

**Kazama Grameen (KGI) Mutual
Benefit Association (KGI-MBA) Inc.
(A Nonstock, Not-for-profit Association)**

Financial Statements
December 31, 2016 and 2015

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Kazama Grameen (KGI) Mutual Benefit Association (KGI-MBA) Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Kazama Grameen (KGI) Mutual Benefit Association (KGI-MBA) Inc. (a non-stock, not-for-profit association) (“the Association”), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in fund balance and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in Annual Report for the year ended December 31, 2016, but does not include the financial statements and our auditor's report thereon. The Annual Report for the year ended December 31, 2016 is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.



In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 21 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Kazama Grameen (KGI) Mutual Benefit Association (KGI-MBA) Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Bernalette L. Ramos

Partner

CPA Certificate No. 0091096

SEC Accreditation No. 0926-AR-2 (Group A),

June 16, 2016, valid until June 16, 2019

Tax Identification No. 178-486-666

BIR Accreditation No. 08-001998-81-2015,

May 12, 2015, valid until May 11, 2018

PTR No. 5908748, January 3, 2017, Makati City

April 12, 2017



**KAZAMA GRAMEEN (KGI) MUTUAL BENEFIT ASSOCIATION
(KGI-MBA) INC.
(A Nonstock, Not-for-Profit Association)**

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2016	2015
ASSETS		
Cash (Notes 6 and 19)	₱25,420,902	₱17,822,497
Short-term investments (Notes 7 and 19)	32,288,383	28,759,119
Loans and receivables (Notes 8, 18 and 19)	804,265	5,287,220
Property and equipment - net (Note 9)	115,787	456,409
Prepayments and other assets (Note 10)	915,843	1,064,057
Total Assets	₱59,545,180	₱53,389,302
LIABILITIES AND FUND BALANCE		
Liabilities		
Insurance contract liabilities (Note 11)	₱32,529,284	₱28,111,112
Accrued expenses and other liabilities (Notes 12 and 19)	11,927,513	3,362,016
Total Liabilities	44,456,797	31,473,128
Fund Balance		
Appropriated fund balance (Note 19)	10,388,693	9,279,020
Unappropriated fund balance	4,699,690	12,637,154
Total Fund Balance	15,088,383	21,916,174
	₱59,545,180	₱53,389,302

See accompanying Notes to Financial Statements.



**KAZAMA GRAMEEN (KGI) MUTUAL BENEFIT ASSOCIATION
(KGI-MBA) INC.
(A Nonstock, Not-for-Profit Association)**

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2016	2015
REVENUE		
Gross premiums on insurance contracts (Note 13)	₱22,193,450	₱24,969,475
Interest income (Note 14)	1,107,458	1,067,219
Surrender charge (Note 13)	–	2,254,425
Other income	144,048	87,261
	23,444,956	28,378,380
BENEFITS, CLAIMS, AND EXPENSES (Note 11)		
Gross change in insurance contract liabilities	4,326,262	4,926,731
Gross insurance contract benefits and claims paid	10,745,645	11,357,759
Insurance benefits and claims	15,071,907	16,284,490
GENERAL AND ADMINISTRATIVE EXPENSES (Note 15)		
	15,140,948	7,536,243
	30,212,855	23,820,733
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE) BEFORE PROVISION FOR FINAL TAX		
	(6,767,899)	4,557,647
PROVISION FOR FINAL TAX (Note 17)	(59,892)	(67,944)
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)		
	(6,827,791)	4,489,703
OTHER COMPREHENSIVE INCOME		
	–	–
TOTAL COMPREHENSIVE INCOME (LOSS)	(₱6,827,791)	₱4,489,703

See accompanying Notes to Financial Statements.



**KAZAMA GRAMEEN (KGI) MUTUAL BENEFIT ASSOCIATION
(KGI-MBA) INC.
(A Nonstock, Not-for-Profit Association)**

STATEMENTS OF CHANGES IN FUND BALANCE

	Appropriated Fund Balance (Note 19)	Unappropriated Fund Balance (Note 19)	Total
At January 1, 2016	₱9,279,020	₱12,637,154	₱21,916,174
Excess of expenses over revenue	-	(6,827,791)	(6,827,791)
Appropriation during the year	1,109,673	(1,109,673)	-
At December 31, 2016	₱10,388,693	₱4,699,690	₱15,088,383
At January 1, 2015	₱8,030,546	₱9,395,925	₱17,426,471
Excess of revenue over expenses	-	4,489,703	4,489,703
Appropriation during the year	1,248,474	(1,248,474)	-
At December 31, 2015	₱9,279,020	₱12,637,154	₱21,916,174

See accompanying Notes to Financial Statements.



