conduct that outlines the policies governing the activities of the institutions, its trustees, officers, and employees. Hence, the Association adheres to the Code's specification on the fair treatment of the employees and business partners.

RELATED PARTY TRANSACTIONS

The Association established its Related Party Transaction Committee last July 29, 2019. The Committee is responsible to assist the Board in assessing material agreements of any kind with a related party in determining whether to approve, ratify, disapprove or reject a Related Party Transaction. KCCDFI MBA complies with the legal and regulatory requirements pertaining to the approval and disclosure of the Related Party Transactions. And all related party transactions are presented to the Board of Trustees for their approval and to ensure that these are conducted to the best interest of the Association, its members and stakeholders. All the actions are being presented to the general assembly during the annual meeting for ratification. Details of Related Party Transactions (RPTs) as provided in Note 19 of the Audited Financial Statement.

TRANSPARENCY AND DISCLOSURES

The Board of Trustees and the management and staff are committed to promote and ensure full disclosure, transparency and accountability. Thus, to be able to ensure wider access by the members and stakeholders, these disclosures and other corporate information are made available through the different communication tools as follows:

- ***Website** - **www.kccdfimba.com**. Both financial and non - financial informations are uploaded in the KCCDFI MBA's official website, including Corporate Governance Manual.*
- ***Leaflet** - The Association distributed leaflets containing information and latest updates of our products and services to its members during center visits and orientations.*
- ***Media** - The members of the Association can also reach us using our Facebook page (**Kccdfi Mutual Benefit Association, Inc.**) anytime and anywhere. KCDFI MBA also used to advertise its products and services through radio ads.*
- ***Hotline** - KCCDFI MBA provide members hotlines for their easy and immediate access to inquiries and notifications. Please feel fee to contact us, through these hotline numbers: 0639-555-794-477 and / or 639-555-793-476.*

BOARD PERFORMANCE EVALUATION

The Annual Performance evaluation of the Board and the Committee are being conducted to measure its compliance to the governance manual. The General Manager and the Compliance Officer are designated by the Board to establish an evaluation system to determine and measure compliance of the board, management and employees.

KCCDFI MBA has formulated an internal self and Peer Assessment and Performance Evaluation System. This is the tool being used by the board to access themselves, their peers and individual committees. This is a Likert Rating Scale with numerical scores and merit interpretations, using the following baselines.

***A.)** Qualities and Competence that the Board of Trustees possess and manifest and;*

***B.)** Performance of Duties and Responsibilities.*

STAKEHOLDERS INTEREST

The Association exists primarily for the benefits of its members and stakeholders. Furthermore, it is the primary commitment of KCCDFI MBA to pay benefits without delay to members.

MEMBERS' SATISFACTION

In ensuring members' satisfaction, KCCDFI MBA regularly interact with its members through the Association's Representative, the MBA Coordinators assigned in every branches by visiting at least 4-6 centers in a month to gather feedback and to disseminate valuable information for the benefit of the members.

Every month the MBA Coordinators' submit their reports and recommendations for our improvement and development. And based on the monthly reports, majority of the members are satisfied with our programs, products and services.

MEMBER'S HEALTH AND SAFETY

In partnership with its mother institution, KCCDMFI and KCC, the association joined their bandwagon in providing clean and potable water access to rural poor household members of the institution.

KCCDFI MBA have also sponsored and participated in the Medical Outreach and Feeding Programs of the Kasanyangan Community Club (KCC) successively held during the Nutrition Month, July 2019.

DISASTER PREPAREDNESS & FIRST AID TRAINING

The Management and staff of the association together with the KCCDMFI head office employees have eagerly participated in the fire and earthquake drill conducted by the CDRRMO Training personnel last March 15, 2019. The objectives of the training is to prepare and to protect the employees against unexpected calamities or disasters.

SUPPLIER / CONTRACTOR SELECTION CRITERIA

To ensure that engagements with suppliers / contractors are impartial and transparent, KCCDFI MBA conduct a bidding process for projects with contract amounting to Php 100, 000.00 and above, where a minimum of three (3) suppliers shall submit their proposal and business profile to the management for background check and validation of proposal. The appointed bidding committee lead the bidding and selection process and all decisions or selections are approved by the Board. The selected supplier / contractor will be issued a duly notarized contract / agreement to make the transaction binding.

ENVIRONMENTALLY - FRIENDLY VALUE CHAIN

As part of our social responsibility to take care of our mother earth, KCCDFI MBA aspire to exceed market expectations across all sustainability issues and go beyond legal compliance to proactively reduce our environmental impacts.

Thus, all management and staff commits to promoting a culture that is aware of the significant impact we have on the environment and also followed the different ways to conserve the sustainability of our environment by re-using papers, limiting the use of air condition and usage of lights.

In fact, the Association went on by giving back to nature in conducting massive tree planting during its "Arbor Day" held last June 25, 2019 at Binaloy, Curuan, Zamboanga City.

INTERACTION WITH COMMUNITIES

KCCDFI MBA recognized the important role that the community played in realizing the organization's vision and mission in empowering the marginalized sector of the community. Thus, the association got in touch with the people in the community during its outreach program in Sinoropan, Vitali, Zamboanga City by donating and handling more than 150 pairs of shoes in Sinoropan High School students last June 25, 2019. In line with this, the association also joined in the series of community development programs of the Kasanyangan Community Club (KCC) such as medical missions held last July 03, 2019 and August 07, 2019, feeding programs conducted during Nutrition Month and providing public comfort rooms in the selected communities, and have already covered 21 barangays. Further, last June 24, 2019, the association have supported the mass church wedding sponsored by its mother institution, KCCDMFI. The association also assisted its mother institution in the relief giving for the victims of typhoon Marilyn in Zamboanga City held last September 1, 2019. And the association likewise participated in the Dressmaking activity conducted by KCC last October 1-4, 2019 at Capisan, Barangay this City benefiting more than 40 clients.

ANTI-CORRUPTION PROGRAM / WHISTLE BLOWING POLICY

KCCDFI MBA is committed to observe the value of integrity in all its transactions and constantly, tried to ensure that there is a strict implementation of its policies on whistle-blowing or anti - corruption programs. This is to enable any concerned individuals to report and provide information, anonymously if he / she wishes, and even testify on matters involving the acts or omissions of the trustees, Officers, personnel, and members / stakeholders that are illegal, unethical, violate good governance policies, neglect or abuse of clients, possible fraud and corruption, and unhealthy business practices.

A process is in place to ensure all grievances and complaints are addressed, investigated fairly, and documented in a timely manner.

All Whistle-blowing reports and information are kept confidential, including the identity of the Whistle-blower, unless compelled by law or the Courts to be revealed.

Furthermore, no trustee, officers, employee or member who in good faith reports a violation of the Code shall suffer discrimination or harassment in the workplace, retaliatory acts, or adverse employment consequence.

Thus, this Whistle-blower Policy is intended to encourage and enable employees and other stakeholders to raise serious concerns within the Association before seeking resolution outside the Association.

CREDITOR'S RIGHT

KCCDFI MBA has no legal or any credit obligation to any third party, except its usual or day to day operational expenses and regulatory fees.

However, the association remain consistent in allocating enough funds to meet its obligations to the members, partners, suppliers and contractors, and other party who have provided services to the company. Hence, under the law, in the event of liquidation legal creditors are given priority.

EMPLOYEES AND MEMBER'S DEVELOPMENT PROGRAM

Annual Physical Examination

The Association's employees are given yearly medical, dental and eye care allowance of Php 10, 00.00 to undergo annual physical examination or general check-up to make sure that all employees are physically fit to work.

Training and Development

It is well-settled that the success of KCCDFI MBA weighted heavily on its human resources competence in delivering their assigned responsibilities to the clients and its enterprises with utmost candor and compassion.

Along this line, the Association continuously give and register its employees to attend different training, seminars, workshops, and other learning activities for the development and benefit of its workforce team. Moreover, apart from the training attended by staff, the Association rewardly spearhead a team building and learning tour activities for the employees together with the Board of Trustees outside Zamboanga City, to rest and recreate last August 15-21, 2019.

