

**BANARIA, BANARIA AND COMPANY**  
**Certified Public Accountants**  
**REPORT TRANSMITTAL LETTER**

Client : National Confederation of Cooperatives Mutual Benefit Association, Inc.  
 Address : 227 J. P. Rizal St., Project 4 Quezon City  
 Attention : Ellen R. Pastores - President

Date : March 25, 2018  
 Ref. No. : \_\_\_\_\_  
 Division/Group : \_\_\_\_\_

Dear Sirs :

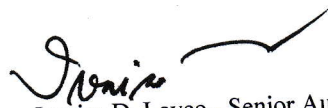
We are pleased to submit for your approval the accompanying Draft of your Company's Audited Financial Statements (AFS) as of December 31, 2017 . We request that the following findings/exceptions be resolved soonest to enable us to finalize the AFS. Should you need to discuss further these findings, please feel free to call us anytime.

Accounts	Findings/Exceptions	Actions Made/Proposals

Enclosures:

- AFS Draft
- LOC
- Management Letter/Report
- Others

Very truly yours,



Irenisa D. Layco - Senior Audit Partner  
 Authorized Signature

Comments/Instructions:

APPROVED

By: \_\_\_\_\_  
 Position: \_\_\_\_\_ Date: \_\_\_\_\_

**NATIONAL CONFEDERATION OF COOPERATIVES MUTUAL BENEFIT  
ASSOCIATION (NATCCO MBA), INC.**

227 J. P. Rizal Street, Bayanihan  
Project 4, Quezon City

**FINANCIAL REPORTS**  
December 31, 2017 and 2016

## **INDEPENDENT AUDITORS' REPORT**

**The Members and the Board of Trustees**  
**NATIONAL CONFEDERATION OF COOPERATIVES**  
**MUTUAL BENEFIT ASSOCIATION (NATCCO MBA), INC.**  
227 J. P. Rizal Street, Bayanihan  
Project 4, Quezon City

### **Opinion**

We have audited the financial statements of **NATIONAL CONFEDERATION OF COOPERATIVES MUTUAL BENEFIT ASSOCIATION (NATCCO MBA), INC.** ("the Association"), which comprise the statement of financial position as at December 31, 2017 and the statement of comprehensive income, statement of changes in fund balance and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respect, the financial position of the Association as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

### **Basis for Opinion**

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

### **Material Uncertainty Related to Going Concern**

Having regard to the future period to which those charged with governance have paid particular attention in assessing going concern, we have planned and performed procedures specifically designed to identify any material matters which could indicate concern about the entity's ability to continue as a going concern. As stated in Note 2 to the financial statements, no events or conditions indicate that a material uncertainty exists that may cast significant doubt in the Association's ability to continue as a going concern. Use of going concern basis of accounting is appropriate and no material uncertainty has been identified.

### **Emphasis of Matter**

We draw attention to Note 28 to the financial statements which describe the policy adopted by the Association of when an entity should adjust its financial statements for events after the reporting period; and the disclosures that an entity should give about the date when the financial statements were authorized for issue and events after the reporting period.

### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the Schedule of Philippine Financial Reporting Standards and Interpretation but does not include the financial statements and our auditors' report thereon.

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

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

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

### **Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Association to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits.

### **Report on Legal and Other Regulatory Requirements**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 25 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### **BANARIA, BANARIA AND COMPANY, CPAs**

By: IRENISA D. LAYCO  
Partner  
CPA Certificate No. 44776  
Tax Identification No. 131-939-866  
PTR No. 5642329-C, January 11, 2018, Quezon City  
CTC No. 22111480, January 11, 2018, Quezon City  
BOA Accreditation No. 0030, valid until December 31, 2018 (Firm)  
SEC Accreditation No. 0260-FR-1, valid until May 1, 2019 (Firm)  
SEC Accreditation No. C-770-A, valid until April 30, 2018 (Partner)  
BIR Accreditation No. 07-000931-1-2015, valid until September 3, 2018 (Partner)  
BIR Accreditation No. 07-001323-002-2017, valid until June 27, 2020 (Firm)

Date of approval

**NATIONAL CONFEDERATION OF COOPERATIVES  
MUTUAL BENEFIT ASSOCIATION (NATCCO MBA), INC.  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2017 and 2016  
(Centavo Omitted)**

	<u>Notes</u>	<u>2 0 1 7</u>	<u>2 0 1 6</u>
<u>A S S E T S</u>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalent	7	P 27,097,151	P 15,733,086
Trade and other receivables	8	714,546	2,528,062
Other current assets	10	<u>1,148,770</u>	<u>712,432</u>
Total		<u>28,960,467</u>	<u>18,973,580</u>
<b>NON-CURRENT ASSETS</b>			
Property and equipment	11	571,563	740,844
Membership certificate loans	9	365,860	3,439,161
Financial assets at amortized costs	12	9,359,465	8,317,229
Other non-current asset	13	<u>31,333</u>	<u>39,333</u>
Total		<u>10,328,221</u>	<u>12,536,567</u>
<b>TOTAL ASSETS</b>		<u><u>39,288,688</u></u>	<u><u>31,510,147</u></u>
<u>LIABILITIES AND FUND BALANCE</u>			
<b>CURRENT LIABILITIES</b>			
Liability on individual equity value	14	5,231,864	10,462,474
Members contribution received in advance	15	14,357,909	6,975,028
Other payables	16	<u>3,284,854</u>	<u>2,156,136</u>
Total		22,874,627	19,593,638
<b>NON-CURRENT LIABILITY</b>			
Post employment benefits liability	17	<u>671,938</u>	<u>354,576</u>
<b>TOTAL LIABILITIES</b>		23,546,565	19,948,214
<b>TOTAL FUND BALANCE (Exhibit C)</b>		<u>15,742,123</u>	<u>11,561,933</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>		<u><u>P 39,288,688</u></u>	<u><u>P 31,510,147</u></u>

(See accompanying notes to the financial statements)

EXHIBIT A

**NATIONAL CONFEDERATION OF COOPERATIVES  
MUTUAL BENEFIT ASSOCIATION (NATCCO MBA), INC.  
STATEMENTS OF COMPREHENSIVE INCOME  
Fo the Years Ended December 31, 2017 and 2016  
(Centavo Omitted)**