**KAZAMA GRAMEEN (KGI) MUTUAL BENEFIT ASSOCIATION
(KGI-MBA) INC.
(A Nonstock, Not-for-Profit Association)**

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses (expenses over revenue)		
before provision for final tax	(₱6,767,899)	₱4,557,647
Adjustments for:		
Provision for probable losses (Note 15)	8,537,602	1,494,497
Depreciation (Notes 9 and 15)	420,276	476,659
Interest income (Notes 6, 7, 14 and 16)	(1,107,458)	(1,067,219)
Cash generated from operations before changes in working capital	1,082,521	5,461,584
Decrease (increase) in:		
Loans and receivables	4,490,843	54,780
Prepayments and other assets	148,214	(72,399)
Increase (decrease) in:		
Insurance contract liabilities	4,418,172	4,926,731
Accrued expenses and other liabilities	27,895	(198,599)
Net cash generated from operations	10,167,645	10,172,097
Final taxes paid	(59,892)	(67,944)
Net cash flows provided by operating activities	10,107,753	10,104,153
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,099,570	1,093,112
Acquisitions of property and equipment (Note 9)	(79,654)	(128,245)
Availments of short-term investments (Note 7)	(32,288,383)	(28,759,119)
Maturities of short-term investments (Note 7)	28,759,119	24,355,550
Net cash flows used in investing activities	(2,509,348)	(3,438,702)
NET INCREASE IN CASH	7,598,405	6,665,451
CASH AT THE BEGINNING OF THE YEAR	17,822,497	11,157,046
CASH AT THE END OF THE YEAR (Note 6)	₱25,420,902	₱17,822,497

See accompanying Notes to Financial Statements.



**KAZAMA GRAMEEN (KGI) MUTUAL BENEFIT ASSOCIATION
(KGI-MBA) INC.**

(A Nonstock, Not-for-Profit Association)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Kazama Grameen (KGI) Mutual Benefit Association (KGI-MBA) Inc. (the Association) is a non-stock, not-for-profit organization registered with the Securities and Exchange Commission (SEC) on September 23, 2011, with SEC Reg. No. CN201117039, primarily to advance the interest and promote the welfare of its members in particular and the interest and welfare of the Philippines in general.

On March 14, 2012, the Association obtained its license to offer life and health insurance to all Kazama Grameen Inc.'s (KGI) members. Since its approval, the Association focused on the campaign and information dissemination of its insurance products to branches, members and employees.

On November 2, 2012, the Insurance Commission approved the Association's Implementing Rules and Regulations governing the benefits under the Certificate of Membership to members or his/her beneficiaries.

On July 1, 2013, the Association renewed its license with the Insurance Commission (IC) to operate as a mutual benefit association providing microinsurance benefits to all members of KGI.

As a nonstock, not-for-profit and mutual benefit association, the Association is exempt from income tax with respect to income obtained as an incident to its operations as provided under the National Internal Revenue Code of 1997 as amended by Republic Act 8424 known as the Comprehensive Tax Reform Program by the Bureau of Internal Revenue.

The Association's registered office, which is also its principal place of business, is Block 12, Lot 25, Sta. Monica Subdivision, Matain, Subic, Zambales.

The accompanying financial statements of the Association were approved and authorized for issue by the Board of Trustees (BOT) on April 12, 2017.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

The Association's financial statements have been prepared on a historical cost basis. The financial statements are presented in Philippine Peso (₱), which is the Association's functional and presentation currency. All amounts are rounded to the nearest peso, unless otherwise indicated.

Statement of Compliance

The financial statements of the Association have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).



3. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS and Philippine Accounting Standards (PAS) which became effective beginning January 1, 2016. The adoption of these new and amended standards did not have any significant impact on the financial statements of the Association.

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures, Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Joint Arrangements, Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Presentation of Financial Statements, Disclosure Initiative*
- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Separate Financial Statements, Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
 - Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*
 - Amendment to PFRS 7, *Financial Instruments: Disclosures, Servicing Contracts*
 - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
 - Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue*
 - Amendment to PAS 34, *Interim Financial Reporting, Disclosure of Information 'Elsewhere in the Interim Financial Report'*

Future Changes in Accounting Policies

The Association has not applied the succeeding amended PFRS which are not yet effective for the year ended December 31, 2016. Unless otherwise indicated, the succeeding amended PFRS will not significantly impact the financial statements:

Effective beginning on or after January 1, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*
- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

Application of amendments will result in additional disclosures in the 2017 financial statements of the Association.



- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

Effective January 1, 2018

- PFRS 9, *Financial Instruments*
PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Association's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Association's financial liabilities. The Association is currently assessing the impact of adopting this standard.

- PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Association is currently assessing the impact of PFRS 15 and plans to adopt the new standards on the required effective date.

Effective January 1, 2019

- PFRS 16, *Leases*
Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15, *Revenue from Contracts with Customers*. When adopting PFRS 16, an entity is permitted to use either a full



retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Association is assessing the impact of PFRS 16 and plans to adopt the new standard on the required effective date.

Deferred

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

4. Summary of Significant Accounting Policies

Cash

Cash includes cash on hand and in banks. These are carried in the statements of financial position at face amount. Cash in banks earn interest based on the prevailing bank deposit rates.

