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

Financial Statements
December 31, 2015
(With Comparative Figures for
December 31, 2014)

and

Independent Auditors' Report

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Kazama Grameen (KGI) Mutual Benefit Association (KGI-MBA) Inc. (a nonstock, not-for-profit association) which comprise the statement of financial position as at December 31, 2015, and statement of comprehensive income, statement of changes in fund balance and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Kazama Grameen (KGI) Mutual Benefit Association (KGI-MBA) Inc. as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

Other Matter

The financial statements of Kazama Grameen (KGI) Mutual Benefit Association (KGI-MBA) Inc. as at and for the year ended December 31, 2014 were audited by other auditors whose report dated April 28, 2015 expressed an unqualified opinion on those statements. The report of the other auditors does not cover the restatements of the financial statements as at and for the year ended December 31, 2014 as discussed in Note 6 to the financial statements.

Report on the Supplementary Tax Information Required Under Revenue Regulations No. 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 22 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of 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

Bernalette L. Ramos
Partner
CPA Certificate No. 0091096
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May 12, 2015, valid until May 11, 2018
PTR No. 5321681, January 4, 2016, Makati City

April 13, 2016

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

(A Nonstock, Not-for-Profit Association)

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2015

(With Comparative Figures for December 31, 2014)

	December 31		January 1
	2015	2014 (As restated - Note 6)	2014 (As restated - Note 6)
ASSETS			
Cash (Notes 7 and 20)	**₱17,822,497**	₱11,157,046	₱6,143,165
Short-term investments (Notes 8 and 20)	**28,759,119**	24,355,550	17,849,896
Loans and receivables (Notes 9, 19 and 20)	**6,023,598**	6,104,271	2,736,040
Property and equipment - net (Note 10)	**456,409**	804,823	1,252,483
Prepayments (Note 11)	**327,679**	255,280	175,620
Total Assets	**₱53,389,302**	₱42,676,970	₱28,157,204
LIABILITIES AND FUND BALANCE			
Liabilities			
Insurance contract liabilities (Note 12)	**₱28,111,112**	₱23,184,381	₱15,559,775
Accrued expenses and other liabilities (Notes 13 and 20)	**3,362,016**	2,066,118	943,774
Total Liabilities	**31,473,128**	25,250,499	16,503,549
Fund Balance			
Appropriated fund balance (Note 20)	**9,279,020**	8,030,546	6,705,276
Unappropriated fund balance	**12,637,154**	9,395,925	4,948,379
Total Fund Balance	**21,916,174**	17,426,471	11,653,655
	₱53,389,302	₱42,676,970	₱28,157,204

See accompanying Notes to Financial Statements.

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2015
(With Comparative Figures for December 31, 2014)

	Years Ended December 31	
	2015	2014 (As restated - Note 6)
REVENUE		
Gross premiums on insurance contracts (Note 14)	**₱24,969,475**	₱26,505,400
Surrender charge	**2,254,425**	1,680,205
Interest income (Note 15)	**1,067,219**	527,442
Other income	**87,261**	32,529
	28,378,380	28,745,576
BENEFITS, CLAIMS AND EXPENSES (Note 12)		
Gross change in insurance contract liabilities	**4,926,731**	7,624,606
Gross insurance contract benefits and claims paid	**11,357,759**	8,572,823
Insurance benefits and claims	**16,284,490**	16,197,429
GENERAL AND ADMINISTRATIVE EXPENSES (Note 16)	**7,536,243**	6,728,843
	23,820,733	22,926,272
EXCESS OF REVENUE OVER EXPENSES BEFORE PROVISION FOR FINAL TAX	**4,557,647**	5,819,304
PROVISION FOR FINAL TAX (Note 18)	**(67,944)**	(46,488)
EXCESS OF REVENUE OVER EXPENSES	**4,489,703**	5,772,816
OTHER COMPREHENSIVE INCOME	**–**	–
TOTAL COMPREHENSIVE INCOME	**₱4,489,703**	₱5,772,816

See accompanying Notes to Financial Statements.

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

(A Nonstock, Not-for-Profit Association)

STATEMENT OF CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2015
(With Comparative Figures for December 31, 2014)

	Appropriated Fund Balance (Note 20)	**Unappropriated Fund Balance** (As restated - Note 6)	**Total**
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**
At January 1, 2014	₱6,705,276	₱4,948,379	₱11,653,655
Excess of revenue over expenses	–	5,772,816	5,772,816
Appropriation during the year	1,325,270	(1,325,270)	–
At December 31, 2014	₱8,030,546	₱9,395,925	₱17,426,471

See accompanying Notes to Financial Statements.