In view of this, below are the trainings and seminar attended by the Board of Trustees and Management and staff.

Name of Trustee	Mi-MAP Learning session on Investment Policy & Development (March 20, 2019	Mi-MAP AGMM 2019 (March 22, 2019)	Governance & AMLA Workshop (June 5-7, 2019)	2019 Management Forum: "Managing Regulatory Performance & System Risks" (June 5-7, 2019)	Accounting for Non-Accountants & Financial Literacy Training (September 6-7, 2019)	Corporate Governance & Board Committee Orientation Workshop (September 19, 2019)	Risk Reduction Management Training (October 16-17, 2019)	KCCDMFI Business Development System in Partnership & Seminar on Micro-Enterprise (October 30, 2019)	Community Organization Trainings KCCDMFI (November 20-21, 2019)
Ellen M. Benitez **BOT President, KCCDFI MBA**	✓	✓			✓	✓	✓	✓	✓
Mary Ann R. Candoy **BOT Vice - President, KCCDFI MBA**			✓		✓	✓	✓	✓	✓
Araceli J. Amlih **BOT Secretary, KCCDFI MBA**			✓		✓	✓	✓	✓	✓
Myrna D. Gregorio **BOT Treasurer, KCCDFI MBA**					✓	✓			
Mercedes G. Fasutino **COO / Vice President, KCCDMFI**	✓	✓			✓	✓	✓		
Dezza S. Mohammad **Independent Board, KCCDFI MBA**						✓			
Nevilyn P. Abualas **Independent Board, KCCDFI MBA**			✓	✓		✓			

Name of Employees	National Microinsurance Partnership and Inovation (January 22, 2019	DSWD Iner - Agency Session (April 23, 2019)	Meeting & Assessment with 4P's Marikina Key Persons (June 18-19, 2019)	Management Forum "Managing Regulatory Performance & System Risks" (July 22-24, 2019)	Accounting for Non-Accountants & Financial Literacy Training (September 6-7, 2019)	Corporate Governance & Board Committee Orientation Workshop (September 19, 2019)	Risk Reduction Management Training (October 16-17, 2019)
Maria Teresa C. Gonzales	✓	✓		✓	✓	✓	✓
Olivia P. Antonio					✓	✓	✓
Jazel U. Janubas					✓	✓	✓
Ma. Perla J. Medina	✓	✓	✓	✓	✓	✓	✓
Bernadette S. Bonifacio					✓		✓
Conchita A. Elumbra		✓			✓		✓
Joelyn S. Felisilda					✓		✓
Roel P. Manuel		✓			✓		✓

Finally, last November 30, 2019 the management and staff received some cash, tokens, certificates and plaque for their service and loyalty awards during the Employee's Night hosted by KCCDMFI.

MEMBERS

The Association is committed to provide continuing education of the members by providing them an updated information regarding its products and services during the conduct of center meeting by the MBA Coordinators.

In connection with this, the MBA Coordinator are given refreshers training last January 10, 2019 to represent the objectives and goals of the Association to the general assembly.

Further, last July 08, 2019 a financial literacy session was conducted with the participation of the 13 active MBA Coordinators. And likewise, last October 14, 2019, the Association was also able to orient and train 5 new MBA Coordinators assigned outside Zamboanga City.

Thus, in keeping our members abreast with the latest development in the MBA network, the management have scheduled a regular meeting of the MBA Coordinators every quarter to keep them updated.

Board of Trustees

ELLEN M. BENITEZ

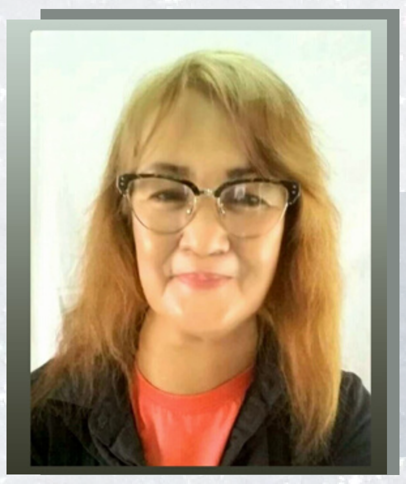
KCCDFI MBA, BOT PRESIDENT/ CHAIRMAN

46, Filipino, is a member of the Board of Trustees since October 15, 2015 and was re-elected as the President of KCCDFI MBA, Inc. last October 15, 2018. She is also a member of the KCCDFI MBA Governance Committee, Remuneration Committee, Nomination Committee, Investment Committee, and RPT Committee. She is a Bachelor of Science in Food Technology graduate and a consistent honor student in high school. Presently she is a resident of Zone 1, Cawit, Zamboanga City. She owns and manage a sari-sari store business. Ms. Benitez holds no directorship or any position in any listed company.

MARY ANN R. CANDOY

KCCDFI MBA, BOT VICE PRESIDENT,

43, Filipino, is a member of the Board of Trustees since October 15, 2018 and was elected as the Vice - President of KCCDFI MBA, Inc. last October 15, 2018. And she became a member of the Governanca Committee and Audit Committee. she is a high school graduate and a bonafide resident or Presa Curan, Zamboanga City. She is into buy and sell business. Ms. Candoy holds no directorship or any position in any listed company.



ARACELI J. AMLIH

KCCDFI MBA, BOT SECRETARY

64, Filipino, is a member of the Board of Trustees since October 15, 2018 and was elected as the Secretary of KCCDFI MBA, Inc. last October 15, 2018. she is also a member of the Remuneration Committee. She is a Bachelor of Science in Nursing undergraduate and presently resides in Km 7 San Antonio Village, Mampang, Zamboanga City. And she is into buy and sell business. Ms. Amlih holds no directorship or any position in any listed company.

MYRNA D. GREGORIO

KCCDFI MBA, BOT TREASURER

40, Filipino, is a member of Board of Trustees since October 15, 2015 and was re-elected as the Treasurer of KCCDFI MBA, Inc. last October 15, 2018. she is also a member of the KCCDFI MBA Audit Committee and Nomination Committee. She is Bachelor of Science in Community Development graduate and a consistent honor student in high school. Presently she is a resident of Zone 4, Cabaluay, Zamboanga City. she owns and manage a sari-sari store business. Ms. Gregorio holds no directorship or any position in any listed company.

MERCEDES G. FAUSTINO

KCCDMFI, COO / VICE PRESIDENT,

48, Filipino, is a member of the Board of Trustees since December 08, 2016 as Board Member up to present. She is the Chairman of the KCCDFI MBA Investment Committee and Remuneration Committee. And also a member of the Risk Oversight Committee. She is a graduate of Bachelor of Science in Commerce Major in Accounting. She is the Vice - President and Chief Operating Office of KCCDMFI. Ms. Faustino holds no directorship or any position in any listed company.

DEZZA S. MOHAMMAD

KCCDFI MBA, INDEPENDENT BOARD

40, Filipino, has been an Independent Trustee of KCCDFI MBA, Inc.'s Board of Trustees since October 15, 2015. she is the Chairman of the Nomination Committee and the Chairman of Risk Oversight Committee. And also a member of the RPT Committee. She has a degree in Bachelor of Science in Accountancy, Major in Accounting (2000), Bachelor of Science in Business Administration (2013). And she is a bonafide resident of Tetuan, Zamboanga City. Currently, she is the Chairman of the Accountancy Program in Western Mindanao State University. Ms. Mohammad holds no directorship or any position in any listed company.

NEVILYN P. ABUALAS

KCCDFI MBA, INDEPENDENT BOARD

39, Filipino, has been an Independent Trustee of KCCDFI MBA, Inc.'s Board of Trustees since October 16, 2017. She is the Chairman of the Audit Committee and RPT Committee and also a member of the Investment Committee. She has a degree in Bachelor of Science in Accountancy major in Accounting (2002) and Master's Degree on Public Administration (27 units). And she is a bonafide resident of Alfaro Street, Tetuan, Zamboanga City. She privately owns and manage an Accounting Firm. Ms. Abualas hols no directorship or any position in any listed company.