Short-term Investments

Short-term investments are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three months but less than one year from dates of placement. These earn interests at the respective short-term investment rates.

Financial Instruments

Date of recognition

The Association recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the trade date.

Initial recognition

Financial instruments within the scope of PAS 39 are classified as either financial assets or liabilities at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets and other financial liabilities, as appropriate. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Association determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

Financial instruments are recognized initially at fair value of the consideration given. The fair values of the consideration given are determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities. The initial measurement of financial instruments, except for those designated at FVPL, includes transaction costs.

As of December 31, 2016 and 2015, the Association's financial instruments are classified as loans and receivables and other financial liabilities.

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:

- In the principal market for the asset or liability, or
- 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 to 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.

Financial assets

The fair value for financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations, without any deduction for transaction costs. When current market prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

Non-financial assets

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.

Fair value hierarchy

The Association uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2016 and 2015, there are no financial instruments measured at fair value.

Day 1 profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Association recognizes the difference between the transaction price and fair value (a Day 1 profit) in the statement of comprehensive income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Association determines the appropriate method of recognizing the Day 1 profit amount.



Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in “Interest income” in profit or loss. The losses arising from impairment of such loans and receivables are recognized in profit or loss. This accounting policy relates to the Association’s statement of financial position captions “Cash”, “Short-term investments” and “Loans and receivables”.

Other financial liabilities

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities. The substance of the contractual arrangement result in the Association having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that form an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of income.

As of December 31, 2016 and 2015, the Association’s other financial liabilities consist of accrued expenses and other liabilities.

Classification of Financial Instruments between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Association; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares.

If the Association does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole, the amount separately determined as the fair value of the liability component on the date of issue.



Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment of Financial Assets

An assessment is made at each reporting date as to whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of comprehensive income.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognized in the statement of comprehensive income.

The Association first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;
- the Association retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or



- the Association has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Association has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Association's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the carrying amount of the asset and the maximum amount of consideration that the Association could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the Association's statement of comprehensive income.

Property and Equipment

Property and equipment, except for land, are stated at cost less accumulated depreciation and any impairment in value. Land is carried at cost less any impairment in value. The initial cost of property and equipment comprises its purchase price, including taxes and directly attributable cost to bring the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed using the straight-line method over the estimated useful lives (EUL) of the assets as follows:

	<u>Years</u>
Office equipment	3
Office furniture and fixtures	3

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made with respect to these assets.

The useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, an impairment loss is recognized in the statement of comprehensive income.



Impairment of Nonfinancial Assets

The Association assesses at each end of the reporting period whether there is an indication that property and equipment may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Association makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at each end of the reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in statement of comprehensive income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Fund Balance

Fund balance represents accumulated excess of revenue over expenses (expenses over revenue).

Revenue Recognition

The Association assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Association has concluded that it is acting as principal and agent in its revenue agreements. The following specific recognition criteria must also be met before revenue is recognized:

Gross premiums on insurance contracts

Premiums are recognized when collected. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue. The Association collects its premiums through the KGI that is considered as collecting institution.

Surrender charge

Surrender charge pertains to the fee imposed by the Association for the cancellation of the member's policy. This is intended for the administration costs incurred by the Association. Surrender charge is recognized when earned.

Interest income

Interest on interest-bearing placements is recognized based on the accrual accounting using the effective interest rate (EIR).

Other income

Income from other sources is recognized when earned.



Insurance Contract Liabilities

Life insurance contract liabilities

Life insurance contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserve for life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing in each life operation.

Liability adequacy test

Liability adequacy tests are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against the statement of comprehensive income initially by establishing a provision for losses arising from the liability adequacy tests.

Claim Costs

Liabilities for unpaid claim costs and loss adjustment expenses relating to insurance contracts are accrued when insured events occur. The liabilities for unpaid claims, including those for incurred but not reported losses, are based on the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense in the period when the estimates are changed or payments are made.

Expense Recognition

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants.

Benefits and claims

Life insurance claims reflect the cost of all claims arising during the year, including claims handling costs. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Benefits recorded are then accrued as liabilities.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general and administrative expenses directly attributable to the claims function.

General and administrative expenses

Expenses consist of costs of administering the business. These are recognized as expenses as incurred.

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b) a renewal option is exercised or an extension granted, unless that term of the renewal or extension was initially included in the lease term;



- c) there is a change in the determination of whether fulfillment is dependent on a specified asset;
or
- d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for any of the scenarios above, and at the renewal or extension period for the second scenario.

The Association as lessee

Leases where the lessor retains 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 comprehensive income on a straight-line basis over the lease term. Indirect costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognized over the lease term on the same basis as the lease income. Minimum lease payments are recognized on a straight-line basis while the variable rent is recognized as an expense based on the terms of the lease contract.

Provisions

Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Events After the End of the Reporting Period

Any post period year-end event that provides additional information about the Association's position at the end of the reporting period (adjusting event) is reflected in the financial statements. Any post year-end event that is not adjusting event, is disclosed when material to the financial statements.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires the Association to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.



