Quidan Pag-inupdanay Mutual Benefit Association, Inc.
(A Nonstock, Not-for-Profit Association)

Financial Statements
December 31, 2014 and 2013

and

Independent Auditors' Report

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

CN200817300

Company Name

QUIDAN PAG-INUPDANAY MUTUAL BENEFIT ASSOCIATION, INC. (A Nonstock, Not-for-Profit Association)

Principal Office (No./Street/Barangay/City/Town/Province)

Room 320 VSB Building, 6th Lacson Street, Bacolod City, Negros Occidental

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	SEC	MBA

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
quidan_mba@yahoo.com	(034) 435-5642	09392997550

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
	12/08	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Mr. Rolly P. Panganiban	quidan_mba@yahoo.com	(034) 435-5642	09392997550

Contact Person's Address

Room 320 VSB Building, 6th Lacson Street Bacolod City

Note: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

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SyCip Gorres Velayo & Co.
302 A. Chan Building
Lacson Street
Mandalagan, Bacolod City
6100 Negros Occidental
Philippines

Tel: (034) 441 2861 62
Fax: (034) 441 2863
ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 15, 2015

INDEPENDENT AUDITORS' REPORT
TO ACCOMPANYING INCOME TAX RETURN

The Board of Trustees
Quidan Pag-inupdanay Mutual Benefit Association, Inc.
Room 320, VSB Building, 6th Lacson Street
Bacolod City, Negros Occidental

We have audited the financial statements of Quidan Pag-inupdanay Mutual Benefit Association, Inc. (a nonstock, not-for-profit association) (the Association) as at and for the year ended December 31, 2014, on which we have rendered the attached report dated April 8, 2015.

In compliance with the Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal members of the Association.

SYCIP GORRES VELAYO & CO.

Bernalette L. Ramos

Bernalette L. Ramos
Partner
CPA Certificate No. 0091096
SEC Accreditation No. 0926-AR-1 (Group A),
April 15, 2013, valid until April 14, 2016
Tax Identification No. 178-486-666
BIR Accreditation No. 08-001998-81-2012,
June 19, 2012, valid until June 18, 2015
PTR No. 0004770, January 14, 2015, Bacolod City

April 8, 2015

REVENUE DISTRICT NO. 77
BACOLOD CITY
RECEIVED
15 APR 2015
DATE
REYNALDO C. GUEVARRA

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SyCip Gorres Velayo & Co.
302 A. Chan Building
Lacson Street
Mandalagan, Bacolod City
6100 Negros Occidental
Philippines

Tel: (034) 441 2861-62
Fax: (034) 441 2863
ey.com/ph

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December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Quidan Pag-inupdanay Mutual Benefit Association, Inc.
Room 320, VSB Building, 6th Lacson Street
Bacolod City, Negros Occidental

We have audited the financial statements of Quidan Pag-inupdanay Mutual Benefit Association, Inc. (a nonstock, not-for-profit association) (the Association) as at and for the year ended December 31, 2014, on which we have rendered the attached report dated April 8, 2015.

In compliance with Securities Regulations Code Rule 68 (As Amended 2011), we are stating that the Association is a nonstock, not-for-profit association and as such, it does not have any stockholder.

SYCIP GORRES VELAYO & CO.

Bernalette L. Ramos

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Partner
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April 8, 2015

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Quidan Pag-inupdanay Mutual Benefit Association, Inc.
Room 320, VSB Building, 6th Lacson Street
Bacolod City, Negros Occidental

Report on the Financial Statements

We have audited the accompanying financial statements of Quidan Pag-inupdanay Mutual Benefit Association, Inc. (a nonstock, not-for-profit association), which comprise the statements of financial position as at December 31, 2014 and 2013, and the statements of comprehensive income, changes in fund balance and cash flows for the years 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 audits. We conducted our audits 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 Quidan Pag-inupdanay Mutual Benefit Association, Inc. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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 18 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 Quidan Pag-inupdanay Mutual Benefit Association, 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-1 (Group A),
April 15, 2013, valid until April 14, 2016
Tax Identification No. 178-486-666
BIR Accreditation No. 08-001998-81-2012,
June 19, 2012, valid until June 18, 2015
PTR No. 0004770, January 14, 2015, Bacolod City

April 8, 2015

QUIDAN PAG-INUPDANAY MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Not-for-Profit Association)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2014	2013
ASSETS		
Cash (Notes 4 and 17)	**₱17,942,921**	₱16,167,978
Short-term investments (Notes 5 and 17)	**8,000,000**	8,000,000
Receivables (Notes 6 and 17)	**17,274,198**	17,972,554
Available-for-sale financial assets (Notes 7 and 17)	**843,850**	219,275
Property and equipment - net (Note 8)	**194,066**	410,607
Other current assets	**261,729**	199,527
	₱44,516,764	₱42,969,941
LIABILITIES AND FUND BALANCE		
Liabilities		
Life reserve fund (Notes 11 and 17)	**₱21,232,181**	₱20,777,561
Retirement savings fund (Notes 12 and 17)	**11,662,469**	11,387,551
Claims fund (Notes 13 and 17)	**307,266**	360,817
Accounts payable and accrued expenses (Notes 9 and 17)	**652,014**	441,794
Retirement fund balance	**716,366**	63,701
Total Liabilities	**34,570,296**	33,031,424
Fund Balance		
Guaranty fund (Notes 14 and 17)	**7,133,829**	6,885,412
Unappropriated fund balance	**2,487,200**	1,854,170
Appropriated fund balance	**161,663**	1,035,159
Donated equity	**163,776**	163,776
Total Fund Balance	**9,946,468**	9,938,517
	₱44,516,764	₱42,969,941

See accompanying Notes to Financial Statements.