The Management & Staff

MARIA TERESA C. GONZALES
GENERAL MANAGER, KCCDFI MBA

JAZEL U. JANUBAS
ACCOUNTING SPECIALIST, KCCDFI MBA

MA. PERLA J. MEDINA
PROMOTIONS & UNDERWRITING OFFICER, KCCDFI MBA

OLIVIA P. ANTONIO
ADMIN & FINANCE SPECIALIST, KCCDFI MBA

BERNADETTE S. BONIFACIO
MIS SPECIALIST, KCCDFI MBA

CONCHITA A. ELUMBRA
INSURANCE & CLAIMS SPECIALIST, KCCDFI MBA

JOELYN S. FELISILDA
INSURANCE & CLAIMS SPECIALIST, KCCDFI MBA

ROEL P. MANUEL
DRIVER / MESSENGER, KCCDFI MBA

Activities

Employees Night

Christmas Party

Relax & Recreation

Trainings

Photo Gallery

MANAGEMENT FORUM 2019

CORPORATE GOVERNANCE

PARTNERSHIP WITH OTHER ORGANIZED GROUP

INTERACTION WITH THE COMMUNITY

CREDIT TO THE OWNER

AUDITED FINANCIAL STATEMENT 2019

STATEMENTS OF FINANCIAL POSITION

KCCDFI Mutual Benefit Association, Inc.

December 31	**2019**	2018
ASSETS		
Current Assets		
Cash and cash equivalents *(Note 4)*	**₱4,904,837**	₱17,938,612
Receivables from agents and others *(Note 5)*	**30,972,944**	35,956,684
Prepayments *(Note 6)*	**55,550**	225,850
Total Current Assets	**35,933,331**	54,121,146
Non-Current Assets		
Property and equipment and right-of-use asset – net *(Note 7)*	**1,660,905**	177,456
Investments in debt and equity securities *(Note 8)*	**74,210,562**	49,082,076
Total Non-Current Assets	**75,871,467**	49,259,532
	₱111,804,798	₱103,380,678
LIABILITIES AND FUND BALANCES		
Current Liabilities		
Trade and other payables *(Note 9)*	**₱1,360,979**	₱1,165,160
Insurance contract liabilities *(Note 10)*	**608,881**	570,833
Lease liability *(Note 7)*	**95,048**	–
Total Current Liabilities	**2,064,908**	1,735,993
Non-Current Liabilities		
Aggregate reserves for unexpired risks *(Note 11)*	**40,648,007**	37,533,426
Retirement Trust Fund *(Note 12)*	**32,459,277**	30,091,720
Lease liability *(Note 7)*	**904,385**	–
Total Non-Current Liabilities	**74,011,669**	67,625,146
Total Liabilities	**76,076,577**	69,361,139
Fund Balances		
Guaranty Fund *(Note 13)*	**16,283,317**	15,357,504
General Fund *(Note 15)*	**19,004,504**	18,700,435
Revaluation reserve on investments at FVTOCI *(Note 8)*	**440,400**	(38,400)
Total Fund Balances	**35,728,221**	34,019,539
	₱111,804,798	₱103,380,678

See Notes to Financial Statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

KCCDFI Mutual Benefit Association, Inc.

Years Ended December 31	**2019**	2018
REVENUE		
Gross members' premium contributions *(Note 14)*	**₱18,516,250**	₱14,742,829
Less contributions to Guaranty Fund *(Note 13)*	**925,813**	737,141
Net members' premium contributions	**17,590,437**	14,005,688
Interest and investment income *(Notes 4 and 8)*	**2,589,764**	1,289,402
Interest income on unremitted collections *(Note 5)*	**2,195,545**	2,241,647
Membership fees *(Note 14)*	**712,350**	255,950
Other income *(Note 16)*	**377,432**	1,196,665
Total Revenue	**23,465,528**	18,989,352
BENEFITS AND OPERATING EXPENSES		
Gross benefits and claims paid to members *(Notes 10 and 14)*	**11,350,294**	14,137,145
Increase (decrease) in aggregate reserves for unexpired risks *(Note 11)*	**3,114,581**	(9,697,545)
Collection expenses *(Note 19)*	**1,895,102**	1,240,718
Interest expense *(Note 12)*	**618,151**	594,578
Total Members' Benefits and Expenses	**16,978,128**	6,274,896
Compensation and employees' benefits *(Note 17)*	**3,193,244**	2,260,821
General and administrative expenses *(Note 18)*	**2,671,382**	2,536,390
Depreciation *(Note 7)*	**318,705**	91,425
Total Benefits and Operating Expenses	**23,161,459**	11,163,532
NET SURPLUS FOR THE YEAR	**304,069**	7,825,820
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that may not be subsequently reclassified to profit or loss:		
Changes in value of investments at FVTOCI *(Note 8)*	**440,400**	(38,400)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**₱744,469**	₱7,787,420

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN FUND BALANCES

KCCDFI Mutual Benefit Association, Inc.

December 31	**2019**	2018
GUARANTY FUND *(Note 13)*		
Opening balances	**₱15,357,504**	₱14,620,363
Contributions from members during the year	**925,813**	737,141
Closing balances	**16,283,317**	15,357,504
GENERAL FUND *(Note 15)*		
Opening balances	**18,700,435**	10,874,615
Net surplus for the year	**304,069**	7,825,820
Closing balances	**19,004,504**	18,700,435
REVALUATION RESERVE ON INVESTMENTS AT FVTOCI *(Note 8)*		
Opening balances	**(38,400)**	–
Changes in value of investments during the year	**478,800**	(38,400)
Closing balances	**440,400**	(38,400)
	₱35,728,221	₱34,019,539

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

KCCDFI Mutual Benefit Association, Inc.

Years Ended December 31	**2019**	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net surplus for the year	**₱304,069**	₱7,825,820
Add (deduct) adjustments for:		
Depreciation – property and equipment *(Note 7)*	**195,644**	91,425
Depreciation – right-of-use assets *(Note 7)*	**123,061**	–
Increase (decrease) in aggregate reserves for risks *(Note 11)*	**3,114,581**	(9,697,545)
Interest and investment income *(Notes 4 and 8)*	**(2,589,764)**	(1,289,402)
Interest on lease liability *(Note 7)*	**92,398**	–
Operating income before changes in working capital	**1,239,989**	(3,069,702)
Add (deduct) changes in working capital, excluding cash and cash equivalents:		
Decrease in receivables from agents and others *(Note 5)*	**4,983,740**	4,789,643
Decrease (increase) in prepayments *(Note 6)*	**170,300**	(225,850)
Increase in trade and other payables *(Note 9)*	**195,819**	265,258
Increase in insurance contract liabilities *(Note 10)*	**38,048**	87,447
Net Cash Provided from Operating Activities	**6,627,896**	1,846,796
CASH FLOWS FOR INVESTING ACTIVITIES		
Additions to property and equipment *(Note 7)*	**(715,119)**	(71,884)
Increase in investments in debt and equity securities *(Note 8)*	**(24,649,686)**	(49,120,476)
Interest and investment income *(Notes 4 and 8)*	**2,589,764**	1,289,402
Net Cash Used for Investing Activities	**(22,775,041)**	(47,902,958)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in Retirement Trust Fund *(Note 12)*	**2,367,557**	581,631
Increase in contributions for Guaranty Fund *(Note 13)*	**925,813**	737,141
Payment of lease principal and interest *(Note 7)*	**(180,000)**	–
Net Cash Provided from Financing Activities	**3,113,370**	1,318,772
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(13,033,775)**	(44,737,390)
OPENING CASH AND CASH EQUIVALENTS	**17,938,612**	62,676,002
CLOSING CASH AND CASH EQUIVALENTS *(Note 4)*	**₱4,904,837**	₱17,938,612

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

KCCDFI Mutual Benefit Association, Inc.

As of and for the Years Ended December 31, 2019 and 2018

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 22,435 members at the end of 2019.