Judgment

Operating lease - Association as lessee

The Association has entered into a lease agreement for its head office. The Association has determined that the lessor retains all significant risks and rewards of ownership of this property and thus accounts for this as operating lease.

Estimates

Estimating basic contingent benefit reserves

The Association estimates basic contingent benefit reserves for payment of claims or obligations computed on the basis of a prudent prospective actuarial valuation method. The assumptions used are based on the 17.5% of total contribution for the month of December.

As of December 31, 2016 and 2015, the Association's basic contingent benefit reserves amounted to ₱194,459 and ₱227,894, respectively (see Note 11).

Estimating useful lives of property and equipment and investment properties

The Association estimates the EUL of its property and equipment and investment properties based on the period over which these assets are expected to be available for use. The EUL of property and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in these factors.

As of December 31, 2016 and 2015, there were no changes in the EUL and residual values of the Association's property and equipment.

Impairment of nonfinancial assets

The Association assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Association considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Association recognizes an impairment loss whenever the carrying amount of the asset exceeds its recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

In 2016 and 2015, no impairment loss has been recognized for the Association's property and equipment. As of December 31, 2016 and 2015, the carrying value of property and equipment amounted to ₱115,787 and ₱456,409, respectively.



6. Cash

This account consists:

	2016	2015
Cash on hand	₱6,018,000	₱10,000
Cash in banks	19,402,902	17,812,497
	₱25,420,902	₱17,822,497

Cash on hand includes petty cash fund and undeposited collections at year end.

Cash in banks earns interest at the prevailing bank deposit rates. Cash in banks earned interest ranging from 0.25% to 1.00% in 2016 and 2015. Interest income earned from cash in banks amounted to ₱749 and ₱657 in 2016 and 2015, respectively (see Note 14).

7. Short-term Investments

The rollforward analysis of short-term investments follows:

	2016	2015
At January 1	₱28,759,119	₱24,355,550
Availments	32,288,383	28,759,119
Maturities	(28,759,119)	(24,355,550)
At December 31	₱32,288,383	₱28,759,119

Short-term investments are money market placements with maturity of more than 3 months to 1 year and bear annual interest at rates that ranged from 0.75% to 1.13% in 2016 and 2015. Interest income earned from these investments amounted to ₱298,709 and ₱339,062 in 2016 and 2015, respectively (see Note 14).

8. Loans and Receivables

This account consists of:

	2016	2015
Due from MFI branches (Note 18)	₱741,457	₱5,027,800
Interest receivable	62,808	54,920
Loan receivable (Notes 16 and 18)	-	200,000
Advances to officers and employees	-	4,500
	₱804,265	₱5,287,220

Amounts due from microfinance institution (MFI) branches pertain to premiums collected by the branches of KGI from the Association's members. These are generally on 1-to-30 day terms.



Loan receivable pertains to loan granted by the Association to KGI which bears an interest of 6% per annum and payable upon maturity (see Note 16). The rollforward analyses of loan receivable from KGI follows:

	2016	2015
At January 1	P200,000	P-
Additions during the year	15,000,000	13,200,000
Collections during the year	(15,200,000)	(13,000,000)
At December 31	P-	P200,000

Advances to officers and employees are collected through payroll deductions or through expense liquidations, and has nil and P4,500 outstanding balance as of December 31, 2016 and 2015, respectively.

9. Property and Equipment - net

The rollforward analyses of property and equipment follow:

	2016		
	Office Equipment	Office Furniture and Fixtures	Total
Cost			
At January 1	P1,400,619	P68,006	P1,468,625
Additions	-	79,654	79,654
At December 31	1,400,619	147,660	1,548,279
Accumulated Depreciation			
At January 1	968,691	43,525	1,012,216
Depreciation (Note 15)	392,873	27,403	420,276
At December 31	1,361,564	70,928	1,432,492
Net Book Value	P39,055	P76,732	P115,787
	2015		
	Office Equipment	Office Furniture and Fixtures	Total
Cost			
At January 1	P1,291,579	P48,801	P1,340,380
Additions	109,040	19,205	128,245
At December 31	1,400,619	68,006	1,468,625
Accumulated Depreciation			
At January 1	513,320	22,237	535,557
Depreciation (Note 15)	455,371	21,288	476,659
At December 31	968,691	43,525	1,012,216
Net Book Value	P431,928	P24,481	P456,409

Cost of fully depreciated assets still in use amounted to P1,331,346 and nil as of December 31, 2016 and 2015, respectively.



10. Prepayments and Other Assets

This account consists of:

	2016	2015
Advances to MIMAP	₱660,000	₱736,378
Guaranty fund	152,770	-
Prepaid expenses	55,550	285,850
Supplies inventory	47,523	41,829
	₱915,843	₱1,064,057

Advances to Microinsurance MBA Association of the Philippines, Inc. (MIMAP) pertain to cash advance related to the development of the Association's Management Information System.