	<u>Notes</u>	<u>2 0 1 7</u>	<u>2 0 1 6</u>
RECEIPTS	18	<u>P 30,790,488</u>	<u>P 22,624,060</u>
EXPENSES			
Benefit expenses	19	17,651,486	10,204,636
Operating expenses	20	<u>6,196,377</u>	<u>5,204,832</u>
Total		( <u>23,847,863</u> )	( <u>15,409,468</u> )
OPERATING INCOME		6,942,625	7,214,592
OTHER INCOME	21	<u>409,259</u>	<u>330,909</u>
INCOME BEFORE ADJUSTMENTS TO REQUIRED RESERVES		7,351,884	7,545,501
INCREASE IN INDIVIDUAL EQUITY VALUE	14	( <u>1,475,609</u> )	( <u>4,851,814</u> )
EXCESS OF RECEIPTS OVER EXPENSES FOR THE YEAR (To Exhibit C)		5,876,275	2,693,687
OTHER COMPREHENSIVE INCOME			
Remeasurement of post-employment benefit costs	17	<u>14,475</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME		<u><u>P 5,890,750</u></u>	<u><u>P 2,693,687</u></u>

(See accompanying notes to the financial statements)

EXHIBIT B

**NATIONAL CONFEDERATION OF COOPERATIVES  
MUTUAL BENEFIT ASSOCIATION (NATCCO MBA), INC.  
STATEMENTS OF CHANGES IN FUND BALANCE  
For the Years Ended December 31, 2017 and 2016  
(Centavo Omitted)**

	Notes	<u>2 0 1 7</u>	<u>2 0 1 6</u>
ASSIGNED FUNDS	22		
<i>Guaranty Fund</i>			
Balance - beginning	P	9,769,234	P 8,627,488
Transfer from free and unassigned funds		<u>1,962,842</u>	<u>1,141,746</u>
Balance - end		<u>11,732,076</u>	<u>9,769,234</u>
<i>Member's Benefits</i>			
Balance - beginning		1,110,360	-
Add: Allocation from free and unassigned funds		-	1,110,360
Less: Utilization	(	<u>738,958</u> )	<u>-</u>
Balance - end		<u>371,402</u>	<u>1,110,360</u>
<i>Office/Services Upgrading</i>			
Balance - beginning		411,730	-
Allocation from free and unassigned funds		-	444,144
Less: Utilization		<u>-</u>	<u>( 32,414 )</u>
Balance - end		<u>411,730</u>	<u>411,730</u>
<i>Product Development</i>			
Balance - beginning		289,378	-
Allocation from free and unassigned funds		-	666,216
Less: Utilization		<u>-</u>	<u>( 376,838 )</u>
Balance - end		<u>289,378</u>	<u>289,378</u>
FREE AND UNASSIGNED FUNDS			
Balance - beginning		111,430	5,791,941
Prior period adjustments	23	<u>( 971,602 )</u>	<u>( 5,011,732 )</u>
Adjusted beginning balance		<u>( 860,172 )</u>	780,209
Transfer to assigned funds	22	<u>( 1,962,842 )</u>	<u>( 3,362,466 )</u>
Excess of receipts over expenses (Exhibit B)		<u>5,876,275</u>	<u>2,693,687</u>
Balance - end		<u>3,053,261</u>	<u>111,430</u>
OTHER COMPREHENSIVE INCOME			
Beginning balance		<u>( 130,199 )</u>	<u>( 130,199 )</u>
Adjustment on beginning balance of retirement liability		-	-
Remeasurement of post-employment benefit costs	17	<u>14,475</u>	<u>-</u>
Total		<u>( 115,724 )</u>	<u>( 130,199 )</u>
TOTAL FUND BALANCE (To Exhibit A)		<u>P 15,742,123</u>	<u>P 11,561,933</u>

(See accompanying notes to the financial statements)

EXHIBIT C

**NATIONAL CONFEDERATION OF COOPERATIVES  
MUTUAL BENEFIT ASSOCIATION (NATCCO MBA), INC.  
STATEMENTS OF CASH FLOWS  
Fo the Years Ended December 31, 2017 and 2016  
(Centavo Omitted)**

	Notes	<u>2 0 1 7</u>	<u>2 0 1 6</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before adjustments to reserve (Exhibit B)		P 7,351,884	P 7,545,501
Adjustments for non-cash transactions:			
Depreciation	11	191,371	79,612
Amortization	13	8,000	-
Increase in equity value	14	( 1,475,609 )	( 4,851,814 )
Prior period adjustments	23	( <u>971,602</u> )	( <u>5,011,732</u> )
Operating income before working capital changes		5,104,044	( 2,238,433 )
Decrease (increase) in:			
Trade and other receivables	8	1,813,516	( 957,496 )
Other current assets	10	( 436,338 )	( 107,366 )
Increase (decrease) in:			
Liability on individual equity	14	( 5,230,610 )	8,385,503
Members contribution received in advance	15	7,382,881	5,928,530
Post-employment benefits liability	17	331,837	137,125
Release of post-employment liability	17	-	( 328,833 )
Other payables	16	<u>1,128,718</u>	<u>682,997</u>
Net cash provided by operating activities		<u>10,094,048</u>	<u>11,502,027</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Membership certificate loans	9	3,073,301	( 451,705 )
Additional financial assets at amortized cost	12	( 1,042,236 )	( 890,531 )
Proceeds from disposal of property and equipment	11	18,410	-
Purchase of web development	13	-	( 39,333 )
Acquisition of property and equipment	11	( <u>40,500</u> )	( <u>708,700</u> )
Net cash provided by (used in) investing activities		<u>2,008,975</u>	( <u>2,090,269</u> )
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Utilization of assigned funds	22	( <u>738,958</u> )	( <u>409,252</u> )
Net cash used in financing activities		( <u>738,958</u> )	( <u>409,252</u> )
NET INCREASE (DECREASE) IN CASH EQUIVALENT		11,364,065	9,002,506
CASH AND CASH EQUIVALENT, BEGINNING		<u>15,733,086</u>	<u>6,730,580</u>
CASH AND CASH EQUIVALENT, END		<u><u>27,097,151</u></u>	<u><u>15,733,086</u></u>

(See accompanying notes to the financial statements)

EXHIBIT D

**NATIONAL CONFEDERATION OF COOPERATIVES  
MUTUAL BENEFITS ASSOCIATION (NATCCO MBA), INC.  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2017  
(All Amounts in Philippine Peso)**

**Note 1 - CORPORATE INFORMATION**

***1.1 In General***

National Confederation of Cooperatives Mutual Benefit Association (NATCCO MBA), Inc. (“the Association”) was organized under the laws of the Philippines and duly registered with the Securities and Exchange Commission on April 24, 2009 under Registration No. CN200905690. Its members are active members of any cooperative affiliated with the National Confederation of Cooperatives (NATCCO).