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

Statement of Compliance
The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs) and Philippine Interpretations-IFRIC, except for not fully providing for the expected credit losses (ECL) on loans and other receivables as required under PFRS 9, *Financial Instruments*, beginning January 1, 2018. 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 the Board of Accountancy of the Professional Regulation Commission (BOA/PRC and the Securities and Exchange Commission (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 Revised SRC Rule 68 (2019).

The financial statements have been prepared under the assumptions that the Association operates on a going concern basis.

Basis of Preparation
The financial statements have been prepared using the historical cost basis, except for financial instruments that are measured at fair values at the end of the year, as explained in the following accounting policies. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Association takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the financial statements is determined on such a basis, except for leasing transactions that are within the scope of PFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in PAS/IAS 2 or value in use in PAS/IAS 36.

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 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 position date. These estimates and judgments affect the reported amounts of assets and liabilities and contingent liabilities as at statement of financial position 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.

Adoption of New and Amended PFRS Standards that are Effective for the Current Year

Impact of Initial Application of PFRS 16 Leases
In the current year, the Association has applied PFRS 16 that is effective for annual period that begins on or after January 1, 2019.

PFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The date of initial application of PFRS 16 for the Association is January 1, 2019.

The impact of the adoption of PFRS 16 on the Association's financial statements is described below.

Impact of PFRS 16 Leases on the Association as a Lessee
PFRS 16 changes how the Association accounts for leases previously classified as operating leases under PAS/IAS 17, which were off-balance sheet items. In applying PFRS 16 for all leases, the Association: (a) recognizes right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments; (b) recognizes depreciation of right-of-use assets and interest on lease liabilities in profit or loss; and (c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

Lease incentives (e.g. rent-free period) are recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under PAS/IAS 17 they resulted in the recognition of a lease incentive, amortized as a reduction of rental expenses generally on a straight-line basis.

Under PFRS 16, right-of-use assets are tested for impairment in accordance with PAS/IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Association has opted to recognize a lease expense on a straight-line basis as permitted by PFRS 16. This expense (if incurred) is presented within 'general and administrative expenses' in the statement of profit or loss. (See Note 18.)

Impact of PFRS 16 Leases on the Association as a Lessor
PFRS 16 does not change substantially how the Association accounts for leases as a lessor. Under PFRS 16, the Association continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. PFRS 16, however, has changed and expanded the disclosures required, in particular with regard to how the Association manages the risks arising from its residual interest in leased assets. The Association is not a lessor of properties.

Approach at Adoption of PFRS 16 Leases
The Association has applied PFRS 16 using the modified retrospective approach, with the cumulative effect of adopting PFRS 16 being recognized in equity as an adjustment to the opening balance of General Fund for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Association has elected to apply the definition of a lease from PAS/IAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as lease under PAS/IAS 17 and IFRIC 4.

The Association has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of PFRS 16, on January 1, 2019. At this date, the Association has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Association has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of PFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Association has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On transition to PFRS 16, the incremental borrowing rate applied to lease liabilities recognized under PFRS 16 was 8.50%, a rate quoted by the Association's depository bank. (See Note 7.)

Financial Impact in 2019 of the Initial Application of PFRS 16
The tables below show the amount of adjustment for each financial statement line item affected by the application of PFRS 16 for the current and prior years.

Impact on Profit or Loss

Year Ended December 31	**2019**
Increase in depreciation of right-of-use asset *(Note 7)*	**₱123,061**
Increase in finance costs *(Note 18)*	**92,398**
Decrease in rental expenses *(Note 7)*	**(180,000)**
Net Decrease in Net Surplus for the Year	**₱35,459**

Impact on Assets, Liabilities and Fund Balances

December 31	**2019**
Increase in right-of-use asset – net *(Note 7)*	**₱963,974**
Increase in lease liability *(Note 7)*	**(999,433)**
Net adjustments to General Fund	**–**
Net Effect	**(₱35,459)**

Impact on the Statement of Cash Flows
The application of PFRS 16 has an impact on the statement of cash flows of the Association as a lessee. Under PFRS 16, the Association, as a lessee, must present:

- Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities;

- Cash paid for the interest portion of a lease liability as either operating activities or financing activities, as permitted by PAS/IAS 7 (the Association has opted to include interest paid as part of financing activities); and

- Cash payments for the principal portion for a lease liability, as part of financing activities.

Under PAS/IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash used for operating activities has increased by ₱180,000, being the principal interest payments on lease liabilities, and net cash used in financing activities has increased by the same amount.

Applying Amendments to PFRS Standards and Interpretations Effective January 1, 2019
In the current year, the Association has applied a number of amendments to PFRS Standards and Interpretations issued by the IASB and concurred by the Philippine Financial Reporting Standards Council (FRSC) that are effective for an annual period that begins on or after January 1, 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to PFRS 9 Prepayment Features with Negative Compensation
The Association has adopted the amendments to PFRS 9 for the first time in the current year. The amendments to PFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (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, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

The adoption of the amendment did not have an impact on the current year's financial statements as the Association does not have prepayment features with negative compensation.

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 other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The entity applies PFRS 9 to such long-term interests before it applies PAS/IAS 28. In applying PFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests 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 to PAS/IAS 28 have had no impact on the Association as it has no associates and joint ventures.

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
The Association has adopted the amendments included in the *Annual Improvements to IFRS Standards 2015–2017 Cycle* for the first time in 2019, which adoption have had no impact on the Association in 2019.

- IAS 12 *Income Taxes* – The amendments clarify that the Association should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Association 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. These amendments however are not applicable to the Association which is a nonprofit entity.

- 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. The amendments do not affect the Association as it has no borrowings.

- IFRS 3 *Business Combinations* – The amendments clarify that when the Association obtains control of a business that is a joint operation, the Association 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. The amendments have not affected the Association as it has no transactions related to business combinations.

- IFRS 11 *Joint Arrangements* – The amendments 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 Association does not remeasure its PHI in the joint operation. The amendments have not affected the Association as it has no transactions related to join arrangements.

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. The Association 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 Association has not adopted the amendments of PAS/IAS 19 in the current year as it is not yet complying with the requirements of PAS/IAS 19 in measuring its retirement benefit obligations which it considers immaterial at the moment.

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 the Association to: (a) determine whether uncertain tax positions are assessed separately or as a group; and (b) 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. If yes, the Association should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings. If no, the Association should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

The Association is a non-profit entity and the IFRIC 23 amendment has had no impact on the Association.

New and Revised PFRS Standards in Issue but not Yet Effective

At the date of authorization of these financial statements, the Association has not applied the following new and revised PFRS Standards that have been issued but are not yet effective [and, in some cases] had not yet been adopted by the Philippine FRSC:

- IFRS 17 *Insurance Contracts*
- IFRS 10 and IAS 28 (Amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Amendments to IFRS 3 *Definition of a business*
- Amendments to IAS 1 and IAS 8 *Definition of material*
- Conceptual Framework *Amendments to References to the Conceptual Framework in IFRS Standards*

The management and the Board of Trustees do 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 17 Insurance Contracts

PFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes PFRS 4 *Insurance Contracts*. PFRS 17 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 uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures 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 January 1, 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. An exposure draft *Amendments to IFRS 17* addresses concerns and implementation challenges that were identified after IFRS 17 was published. One of the main changes proposed is the deferral of the date of initial application of IFRS 17 by one year to annual periods beginning on or after 1 January 2021. The Philippine Insurance Commission (IC) however has approved to defer the implementation of IFRS 17 (it will become PFRS 17) to January 1, 2023, per IC Circular Letter No. 218-69, dated December 28, 2018.

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.

IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. 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 management and the Board of Trustees of the Association do not anticipate that the application of these amendments may have an impact on the Association's financial statements in future periods should such transactions arise.

Amendments to IFRS 3 Definition of a 'Business'

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

Amendments to IAS 1 and IAS 8 Definition of 'Material'

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the *Conceptual Framework* that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised *Conceptual Framework*, which became effective upon publication on 29 March 2018, the IASB has also issued *Amendments to References to the* Conceptual Framework in *IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC *Framework* adopted by the IASB in 2001, the IASB *Framework* of 2010, or the new revised *Framework* of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

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.