Guaranty fund pertains to mutual fund paid by the Association to Microinsurance MBA Association of the Philippines, Inc. This fund represents a claim reserve held and being managed by MIMAP that will be subsequently used to satisfy the claims of the Association's members that cannot be met by the net asset in case of insolvency.

Prepaid expenses pertain to payments made to the Insurance Commission for the renewal of the Association's license which is valid for three (3) years.

Supplies inventory consists of unused vouchers, official receipts and membership certificates.

11. Insurance Contract Liabilities

This account consists of:

	2016	2015
Liability on individual equity value	₱32,099,315	₱27,739,618
Basic contingent benefit reserves	194,459	227,894
Claims payable	235,510	143,600
	₱32,529,284	₱28,111,112

The rollforward analysis of liability on individual equity value follows:

	2016	2015
At January 1	₱27,739,618	₱22,651,766
Additions:		
50% of gross premiums on insurance contracts	11,096,725	12,484,738
Interest	40,973	143,615
Return of equity value	(6,778,001)	(7,540,501)
At December 31	₱32,099,315	₱27,739,618

This account represents entitlement of members for the 50% of total gross contributions paid. The contributions are invested and the interests thereon are credited to the equity value. Interest rate is determined by the Board of Trustees and in no case be less than the prevailing savings rate of the commercial banks. This equity value, inclusive of interest thereon, is payable upon termination of membership from MBA including death or total and permanent disability (as amended on June 23, 2016).



Basic contingent benefit reserves represent reserves for payment of claims or obligations computed on the basis of a prudent prospective actuarial valuation method where the assumptions used are based on 17.5% of total contribution for the month of December. Total contributions for the month of December in 2016 and 2015 amounted to ₱1,111,192 and ₱1,302,250, respectively.

The rollforward analysis of claims payable follows:

	2016	2015
At January 1	₱143,600	₱346,100
Arising during the year	4,059,554	3,614,758
Claims paid	(3,967,644)	(3,817,258)
At December 31	₱235,510	₱143,600

12. Accrued Expenses and Other Liabilities

This account consists of:

	2016	2015
Provisions	₱11,579,035	₱3,041,433
Payable to government agencies	182,258	30,799
Accrued expenses	135,520	249,934
Life insurance deposits	30,700	39,850
	₱11,927,513	₱3,362,016

Provisions were recognized for estimated losses on claims by a third party. The information usually required by PAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments.

Payable to government agencies consists mainly of withholding taxes on purchases from suppliers as well as statutory contribution of employees which are subsequently remitted within one month after the reporting date.

Accrued expenses pertain to accrual of audit fee and other post-employment benefits.

The Association's life insurance deposits represent amounts received from members before their premiums become due. The amount of advance payment will be recognized as revenue on the premium due date.

13. Gross Premiums on Insurance Contracts

Under the Association's basic life insurance program, members and its qualified dependents are entitled to receive a minimum amount of benefit upon death or permanent disability duly approved by the Association after meeting certain conditions as stated in the certificate of membership issued to members. The member's contribution is ₱50 every week.

Additionally, a member shall be entitled to an equity value (equivalent to 50% of total gross contributions paid), inclusive of interest thereon, payable upon termination of membership from the Association. However, a surrender charge equal to 30% of equity value may be imposed by the association for member's termination occurring only within the first three years of membership.



Accordingly, gross premiums amounted to ₱22,193,450 and ₱24,969,475 whereas surrender charge amounted to nil and ₱2,254,425 in 2016 and 2015, respectively.

14. Interest Income

This account consists of:

	2016	2015
Interest income on:		
Loans and receivables (Notes 8 and 16)	₱808,000	₱727,500
Short-term investments (Note 7)	298,709	339,062
Cash in banks (Note 6)	749	657
	₱1,107,458	₱1,067,219

15. General and Administrative Expenses

This account consists of:

	2016	2015
Provision for probable losses	₱8,537,602	₱1,494,497
Salaries and allowances	1,816,301	2,007,744
Technical and professional fees	1,213,638	1,479,304
Social and community service expense	1,235,074	172,718
Meetings and seminars	704,858	653,814
Depreciation	420,276	476,659
Transportation and travel	277,312	251,075
Membership dues	270,627	492,760
Rent	240,000	240,000
Taxes and licenses	49,978	108,685
Light and water	47,532	47,427
Supplies	16,973	50,033
Miscellaneous	310,777	61,527
	₱15,140,948	₱7,536,243

16. Significant Agreements

Loan Agreements

In 2016, the Association entered into a loan agreement with KGI whereby the Association grants KGI a revolving credit line in total principal amount of ₱15,000,000 which bears an interest of 5.5% per annum, payable upon maturity. The loan may be availed by KGI from January to October 2016 and all availments shall be subject to availability of Association's funds. As of December 31, 2016, KGI paid the full amount of ₱15,000,000.