The Association has objectives to extend financial assistance to its members, spouse, and children in the form of benefits, sickness benefits, provident savings and loan redemption assistance; to ensure continued access to benefits or resources by actively involving the members in the management of the association that will include implementation of policies and procedures geared towards sustainability and improved services; to do and perform any other acts and things and to have and exercise any other power and functions as may be necessary, convenient, legal and appropriate to accomplish the purpose for which the mutual benefits association is established or organized.

As amended on May 31, 2017, by majority vote of Board of Trustees and by the vote of at least two-thirds (2/3) of the members adopted the amended Articles of Incorporation dated September 8, 2017 to change the Association from Non-Stock Mutual Benefit Association to Non-Stock, Non-Profit Mutual Benefit Association.

The Association has a total of 66,656 and 38,690 active members as of December 31, 2017 and 2016, respectively.

The Association’s registered office, which is also its principal place of business, is located at 227 J. P. Rizal Street, Bayanihan, Project 4, Quezon City.

***1.2 Tax Exemption***

The Association is not subject to income tax under Section 30 (c) of the National Internal Revenue Code with respect to income received from its not-for-profit activities such as donations, gifts or charitable contributions. However, income from any of its properties, real and personal, or from any of its activities conducted for profit shall be subject to income tax.

Interest earnings on deposits of members with Association, as well as the shares of its members from the net income of the Association shall be exempt from income tax (BIR Ruling No. 347-98 dated July 28, 1998).

The application for tax exemption of the Association was received by the Bureau of Internal Revenue (BIR) dated May 27, 2014, other documents required were received on August 17, 2015 and was still awaiting for BIR’s approval and issuance of the certificate of tax exemption.

### ***1.3 Approval of the Financial Statements***

The financial statements of the Association for the year ended December 31, 2017 (including the comparative for the year ended December 31, 2016) were approved and authorized for issue by the Board of Trustees on \_\_\_\_\_.

#### **Note 2 - STATUS OF OPERATIONS**

The accompanying financial statements have been prepared on a going concern basis, which contemplate the realization of assets and settlement of liabilities in the normal course of business.

#### **Note 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

##### ***3.1 Basis of Preparation of Financial Statements***

###### Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of National Confederation of Cooperatives Mutual Benefit Association, Inc. have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). PFRSs are adopted by the Financial Reporting Standards Council (FRSC), formerly the Accounting Standards Council, from the pronouncements issued by the International Accounting Standards Board (IASB). PFRSs consist of:

- a. Philippine Financial Reporting Standards (PFRS) - corresponding to International Financial Reporting Standards;
- b. Philippine Accounting Standards (PASs) - corresponding to International Accounting Standards; and
- c. Interpretations to existing standards - representing interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), of the IASB which are adopted by the FRSC.

###### Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial assets. The measurement bases are more fully described in the accounting policies that follow.

###### Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS 1), *Presentation of Financial Statements*. The Association presents all items of income and expenses in a single statement of comprehensive income.

The Association presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statements of financial position are not required to be disclosed.

All values are rounded to the nearest one Peso (₱1), except when otherwise indicated.

### ***3.2 Functional Currency and Foreign Currency Transactions***

These financial statements are presented in Philippine Peso, the Association's functional currency, and all values represent absolute amounts except when otherwise indicated.

#### **Functional and Presentation Currency**

Items included in the financial statements of the Association are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Philippine Peso, which is also the Association's functional currency.

#### **Transactions and Balance**

The accounting records of the Association are maintained in Philippine Peso. Foreign currency transactions during the period are translated into the functional currency at exchange rates, which approximate those prevailing on transaction dates.

### ***3.3 Adoption of New Interpretation, Revisions and Amendments to PFRS***

#### **Changes in Accounting Policies**

Except for the following standards and amended PFRS which were adopted as of January 1, 2017, the accounting policies and methods of computation adopted in the preparation of the financial statements are consistent with those followed in the previous financial year.

#### ***a) Effective in 2017 that are relevant to the Association***

The Association adopted for the first time the following amendment and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017.

- (i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative*. The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including changes identified immediately above.

b) *Effective in 2017 but not Relevant to the Association*

The following new PFRS, amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2017 but are not relevant to the Association's financial statements:

Annual Improvements to  
PFRS (2014-2016 Cycle)

PFRS 12: Disclosure of Interest in Other Entities – Scope Clarification on  
Disclosure of Summarized Financial Information for Interests classified as held for sale

PAS 12 (Amendments) Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses

(i) PFRS 12 (Amendments), *Disclosure of Interests in Other Entities – Scope Clarification on Disclosure of Summarized Financial Information for Interests classified as held for sale (Part of Annual Improvements to PFRSs 2014- 2016 Cycle)*. The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate or a portion of its interest in a joint venture or an associate that is classified or included in a disposal group that is classified as held for sale. The amendment is applied retrospectively.

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of this amendment has had no impact on the Association's financial statements.

c) *Effective Subsequent to 2017 but not Adopted Early*

Standards issued but not yet effective up to the date of issuance of the Association's financial statements are listed below. This listing is of standards and interpretations issued, which the Association reasonably expects to be applicable at a future date. The Association intends to adopt these standards when they become effective. Except as otherwise indicated, the Association does not expect the adoption of these new and amended PAS, PFRS and Philippine Interpretations to have significant impact on the financial statements.