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

(A Nonstock, Not-for-Profit Association)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015
(With Comparative Figures for December 31, 2014)

	Years Ended December 31	
	2015	2014 (As restated - Note 6)
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses before provision for final tax	**₱4,557,647**	₱5,819,304
Adjustments for:		
Provision for probable losses (Note 16)	**1,494,497**	1,101,348
Depreciation (Notes 10 and 16)	**476,659**	447,660
Interest income (Notes 7, 8 and 17)	**(1,067,219)**	(527,442)
Cash generated from operations before changes in working capital	**5,461,584**	6,840,870
Decrease (increase) in:		
Loans and receivables	**54,780**	(3,368,231)
Prepayments	**(72,399)**	(79,660)
Increase (decrease) in:		
Insurance contract liabilities	**4,926,731**	7,624,606
Accrued expenses and other liabilities	**(198,599)**	20,996
Net cash generated from operations	**10,172,097**	11,038,581
Final taxes paid	**(67,944)**	(46,488)
Net cash flows provided by operating activities	**10,104,153**	10,992,093
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**1,093,112**	527,442
Acquisitions of property and equipment (Note 10)	**(128,245)**	–
Availments of short-term investments (Note 8)	**(28,759,119)**	(24,355,550)
Maturities of short-term investments (Note 8)	**24,355,550**	17,849,896
Net cash flows used in investing activities	**(3,438,702)**	(5,978,212)
NET INCREASE IN CASH	**6,665,451**	5,013,881
CASH AT BEGINNING OF YEAR	**11,157,046**	6,143,165
CASH AT END OF YEAR (Note 7)	**₱17,822,497**	₱11,157,046

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 the new insurance policy 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 Subd., Matain, Subic, and Zambales.

The accompanying financial statements of the Association were authorized and approved for issue by the Board of Trustees (BOT) on April 13, 2016.

2. Basis of Preparation and Statement of Compliance

<u>Basis of Preparation</u>
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.

<u>Statement of Compliance</u>
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 amendments to PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations which became effective on January 1, 2015. Except as otherwise indicated, the adoption of these new accounting standards and amendments have no material impact on the Association's financial statements.

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
- *Annual Improvements to PFRSs (2010-2012 cycle)*
  The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:
  - PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  - PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  - PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  - PAS 16, *Property, Plant and Equipment,* and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
  - PAS 24, *Related Party Disclosures - Key Management Personnel*
  - PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*
- *Annual Improvements to PFRSs (2011-2013 cycle)*
  The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:
  - PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
  - PFRS 13, *Fair Value Measurement - Portfolio Exception*
  - PAS 40, *Investment Property*

There are new PFRS, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2015 and these will be adopted on their effectivity dates in accordance with the transition provisions. Except as otherwise stated, these amendments and improvements to PFRS and new standard are not expected to have any significant impact on the Association's financial statements.

Effective in 2016

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments)
- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)
- 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*
- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
- PFRS 14, *Regulatory Deferral Accounts*
- Annual Improvements to PFRSs (2012-2014 cycle)

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal* (Amendments)
- PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts* (Amendments)
- PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements* (Amendments)
- PAS 19, *Employee Benefits - Regional Market Issue Regarding Discount Rate* (Amendments)
- PAS 34, *Interim Financial Reporting - Disclosure of Information "Elsewhere in the Interim Financial Report"* (Amendments)

Effective in 2018
- PFRS 9, *Financial Instruments* (2014 or final version)
- IFRS 15, *Revenue from Contracts with Customers*
  IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 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 IFRS 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 IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted.

  IFRS 15 is a significant change from current IFRS. Although it provides more detailed application guidance, entities will need to use more judgment in applying its requirements, in part, because the use of estimates is more extensive.

  The Association is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date, once adopted locally.

Effective in 2019
- IFRS 16, *Leases*
  On January 13, 2016, the International Accounting Standards Board (IASB) issued its new standard, IFRS 16, *Leases*, which replaces International Accounting Standards (IAS) 17, the current leases standard, and the related Interpretations. Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases in 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 IAS 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 IFRS 16 but only if they have also adopted IFRS 15, *Revenue from Contracts with Customers*. When adopting IFRS 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 currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date, once adopted locally.

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 and 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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014, the Association's other financial liabilities consist of accounts payable and accrued expenses.

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.

<u>Derecognition of Financial Assets and Liabilities</u>
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:

	Years
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.