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QUIDAN PAG-INUPDANAY MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Not-for-Profit Association)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2014	2013
REVENUE		
Gross premiums earned	**₱4,968,903**	₱7,392,819
Interest income (Notes 4, 5 and 6)	**1,203,174**	915,280
Dividend income (Note 7)	**79,698**	63,350
Miscellaneous income	**47,801**	3,194
	1,330,673	981,824
	6,299,576	8,374,643
COSTS AND OPERATING EXPENSES		
Increase in aggregate reserves (Note 15)	**2,563,109**	3,711,195
Underwriting expenses	**377,975**	605,424
Net insurance claims and reserves	**2,941,084**	4,316,619
Salaries and allowances	**1,169,697**	1,146,057
Professional fees	**329,302**	161,618
Interest expense (Notes 11 and 12)	**324,583**	507,246
Depreciation (Note 8)	**137,851**	148,442
Program, monitoring and evaluation	**61,029**	134,561
Meetings and seminars	**49,708**	42,195
Taxes and licenses	**47,087**	76,252
Supplies and materials	**46,910**	29,763
Rent (Note 10)	**45,000**	63,250
Transportation and travel	**44,716**	16,375
Repairs and maintenance	**38,159**	24,130
Communication and postage	**31,527**	32,388
Light and water	**25,858**	42,715
Representation and entertainment	**9,635**	6,384
Vehicle insurance	**4,744**	8,043
Donation and contribution	–	18,455
Miscellaneous	**111,239**	179,773
	2,477,045	2,637,647
	5,418,129	6,954,266
EXCESS OF REVENUE OVER EXPENSES	**881,447**	1,420,377
OTHER COMPREHENSIVE INCOME	–	–
TOTAL COMPREHENSIVE INCOME	**₱881,447**	₱1,420,377

See accompanying Notes to Financial Statements.

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QUIDAN PAG-INUPDANAY MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Not-for-Profit Association)

STATEMENTS OF CHANGES IN FUND BALANCE

	Guaranty Fund (Note 14)	Donated Equity	Appropriated Fund Balance	Unappropriated Fund Balance	Total
At January 1, 2014	**₱6,885,412**	**₱163,776**	**₱1,035,159**	**₱1,854,170**	**₱9,938,517**
Excess of revenue over expenses	–	–	–	**881,447**	**881,447**
Appropriations for guaranty fund	**248,417**	–	–	**(248,417)**	–
Expenses of appropriated fund balance					
Retirement savings fund	–	–	**(258,532)**	–	**(258,532)**
Refund of disaster fund	–	–	**(4,000)**	–	**(22,000)**
Employees benefit fund	–	–	**(588,964)**	–	**(588,964)**
Educational fund	–	–	**(22,000)**	–	**(4,000)**
At December 31, 2014	**₱7,133,829**	**₱163,776**	**₱161,663**	**₱2,487,200**	**₱9,946,468**
At January 1, 2013	₱6,515,784	₱163,776	₱1,130,559	₱803,421	₱8,613,540
Excess of revenue over expenses	–	–	–	1,420,377	1,420,377
Appropriations for guaranty fund	369,628	–	–	(369,628)	–
Refund of disaster fund	–	–	(95,400)	–	(95,400)
At December 31, 2013	₱6,885,412	₱163,776	₱1,035,159	₱1,854,170	₱9,938,517

See accompanying Notes to Financial Statements.

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QUIDAN PAG-INUPDANAY MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Not-for-Profit Association)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	**₱881,447**	₱1,420,377
Adjustments for:		
Increase in aggregate reserves (Note 15)	**2,563,109**	3,711,195
Interest expense (Notes 11 and 12)	**324,583**	507,246
Depreciation (Note 8)	**137,851**	148,442
Interest income subject to final tax (Notes 4 and 5)	**(278,869)**	(360,012)
Dividend income (Note 7)	**(79,698)**	(63,350)
Expenses of appropriated fund balance	**(873,496)**	(95,400)
Operating income before working capital changes	**2,674,927**	5,268,498
Decrease (increase) in:		
Receivables	**828,662**	(5,541,231)
Other current assets	**(62,202)**	(144,866)
Increase (decrease) in:		
Accounts payable and accrued expenses	**210,220**	96,412
Life reserve fund	**(1,685,823)**	(1,710,353)
Claims fund	**(638,922)**	(1,147,582)
Retirement savings fund	**113,040**	436,586
Retirement fund balance	**652,665**	63,701
Net cash generated from (used in) operations	**2,092,567**	(2,678,835)
Interest received	**286,413**	360,789
Net cash provided by (used in) operating activities	**2,378,980**	(2,318,046)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Note 8)	**(59,160)**	(57,367)
Available-for-sale financial assets (Note 7)	**(624,575)**	(105,368)
Short-term investments (Note 5)	**–**	7,000,000
Maturity of short-term investments (Note 5)	**–**	(4,492,500)
Dividend income received	**79,698**	63,350
Net cash provided by (used in) investing activities	**(604,037)**	2,408,115
NET INCREASE IN CASH	**1,774,943**	90,069
CASH AT BEGINNING OF YEAR	**16,167,978**	16,077,909
CASH AT END OF YEAR (Note 4)	**₱17,942,921**	₱16,167,978

See accompanying Notes to Financial Statements.

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NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Quidan Pag-inupdanay Mutual Benefit Association, Inc. (the Association) was duly registered with the Securities and Exchange Commission (SEC) as a nonstock, not-for-profit association on February 26, 2009 for the purpose of advancing the interest and promoting the welfare of the poor, in particular, and the welfare of the Philippines, in general. It specifically seeks to extend financial assistance to its members' spouses, children and parents in the form of death benefits, sickness/accident benefits and provident savings. It was granted a license by the Insurance Commission (IC) on January 12, 2010 to engage as a mutual benefit association and has started commercial operations thereafter. The Association actively involves the members in the direct management of the Association including the implementation of policies and procedures geared towards sustainability and improved services. The Board of Trustees (BOT) is responsible in making operational policies for the Association. The officers and the members of BOT are elected during the annual general membership assembly.

As a nonstock, not-for-profit 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 (NIRC) of 1997 as amended by Republic Act 8424 known as the Comprehensive Tax Reform Program by the Bureau of Internal Revenue.

On July 22, 2013, the Bureau of Internal Revenue issued RMC 20-2013 which prescribes the policies and guidelines in the issuance of tax exemption rulings to qualified nonstock, non-profit corporations and associations under Section 30 of the NIRC of 1997. As of December 31, 2014, the Association submitted the application requirements to the BIR for tax exemption. As of April 8, 2015, the Association has not yet received the BIR approval for the tax exemption ruling.

The registered office address of the Association is Room 320, VSB Building, 6th Lacson Street, Bacolod City.