### ***Effective 2018***

- (i) PAS 28 (Amendments), *Investments in Associates and Joint Ventures - Measuring an associate or joint venture at fair value (Part of Annual Improvements to PFRSs 2014- 2016 Cycle)*. Clarifies that a qualifying entity is able to choose between applying the equity method or measuring an investment in an associate or joint venture at fair value through profit or loss, separately for each associate or joint venture at initial recognition of the associate or joint venture. Similar clarifications have been made for a reporting entity that is not an investment entity and that has an associate or a joint venture that is an investment entity. PAS 28 permits such a reporting entity the choice to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this choice is also made separately for each investment in an associate or joint venture that is an investment entity, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively, with earlier application permitted.

- (ii) PAS 40 (Amendments), *Investment Property - Transfers of Investment Property*. The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. Examples of evidence of a change in use: (a) commencement of owner-occupation, or of development with a view to owner-occupation, for a transfer from investment property to owner-occupied property; (b) commencement of development with a view to sale, for a transfer from investment property to inventories; (c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or and (d) commencement inception of an operating lease to another party, for a transfer from inventories to investment property.

The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- (iii) PFRS 1 (Amendments), *First-time Adoption of International Financial Reporting Standard - Deletion of short-term exemptions for first-time adopters (Part of Annual Improvements to PFRSs 2014- 2016 Cycle)*. The amendment is about the removal of short-term exemptions dealing with PFRS 7 Financial Instruments: Disclosures, PAS 19 *Employee Benefits* and PFRS 10 *Consolidated Financial Statements*. The reliefs provided are no longer applicable and had been available to entities for reporting periods that have now passed.

- (iv) PFRS 2 (Amendment), *Share-based payment - Classification and Measurement of Share-based Payment Transactions*. The amendments provide requirements on the accounting for: (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (b) share-based payment transactions with a net settlement feature for withholding tax obligations; and (c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Companies are required to apply the amendments for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

- (v) PFRS 4 (Amendments), *Insurance Contracts - Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts*. The amendments provide two options for entities that issue insurance contracts within the scope of PFRS 4: (a) an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach; (b) an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

The amendments are not applicable to the Group since none of the entities within the Association have activities that are predominantly connected with insurance or issue insurance contracts.

- (vi) PFRS 9, *Financial Instruments (2014 or final version)*. In July 2014, the final version of PFRS 9, Financial Instruments, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Association's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Association's financial liabilities. The Association will quantify this effect to present a comprehensive picture of the impact of adoption on the financial position or performance of the Association.

- (vii) PFRS 15, *Revenue from Contracts with Customers*. PFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Association is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.
- (viii) PFRS 15, *Revenue from Contracts with Customers*. The amendments issued merely aim at changing the mandatory effective date of PFRS 15 from annual periods beginning on or after January 1, 2017 to annual periods beginning on or after 1 January 2018. Earlier application of PFRS 15 continues to be permitted. Entities also continue to be permitted to choose between applying the standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.
- (ix) PFRS 15 (Amendments), *Revenue from Contracts with Customers - Clarifications to PFRS 15*. The amendments to the Revenue Standard, which was issued in 2014, do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to: (a) identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; (b) determine whether a Association is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and (c) determine whether the revenue from granting a license should be recognized at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a Association when it first applies the new Standard.

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

- (x) Philippine Interpretation IFRIC 22, *Foreign Currency Transaction and Advance Consideration*. The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

### *Effective 2019*

- (i) PAS 19 (Amendments), *Employee Benefits - Plan Amendment, Curtailment or Settlement*. The amendments require an entity: (a) to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and to recognize in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognized because of the impact of the asset ceiling.
- (ii) PAS 28 (Amendments), *Investment in Associates and Joint ventures - Long-term Interests in Associates and Joint Ventures*. Amendments clarify that an entity applies PFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.
- (iii) PFRS 9 (Amendments), *Financial Instruments - Prepayment Features with Negative Compensation*. Amendments to the existing requirements in PFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. The sign of the prepayment amount is not relevant, i. e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favor of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain. The amendment also include clarification regarding the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability. An entity recognizes any adjustment to the amortized cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange. A retrospective change of the accounting treatment may therefore become necessary if in the past the effective interest rate was adjusted and not the amortized cost amount.

The amendments are to be applied retrospectively for fiscal years beginning on or after January 1, 2019, i. e. one year after the first application of PFRS 9 in its current version. Early application is permitted so entities can apply the amendments together with PFRS 9 if they wish so. Additional transitional requirements and corresponding disclosure requirements must be observed when applying the amendments for the first time.

- (iv) PFRS 16, *Leases*. On January 13, 2016, the PASB issued its new standard, PFRS 16, which replaces PAS 17, the current leases standard, and the related Interpretations. Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. PFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but only if PFRS 15 is applied at or before the date of initial application of PFRS 16. The Association is currently assessing the impact of PFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.
- (v) Annual Improvements to PFRS Standards 2015–2017 Cycle (Amendments). The pronouncement contains amendments to four International Financial Reporting Standards (PFRSs) as result of the PASB's annual improvements project.

Annual Improvements to PFRS Standards 2015–2017 Cycle makes amendments to the following standards:

- PFRS 3, *Business Combination* - The amendments clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.
  - PFRS 11, *Joint Arrangements* - The amendments clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
  - PAS 12, *Income Taxes* - The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises.
  - PAS 23, *Borrowing Costs* - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.
- (vi) Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments Philippine Interpretation*. IFRIC 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:
- Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

### ***Effective 2021***

- (i) IFRS 17, *Insurance Contracts*. Establishes the principles for the recognition, measurement, presentation and disclosure of Insurance contracts within the scope of the Standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. An entity shall apply IFRS 17 Insurance Contracts to: a) Insurance contracts, including reinsurance contracts, it issues; b) reinsurance contracts it holds; c) and Investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts. Some contracts meet the definition of an insurance contract but have as their primary purpose the provision of services for a fixed fee. Such issued contracts are in the scope of the standard, unless an entity chooses to apply to them PFRS 15 Revenue from Contracts with Customers and provided the following conditions are met: (a) the entity does not reflect an assessment of the risk associated with an individual customer in setting the price of the contract with that customer; (b) the contract compensates the customer by providing a service, rather than by making cash payments to the customer; and (c) the insurance risk transferred by the contract arises primarily from the customer's use of services rather than from uncertainty over the cost of those services.