Financial Assets
All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of Financial Assets
Debt instruments that meet the following conditions are measured subsequently at amortized cost: (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI): (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Association may make the following irrevocable election/designation at initial recognition of a financial asset: (a) the Association may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met [see (iii) below]; and (b) the Association may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch [see (iv) below].

(i) *Amortized Cost and Effective Interest Method*
The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Association recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

The Association's 'cash and cash equivalents', 'receivables from agents and others' and 'investment in debt securities' are financial assets at amortized cost.

(ii) *Debt Instruments Classified as at FVTOCI*

The investments in UITF held by the Association are classified as at FVTOCI. The investments are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these investments as a result of impairment gains or losses (see below), are recognized in profit or loss.

The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these corporate bonds had been measured at amortized cost. All other changes in the carrying amount of these corporate bonds are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When these corporate bonds are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

(iii) *Equity Instruments Designated as at FVTOCI*

On initial recognition, the Association may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

A financial asset is held for trading if: (1) it has been acquired principally for the purpose of selling it in the near term; or (2) on initial recognition it is part of a portfolio of identified financial instruments that the Association manages together and has evidence of a recent actual pattern of short-term profit-taking; or (3) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss in accordance with PFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

The Association designated all investments in equity instruments that are not held for trading as at FVTOCI on initial recognition (See Note 8).

(iv) *Financial Assets at FVTPL*
Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI [see (i) to (iii) above] are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Association designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition [see (iii) above].

- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria [see (i) and (ii) above] are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Association has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship (the Association has no hedge investments).The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other income' line item (Note 16). Fair value is determined in the manner described the Association's significant accounting policies.

Impairment of Financial Assets
The Association recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Association always recognizes lifetime ECL (expected credit losses) for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Association's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Association recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Association measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) *Significant Increase in Credit Risk*
In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Association compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Association considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Association's debtors operate, obtained from economic expert reports,

financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Association's core operations.

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

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;

- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- An actual or expected significant deterioration in the operating results of the debtor;

- Significant increases in credit risk on other financial instruments of the same debtor; and

- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Despite the foregoing, the Association assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if: (1) the financial instrument has a low risk of default; (2) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and (3) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

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

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

(ii) *Definition of Default*

The Association considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable: (1) when there is a breach of financial covenants by the debtor; or (2) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Association, in full (without taking into account any collateral held by the Association).

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

(iii) *Credit-impaired financial assets*
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events: (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event (see (ii) above); (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) *Write-Off Policy*
The Association writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Association's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

(v) *Measurement and Recognition of Expected Credit Losses (ECL)*
The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Association's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Association in accordance with the contract and all the cash flows that the Association expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with PFRS 16.

For a financial guarantee contract, as the Association is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Association expects to receive from the holder, the debtor or any other party.

If the Association has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Association measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which the simplified approach was used.

The Association recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

Derecognition of Financial Assets
The Association derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Association neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Association recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Association retains substantially all the risks and rewards of ownership of a transferred financial asset, the Association continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which the Association has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss but is transferred to retained earnings.

Financial Liabilities and Equity

Classification as Debt or Equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity Instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Financial Liabilities
All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Association, are measured in accordance with the specific accounting policies set out below.

Financial Liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) designated as at FVTPL.

A financial liability is classified as held for trading if: (a) it has been acquired principally for the purpose of repurchasing it in the near term; or (b) on initial recognition it is part of a portfolio of identified financial instruments that the Association manages together and has a recent actual pattern of short-term profit-taking; or (c) it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if: (1) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or (2) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Association's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or (3) it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other income' line item (Note 16) in profit or loss.

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

Gains or losses on financial guarantee contracts issued by the Association that are designated by the Association as at FVTPL are recognized in profit or loss.

Financial Liabilities Measured Subsequently at Amortized Cost
Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Derecognition of Financial Liabilities
The Association derecognizes financial liabilities when, and only when, the Association's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Association exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Association accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification is recognized in profit or loss as the modification gain or loss within other gains and losses.

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 as follows: (i) furniture, fixtures and office equipment, 5 years; (ii) transportation equipment, 10 years and (iii) leasehold improvements, over the estimated useful lives of the improvements or the term of the lease, whichever is shorter.

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's revenue arises primarily from the premium contributions of members and secondarily from investment-related transactions such as investment income, dividend income, interest income and other sources of revenues. Management has determined that the revenue from premium contributions of members are within the scope of PFRS 4 while the income from investments in financial instruments are within the scope of PFRS 9. Income from other sources are within the scope of PFRS 15.

(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

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 unused entitlement.

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 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 less than ten (10) regular employees and opted to accrue its retirement benefit obligation using the provisions of the R. A. 7641, *An Act Amending Article 287 of Presidential Decree No. 442, as Amended, Otherwise Known as the Labor Code of the Philippines, by Providing for Retirement Pay to Qualified Private Sector Employees in the Absence of any Retirement Plan in the Establishment.* Accrual approach is applied by calculating the expected liability as at reporting date using the employees' current compensation and number of years in service. Under this simplified method, the Corporation ignores estimated future salary increases, future service of current employees and possible in-service mortality of current employees between reporting date and date the employees are expected to retire. The Association considers its retirement benefit obligations at this time as immaterial when considered to its overall liabilities.

- *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 has applied PFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under PAS/IAS 17 and IFRIC 4.

Policy Applicable from January 1, 2019
At inception of a contract, the Association assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Association uses the definition of a lease in PFRS 16. This policy is applied to contracts entered into, on or after 1 January 2019.

Leases – The Association as Lessee
The Association assesses whether a contract is or contains a lease, at inception of the contract. The Association recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these low value leases, the Association recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Association uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Association remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Association did not make any such adjustments during the period presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Association incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under PAS/IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Association expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are usually presented as a separate line in the statement of financial position, but the Association joined its presentation of the account with its property and equipment.

The Association applies PAS/IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Rent" in the statement of profit or loss. (See Note 18.)

As a practical expedient, PFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Association has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Association allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Leases – The Association as Lessor
Leases for which the Association is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Association is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Association's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Association's net investment outstanding in respect of the leases. When a contract includes both lease and non-lease components, the Association applies PFRS 15 to allocate the consideration under the contract to each component. The Association is not a lessor of properties. The Association is not a lessor of properties.

Policy Applicable Before January 1, 2019
For contracts entered into before 1 January 2019, the Association determined 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 an office space 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.

Events After Reporting Date
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.

Note 3
Significant Accounting Estimates and Judgments

In applying the Association's accounting policies, which are described in Note 2, *Summary of Significant Accounting Policies*, the management of the Association are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognized and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical Judgements in Applying the Association's Accounting Policies
The following are the critical judgements, apart from those involving estimations (which are presented separately below), that the management of the Association have made in the process of applying the accounting policies and that have the most significant effect on the amounts recognized in the 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 periods presented.

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.

Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

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 and Cash Equivalents

This account consists of the following:

December 31	**2019**	2018
Petty cash fund	**₱10,000**	₱10,000
Cash in banks – unrestricted	**2,044,837**	2,748,612
Cash equivalents – unrestricted	**2,850,000**	–
Cash equivalents – restricted	**–**	15,180,000
	₱4,904,837	₱17,938,612

The cash in banks earn interest at the prevailing market rates. Interest income earned from bank deposits amounted ₱2,404,615 in 2019 and ₱1,234,345 in 2018.

The cash equivalents – restricted reported in 2018 was in compliance to the Guaranty Fund requirement by the Insurance Commission to be maintained by the Association (see Note 13); this amount has since been invested in financial instruments. (See Note 8.)