The accompanying financial statements of the Association were authorized for issue by the BOT on April 8, 2015.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis. The financial statements are presented in Philippine Peso (₱), which is also the Association's functional currency. All values are rounded to the nearest Peso, unless otherwise indicated.

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

Adoption of New and Amended Accounting Standards and Interpretations
The Association applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2014. Except as otherwise indicated, the adoption of new and amended standards and interpretations did not have any significant impact on the company's financial statements.

Except as otherwise indicated, the adoption of the new accounting standards and amendments did not have any significant impact on the Association's financial statements.

- PFRS 7*, Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  c) The net amounts presented in the statement of financial position;
  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
     ii. Amounts related to financial collateral (including cash collateral); and
  e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

  The amendments affect disclosures only and have no impact on the Association's financial position or performance since the Association does not have financial instruments that are set off in accordance with PAS 32.

- PFRS 10, *Consolidated Financial Statements*
  PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 required the management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The amendments did not have any significant impact in the financial statements of the Association since the Association has no investment in an associate or subsidiary.

- PFRS 11, *Joint Arrangements*
  PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC13, *Jointly Controlled Entities (JCEs) - Non-monetary Contributions by Venturers*. PFRS 11 removed the option to account for JCEs using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard did not have any impact on the financial position of the Association since the Association does not have JCEs.

- PFRS 12, *Disclosure of Interests with Other Entities*
  PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31, *Interest in Joint Ventures* and PAS 28, *Investment in Associates*. PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). The adoption of PFRS 12 did not have any impact on the Association's financial position or performance.

- PFRS 13, *Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures. This Standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13.

  As a result of the guidance in PFRS 13, the Association re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Association has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Association.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
  The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments have been applied retrospectively. The amendments did not have any impact on the Association's financial statement since the Association did not have any items of OCI for both periods presented.

- PAS 19, *Employee Benefits* (Revised)
  For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Association's financial position and financial performance.

The adoption did not have significant impact on the Association's financial statements since the Association has no retirement benefit obligation.

- PAS 27, *Separate Financial Statements* (As revised in 2011)
  As a consequence of the new PFRS 10, *Consolidated Financial Statements,* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendments did not have any significant impact in the Association's financial statements since the Association has no interest in other entities.

- PAS 28, *Investments in Associates and Joint Ventures* (As revised in 2011)
  As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendments did not have any significant impact in the Association's financial statements.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
  This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. This new interpretation is not relevant to the Association.

- PFRS 1, *First-time Adoption of International Financial Reporting Standards - Government Loans* (Amendments)
  The amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, *Financial Instruments: Recognition and Measurement*, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. These amendments are not relevant to the Association

Annual Improvements to PFRSs (2009-2011 cycle)
The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The Association adopted these amendments for the current year.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
  The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Association as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
  The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Association's financial position or performance. The amendment did not have significant impact on the Association's financial statements since the comparative information disclosures are in accordance with the requirements of PAS 1.

- PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
  The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment did not have any significant impact on the Association's financial position or performance.

- PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
  The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. This amendment did not have any impact on its financial position or performance.

- PAS 34*, Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*
  The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment does not apply to the Association since the Association is not required to issue interim financial reports nor disclose segment information.

Future Changes in Accounting Policies
Standards issued and effective after September 30, 2014 are listed below. This listing of standards and interpretations issued are those that the Association reasonably expects to be applicable at a future date.

The Association will adopt the following amended standards and Philippine Interpretations when these become effective. Except as otherwise indicated, the Association does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

Effective 2015

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments will not have any impact on the Association's financial statement.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
  These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The amendments are effective retrospectively provided PFRS 13 is also applied. The amendments will not have any impact on the Association's financial statements since the Association has no impaired nonfinancial asset.

- Amendments to PFRS 10, PFRS 12 and PAS 27, *Investment Entities*
These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments have no impact on the Association's financial position or performance.

- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The interpretation has no impact on the Association's financial position or performance.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The amendments have no impact on the Association's financial position or performance.

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. The amendments have no impact on the Association's financial position or performance.

Annual Improvements to PFRSs
The Improvements contain non-urgent but necessary amendments to the following standards. These amendments are effective for annual periods beginning on or after July 1, 2014.

2010-2012 cycle

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Association as it has no share-based payments.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. This amendment does not apply to the Association.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. This amendment does not apply to the Association

- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*
  The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment will not have any impact on the Association's financial position or performance since the Association's policy is already consistent with the amendment.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Association's financial position or performance.

- PAS 24, *Related Party Disclosures - Key Management Personnel*
  The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management

personnel services to the reporting entity or to the parent Association of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Association's financial position or performance (see Note 16).

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*
  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the Standard.

  The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Association's financial position or performance.

2011-2013 cycle

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*
  The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Association as it is not a first-time adopter of PFRS.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
  The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*
  The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Association's financial position or performance since it is not a joint arrangement.

- PAS 40, *Investment Property*
  The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Association's financial position or performance since the Association has no investment property.

Standard with No Mandatory Effectivity Date

- PFRS 9, *Financial Instruments*
  PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model hedge accounting is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Association's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

  On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Association will not adopt the standard before the completion of the limited amendments and the second phase of the project.

Interpretation with Deferred Effectivity

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Association since the Association is not involved in the construction of real estate.

The Association continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to 2014 on the Association's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the financial statements when the amendments are adopted.

<u>Product Classification</u>
Insurance contracts are those contracts when the Association (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Association determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Fair Value Measurement
The Association measures financial instrument at fair value at each reporting period. Also, fair values of financial assets measured at amortized cost are disclosed in Note 17.

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 by the Association.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value hierarchy
All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

Financial instruments
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.

Nonfinancial assets
A fair value measurement of a non-financial 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.

Cash
Cash comprises cash on hand and in banks.

Short-term Investments
Short-term investments are short-term placements with maturities of more than three months but less than one year from the date of acquisition and are carried in the statement of financial position at nominal amount. These earn interest at the prevailing 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 marketplace are recognized on the trade date.

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

Determination of fair value
The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market prices or dealer price quotations (bid prices for long positions and ask prices for short positions), without any deduction for transaction costs. When current bid and asking 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, options pricing models, and other relevant valuation models.