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 lease agreement related to property 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, 2015 and 2014, the Association's basic contingent benefit reserves amounted to ₱227,894 and ₱186,515, respectively (see Note 12).

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, 2015 and 2014, there were no changes in the EUL and residual values of the Association's property and equipment and investment properties.

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 2015 and 2014, no impairment loss has been recognized for the Association's property and equipment. As of December 31, 2015 and 2014, the carrying value of property and equipment amounted to ₱456,409 and ₱804,823, respectively.

6. Restatements in Prior Year's Financial Statements

The statements of financial position as of December 31, 2014 and January 1, 2014 and the statements of comprehensive income, changes in fund balance and cash flows for the year ended December 31, 2014 have been restated to effect the following:

a. The Association recognized deferred tax asset in 2012 relating to net operating loss carryover (NOLCO) incurred in 2012 as a result of its pre-operating expenditures.

   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 NOLCO did not benefit the Association since it is not taxable. The 2014 financial statements were restated to reverse the deferred tax asset recognized in 2012.

b. The Association imposed a surrender charge of 30% of equity value to its members for membership withdrawal within three (3) years from the Association. In 2014 and 2013, only 70% of the liability on individual equity was reversed upon withdrawal from the membership. Related surrender charge and interest on liability on individual equity value were not reversed and recognized as income of the Association. The 2014 financial statements were restated to recognize the related surrender charge and interest as income.

c. Provisions amounting to ₱1,546,936 and ₱445,588 as of December 31, 2014 and January 1, 2014, respectively, 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. The 2014 financial statements were restated to recognize these provisions.

d. In 2014, the Association directly appropriated guaranty fund from gross premiums on insurance contracts amounting to ₱1,325,270. The 2014 financial statements were restated to reverse the appropriation against gross premiums and reflect the appropriation directly against unappropriated fund balance in the statements of changes in fund balance.

	December 31, 2014		
	As previously reported	Adjustments	As restated
Statement of financial position			
Asset			
Deferred tax asset (a)	₱761,635	(₱761,635)	₱–
Liabilities			
Insurance contract liabilities (b)	25,556,428	(2,372,047)	23,184,381
Accrued expenses and other liabilities (c)	519,182	1,546,936	2,066,118
Fund Balance			
Unappropriated fund balance (a, b and c)	9,332,449	63,476	9,395,925
Statement of comprehensive income			
Gross premiums on insurance contracts (d)	25,180,130	1,325,270	26,505,400
Surrender charge (b)	–	1,680,205	1,680,205
Gross change in insurance contract liabilities (b)	7,643,473	(18,867)	7,624,606
General and administrative expenses (c)	5,627,495	1,101,348	6,728,843

	January 1, 2014		
	As previously reported	Adjustments	As restated
Statement of financial position			
Asset			
Deferred tax asset (a)	₱761,635	(₱761,635)	₱–
Liabilities			
Insurance contract liabilities (b)	16,232,750	(672,975)	15,559,775
Accrued expenses and other liabilities (c)	498,186	445,588	943,774
Fund Balance			
Unappropriated fund balance (a, b and c)	5,482,627	(534,248)	4,948,379

7. Cash

This account consists:

	2015	2014
Cash on hand	**₱10,000**	₱10,000
Cash in banks	**17,812,497**	11,147,046
	₱17,822,497	₱11,157,046

Cash in banks earns interest at the prevailing bank deposit rates. Cash in banks earned interest ranging from 0.25% to1.00% in 2015 and in 2014. Interest income earned from cash in banks amounted to ₱657 and ₱763 in 2015 and 2014, respectively (see Note 15).

8. Short-term Investments

The rollforward analysis of short-term investments follows:

	2015	2014
At January 1	**₱24,355,550**	₱17,849,896
Availments	**28,759,119**	24,355,550
Maturities	**(24,355,550)**	(17,849,896)
At December 31	**₱28,759,119**	₱24,355,550

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 2015 and in 2014. Interest income earned from these investments amounted to ₱339,062 and ₱231,679 in 2015 and 2014, respectively (see Note 15).

9. Loans and Receivables

This account consists of:

	2015	2014
Due from MFI branches (Note 19)	**₱5,027,800**	₱5,263,458
Advances to MIMAP	**736,378**	700,000
Loan receivable (Notes 17 and 19)	**200,000**	–
Interest receivable	**54,920**	80,813
Advances to officers and employees	**4,500**	60,000
	₱6,023,598	₱6,104,271

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.

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 and mutual guaranty fund paid by the Association to MIMAP.