Note 5
Receivables from Agents and Others

This account consists of the following:

December 31	**2019**	2018
Accounts receivable – agents	**₱31,166,033**	₱35,964,538
Advances to officers and employees	**166,040**	161,800
Accrued interest receivable	**4,070**	193,545
	31,336,143	36,319,883
Less allowance for expected credit losses (ECL)	**363,199**	363,199
	₱30,972,944	₱35,956,684

Nature of the Receivables
The receivable from agent consists principally of receivables from KFI Center for Community Development Foundation, Inc. (KCCDFI), a micro-finance NGO based in Zamboanga City, whose main office and branches serve as the collecting agents of the Association. The receivables represents actual collections of agents at the end of the year but are subsequently remitted to the Association on a staggered basis. The Association recognizes the delay in the remittances of the agents of its collection of members' contributions, and as agreed, interest at 6% per annum are charged on the unremitted amount.

Total interest income earned on the unremitted collections amounted ₱2,195,545 in 2019 and ₱2,241,647 in 2018.

By age of the Accounts in 2019

December 31, 2019	*Current*	*Past Due*	***Total***
Accounts receivable – agents	₱31,166,033	₱–	**₱31,166,033**
Advances to officers and employees	166,040	–	**166,040**
Accrued interest receivable	4,070	–	**4,070**
	₱31,336,143	₱–	**₱31,336,143**

Allowance for ECL

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%.

No ECL was provided during the year as the existing allowance already covers the required ECL. Management believes the remaining receivables were not impaired at the end of the year.

Note 6
Details of Prepayments

December 31	**2019**	2018
Prepaid taxes and licenses	**₱55,550**	₱85,850
Prepaid dues and subscriptions	**–**	108,000
Prepaid uniforms	**–**	32,000
	₱55,550	₱225,850

Note 7
Property and Equipment and Right-of-Use Asset

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

December 31	**2019**	2018
Property and Equipment		
Furniture, fixtures and office equipment	**₱1,018,770**	₱953,651
Transportation equipment	**709,000**	59,000
Leasehold improvements	**111,558**	111,558
Total	**1,839,328**	1,124,209
Less accumulated depreciation	**1,142,397**	946,753
Net Book Value	**696,931**	177,456
Right-of-Use Asset		
Right-of-use asset	**1,087,035**	–
Less accumulated depreciation	**123,061**	–
Net Book Value	**963,974**	–
Total Net Book Value	**₱1,660,905**	₱177,456

Reconciliation of the Movements of the Accounts

December 31, 2019	*Opening Balances*	*Additions*	*Retirement*	***Closing Balances***
Property and Equipment				
Cost				
Furniture, fixtures & office equipt.	₱953,651	₱65,119	₱–	**₱1,018,770**
Transportation equipment	59,000	650,000	–	**709,000**
Leasehold improvements	111,558		–	**111,558**
Total	1,124,209	715,119	–	**1,839,328**
Less accumulated depreciation				
Furniture, fixtures & office equipt.	855,240	78,421	–	**933,661**
Transportation equipment	15,733	109,300	–	**125,033**
Leasehold improvements	75,780	7,923	–	**83,703**
Total	946,753	195,644	–	**1,142,397**
Net Book Value	177,456	519,475	–	**696,931**

(Carried Forward.)

(Brought Forward.) *December 31, 2019*	*Opening Balances*	*Additions*	*Retirement*	***Closing Balances***
Right-of-Use Asset				
Right-of-use asset	–	1,087,035	–	**1,087,035**
Less accumulated depreciation	–	123,061	–	**123,061**
Net Book Value	–	963,974		**963,974**
Total Net Book Value	₱177,456	₱1,483,449	₱–	**₱1,660,905**

December 31, 2018				
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**
Total	1,052,325	71,884	–	**1,124,209**
Less 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**
Total	855,328	91,425	–	**946,753**
Net Book Value	₱196,997	(₱19,541)	₱–	**₱177,456**

Leases

The Association has a lease contract for the use of its office space which covers ten (10) years, effective from November 1, 2017 to October 31, 2027, at a monthly rate of ₱15,000. In view thereof, the Association recognizes right-of-use asset for eight (8) years and it is reflected in the statement of financial position as a right-of-use asset and a lease liability. The right-of-use asset is included in property and equipment account.

The Association discounted the future lease payments at 8.50% per annum, the incremental borrowing rate based on an actual offer of a bank for a loan that is collateralized by the investment in financial instruments invested in the same bank. The observable rate was no longer adjusted for credit risk and other factors as management determined that any adjustments are immaterial.

The Association classifies its right-of-use asset to its property and equipment at ₱1,087,035, and recognized lease liability of ₱999,433, interest expense of ₱92,398 and depreciation expense of ₱123,061. Total lease payments (including interest) amounted ₱180,000 in 2019, the first year of adoption of PFRS 16.

Lease liabilities are presented in the statement of financial position as follows:

December 31,	**2019**	2018
Current	**₱95,048**	N/A
Non-current	**904,385**	N/A
	₱999,433	N/A

Each lease generally imposes a restriction that, unless there is a contractual right for the Association to sublet the asset to another party, the right-of-use asset can only be used by the Association. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Association is prohibited from selling or pledging the underlying leased assets as security.

For leases over office spaces premises the Association must keep the properties in good states of repair and return the properties in their original condition at the end of the lease. Further, the Association must insure items of property and equipment and incur maintenance fees on such items in accordance with the lease contracts.

Note 8
Investments in Debt and Equity Securities

This account consists of the following investments in:

December 31	**2019**	2018
Investment in debt securities at amortized cost	**₱63,770,162**	₱43,120,476
Investment in equity securities at FVTOCI	**10,440,400**	5,961,600
	₱74,210,562	₱49,082,076

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

December 31	**2019**	2018
Treasury Bills		
Land Bank of the Philippines (LBP)	**₱16,438,788**	₱18,491,198
Metropolitan Bank and Trust Company (MBTC)	**34,126,216**	11,418,135
Total	**50,565,004**	29,909,333
Retail Treasury Bonds		
Land Bank of the Philippines (LBP) – unrestricted	**5,005,158**	5,011,143
Land Bank of the Philippines (LBP) – restricted	**8,200,000**	8,200,000
	₱63,770,162	₱43,120,476

The Association earned interest income from the investments amounting ₱185,149 in 2019 and ₱55,057 in 2018.

Treasury Bills
The treasury bills represent short-term, zero-coupon investments in quoted government debt securities which are issued at a discount on its face value. The treasury bills purchased through LBP will mature on January 15 and March 4, 2020. The treasury bills purchased through MBTC will mature on January 8, January 29, February 19, March 4, April 29, May 20, June 3, and November 18, 2020.

The rollforward analysis of this account is as follows:

December 31	**2019**	2018
Face value	**₱50,754,000**	₱30,716,000
Net discount	**(188,996)**	(806,667)
Carrying Amount	**₱50,565,004**	₱29,909,333

Retail Treasury Bonds
The retail treasury bonds purchased through Land Bank of the Philippines (LBP) have a coupon rate at 4.875% and 5.035% that will mature on June 13, 2021.

The rollforward analysis of the unrestricted account is as follows:

December 31	**2019**	2018
Face value	**₱5,000,000**	₱5,000,000
Net premium	**5,158**	11,143
Carrying Amount	**₱5,005,158**	₱5,011,143

Restrictions on Investments in Debt Securities
The Association assigns to the Insurance Commission (IC) its investments in debt securities to guaranty the benefits and security of policyholders and creditors of the Association, in accordance with the provisions of The Amended Insurance Code (R.A. No. 10607). The Association assigned a retail treasury bond purchased through LBP with face value of ₱8,580,000, on January 17, 2020, and allocates portion of its investment in treasury bills in 2019 to fully cover the Guaranty Fund of ₱16,283,317. (See Note 13.) In 2018, portion of cash in banks was assigned to IC. (See Note 4.)

Investment in Equity Securities Accounted at Fair Value through Other Comprehensive Income (FVTOCI)
This consists of Unit Investment Trust Fund (UITF) investments in BPI's Bayanihan Balanced Fund, initially purchased at ₱10 million, with fair value at the end of 2019 amounted ₱10,440,400. The increase in value of the investment, amounting ₱440,400, was recorded in the other comprehensive income for the year.