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments 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. These are included in current assets if maturity is within twelve months from the reporting date otherwise, these are classified as noncurrent assets. Such assets are carried at amortized cost using the effective interest rate (EIR) method. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. This accounting policy relates to the statement of financial position captions “Cash in bank”, “Receivables” and “Advances to affiliates”.

Loans and receivables are included in current assets if maturity is within twelve months from the reporting date.

AFS financial assets
AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at FVPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS financial assets shall be reported in the statement of comprehensive income and included in the AFS reserve until the investment is derecognized at which time the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired.

When the security is disposed of, the cumulative gain or loss previously recognized in the statement of changes in equity is recognized in profit or loss in the statement of comprehensive income. Where the Association holds more than one investment in the same security these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS financial assets are reported as interest income using the EIR method. Dividends earned on holding AFS financial assets are recognized in the statement of comprehensive income when the right of payment has been established. The losses arising from impairment of such investments are recognized in the statement of comprehensive income.

Other financial liabilities
Other financial liabilities are financial liabilities not designated at FVPL where the substance of the contractual arrangement results 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 EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. Gains and losses are recognized in statement of comprehensive income when the liabilities are derecognized, as well as through the amortization process. This accounting policy applies primarily to the Association's statement of financial position captions, "Accounts and other payables" "Refundable Deposits" and "Advances from a stockholder".

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

Financial asset
A financial asset (or, where applicable, a part of a group of financial assets) is derecognized when: (a) the right to receive cash flows from the assets has expired; (b) 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 (c) the Association has transferred its right to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained the risks and rewards of the asset but has transferred control of the asset.

Where the Association has transferred its rights to receive cash flows from an asset or has entered into a “pass-through” arrangement, 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 original carrying amount of the asset and the maximum amount of consideration that the Association could be required to repay.

Financial liability
A financial liability is derecognized when the obligation under the liability are discharged or 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 statement of comprehensive income.

Impairment of Financial Assets
The Association assesses at each reporting date whether there is an objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
For loans and receivables carried at amortized cost, the Association first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Association determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated. 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 for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to statement of comprehensive income.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Association to reduce any differences between loss estimates and actual loss experience.

AFS financial assets
For AFS financial assets, the Association assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In case of equity investments classified as AFS, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized statement of comprehensive income. Impairment losses on equity investments are not reversed through statement of comprehensive income. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of “Expenses” in profit or loss. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in other comprehensive income, the impairment loss is reversed through profit or loss.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount 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.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and 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
Transportation equipment	5
Office furniture and fixtures	3
Computer and office equipment	2

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.

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.

Impairment of Nonfinancial Assets

The Association assesses at each reporting date whether there is an indication that an asset 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 current assets or group 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. Impairment losses of continuing operations are recognized in statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date 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.

Life Reserve Fund
Under the Association's life insurance program, members and their 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. A member who withdraws membership from the Association shall be entitled to an equity value of at least 50 of the total membership dues/contribution payable upon termination of his/her membership from the Association provided the member has been an active member for two (2) consecutive years.

Retirement Savings Fund
Under the Association's mutual benefit plan, 25% of the contribution received from a member represents the members' savings in the association, which is directly reported as additions to "Retirement Savings Fund". According to the policy given to members, interest shall be credited to the accumulated fund every anniversary at a rate to be determined by the Board of Trustees. As stipulated in the revised IRR of the Association duly approved by the IC on October 23, 2013, the interest rate of the fund should not be lower than the prevailing interest rate on savings deposit of any commercial bank. In 2014 and 2013, the members' savings fund earned interest at 1% and 2.5%, per Board Resolution Number 11 S2014. The interest expense is charged to profit or loss while the savings fund balance is shown under the liabilities section of the statement of financial position.

Claims Fund
This account is set up to cover all contractual benefits in the insurance plan such as death or disability. The fund is set up from the total gross premiums collected and is adjusted at year-end, such that the remaining balance of the fund pertains only to the actuarial valuation of the Association's (a) required reserves for life policies and contracts and its (b) incurred policy and contract claims that remain unpaid at the end of the period. The amount of the claims fund set up from the total gross premiums collected should not exceed 33% of said premiums as mandated by the IC.

Fund Balance
Fund balance represents guaranty fund, donated equity, appropriated fund balance and unappropriated fund balance.

Unappropriated retained earnings
Unappropriated retained earnings represent the portion of retained earnings that is free and can be declared as dividends to stockholders.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Association and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Association assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Association has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognized:

Gross premiums earned
Premiums are recognized as earned when collected. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

Interest
Interest on interest-bearing placements is recognized based on the accrual accounting using the EIR method. Interest income earned for the year is accrued as part of the Association's "Receivables".

Dividend
Dividend income is recognized when the right to receive dividend is established.

Miscellaneous
Miscellaneous income is recognized when earned.

Insurance Contract Liabilities
Life insurance contract liabilities
Life insurance 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. This accounting policy pertains to "Life reserve fund" in the statement of financial position.

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 to 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.

General expenses
General expenses are recognized as they are incurred.

Claims
Claims consist of claims paid to members, which includes excess benefit claims. Death claims and surrenders are recorded on the basis of notifications received.

Interest expense
Interest expense on accumulated policyholders' dividends and premium deposit fund is recognized in the statement of comprehensive income as it accrues. Accrued interest is credited to the liability account every policy anniversary date.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

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 extension granted, unless the 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 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 scenarios (a), (c), or (d) and at the date of renewal or extension period for scenario (b).

Association as lessee

Operating lease payments are recognized as an operating expense in profit or loss on a straight-line basis over the lease term.

Provisions

Provisions are recognized when the Association has a present obligation (legal or constructive) as a result of a past event, 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. When the Association expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the profit or loss, net of any reimbursement.

Contingencies

Contingent liabilities are not recognized in the financial statements. These 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 Reporting Period

Post year-end events up to the date of when the financial statements are authorized for issue that provide additional information about the Association's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Reclassification of 2013 financial statements

The Association made reclassification adjustments to its statements of comprehensive income for the year ended December 31, 2013.

	As Previously Reported	Reclassification adjustments	**As reclassified**
Interest income	423,362	491,918	**915,280**
Dividend income	555,268	(491,918)	**63,350**

3. 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.