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 17).

Advances to officers and employees are collected through payroll deductions or through expense liquidations.

10. Property and Equipment - net

The rollforward analyses of property and equipment follow:

	2015		
	Office Equipment	**Office Furniture and Fixtures**	**Total**
Cost			
At January 1	**₱1,291,579**	**₱48,801**	**₱1,340,380**
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 16)	**455,371**	**21,288**	**476,659**
At December 31	**968,691**	**43,525**	**1,012,216**
Net Book Value	**₱431,928**	**₱24,481**	**₱456,409**

	2014		
	Office Equipment	Office Furniture and Fixtures	Total
Cost			
At January 1 and December 31	₱1,291,579	₱48,801	₱1,340,380
Accumulated Depreciation			
At January 1	85,488	2,409	87,897
Depreciation (Note 16)	427,832	19,828	447,660
At December 31	513,320	22,237	535,557
Net Book Value	₱778,259	₱26,564	₱804,823

As of December 31, 2015 and 2014, the Association has no fully depreciated assets.

11. **Prepayments**

This account consists of:

	2015	2014
Prepaid expenses	**₱285,850**	₱199,210
Supplies inventory	**41,829**	56,070
	₱327,679	₱255,280

Prepaid expenses pertain to advance payment made for training and renewal of license from the Insurance Commission valid for three (3) years.

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

12. **Insurance Contract Liabilities**

This account consists of:

	2015	2014 (As restated - Note 6
Liability on individual equity value	**₱27,739,618**	₱22,651,766
Basic contingent benefit reserves	**227,894**	186,515
Claims payable	**143,600**	346,100
	₱28,111,112	₱23,184,381

The rollforward analysis of liability on individual equity value follows:

	2015	2014
At January 1	**₱22,651,766**	₱14,917,179
Additions:		
50% of gross premiums on insurance contracts	**12,484,738**	13,252,700
Interest	**143,615**	100,834
Claims paid	**(7,540,501)**	(5,618,947)
At December 31	**₱27,739,618**	₱22,651,766

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. If a member decides to withdraw and has completed a minimum of three (3) consecutive years of membership in the Association, the member shall be entitled to an equity value equivalent to 50% of the member's total contributions. A surrender charge of 30% is imposed for membership withdrawal within three (3) years from the Association.

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 2015 and 2014 amounted to ₱1,302,250 and ₱1,065,800, respectively.

The rollforward analysis of claims payable follows:

	2015	2014
At January 1	**₱346,100**	₱315,567
Arising during the year	**3,614,758**	2,984,409
Claims paid	**(3,817,258)**	(2,953,876)
At December 31	**₱143,600**	₱346,100

13. **Accrued Expenses and Other Liabilities**

This account consists of:

	2015	2014
Provisions	**₱3,041,433**	₱1,546,936
Accrued expenses	**249,934**	423,500
Life insurance deposits	**39,850**	28,825
Payable to government agencies	**30,799**	66,857
	₱3,362,016	₱2,066,118

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.

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.

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.

14. 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.

Gross premiums in 2015 and 2014 amounted to ₱24,969,475 and ₱26,505,400, respectively.

15. Interest Income

This account consists of:

	2015	2014
Interest income on:		
Loans and receivables (Notes 9 and 17)	**₱727,500**	₱295,000
Short-term investments (Note 8)	**339,062**	231,679
Cash in banks (Note 7)	**657**	763
	₱1,067,219	₱527,442

16. General and Administrative Expenses

This account consists of:

	2015	2014 (As restated - Note 6)
Salaries and allowances	**₱2,007,744**	₱2,104,325
Provision for probable losses	**1,494,497**	1,101,348
Technical and professional fees	**1,479,304**	1,293,171
Meetings and seminars	**653,814**	791,730
Membership dues	**492,760**	234,294
Depreciation (Note 10)	**476,659**	447,660
Transportation and travel	**251,075**	257,985
Rent (Note 17)	**240,000**	240,000
Donation and contribution	**172,718**	–
Taxes and licenses	**108,685**	119,305
Supplies	**50,033**	66,121
Light and water	**47,427**	27,483
Miscellaneous	**61,527**	45,421
	₱7,536,243	₱6,728,843

17. Significant Agreements

Loan agreement
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. Interest income from the loan amounted to ₱727,500 and ₱295,000 in 2015 and 2014, respectively (see Note 15).

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

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. 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 2015 and in 2014 (see Note 16). As of December 31, 2015, the Association has renewed the lease agreement. The renewed period of lease is for one year commencing on January 1, 2016 to December 31, 2016.