### **Deferred Effectivity**

Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the PASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

### ***3.4 Cash and Cash Equivalents***

Cash and cash equivalents include petty cash fund, cash in banks, and special savings deposit with original maturities of three months or less from date of placements and that are subject to insignificant risk of changes in value. Cash and cash equivalents are initially and subsequently measured at fair value which is usually its face value. The Association recognized cash and cash equivalent as current asset when the cash or a cash equivalent is not restricted from being exchanged or used to settle liability for at least twelve months after the end of the reporting period.

### ***3.5 Financial Instruments***

#### Date of Recognition

The Association recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument.

#### Initial Recognition of Financial Instruments

All financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instrument includes transaction costs.

The Association classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The Association classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market.

Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting period at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of financial reporting framework applicable to the Association.

As of December 31, 2017 and 2016, the Association's financial instruments are of the nature of trade and other receivables, financial assets at amortized cost, membership certificate loans, liability on individual equity, member's contribution received in advance and other payable.

#### Determination of Fair Value

The fair value of financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for 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 valuation models.

#### Financial Assets

As of December 31, 2017 and 2016, the Association's financial assets are of the nature of trade and other receivables, membership certificate loans and financial assets at amortized cost.

#### Trade and Other Receivables

Trade and other receivables are recognized initially at its transaction cost and subsequently measured at cost less provision for impairment. A provision for impairment of account receivables is established when there is objective evidence that the Association will not be able to collect all amounts due according to the original terms of the receivables. Other receivables include advances to officers and employees. \

### *Membership Certificate Loans*

Membership certificate loans are recognized initially at its transaction price. They are subsequently measured at amortized cost less provision for impairment. A provision for impairment of policy loans is established when there is objective evidence that the Association will not be able to collect all amounts due according to the original terms of the receivables.

All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value, plus transaction costs.

Interest income, interest expense and impairment losses, relating to financial assets are presented as separate items in the statements of comprehensive income, unless indicated otherwise.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

A more detailed description of the four categories of financial assets is as follows:

#### *(a) Financial Assets at Fair Value through Profit or Loss*

This category include financial assets that are either classified as held for trading or are designated by the entity to be carried at fair value through profit or loss upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term or if so designated by management. Derivatives are also categorized as “held for trading” unless they are designated as hedges. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the end of each reporting period. Financial assets at fair value through profit or loss are initially recognized at fair value. Any related transaction costs are recognized in the profit or loss.

Financial assets at fair value through profit or loss are subsequently measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term.

As of the reporting period, the Association has no investment in financial assets at fair value through profit or loss.

#### *(b) Loans Receivables*

Loans receivables are initially recognized at transaction cost and are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. They arise when the Association provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the end of each reporting period which are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is objective evidence that the Association will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows.

Interest income is amortized using the effective interest method of amortization and any unamortized loans discount are deducted from the outstanding balance to arrive at the amortized cost of the account.

The Association classified its trade and other receivables as loans receivables.

*(c) Held-to-Maturity Financial assets*

Held-to-Maturity Financial assets are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Association's management has the positive intention and ability to hold to maturity where the Association would sell other than an insignificant amount of these financial assets, the entire category would be tainted and reclassified as AFS financial assets.

Bond investments are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included in 'Interest income' in the statement of comprehensive income. Gains and losses are recognized in income when the financial assets are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of comprehensive income under 'Provision for impairment and credit losses'. The effects of translation of foreign currency-denominated financial assets are recognized in the statement of comprehensive income.

The Association classified its investment in bonds and other debt securities as held-to-maturity financial assets. In addition, the Association opted to use the title "Financial Assets at Amortized Costs" in compliance with the Standard Chart of Accounts issued by the Insurance Commission for uniformity of financial reporting amongst the mutual benefit associations.

The Association investment amounted to P9,359,465 and P8,317,229 as of December 31, 2017 and 2016, respectively (Note 12).

*(d) Available-for-sale Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets under the Financial Assets account in the statement of financial position unless management intends to dispose of the investment within 12 months from the reporting period.

All available-for-sale financial assets are initially and subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognized in other comprehensive income is reclassified from revaluation reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income.

Reversal of impairment loss is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance Costs or Finance Income in the statements of comprehensive income.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange-quoted market bid prices at the close of business on the reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

As of the reporting period, the Association has no available-for-sale-financial asset.

#### Impairment of Financial Assets

The Association assesses at each reporting date whether there is objective evidence that a financial asset or 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 (a loss event) and that loss event (or events) 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.

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

If there is objective evidence that an impairment loss on loans receivable or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income.

If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, the Association may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and 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.

Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodologies and assumption used for estimating future cash flows are reviewed regularly by the group to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decrease and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statements of comprehensive income.

*(b) Resources carried at fair value with changes charged to capital funds.* In the case of investments classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, 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 in profit or loss – is removed from capital funds and recognized in the statement of comprehensive income. Impairment losses recognized in the statement of comprehensive income on equity instruments are not reversed from capital funds and recognized in the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increase and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statements of comprehensive income.

*(c) Resources carried at cost.* The Association assesses at each reporting date whether there is objective evidence that any of the unquoted equity securities and derivative assets linked to and required to be settled in such unquoted equity instruments, which are carried at cost and for which objective evidence of impairment exist. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

### Financial Liabilities

Financial liabilities are recognized when the Association becomes a party to the contractual agreements of the instrument. All interest related charges are recognized as expense in the statements of comprehensive income under the caption finance costs.

Financial liabilities include liability on individual equity value, member's contribution received in advance and other payable, which are measured at nominal value.

### *Liability on Individual Equity*

Liability on individual equity value represents the total amount of obligations set-up by the Association on membership certificates pertaining to the 50% equity value, as required under the Insurance Code, and any incremental amount declared by Association. It is measured initially at transaction price and subsequently measured at cost less subsequent payments and impairment, if any.

### *Members' Contribution Received in Advance*

Member's contribution received in advance represents member contributions received but not yet due/earned as of the end of the accounting period and which is expected to become due within one year. It is measured initially at transaction price and subsequently measured at cost less amount due or earned.