<u>Judgments</u>
Product classification
The Association has determined that the insurance policies it issues have significant insurance risk and therefore meet the definition of an insurance contract and should be accounted for as such.

The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Association defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more that the benefits payable if the insured event did not occur.

Operating lease commitment - the Association as lessee
The Association has entered into office space lease for its operations for a period of one year, renewable every year. The Association has determined that the lessor retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

These leases are cancellable and have a life of one year, renewable upon mutual agreement by the parties. There are no restrictions placed upon the Association by entering into these leases. The rent expense incurred and reported under “Costs and operating expenses” in the statements of comprehensive income amounted to ₱0.04 million and ₱0.06 million in 2014 and 2013, respectively.

The future minimum rentals payable under these operating leases amounted to ₱0.05 million and ₱0.03 million as of December 31, 2014 and 2013, respectively (see Note 17).

Classification of financial assets not quoted in an active market
The Association classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm’s length basis.

As of December 31, 2014 and 2013, the cost of unquoted AFS financial assets amounted to ₱0.84 million and ₱0.22 million. No impairment loss was recognized in 2014 and 2013 (see Note 7).

<u>Estimates</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives (see Note 17).

Impairment of loans and receivables
The Association reviews its receivables to assess impairment annually. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Association makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

Total receivables amounted to ₱17.27 million and ₱17.97 million as of December 31, 2014 and 2013, respectively. No impairment loss was recognized in 2014 and 2013 (see Note 6).

Estimating EUL of property and equipment
The Association estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Association reviews annually the EUL of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the EUL of property and equipment would increase the recorded depreciation and amortization expense and decrease the related asset accounts (see Note 8).

Impairment of property and equipment
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.

As of December 31, 2014 and 2013, the carrying value of the Association's property and equipment amounted to ₱0.19 million and ₱0.41 million, respectively. No impairment loss was recognized in 2014 and 2013 (see Note 8).

Aggregate reserves
The estimation of ultimate liability arising from claims made under life insurance contracts is the Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Association will ultimately pay for such claims. Previous experience and trends are fundamentally considered in determining the liability. In determining the provision for reserves, estimates are made as to the expected number of deaths, illness or injury for each of the years in which the Association is exposed to risk. These estimates are based on standard industry and national mortality and morbidity tables. The estimated number of deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Estimates are also made to future investment income arising from the assets backing life insurance contracts. These estimates are based on weighted average rate of return arising from the assets backing life insurance contracts.

As of December 31, 2014 and 2013, the carrying value of the Association's life reserve fund amounted to ₱21.23 million and ₱20.78 million, respectively (see Note 17).

4. **Cash**

This account consists of:

	2014	2013
Petty cash fund	**₱10,000**	₱10,000
Cash in bank	**17,932,021**	16,157,978
	₱17,942,021	₱16,167,978

Cash in banks earns interest at the prevailing bank deposit rates. Cash in bank bears annual interest rates ranging from and 0.025% to 1.00% in 2014 and 2013, respectively. Interest income from cash in bank amounted to ₱0.02 million and ₱0.25 million in 2014 and 2013, respectively.

5. **Short-term Investments**

This account consists of short-term investment in Bank of the Philippine Islands. Short-term investment bears annual interest rates ranging from and 1.00% to 1.25% in 2014 and 2013, respectively. Interest income from short-term investments amounted to ₱0.26 million and ₱0.11 million in 2014 and 2013, respectively. This short-term investment will mature on June 29, 2015.

6. **Receivables**

This account consists of:

	2014	2013
Receivables from related parties (Note 16)	**₱17,115,219**	₱17,788,504
Advances to officers and employees (Note 16)	**158,535**	176,063
Accrued interest	**444**	7,987
	₱17,274,198	₱17,972,554

Receivables from related parties represent unremitted premiums and contributions pertaining to life insurance and provident savings fund collected by related parties on behalf of the Association and advances made to related parties for the maintenance of operations. Interest income from receivables from related parties amounted to ₱0.92 million and ₱0.56 million in 2014 and 2013, respectively. These are collectible within one year.

Accrued interest represents the interest recognized for the short-term investment.

Advances to officers and employees represent advances for business expenses of the employer and advances for emergencies and medical assistance. These are settled through salary deduction.

7. Available-for-Sale Financial Assets

This account consists of unquoted equity securities measured at cost. The Association owns 843 and 219 common shares of Federation of Peoples' Sustainable Development Cooperative as of December 31, 2014 and 2013, respectively.

Movement in the AFS financial assets follow:

	2014	2013
At January 1	**₱219,275**	₱113,907
Additional investment	**624,575**	105,368
At December 31	**₱843,850**	₱219,275

Dividend income earned for available-for-sale financial assets amounted to ₱0.08 million and ₱0.06 million in 2014 and 2014, respectively.

8. Property and Equipment

The rollforward analyses of this account follow:

	2014			
	Transportation Equipment	**Computer and Office Equipment**	**Office Furniture and Fixtures**	**Total**
Cost				
At January 1	**₱890,000**	**₱406,520**	**₱123,855**	**₱1,420,375**
Additions	**–**	**59,160**	**–**	**59,160**
At December 31	**890,000**	**465,680**	**123,855**	**1,479,535**
Accumulated Depreciation				
At January 1	**578,500**	**327,773**	**103,495**	**1,009,768**
Depreciation	**89,000**	**42,017**	**6,834**	**137,851**
Subsidized depreciation	**89,000**	**42,017**	**6,833**	**137,850**
At December 31	**756,500**	**411,807**	**117,162**	**1,285,469**
Net Book Value	**₱133,500**	**₱53,873**	**₱6,693**	**₱194,066**

	2013			
	Transportation Equipment	**Computer and Office Equipment**	**Office Furniture and Fixtures**	**Total**
Cost				
At January 1	₱890,000	₱373,620	₱99,388	₱1,363,008
Additions	–	32,900	24,467	57,367
At December 31	890,000	406,520	123,855	1,420,375
Accumulated Depreciation				
At January 1	400,500	216,441	95,944	712,885
Depreciation	89,000	55,666	3,776	148,442
Subsidized depreciation	89,000	55,666	3,775	148,441
At December 31	578,500	327,773	103,495	1,009,768
Net Book Value	₱311,500	₱78,747	₱20,360	₱410,607

Subsidized depreciation pertains to the depreciation expense shouldered by Pag-inupdanay, Inc. The related depreciation expense is recorded in the books of Pag-inupdanay, Inc.