18. Income Taxes

Provision for income tax consists of final tax from interest income on short-term investments and cash in banks (see Note 15). Final tax amounted to ₱67,944 and ₱46,488 in 2015 and 2014, respectively.

19. 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 the Association and loans granted by the Association to KGI. Details follow:

	Amount/Volume		Outstanding			
	2015	2014	**2015**	2014	**Terms**	**Conditions**
KGI						
Due from MFI branches	**₱24,969,475**	₱26,505,400	**₱5,027,800**	₱5,263,458	Noninterest-bearing, payable on demand	Unsecured
Loan receivable	**₱13,200,000**	₱12,600,000	**200,000**	–	Interest at 6% per annum	Unsecured

20. **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, 2015 and 2014, the Association has a total of ₱9.28 million and ₱8.03 million in 2015 and 2014, 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:

	2015	2014
Member's equity	**₱20,621,243**	₱15,559,149
RBC requirement	**1,096,512**	1,176,583
RBC Ratio	**1881%**	1322%

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 prompt 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.

<u>Sensitivities</u>
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.

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)**

2014

	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	(₱5,662,942)	₱5,662,942
Increase (decrease) on revenue	5,662,942	(5,662,942)

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, 2015 and 2014:

	2015		2014	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Loans and receivables				
Cash	**₱17,822,497**	**₱17,822,497**	₱11,157,046	₱11,157,046
Short-term investments	**28,759,119**	**28,759,119**	24,355,550	24,355,550
Receivables				
Due from MFI branches	**5,027,800**	**5,027,800**	5,263,458	5,263,458
Interest receivable	**54,920**	**54,920**	80,813	80,813
Loans receivable	**200,000**	**200,000**	–	–
	₱51,864,336	**₱51,864,336**	₱40,856,867	₱40,856,867
Financial Liability				
Accrued expenses and other liabilities	**₱320,583**	**₱320,583**	₱519,182	₱519,182

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.

	2015	2014
Financial Assets		
Loans and receivables		
Cash (excluding cash on hand)	**₱17,812,497**	₱11,147,046
Short-term investments	**28,759,119**	24,355,550
Receivables		
Due from MFI branches	**5,027,800**	₱5,263,458
Loan receivable	**200,000**	–
Interest receivable	**54,920**	80,813
	₱51,854,336	₱40,846,867

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, 2015 and 2014.

2015

	Neither Past-Due nor Impaired			
	Investment Grade	**Non-investment Grade**	**Past Due and Impaired**	**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**	**–**	**–**	**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**

2014

	Neither Past-Due nor Impaired			
	Investment Grade	Non-investment Grade	Past Due and Impaired	Total
Financial Assets				
Loans and receivables				
Cash	₱11,157,046	₱–	₱–	₱11,157,046
Short-term investments	24,355,550	–	–	24,355,550
Receivables				
Due from MFI branches	5,263,458	–	–	5,263,458
Advances to MIMAP	700,000	–	–	700,000
Loan receivable	–	–	–	–
Interest receivable	80,813	–	–	80,813
Advances to officers and employees	60,000	–	–	60,000
	₱41,616,867	₱–	₱–	₱41,616,867

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:

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**

2014

	Up to one year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets						
Loans and receivables						
Cash	₱11,157,046	₱–	₱–	₱–	₱–	₱11,157,046
Short-term investments	24,355,550	–	–	–	–	24,355,550
Receivables						
Due from MFI branches	5,263,458	–	–	–	–	5,263,458
Advances to MIMAP	700,000	–	–	–	–	700,000
Loan receivable	–	–	–	–	–	–
Interest receivable	80,813	–	–	–	–	80,813
Advances to officers and employees	60,000	–	–	–	–	60,000
	₱41,616,867	₱–	₱–	₱–	₱–	₱41,616,867
Financial liabilities						
Other financial liabilities						
Claims payable	₱346,100	₱–	₱–	₱–	₱–	₱346,100
Accrued expenses	423,500	–	–	–	–	423,500
	₱769,600	₱–	₱–	₱–	₱–	₱769,600

21. 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, 2015 and 2014, 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.

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

The Association reported and/or paid the following types of taxes in 2015:

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	₱4,780
License and permit fees	3,355
	8,135
National tax	
Filing fees	40,200
License fees	35,350
Others	25,000
	100,550
	₱108,685

e. Withholding Taxes

Details consist of the following:

Withholding taxes on compensation and benefits	₱30,062
Expanded withholding taxes	12,000
	₱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.