### *Trade and Other Payables*

Trade payables and other payables, if any, represent accounts payables and are recognized initially at the transaction price and subsequently measured at cost less subsequent payments. Other payables include accruals such as utility expenses. Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts if any due to employees. It is necessary to estimate the amount or timing of accruals, however, the uncertainty is generally much less than for provisions

## **3.6 Derecognition of Financial Assets and Liabilities**

### *Financial Assets*

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

- the rights to receive cash flows from the asset have expired; or
- the Association retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Association has transferred its rights to receive cash flows from the asset and either; (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the 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.

### *Financial Liabilities*

A financial liability is derecognized when the obligation under the liability is 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 the statements of comprehensive income.

### Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

### **3.7 Other Current Assets**

Other current assets pertain to other resources controlled by the Association as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

Other current assets include prepaid reinsurance premium and prepaid taxes that are initially recorded at transaction cost and subsequently measured at cost less impairment loss, if any.

Prepayments are expenses paid in cash and recorded as assets before they are used or consumed, as the service or benefits will be received in the future. Prepayments expire and are recognized as expense either with the passage of time or through use or consumption.

Prepayments and other non-financial assets are included in current assets, except when the related goods or services are expected to be received or rendered more than twelve (12) months after the reporting period, which are then classified as non-current assets.

### **3.8 Property and Equipment**

The Association shall recognize the cost of an item of property and equipment as an asset if and only if:

- a) It is probable that future economic benefit associated with the item will flow to the entity; and
- b) the cost of the item can be measured reliably

The Association's property and equipment are initially carried at acquisition cost and subsequently at cost less accumulated depreciation and amortization and impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and impairment losses are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Depreciation is computed on the straight-line method over the estimated useful lives of the depreciable assets as follows:

	<u>Estimated Useful Life</u>
Office furniture and fixtures	3 - 5 years
Office equipment	3 - 10 years
IT equipment	4 - 10 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The residual values and estimated useful lives of Association property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of Association's property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statements of comprehensive income in the period the item is derecognized.

### ***3.9 Other Non-current Assets***

Other non-current assets pertain to other resources controlled by the Association as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

Other non-current assets include web development cost that is initially recorded at transaction cost and subsequently measured at amortized cost less impairment loss, if any.

### ***3.10 Impairment of Non-financial Assets***

Association's property and equipment and intangible assets are subject to impairment testing. Intangible assets with an indefinite useful life, those not yet available for use or goodwill are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

### **3.11 Fund Balance**

Guaranty fund balance is initially and subsequently measured using the nominal value of contributions by members.

Free and unassigned funds include all current and prior period results as disclosed in the statements of comprehensive income.

### **3.12 Revenue and Cost Recognition**

Income 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. The following specific recognition criteria must also be met before income is recognized. The current specific revenue recognition policies of the Association are as follows:

- a) *Insurance premium* – Income from insurance premiums are recognized when it is received or becomes receivable.
- b) *Interest income on bank deposits and held-to-maturity financial assets* – Interest income on bank deposits and held-to-maturity financial assets are recognized using the accrual method (taking into account the effective yield on the asset).
- c) *Donation and contributions* – Donations and contribution are recognized by the Association when received from donor.
- d) *Miscellaneous income* – Miscellaneous income such as membership fees, surcharges and penalties are recognized when received.

Costs and expenses are recognized in the statement of comprehensive income upon utilization of the service or at the date they are incurred. All finance costs are reported in profit or loss, except capitalized borrowing costs, if any, which are included as part of the cost of the related qualifying asset, on an accrual basis.

### **3.13 Employee Benefits**

Employees' benefits are all forms of consideration given by the Association in exchange for service rendered by employees, including directors and management.

#### *Short-term Benefits*

The Association recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Association to its employees include compensation, social security contributions, short-term compensated absences, bonuses and other non-monetary benefits.

#### *Retirement Benefits*

The Association provided retirement benefits for all its regular employees in compliance with the Retirement Laws under Republic Act 7641, as amended. Post-employment benefit accrued balance amounted to P671,938 and P354,576 as at December 31, 2017 and 2016, respectively (Note 17).

The key actuarial valuation is as follows:

*Present value of the Defined Benefits Obligation* - present value of benefits pertaining to the period of service rendered prior to the valuation date determined using the method and assumptions stated herein.

*Current Service Cost* - present value of benefits pertaining to period of service rendered in the current accounting period determined using the method and assumptions stated herein.

### **3.14 Income Taxes**

The Association is not subject to income tax under Section 30 (c) of the National Internal Revenue Code with respect to income received from its not-for-profit activities such as donations, gifts or charitable contributions. However, income from any of its properties, real and personal, or from any of its activities conducted for profit shall be subject to income tax.

### **3.15 Provisions**

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values, where time value of money is material.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

### **3.16 Contingencies**

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

### ***3.17 Prior Period Adjustments***

Prior period adjustments are omissions from and misstatements in the Association's financial statements for one or more periods arising from a failure to use, or misuse of, reliable information. These adjustments include correction of errors, change in estimates and other adjustments pertaining to prior accounting periods.

A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.

### ***3.18 Related Party Disclosures***

A related party is a person or entity that is related to the entity that is preparing its financial statements.

- a) A person or a close member of that person's family is related to a reporting entity if that person: (1) has control or joint control of the reporting entity; (2) has significant influence over the reporting entity; or (3) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies: (1) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others); (2) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member); (3) both entities are joint ventures of the same third party; (4) one entity is a joint venture of a third entity and the other entity is an associate of the third entity; (5) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity; (6) the entity is controlled or jointly controlled by a person identified in (1); (7) a person identified in (1) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and (8) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

### ***3.19 Fair Value Measurement***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Association. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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.

The Association uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

PFRS 13 requires that financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value, but for which fair value is required to be disclosed in accordance with other relevant PFRS to be categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels:

- (a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- (b) Level 2: inputs other than quoted prices included within level 1 that are observable for the asset (i.e., derived from price); and,
- (c) Level 3: inputs for the assets or liability that are not based on observable marked data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level significant input to the fair value measurement.

#### **Note 4 - SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The Association's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Actual results may ultimately differ from these estimates.

The Association makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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 in the succeeding pages.