As of December 31, 2014 and 2013, the cost of fully depreciated property and equipment still in use amounted to ₱0.47 million and ₱0.27 million, respectively.

9. Accounts Payable and Accrued Expenses

This account consists of:

	2014	2013
Payable to related parties (Note 16)	**₱575,923**	₱355,353
Accrued expenses	**41,986**	81,978
Others	**34,105**	4,463
	₱652,014	₱441,794

Advances from related parties pertain to outstanding obligation to Grassroot Community of Educators and Leaders (GCEL). These are to be settled within one year.

Accrued expenses include accruals for interest expense of the retirement saving fund, professional fees, employee benefits, allowances and other miscellaneous expenditures. These are to be settled within one year.

Other payables pertain to unremitted premium collections arising from the Association's partnership with Card MRI Insurance Agency (CaMIA) which provides micro insurance products as needed to the members of the Association. These are to be settled within one year.

10. Lease Commitment

The Association entered into an operating lease agreement for its office space. The lease term is for a period of one year and renewable at the end of the lease term upon mutual consent of the parties. As of December 31, 2014, neither parties have declared intent in terminating the lease arrangement.

Rent expense amounted to ₱0.04 million and ₱0.06 million in 2014 and 2013, respectively. Deposits recorded under "Other current assets" pertain to deposits for leased office space.

The future minimum rentals payable under noncancellable operating leases within one year amounted to ₱0.05 million and ₱0.04 million as of December 31, 2014 and 2013, respectively.

11. Life Reserve Fund

The movements in this account follow:

	2014	2013
At January 1	**₱20,777,561**	₱19,509,704
Provision for the year	**1,930,820**	2,745,146
Amount refunded during the year	**(1,685,823)**	(1,710,353)
Interest expense	**209,623**	233,064
At December 31	**₱21,232,181**	₱20,777,561

This account represents provisions for reserve liabilities for life insurance computed on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing in each life operation.

12. Retirement Savings Fund

The movements in this account follow:

	2014	2013
At January 1	**₱11,387,551**	₱10,730,346
Net contributions received during the year	**1,040,680**	1,543,349
Provision for the year (Note 15)	**46,918**	(53,563)
Refunds paid during the year	**(927,640)**	(1,106,763)
Interest expense	**114,960**	274,182
At December 31	**₱11,662,469**	₱11,387,551

This account represents retirement contributions of members of the Association including interest accruals. It is used to finance the retirement obligations in the event of resignation and termination of coverage. Upon reaching the termination age of sixty-five or if a member resigns from the Association prior to age 65, the member shall be entitled to payment of 100% of the total retirement savings fund contributions plus interest credits during his/her period of membership. Interest shall be credited to the accumulated fund every anniversary at a rate to be determined by the BOT but in no case less than the prevailing interest rate on savings deposit of any commercial bank.

13. **Claims Fund**

This account consist of:

	2014	2013
Aggregate reserves for credit life insurance policies	**₱129,997**	₱136,998
Aggregate reserves for life policies and contracts	**39,700**	55,011
Policy and contract claims payable	**137,569**	168,808
	₱307,266	₱360,817

Details follow:

	2014	2013
At January 1	**₱360,817**	₱488,787
Provision for the year	**585,371**	1,019,612
Claims paid	**(638,922)**	(1,147,582)
At December 31	**₱307,266**	₱360,817

The components of policy and contract claims payable are as follows:

	2014	2013
In course of settlement	**₱2,500**	₱–
Due and unpaid	**21,313**	67,109
Denied	**55,000**	35,000
Incurred but not reported	**58,756**	66,699
	₱137,569	₱168,808

14. **Guaranty Fund**

In accordance with Republic Act No. 10607 Sec.405, this account must be maintained at a minimum of ₱5,000,000. In accordance with Insurance Memorandum Circular (IMC) No. 9-2006, every year thereafter, it is increased by an amount equivalent to 5% of gross premium collections. The appropriation for guaranty fund amounted to ₱0.25 million and ₱0.37 million in 2014 and 2013, respectively.

15. **Increase in Aggregate Reserves**

This account consists of:

	2014	2013
Life reserve fund (Note 11)	**₱1,930,820**	₱2,745,146
Retirement savings fund (Note 12)	**46,918**	(53,563)
Claims fund (Note 13)	**585,371**	1,019,612
	₱2,563,109	₱3,711,195

16. **Related Party Transactions**

The Association, in the normal course of activities, has entered into transactions with affiliates. These balances are settled as separate transactions and not on a net basis.

This account consists of receivables (payables) which are unsecured, non-interest-bearing with a term of one (1) year. No impairment loss was recognized for these receivables. The significant transactions with the related parties are as follows:

	Amount of Transaction		**Outstanding Balance**			
	2014	2013	**2014**	2013	**Terms**	**Conditions**
Pag-inupdanay, Inc.						
Premiums (a)	**₱28,674,417**	₱10,936,165	**₱10,529,458**	₱9,691,086	Non-interest-bearing, 1 year	Unsecured, no impairment
Advances (b)	**630,824**	446,651	**158,535**	176,063	Non-interest-bearing, 1 year	Unsecured
Receivable (c)	**51,198,897**	30,656,837	**6,032,064**	7,378,584	Non-interest-bearing, 1 year	Unsecured, no impairment
Payable (d)	**(692,741)**	(377,608)	**(575,923)**	(355,353)	Non-interest-bearing, 1 year	Unsecured, no impairment
Quidan Kaisahan Negros Occidental, Inc.						
Premiums (a)	**635,683**	895,234	**553,697**	718,834	Non-interest-bearing, 1 year	Unsecured, no impairment

a. Premiums pertain to unremitted premiums and contributions, interest and charges from branches. These receivables are generally collectible within one year except for the receivable from remaining cash for turnover which was paid in monthly installments of ₱0.02 million from January 2013 to July 2014.
b. Advances pertain to payments of Pag-inupdanay, Inc. for branch supervisor's allowances on behalf of the Association.
c. Receivable pertains to supplies expenses charged by branches, general fund operating expenses and CLIP expenses. These are collectible upon demand.
d. Payable pertains to outstanding obligation to Grassroot Community of Educators and Leaders (GCEL). These are to be settled within one year.