In 2015, the Association entered into a loan agreement with KGI whereby the Association grants KGI a revolving credit line in total principal amount of ₱13,000,000 which bears an interest of 6% per annum, payable upon maturity. The loan may be availed by KGI from January to October 2015 and all availments shall be subject to availability of Association's funds. In December 2015, KGI paid the full amount of ₱13,000,000.



On December 29, 2015, the Association entered into a loan agreement with KGI whereby the Association granted a loan to KGI amounting to ₱200,000 which bears an interest of 6% per annum, payable upon maturity on November 30, 2016.

Accordingly, interest income from the aforementioned loans amounted to ₱808,000 and ₱727,500 in 2016 and 2015, respectively (see Note 14).

Operating Leases - Association as Lessee

In 2014, the Association entered into an operating lease agreement for its office space for a period of seventeen (17) months commencing on August 1, 2014 and ended on December 31, 2015. The Association has renewed the lease agreement in 2015 with a period commencing on January 1, 2016 to December 31, 2016. Rent expense pertaining to this lease agreement amounting to ₱240,000 is recorded under “General and Administrative Expenses” of the statements of comprehensive income in 2016 and 2015 (see Note 15). As of December 31, 2016, the Association renewed the lease agreement for a period of one year commencing on January 1, 2017 to December 31, 2017.

17. Income Taxes

Provision for income tax consists of final tax from interest income on short-term investments and cash in banks amounting to ₱59,892 and ₱67,944 in 2016 and 2015, respectively (see Note 14).

18. Related Party Transactions

Parties are 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 and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The significant transactions of related parties consist of premium collections made by the branches of KGI on behalf of the Association and loans granted by the Association to KGI. Details follow:

	Amount/Volume		Outstanding		Terms	Conditions
	2016	2015	2016	2015		
KGI						
Due from MFI branches	₱22,193,450	₱24,969,475	₱741,457	₱5,027,800	Noninterest-bearing, payable on demand	Unsecured
Loan receivable	₱15,000,000	₱13,200,000	-	₱200,000	Interest at 6% per annum	Unsecured

19. Management of Insurance and Financial Risks

Governance Framework

The Association has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risk. It also supports the effective implementation of policies at the overall association and individual business unit levels.

The policies define the Association’s identification of risk and its interpretation, limit structure to



ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals and specify reporting requirements.

Regulatory Framework

Regulators are interested in protecting the rights of the members and maintain close vigil to ensure that the Association is satisfactorily managing affairs for the member's benefit. At the same time, the regulators are also interested in ensuring that the Association maintains appropriate solvency position to meet liabilities arising from claims and that the risk levels are at acceptable levels.

The operations of the Association are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., margin of solvency to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise, minimum guaranty fund, risk-based capital requirements).

Guaranty fund

As a mutual benefit association, the IC also requires the Association to possess a guaranty fund of ₱5.00 million. This minimum amount shall be maintained at all times and it must be increased by an amount equivalent to 5% of the Association's gross premium collections. As of December 31, 2016 and 2015, the Association has a total of ₱10.39 million and ₱9.28 million in 2016 and 2015, respectively, representing guaranty fund which is deposited with the IC. The guaranty fund is presented as "Appropriated fund balance" in the statements of financial position.

Risk-based capital requirements (RBC)

On December 8, 2006, the IC issued IMC NO. 11-2006 adopting the RBC framework for the mutual benefit associations to establish the required amounts of capital to be maintained by entities in relation to their investment and insurance risks. Every mutual benefit association is annually required to maintain a minimum RBC ratio of 100.00% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance entity to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as member's equity divided by the RBC requirement whereas; Members' equity is defined as admitted assets minus all liabilities inclusive of actuarial reserves and other policy obligations.

The following table shows how the RBC ratio was determined by the Association based on its calculation:

	2016	2015
Member's equity	₱32,660,726	₱20,621,243
RBC requirement	1,839,657	1,096,512
RBC Ratio	1775%	1881%

The final amount of the RBC ratio can be determined only after the accounts of the Association have been examined by the IC specifically as to admitted and non-admitted assets as defined under the same Code.

The main risks arising from the Association's financial instruments follow:



Insurance Risk

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

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines.

Underwriting risk

Underwriting risk represents the exposure to loss resulting from actual policy experience adversely deviating from assumptions made in the product pricing. Underwriting risks are brought about by a combination of the following:

- *Mortality risk* - risk of loss arising due to policyholder death experience being different than expected.
- *Morbidity risk* - risk of loss arising due to policyholder health experience being different than expected.
- *Investment return risk* - risk of loss arising from actual returns being different than expected.
- *Expense risk* - risk of loss arising from expense experience being different than expected.
- *Policyholder decision risk* - risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

These risks do not vary significantly in relation to the location of the risk insured by the Association, type of risk insured and by industry. Undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Association's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Association has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the Association to pursue third parties for payment of some or all cost. The Association further enforces a policy of actively managing and promptly pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Association.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

Mortality and morbidity rates

Assumptions are based on standard industry and national tables, according to the type of contract written, reflecting recent historical experience and which are adjusted where appropriate to reflect the Association's own experiences. An appropriate but not excessive prudent allowance is made for expected future improvements.