##### ***4.1 Critical Accounting Judgments***

In the process of applying the Association's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

#### Going Concern Assessment

The Management has made an assessment of the Association's ability to continue as a going concern and is satisfied that the Association has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Association's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

#### Impairment losses on financial assets (Receivables, and held-to-maturity financial assets)

The Association reviews its receivables and held-to-maturity financial assets portfolios to assess impairment. In determining whether an impairment loss should be recorded in the statements 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 the portfolio before the decrease can be identified with an individual item in that portfolio. The evidence may include observable data indicating that there has been an adverse change in the payment status of members, or national or local economic conditions that correlate with defaults on assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Association carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates, volatility rates. However, the amount of changes in fair value would differ if the Association utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity.

#### ***4.2 Key Sources of Estimation Uncertainty***

The Association makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

#### Allowance for Impairment of Receivables

Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Association evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Association's relationship with the customers, the customers' current credit status based on known market forces, average age of accounts, collection experience and historical loss experience.

#### Valuation of Financial Assets Other than Trade and Other Receivables

The Association carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgments. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. The amount of changes in fair value would differ if the Association utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit or loss and other comprehensive income.

#### Useful Life of Property and Equipment

The Association estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors and circumstances.

A reduction in the estimated useful lives of property and equipment would increase recorded operating expenses and decrease non-current assets.

#### Impairment of Non-financial Assets

The Association's policy on estimating the impairment of non-financial assets is discussed in Note 3.10. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

There was no impairment loss recognized in 2017.

#### Retirement and Other Benefits

Liability for the retirement benefits should be computed based on R.A. No. 7641 and R.A. No. 8558. The minimum retirement pay due for covered employees shall be equivalent to one-half month salary for every year of service, a fraction of at least six (6) months being considered as one whole year. One-half month salary include: (a) 15 days salary based on the latest salary rate; (b) cash equivalent of 5 days of service incentive leave (or vacation leave); (c) one-twelfth (1/12) of the 13<sup>th</sup> month pay; provided that retiree has 10 years of continuous service and at least sixty (60) years of age.

The estimated retirement benefit obligation amounted to P671,938 and P354,576 as of December 31, 2017 and 2016, respectively (Note 17).

#### Provisions and Contingents

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 3.15 and Note 3.16.

#### Revenue Recognition

The Association's revenue recognition policies require the use of estimates and assumptions that may affect the reported amounts of revenues and receivables. Differences between the amounts initially recognized and actual settlements are taken up in the accounts upon reconciliation. However, there is no assurance that such use of estimates may not result to material adjustments in future periods.

**Note 5 - FAIR VALUE MEASUREMENTS**

The Association's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Actual results may ultimately differ from these estimates.

**5.1 Fair Value Hierarchy**

The following table summarizes the carrying amounts and the fair values by level of the fair value hierarchy of the Association's financial assets and liabilities that are carried at fair value or for which fair value is disclosed as of December 31, 2017 and 2016.

2 0 1 7	Notes	Carrying Amount	Fair Value Hierarchy			Total
			Level 1	Level 2	Level 3	
<b><i>Assets and liabilities for which fair values are disclosed</i></b>						
<b><u>Financial Assets</u></b>						
Cash and cash equivalent*	7	27,073,887	-	-	27,073,887	27,073,887
Trade and other receivables	8	714,546	-	-	714,546	714,546
Membership certificate loans	9	365,860	-	-	365,860	365,860
Financial assets at amortized cost	12	9,359,465	-	9,359,465	-	9,359,465
<b><u>Financial Liabilities</u></b>						
Liability on individual equity	14	5,231,864	-	-	5,231,864	5,231,864
Members contribution received in advance	15	14,357,909	-	-	14,357,909	14,357,909
Other payables**	16	3,170,454	-	-	3,170,454	3,170,454
<hr/>						
2 0 1 6						
<b><i>Assets and liabilities for which fair values are disclosed</i></b>						
<b><u>Financial Assets</u></b>						
Cash and cash equivalent*	7	15,701,887	-	-	15,701,887	15,701,887
Trade and other receivables	8	2,528,062	-	-	2,528,062	2,528,062
Membership certificate loans	9	3,439,161	-	-	3,439,161	3,439,161
Financial assets at amortized cost	12	8,317,229	-	8,317,229	-	8,317,229
<b><u>Financial Liabilities</u></b>						
Liability on individual equity	14	10,462,474	-	-	10,462,474	10,462,474
Members contribution received in advance	15	6,975,028	-	-	6,975,028	6,975,028
Other payables**	16	2,097,898	-	-	2,097,898	2,097,898

\* The amount excludes revolving fund amounting to P23,264 and P31,199 as of December 31, 2017 and 2016, respectively.

\*\*The amount excludes statutory and other payables amounting to P40,690 and P25,106, respectively.

## ***5.2 Fair Value Information***

The methods and assumptions used by the Association in estimating the fair value of the financial instruments are as follows:

Cash, trade and other receivables and financial assets at amortized cost - Carrying amounts approximate fair values due to the relatively short-term maturities of these instruments. In relation to advances from stockholders, the carrying amount approximate its fair value even though it has no specific term of payment.

Membership certificate loans, liability on individual equity value and members contribution received in advance - Carrying amount were certified to us by the actuary of the Association.

The description of the accounting policies for each category of financial instruments is disclosed in Notes 3.5. A description of the Association's risk management objectives and policies for financial instruments is provided in Note 6.

## **Note 6 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Association's activities expose it to a variety of financial risks: credit risk and liquidity risk. The Association's overall risk management program seeks to minimize potential adverse effects on the financial performance of the Association. The policies for managing specific risks are summarized below.

### ***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 and operational risk. It also supports the effective implementation of policies.

The policies define the Association's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets to the corporate goals and specify reporting requirements.

### ***Capital Management Framework***

The Association's risk management function has developed and implemented certain minimum stress and scenario tests for identifying the risks to which the Association are exposed, quantifying their impact on the volatility of economic capital. The results of these tests, particularly, the anticipated impact on the realistic financial statement accounts, are reported to the Association's risk management function.

The risk management function then considers the aggregate impact of the overall capital requirement revealed by the stress testing to assess how much capital is needed to mitigate the risk of insolvency to a selected remote level.