Subsidized depreciation pertains to the depreciation expense shouldered by Pag-inupdanay, Inc. The related depreciation expense is recorded in the books of Pag-inupdanay, Inc.

Compensation of Key Management Personnel
The Association's key management personnel are the executive director, general accountant and management information system head. The summary of compensation of key management personnel follows:

	2014	2013
Salaries and wages	**₱572,885**	₱581,984
Social security costs	**40,157**	44,850
Other short term benefits	**329,497**	240,095
	₱942,539	₱866,929

17. Management of Insurance and Financial Risks, Capital Management and Regulatory Requirements

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 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 ₱5,000,000. 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 until the guaranty fund reaches 12.5% of the minimum paid up capital for domestic life insurance companies or ₱125,000,000. As of December 31, 2014 and 2013, the Association has a total of ₱7.13 million and ₱6.89 million respectively, representing guaranty fund which is deposited with the IC.
The main risks arising from the Association's insurance contracts 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.

The Association determines its concentration of insurance risk based on sum insured. It has only one type of insurance contract which is term life insurance with 26,711 numbers of policies and ₱640.83 million amount of insurance.

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.

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.

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Lapse rates
The following lapse rates were assumed in preparing the projections:

Policy Year	Lapse Rate
1	20%
2	12%
3-5	5%
6 and over	4%

Surrender rates
Same as lapse rates, where surrender benefit is one-half (½) of all paid contributions.

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.

Financial Instruments
The Association's principal financial instruments are cash, short-term deposits, short-term investments, receivables, AFS financial assets, accounts payable and accrued expenses and aggregate reserves. The main purpose of these financial instruments is to finance their operations. The carrying amounts of these financial instruments approximate their fair values. Aggregate reserves are also carried at fair value based on the valuation provided in the independent actuarial report.

For unquoted equity investments classified as AFS, these investments are carried at cost less allowance for impairment losses due to the lack of suitable methods for arriving at a reliable fair value.

Fair Value Hierarchy
As of December 31, 2014 and 2013, the Association has no financial assets or liabilities carried in the statement of financial position at fair value. As of December 31, 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

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.

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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 nonpayment 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. The Association sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long term credit ratings.

As of December 31, 2014 and 2013, the carrying values of the Association's financial instruments represent maximum exposure to credit risk at reporting date. The Association's credit risk is concentrated on its receivable from related parties.

The gross maximum exposure to credit risk of the Association approximates its net maximum exposure. There were no amounts that are set-off in accordance with the entities in PAS 32. There were no amounts subject to an enforceable master netting arrangement or similar agreement as of December 31, 2014 and 2013.

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.

	2014			
	Neither Past due Nor Impaired			
	Investment Grade	**Non-investment Grade**	**Past Due and Not Impaired**	**Total**
Loans and receivables				
Cash	**₱17,942,921**	**₱–**	**₱–**	**₱17,942,921**
Short-term investments	**8,000,000**	**–**	**–**	**8,000,000**
Receivables				
Receivable from related parties	**17,115,219**	**–**	**–**	**17,115,219**
Accrued interest	**444**	**–**	**–**	**444**
Others	**158,534**	**–**	**–**	**158,534**
	₱43,217,118	**₱–**	**₱–**	**₱43,217,118**

	2013			
	Neither Past due Nor Impaired			
	Investment Grade	Non-investment Grade	Past Due and Not Impaired	Total
Loans and receivables				
Cash	₱16,167,978	₱–	₱–	₱16,167,978
Short-term investments	8,000,000	–	–	8,000,000
Receivables				
Receivable from related parties	17,069,670	718,834	–	17,788,504
Accrued interest	7,987	–	–	7,987
Others	176,063	–	–	176,063
	₱41,421,698	₱718,834	₱–	₱42,140,532

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 of collections of the related party pertaining to contributions for premiums for life insurance and provident fund unremitted to the Association. 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 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 liquidity risk policy sets out the assessment and determines 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 year and beyond one year from reporting date:

	2014					
	Up to One Year*	**1-3 Years**	**3-5 Years**	**Over 5 Years**	**No Term**	**Total**
Financial assets						
Cash	**₱17,942,921**	**₱–**	**₱–**	**₱–**	**₱–**	**₱17,942,921**
Short-term investments	**8,000,000**	–	–	–	–	**8,000,000**
Receivables	**17,274,198**	–	–	–	–	**17,274,198**
AFS financial assets	–	–	–	–	**843,850**	**843,850**
	₱43,217,119	**₱–**	**₱–**	**₱–**	**₱843,850**	**₱44,060,969**
Financial liabilities						
Life reserve fund	**₱–**	**₱–**	**₱–**	**₱–**	**₱21,232.181**	**₱21,232,181**
Retirement savings fund	–	–	–	–	**11,662,469**	**11,662,469**
Claims fund	–	–	–	–	**307,266**	**307,266**
Accounts payable and accrued expenses	**652,014**	–	–	–	–	**652,014**
	₱652,014	**₱–**	**₱–**	**₱–**	**₱33,201,916**	**₱33,853,930**

** Includes due and demandable accounts*

	2013					
	Up to One Year*	1-3 Years	3-5 Years	Over 5 Years	No Term	Total
Financial assets						
Cash	₱ 16,167,978	₱–	₱–	₱–	₱–	₱16,167,978
Short-term investments	8,000,000	–	–	–	–	8,000,000
Receivables	17,972,554	–	–	–	–	17,972,554
AFS financial assets	–	–	–	–	219,275	219,275
	₱42,140,532	₱–	₱–	₱–	₱219,275	₱42,350,807
Financial liabilities						
Life reserve fund	₱–	₱–	₱–	₱–	₱20,777,561	₱20,777,561
Retirement savings fund	–	–	–	–	11,387,551	11,387,551
Claims fund	–	–	–	–	360,817	360,817
Accounts payable and accrued expenses	441,794	–	–	–	–	441,794
	₱441,794	₱–	₱–	₱–	₱32,525,929	₱32,967,723

** Includes due and demandable accounts*

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

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

a. The market risk policy sets out the assessment and determines what constitutes market risk for the Association. Compliance with the policy is monitored and exposures and breaches are reported to the association risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.