Note 9
Trade and Other Payables

This account consists of the following:

December 31	**2019**	2018
Accrued expenses	**₱866,646**	₱806,410
Accrued employees' benefits	**294,333**	158,750
Accounts payable – others	**200,000**	200,000
	₱1,360,979	₱1,165,160

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	**2019**	2018
Incurred but not reported claims	**₱244,175**	₱374,000
Claims due and unpaid	**219,337**	186,833
Claims in the course of settlement	**145,369**	10,000
	₱608,881	₱570,833

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 2019, claims reported in the months of November 2019, December 2019 and January 2020 whose date of death/claim is before November 1, 2019 are included in this category.

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. 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. Resisted or denied claims, if any, are claim benefit applications whose benefit payments are being contested/resisted by the Association due to infraction(s) of the Association's Rules and Regulations.

The amount of aggregate reserves for members' equity, reserves for life policies and reserves for credit policies for the years ended December 31, 2019 and 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.

Total basic and optional benefits paid to members amounted ₱7,301,806 in 2019 and ₱7,626,879 in 2018.

Note 11
Aggregate Reserves for Unexpired Risks

This consists of the following reserves:

December 31	**2019**	2018
Aggregate reserves for members' equity	**₱39,959,603**	₱36,993,693
Aggregate reserves for credit policies	**488,889**	389,823
Aggregate reserves for life policies	**199,515**	149,910
	₱40,648,007	₱37,533,426

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

December 31, 2019	*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**
Provisions during 2017	27,268	1,186,534	7,436	**1,221,238**
Provisions during 2018	30,118	(9,714,420)	(13,243)	**(9,697,545)**
Balances, January 1, 2019	389,823	36,993,693	149,910	**37,533,426**
Provisions during 2019	99,066	2,965,910	49,605	**3,114,581**
Balances, December 31, 2019	₱488,889	₱39,959,603	₱199,515	**₱40,648,007**

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, 2019 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.

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 ₱346,715 during 2019 and ₱541,981 during 2018.

Note 12
Retirement Trust Fund

The ₱5.00 contributions for retirement savings fund (See Note 14.) and any interest accruals thereon 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 fund incurs interest at 2% per annum.

The cumulative retirement trust fund amounted ₱32,459,277 at the end of 2019 and ₱30,091,720 at the end of 2018. Interest incurred amounted ₱618,151 in 2019 and ₱594,578 in 2018.

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.

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. The Fund is increased by the 5% contributions from members.

The following is the accounting of the Fund:

December 31	**2019**	2018
Opening balances	**₱15,357,504**	₱14,620,363
Contribution from members representing 5% of total premiums received	**925,813**	737,141
Closing balances	**₱16,283,317**	₱15,357,504

The Guaranty Fund is funded by the restricted investments in 2019 (See Note 8.) and by investments and cash in bank in 2018 (See Notes 4 and 8).

Note 14
Members' Premium Contributions

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,	**2019**	2018
Gross members' premium contributions on life	**₱13,547,594**	₱11,361,615
Gross members' premium contributions for credit life policies	**4,968,656**	3,381,214
	₱18,516,250	₱14,742,829

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.

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.

Every year, a number of members withdrew their equity from the Association. During 2019 and 2018, the total value of equity withdrawn amounted ₱4,048,488 and ₱6,510,266, respectively. The withdrawal of equity is treated as part of the benefits paid to members.

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 ₱712,350 in 2019 and ₱255,950 in 2018.

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 2019. The Association's management however has not yet assigned the excess surplus but will propose to the Insurance Commission (IC) the establishment of special funds to absorb the excess portion of the Fund.

Note 16
Details of Other Income

Years Ended December 31	**2019**	2018
Penalties and surcharges	**₱346,715**	₱542,165
Others	**30,717**	654,500
	₱377,432	₱1,196,665

Note 17
Details of Compensation and Employees' Benefits

Years Ended December 31	**2019**	2018
Compensation and employees' benefits	**₱3,057,661**	₱2,139,821
Post-employment benefits	**135,583**	121,000
	₱3,193,244	₱2,260,821

The post-employment benefits in 2019 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. The Association has 8 regular employees at the end of 2019.

Note 18
Details of General and Administrative Expenses

Years Ended December 31	**2019**	2018
Board and management meetings and related expenses	**₱745,394**	₱727,701
Professional fees	**338,855**	284,690
Dues and subscriptions	**328,718**	136,676
Travel and transportation	**278,450**	246,547
Taxes, licenses and fees *(Note 26)*	**203,465**	163,540
Light and water	**156,224**	157,825
Members' expenses	**106,373**	5,000
Interest expense on lease liability *(Note 7)*	**92,398**	–
Materials and supplies	**78,378**	105,479
Service fees	**40,400**	500
Repairs and maintenance	**23,884**	14,044
Insurance	**16,337**	4,408
Provision for expected credit losses	**–**	363,199
Rent *(Note 7)*	**–**	180,000
Miscellaneous	**262,506**	146,781
	₱2,671,382	₱2,536,390

Note 19
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 KFI Center for Community Development Foundation, Inc. (KCCDFI). Total annual gross members' premium contributions for life and credit life policies amounted ₱18,516,250 in 2019 and ₱14,742,829 in 2018. (See Note 14.)

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 ₱1,895,102 in 2019 and ₱1,240,718 in 2018.

3) The collecting agent has unremitted collections from Association's members amounting ₱31,166,033 in 2019 and ₱35,964,538 in 2018, of which, interest is charged to the collecting agent for the period the accounts remain unremitted. Total interest earned from the receivables amounted ₱2,195,545 in 2019 and ₱2,241,647 in 2018. (See Note 5.)

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	**2019**	2018
Compensation and employees' benefits	**₱548,700**	₱712,800
Post-employment benefits	**32,250**	27,500
	₱580,950	₱740,300

Note 20
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 2019 statement of financial condition but for which fair value is disclosed.

December 31, 2019	*Level 1*	*Level 2*	*Level 3*	***Total***
Financial assets				
Cash and cash equivalents *(Note 4)*	₱4,904,837	₱–	₱–	**₱4,904,837**
Receivable from agents, etc. *(Note 5)*	–	–	30,972,944	**30,972,944**
Invstmnts in debt/equity secu. *(Note 8)*	74,210,562			**74,210,562**
	₱79,115,399	₱–	₱30,972,944	**₱110,088,343**
Financial liabilities				
Lease liability *(Note 7)*	₱–	₱–	₱999,433	**₱999,433**
Trade and other payables *(Note 9)*	₱–	₱–	₱1,360,979	**₱1,360,979**
Insurance contract liab. *(Note 10)*	–	–	608,881	**608,881**
Retirement trust fund *(Note 12)*	–	–	32,459,277	**32,459,277**
	₱–	₱–	₱35,428,570	**₱35,428,570**
December 31, 2018				
Financial assets				
Cash and cash equivalents *(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)*	49,082,076			**49,082,076**
	₱67,020,688	₱–	₱35,956,684	**₱102,977,372**
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**

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments equal their fair values. The fair values of the financial assets and financial liabilities included in Level 3 above which are not traded in an active market is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counter-parties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument. When the Association uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

Fair Value Measurement for Non-Financial Assets
The table in the following page shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as of December 31, 2019 and 2018.

December 31, 2019	*Level 1*	*Level 2*	*Level 3*	***Total***
Property, eqpt and ROU asset *(Note 7)*	₱–	₱–	₱1,660,905	**₱1,660,905**
December 31, 2018				
Property and equipment *(Note 7)*	₱–	₱–	₱177,456	**₱177,456**

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 21
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 ₱16,283,317 (See Note 13.) and having funded it with restricted investments in debt securities at the end of 2019, amounting ₱16,740,000 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 22
Risk Management Objectives and Policies

The Association is exposed to various risks in relation to financial instruments. The Association's principal financial instruments are its cash and cash equivalents (Note 4), receivables from agents and others (Note 5), investments in debt and equity securities (Note 8), trade and other payables (Note 9) and insurance contract liabilities (Note 10). The main types of risks are insurance risk, credit and concentration risks, market risk and liquidity risk. The Association is not exposed to foreign currency risk since it has no foreign currency deposits. In 2019, the Association purchased financial instruments as part of its investment strategies. The Association is now exposed to investment risks beginning 2019.