An increase in rates will lead to a larger number of claims and claims could occur sooner than anticipated, which will increase the expenditure and decrease the funds of the Association.



Investment return

The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments. An increase in investment return would lead to a reduction in expenditure and an increase in the funds of the Association.

Expenses

Operating expenses assumptions reflect the projected costs of maintaining and servicing in force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation adjustments if appropriate. An increase in the level of expenses would result in an increase in expenditure thereby reducing the funds of the Association.

Lapse and surrender rates

Lapses relate to the termination of policies due to nonpayment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on Association's experience and vary by product type, policy duration and sales trends.

An increase in lapse rates early in the life of the policy would tend to reduce the funds of the Association, but later increases are broadly neutral in effect.

Discount rate

Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on current industry risk rates, adjusted for the Association's own risk exposure.

A decrease in the discount rate will increase the value of the liability.

Sensitivities

The analysis below is performed for a reasonable possible movement in key assumptions with all other assumptions held constant, on the statement of revenue and expenses. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities. It should also be stressed that these assumptions are nonlinear and larger or smaller impacts cannot easily be gleaned from these results. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees.

2016

	Increase of 1.00% on discount rate and decrease of 25.00% on mortality rate	Decrease of 1.00% on discount rate and increase of 25.00% on mortality rate
Increase (decrease) on liabilities	(₱14,197,615)	₱14,197,615
Increase (decrease) on revenue	14,197,615	(14,197,615)



2015

	Increase of 1.00% on discount rate and decrease of 25.00% on mortality rate	Decrease of 1.00% on discount rate and increase of 25.00% on mortality rate
Increase (decrease) on liabilities	(₱6,934,905)	₱6,934,905
Increase (decrease) on revenue	6,934,905	(6,934,905)

The sensitivity analyses take into account upward movements in the discount rates and upward and downward movements in mortality and morbidity rates. These do not necessarily represent management's view of expected future rate changes.

Financial instruments

The Association's principal financial instruments are cash, short-term investments, loans and receivables, accrued expenses and other liabilities. The main purpose of these financial instruments is to finance their operations.

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities recognized as of December 31, 2016 and 2015:

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Loans and receivables				
Cash	₱25,420,902	₱25,420,902	₱17,822,497	₱17,822,497
Short-term investments	32,288,383	32,288,383	28,759,119	28,759,119
Receivables				
Due from MFI branches	741,457	741,457	5,027,800	5,027,800
Interest receivable	62,808	62,808	54,920	54,920
Loans receivable	-	-	200,000	200,000
	₱58,513,550	₱58,513,550	₱51,864,336	₱51,864,336
Financial Liability				
Accrued expenses and other liabilities	₱348,478	₱348,478	₱320,583	₱320,583

Due to the short-term nature of transactions, the carrying amounts of financial instruments such as cash, short-term investments, loans and receivables, accrued expenses and other liabilities approximate their fair values.

Financial Risks

The Association is exposed to financial risk through its financial assets, financial liabilities and insurance liabilities. In particular, the key financial risk that the Association is exposed to is that the proceeds from its financial assets may not be sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk.

These risks arise from open positions in interest rate, currency and debt securities products, all of which are exposed to general and specific market movements.

Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.



The following policies and procedures are in place to mitigate the Association's exposure to credit risk:

- a. The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document or when the policy is either paid up or terminated.
- b. Reinsurance is placed with highly rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and update the reinsurance purchase strategy, ascertaining suitable allowance for impairment.
- c. The Association sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long term credit ratings.

The table below shows the maximum exposure to credit risk for the components of the statements of financial position.

	2016	2015
Financial Assets		
Loans and receivables		
Cash (excluding cash on hand)	₱19,402,902	₱17,812,497
Short-term investments	32,288,383	28,759,119
Receivables		
Due from MFI branches	741,457	5,027,800
Loan receivable	–	200,000
Interest receivable	62,808	54,920
	₱52,495,550	₱51,854,336

The table below provides information regarding the credit risk exposure of the Association by classifying assets according to the Association's credit ratings of counterparties as of December 31, 2016 and 2015.

2016

	<u>Neither Past-Due nor Impaired</u>		Past Due and Impaired	Total
	Investment Grade	Non-investment Grade		
Financial Assets				
Loans and receivables				
Cash	₱25,420,902	₱–	₱–	₱25,420,902
Short-term investments	32,288,383	–	–	32,288,383
Receivables				
Due from MFI branches	741,457	–	–	741,457
Advances to MIMAP	660,000	–	–	660,000
Interest receivable	62,808	–	–	62,808
	₱59,173,550	₱–	₱–	₱59,173,550



2015

	Neither Past-Due nor Impaired		Past Due and Impaired	Total
	Investment Grade	Non-investment Grade		
Financial Assets				
Loans and receivables				
Cash	₱17,822,497	₱-	₱-	₱17,822,497
Short-term investments	28,759,119	-	-	28,759,119
Receivables				
Due from MFI branches	5,027,800	-	-	5,027,800
Advances to MIMAP	736,378	-	-	737,378
Loan receivable	200,000	-	-	200,000
Interest receivable	54,920	-	-	54,920
Advances to officers and employees	4,500	-	-	4,500
	₱52,605,214	₱-	₱-	₱52,605,214

The Association uses a credit rating concept based on the borrowers and counterparties' overall credit worthiness, as follows:

- Investment grade - Rating given to borrowers and counterparties who possess strong to very strong capacity to meet its obligations.
- Non-investment grade - Rating given to borrowers and counterparties who possess above average capacity to meet its obligations.