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b. Set asset allocation and portfolio limit structure, to ensure that assets back specific member liabilities and that assets are held to deliver income and gains for members which are in line with expectations of the members.

c. Stipulated diversification benchmarks by type of instrument, as the association is exposed to guaranteed bonuses, cash and annuity options when interest rates falls.

Currency risk
The Association is not exposed to significant currency risk since the Association's principal transactions are carried out in Philippine pesos and therefore, it has no foreign currency denominated monetary assets and liabilities.

Price risk
The Association's price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, AFS financial assets.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Association's investment policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; and limits on investment in each country, sector and market. Investments in derivatives are also not allowed.

As of December 31, 2014 and 2013, the Association is not exposed to significant price risk since its AFS financial assets pertains to unquoted equity securities carried at cost.

Interest rate risk
Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that future cash flows will fluctuate because of changes in the market interest rates.

The Association is not exposed to significant interest rate risk.

Capital
The primary objective of the Association's capital management is to comply with the statutory requirements on Margin of Solvency (MOS) and on Risk-Based Capital (RBC) for Mutual Benefit Associations (MBA).

As of December 31, 2014 and 2013, the Association has fully complied with the externally imposed capital requirements.

The Association considers the following as capital:

	2014	2013
Guaranty fund	**₱7,133,829**	₱6,885,412
Unappropriated fund balance	**2,487,200**	1,854,170
Appropriated fund balance	**161,663**	1,035,159
Donated equity	**163,776**	163,776
Total Fund Balance	**₱9,946,468**	₱9,938,517

Appropriated fund balance

On May 31, 2013, the BOT approved the appropriation of ₱1.10 million from the Association's unappropriated fund balance for the educational and calamity fund assistance of the members and the retirement and employee benefits fund of the employees. The purpose of the educational fund is to give education support as help to its members and to reward members for their continuous membership in the Association. The purpose of the disaster fund is to give immediate aid to its members who may be victims of catastrophic events. The purpose of the retirement and employee benefits fund is to set aside funds for the retirement and other benefits granted to their permanent employees in case of termination or resignation from the Association. For 2014, this account was pulled out from the appropriated fund and was shown as a liability. From May 31, 2013, the fund may already be utilized as long as the provisions of the guidelines provided by the BOT are adhered to. In 2014, ₱0.87 million was released from the fund.

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 members' benefit. The regulators are also interested in ensuring that the Association maintains an 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., MOS 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).

Margin of solvency (MOS)

The Association is required to maintain at all times, an MOS equal to ₱5.00 million or 10% of the total amount of its net premiums written during the preceding year, whichever is higher. The MOS shall be the excess of the value of its admitted assets (as defined under the Code), exclusive of its paid-up capital, over the amount of its liabilities, unearned premiums and reinsurance reserves.

As of December 31, 2014 and 2013, the Association's MOS based on its calculations amounted to ₱9.64 million and ₱8.60 million respectively. The final amount of the MOS 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 surplus available for MOS for the Association follows:

	2014	2013
Admitted assets	**₱43,956,678**	₱41,564,384
Admitted liabilities	**34,312,433**	33,004,971
Net worth	**₱9,644,245**	₱8,559,413

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As of December 31, 2014 and 2013, the estimated non-admitted assets of the Association's life operations, as defined under the Code, which are included in the statement position follows:

	2014	2013
Receivable from related parties	**₱17,115,219**	₱17,788,504
Property and equipment - net	**194,066**	311,500
AFS financial assets	**843,850**	219,275
Other current assets	**420,267**	386,421
	₱18,573,402	₱18,705,700

If an insurance Association failed to meet the minimum required MOS, the IC is authorized to suspend or revoke all certificates of authority granted to such companies, its officers and agents, and no new business shall be done by and for such Association until its authority is restored by the IC.

RBC
In October 2006, the IC issued IMC NO. 6-2006 adopting the RBC framework for the life insurance industry to establish the required amounts of capital to be maintained by entities in relation to their investment and insurance risks. Every life insurance entity is annually required to maintain a minimum RBC ratio of 100% 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 Members' 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 as of December 31, 2014 and 2013 was determined by the Association:

	2014	2013
Members' equity	**₱9,644,245**	₱8,779,193
RBC requirement	**3,230,202**	3,453,974
RBC Ratio	**298.56%**	254.18%

The final amount of the RBC ratio can be determined only after the accounts of the Association have been examined by the IC.

Unimpaired capital requirement
Insurance Memorandum Circular (IMC) 22-2008 provided that for purposes of determining compliance with the law, rules and regulations requiring that the paid-up capital should remain intact and unimpaired at all times, the statement of financial position should show that the net worth or equity is at least equal to the actual paid-up capital. The Association has complied with the unimpaired capital requirement.

Compliance Framework
IMC No.10-2006 integrated the compliance standards for the fixed capitalization and risk-based capital framework.

Subsequent to year 2006, the fixed capitalization requirement for a given year may be suspended for insurers that comply with the required RBC hurdle rate, provided that the industry complies with the required Industry RBC Ratio Compliance Rate. The IMC provides the annual schedule of progressive rates for the Industry RBC Ratio Compliance Rates and the RBC Hurdle Rates from 2007 to 2011. Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirement for the year under review.

18. Supplementary Information Required Under Revenue Regulations 15-2010

The Association reported and paid the following taxes in 2014:

Value added tax (VAT)
As a nonstock, not-for-profit and mutual benefit association, the Association was granted tax exemption with respect to 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

Landed Cost
In 2014 the Association has no importations, thus, no custom duties and tariff fees paid or accrued.

Excise Tax
In 2014, the Association has no excise taxes paid or accrued.

Documentary Stamp Tax
In 2014, the Association has no documentary stamp taxes paid or accrued.

Taxes and Licenses
This includes all other taxes, local and national, including licenses and permit fees under the “Taxes and licenses” in the statement of comprehensive income.

Annual IC registration fee	₱42,717
Permits and registration fees	4,370
	₱47,087

Withholding Taxes
The amount of withholding taxes paid/accrued for the year ended December 31, 2014 amounted to:

Tax on compensation and benefits	₱32,730
Expanded withholding taxes	4,018
	₱36,748

Tax Contingencies
The Association has no tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR for the year ended December 31, 2014.