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 the risk that the actual claims and benefit payments exceed the carrying amount of recognized insurance liabilities. This situation is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated and subsequent development of long-term claims. Therefore, the objective of the Association is to ensure that sufficient reserves are available to cover these liabilities. The amount of reserves set-up in the books is computed by the Actuarial Consultant and monitored on a regular basis.

Credit and Concentration Risks/Investment Risk
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 Association is exposed to credit risk from financial assets including its cash held in banks, trade and other receivables and investments in financial instruments.

The credit risk in respect of cash balances held with banks and time deposits with banks are managed via diversification of bank deposits and are only with major reputable financial institutions and are regularly monitored. Trade receivables consist of premiums receivable from active members and from the unremitted premium collections by the agent-affiliate. The Association does not hold any security on the trade and other receivables balance and the accounts are monitored on an ongoing basis with the result that the Association's exposure to impairment is not significant.

The investment risk related to investments in financial instruments represents the exposure to loss resulting from cash flows from invested assets being less than the cash flows required to meet the obligations of the expected policy and contract liabilities and the necessary return on investments. To maintain an adequate yield to match the interest necessary to support future policy liabilities, the Board of Trustees is investing only on Government financial instruments which are fairly safe investments.

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 position is the carrying amounts as shown in the following table:

December 31, 2019	*Neither Past Due Nor Impaired*	*Past Due But Not Impaired*	*Total*
Cash and cash equivalents *(Note 4)*	₱4,904,837	₱–	**₱4,904,837**
Receivable from agents and others *(Note 5)*	30,972,944	–	**30,972,944**
Investments in debt and equity securities *(Note 8)*	74,210,562	–	**74,210,562**
	₱110,088,343	₱–	**₱110,088,343**
	100%	0.00%	**100%**

December 31, 2018	Neither Past Due Nor Impaired	Past Due But Not Impaired	Total
Cash and cash equivalents *(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)*	49,082,076	–	**49,082,076**
	₱102,977,372	₱–	**₱102,977,372**
	100%	0.00%	**100%**

Credit Quality by Class of Financial Assets Based on the Association's Rating System

December 31, 2019	High Grade	Standard Grade	Impaired	Total
Cash and cash equivalents *(Note 4)*	₱4,904,837	₱–	₱–	**₱4,904,837**
Receivable from agents & others *(Note 5)*	30,972,944	–	–	**30,972,944**
Investments in securities *(Note 8)*	–	74,210,562	–	**74,210,562**
	₱35,877,781	₱74,210,562	₱–	**₱110,088,343**
December 31, 2018				
Cash and cash equivalents *(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)*	–	49,082,076	–	**49,082,076**
	₱53,895,296	₱49,082,076	₱–	**₱102,977,372**

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 its investments in quoted equity and debt securities are of fixed interest rates.

(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

Liquidity risk is that the Association might be unable to meet its obligations. 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 data used for analyzing these cash flows is consistent with that used in the contractual maturity analysis in the following table. Net cash requirements are compared to available cash position in order to determine headroom or any shortfalls. This analysis shows that available cash position is expected to be sufficient over the lookout period.

The Association considers its expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade receivables. The Association's existing cash resources and trade receivables (see tables in the preceding page) significantly exceed the current cash outflow requirements. Cash flows from trade and other receivables are all contractually due within six months.

Maturity Profile of the Association's Financial Liabilities

December 31, 2019	*Due in One Year*	*Due Over One Year*	***Total***
Lease liability *(Note 7)*	₱95,048	₱904,385	**₱999,433**
Trade and other payables *(Note 9)*	₱1,360,979	₱–	**₱1,360,979**
Insurance contract liabilities *(Note 10)*	608,881	–	**608,881**
Retirement trust fund *(Note 12)*	–	32,459,277	**32,459,277**
	₱2,064,908	₱33,363,662	**₱35,428,570**
	5.83%	94.17%	**100.00%**

Note 23
Commitments and Contingencies

There are recognized provisions in the statements of financial position that arise in the normal course of business operations. There may also have been commitments and contingencies that arose in the normal course of business that were not reflected in the Association's financial statements. Management anticipates no material losses, if any, that may arise from these commitments and contingencies, and these losses, if any, will not materially affect its financial statements.

Note 24
Events After Reporting Date – Onslaught of the Coronavirus Disease (2019)

The World Health Organization (WHO) declared the Coronavirus Disease (2019) (COVID-19) outbreak a pandemic on March 11, 2020 to signify its severity and global coverage and urged countries to take 'urgent and aggressive action.' The outbreak was first noticed in China and then in Europe (particularly in Spain, Italy and France) where multiple deaths by the thousands were reported. In the Philippines, there were already 13,434 total confirmed cases, 846 deaths, and 3,000 recoveries as of May 21, 2020.

As the pandemic began its spread throughout the world, several countries have taken a variety of measures from mass testing, travel/border restrictions, to lockdowns in a bid to contain the virus. Governments and central banks have likewise been adjusting the monetary and fiscal policies to mitigate the economic impact of the pandemic. It is anticipated that the pandemic will translate into a world-wide economic crisis and may eventually lead to social and political crisis.

Predicting the impact of COVID-19 pandemic in the Philippines is difficult to make at this time because much will depend on the spread of the disease and whether the measures undertaken by the Government will successfully contain its spread. Initial results of the month-long community quarantine (CQ) and the extended community quarantine (ECQ) however indicated that, except for the National Capital Region (NCR), cities and provinces have so far contained the spread of the virus in their areas. But a second wave of infection is anticipated as had happened in China and Korea, and the Philippine Government may continue to impose CQs or ECQs.

Under the present scenario, it is anticipated that the impact on the economy will likely manifest in a sharp drop in overall domestic consumer demand for nonessential goods and services. Demand for food, medical assistance and other essential items is expected to rise, but this would not offset the lower demand for nonessential goods such as apparel and various services. Remittances from overseas Filipino workers are expected to slow down due to layoffs and delayed salary payments of Filipino OFWs especially in countries that are also affected by COVID-19. The National Economic and Development Authority (NEDA), in its March 19, 2020 report Addressing the Social and Economic Impact of the COVID-19 Pandemic, estimated that the adverse impact of COVID-19 will be felt by the country until June 2020, and that the simultaneous adverse effects on the supply and demand side of the economy will result in the reduction of the Philippine's real GDP growth to -0.06 to 4.3 % in 2020, unless mitigating measures are effectively implemented.

Projecting the impact of COVID-19 on the operations of the Association is presently daunting and difficult. Clearly, it is still too early to say how long will the infection last; whether there will be return waves; whether the Government will continue to impose CQs or ECQs. Besides, this assessment was made at a time when all of the Company's human resources are still in quarantine. The Association extended the grace period for the payment of insurance premiums/contributions of the members by another 31 days per Insurance Commission's CL No. 2020-18 & CL No. 2020-25.

The Board of Trustees will endeavor to perform full assessments of the impact of COVID-19 on its overall operations as soon as it is able to return the Association to full operations. The Board of Trustees also has determined that the impact of COVID-19 will be felt in 2020 and that there have been no adjustments necessary on its 2019 financial statements.

Note 25
Authorization of Financial Statements

The Association's financial statements as of December 31, 2019, and for the year then ended, were authorized for issue by its Executive Committee on May 22, 2020.

Note 26
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	**2019**	2018
Insurance filing fee and renewal of license	**₱146,450**	₱155,917
Land registration and related fees	**31,212**	–
Documentary stamp	**18,210**	–
Business permits	**7,149**	6,623
Motor vehicle renewal	**444**	–
Penalties and surcharges	**–**	1,000
	₱203,465	₱163,540

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