The Association trades only with members who are also members of the related parties. The receivables represent mostly collections of the related parties pertaining to contributions for premiums for life insurance, loan redemption assistance and provident fund unremitted to the Association. Receivables are generally on a 1-30 days terms and are all current. All receivables are neither past due nor impaired.

The Association conducts periodic review of allowance for credit losses each financial year through examining the financial position of the related party and the market in which the related party operates.

Liquidity risk

This risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

The following policies and procedures are in place to mitigate the Association's exposure to liquidity risk:

- a) The Association's liquidity risk policy sets out the assessment and determination of what constitutes liquidity risk for the Association. Compliance with the policy is monitored and exposures and breaches are reported to the management. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- b) Set guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance and investment contracts obligations.



The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one (1) year and beyond one (1) year from reporting date:

2016

	Up to one year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets						
Loans and receivables						
Cash	₱25,420,902	₱-	₱-	₱-	₱-	₱25,420,902
Short-term investments	32,288,383	-	-	-	-	32,288,383
Receivables						
Due from MFI branches	741,457	-	-	-	-	741,457
Advances to MIMAP	660,000	-	-	-	-	660,000
Interest receivable	62,808	-	-	-	-	62,808
	₱59,173,550	₱-	₱-	₱-	₱-	₱59,173,550
Financial liabilities						
Other financial liabilities						
Claims payable	₱235,510	₱-	₱-	₱-	₱-	₱235,510
Accrued expenses	135,520	-	-	-	-	135,520
	₱371,030	₱-	₱-	₱-	₱-	₱371,030

2015

	Up to one year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets						
Loans and receivables						
Cash	₱17,822,497	₱-	₱-	₱-	₱-	₱17,822,497
Short-term investments	28,759,119	-	-	-	-	28,759,119
Receivables						
Due from MFI branches	5,027,800	-	-	-	-	5,027,800
Advances to MIMAP	736,378	-	-	-	-	736,378
Loan receivable	200,000	-	-	-	-	200,000
Interest receivable	54,920	-	-	-	-	54,920
Advances to officers and Employees	4,500	-	-	-	-	4,500
	₱52,605,214	₱-	₱-	₱-	₱-	₱52,605,214
Financial liabilities						
Other financial liabilities						
Claims payable	₱143,600	₱-	₱-	₱-	₱-	₱143,600
Accrued expenses	249,934	-	-	-	-	249,934
	₱393,534	₱-	₱-	₱-	₱-	₱393,534

20. Commitment and Contingencies

There were no commitments, guarantees and contingent liabilities that arose in the normal course of the Association's operations which are not reflected in the Association's financial statements. As of December 31, 2016 and 2015, management is of the opinion that losses, if any, from these commitments, guarantees and contingent liabilities will not have a material effect on the Association's financial statements.

21. Supplementary Tax Information Required Under Revenue Regulations 15-2010

The Association reported and/or paid the following types of taxes in 2016:

Value Added Tax (VAT)

As a nonstock, not-for-profit and mutual benefit association, the Association was granted tax exemption with respect to income and value-added taxes as provided under the National Internal Revenue Code of 1997 as amended by Republic Act 8424 known as the Comprehensive Tax Reform Program by the Bureau of Internal Revenue (Note 1).



a. Net Sales/Receipts and Output VAT declared in the Association's VAT returns follows:

The Association is exempt from VAT.

b. Details of Input VAT follow:

The Association is exempt from VAT.

c. Information on the Association's importations

The Association does not undertake importation activities.

d. Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, license and permit fees lodged under the caption 'Taxes and Licenses' under the 'General and Administrative Expenses' section in the Association's statements of income.

Details consist of the following:

Local tax

Notary fees	₱2,753
License and permit fees	7,055
	<hr/>
	9,808

National tax

Filing fees	2,030
License fees	31,310
Others	6,830
	<hr/>
	40,170
	<hr/>
	₱49,978

e. Withholding Taxes

Details consist of the following:

Withholding taxes on compensation and benefits	₱30,062
Expanded withholding taxes	12,000
	<hr/>
	₱42,062

f. Tax Assessments and Cases

The Association has not been involved in any tax case under preliminary investigation, litigation and/or prosecution in courts or bodies outside the Bureau of Internal Revenue.