The operation of the Association is also subject to the regulatory requirements of Insurance Commission and Securities and Exchange Commission. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions.

The Association, in compliance with the Sec. 405 of the Insurance Code of the Philippines (as amended by R.A. No. 10607, dated August 15, 2013), has constituted and established a guaranty fund which is deposited with the Insurance Commission as a primary requirement for license to operate of every mutual benefit association. Any accrual to such fund, be it interest earned or dividend additions on moneys or securities so deposited, may, be withdrawn by the Association if there is no pending benefit claim against it, including interest thereon or dividend additions.

Any increase in the guaranty fund must be in accordance with Sec. 410 of the Insurance Code of the Philippines (as amended by R.A. No. 10607, dated August 15, 2013) wherein ‘every mutual benefit association must accumulate and maintain, out of periodic dues collected from its members, sufficient reserves for the payment of claims or obligations’. Also, a reserve liability shall be established in accordance with actuarial procedures and shall be approved by the Commissioner.

During the year 2017, the Association, in compliance with the Sec. 408 of the Insurance Code of the Philippines (as amended by R.A. No. 10607) has allocated unassigned surplus (in excess of 20% of total liabilities per audited financial statement ending December 31, 2016)

The debt-to-equity ratio of the Association is computed as follows:

	<u>2 0 1 7</u>	<u>2 0 1 6</u>
Total liabilities	23,546,565	19,948,214
Total members' equity	<u>15,742,123</u>	<u>11,561,933</u>
Debt-to-equity ratio	<u><u>P1.50 : P1.00</u></u>	<u><u>P1.73 : P1.00</u></u>

***Financial Risk***

The Association is also exposed to financial risk through its financial assets and financial liabilities. The most important components of these financial risks are: credit risk and liquidity risk.

Credit Risk

Credit risk is the risk that counterparty fails to discharge an obligation to the Association. The Association is exposed to this risk for various financial instruments, for example by granting advances to affiliates.

The Association continuously monitors defaults of borrowers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The association's policy is to deal only with creditworthy counterparties.

The table below shows the maximum exposure to credit risk for the components of December 31, 2017 and 2016 statements of financial position. The maximum exposure is shown gross, without taking into account collateral and other credit enhancement.

	<u>2 0 1 7</u>	<u>2 0 1 6</u>
Cash in banks*	27,073,887	14,700,016
Cash equivalent	-	1,005,038
Financial assets at amortized cost	9,359,465	8,317,229
Trade and other receivables	714,546	2,528,062
Membership certificate loans	<u>365,860</u>	<u>3,439,161</u>
 Total	 <u>37,513,758</u>	 <u>29,986,339</u>

*\*The amount excludes revolving fund amounting to P23,264 and P31,199 as of December 31, 2017 and 2016, respectively.*

The credit risk for cash in bank and cash equivalent are considered negligible, since the counterparties are reputable financial institution with high quality external credit ratings. Cash in banks is insured by the Philippines Deposit Insurance Corporation up to a maximum coverage of P500,000.00 for every depositor per banking institution.

None of the Association's financial assets are secured by collateral or other credit enhancements.

As at December 31, 2017 and 2016, the Association has no financial instruments with rights to offset in accordance with PAS 32. There are also no financial instruments that are subject to an enforceable master netting arrangement or similar agreements which require disclosure in the financial statements in accordance with amendments on PFRS 7.

#### Credit quality per class of Financial Assets

The table below shows the credit quality per class of financial assets as at December 31, 2017 and 2016.

<u>2 0 1 7</u>	<u>Note</u>	<u>Neither past due nor impaired</u>	<u>Past due</u>	<u>Impaired</u>
<i><u>Financial assets</u></i>				
Cash and cash equivalent*	7	27,073,887	-	-
Trade and other receivables	8	714,546	-	-
Membership certificate loans	9	365,860	-	-
Financial assets at amortized costs	12	9,359,465	-	-
<i><u>Financial liability</u></i>				
Liability on individual equity value	14	5,231,864	-	-
Members' contribution in advance	15	14,357,909	-	-
Other payables**	16	3,170,454	-	-

2 0 1 6	Note	Neither past due nor impaired	Past due	Impaired
<i>Financial assets</i>				
Cash and cash equivalent*	7	15,701,887	-	-
Trade and other receivables	8	2,528,062	-	-
Membership certificate loans	9	3,439,161	-	-
Financial assets at amortized costs	12	8,317,229	-	-
<i>Financial liability</i>				
Liability on individual equity value	14	10,462,474	-	-
Members' contribution in advance	15	6,975,028	-	-
Other payables**	16	2,097,898	-	-

\*The amount excludes revolving fund amounting to P23,264 and P31,199 as of December 31, 2017 and 2016, respectively.

\*\*The amount excludes statutory and other payables amounting to P40,690 and P25,106, respectively.

The Association's management considers that all the above financial assets that are not impaired or past due for each reporting date are of good credit quality.

#### Liquidity Risk

The Association's objective is to maintain a balance between continuity of funding and flexibility through the use of generated funds. Liquidity risk is the risk that the Association will be unable to meet its payment obligations when they fall due. The Association manages this risk through periodical monitoring of cash flows in consideration of future payment due dates and daily collection amounts. The Association also ensures that there are sufficient, available and approved working capital lines that it can draw from anytime.

The table below summarizes the maturity profile of the Association's financial obligations as of December 31, 2017 and 2016 based on contractual undiscounted payment:

	2 0 1 7		2 0 1 6	
	Due within one (1) year	Due after one (1) year	Due within one (1) year	Due after one (1) year
Liability on individual equity value	5,231,864	-	10,462,474	-
Members contribution received in advance	14,357,909	-	6,975,028	-
Other payables **	3,170,454	-	2,097,898	-
<b>Total</b>	<b>22,760,227</b>	<b>-</b>	<b>19,535,400</b>	<b>-</b>

\*\* Other payables as at December 31, 2017 and 2016 exclude statutory obligations amounting to P40,690 and P25,106, respectively.

**Note 7 - CASH AND CASH EQUIVALENT**

The account consists of the following:

	<u>2 0 1 7</u>	<u>2 0 1 6</u>
Cash in banks	27,073,887	14,696,849
Petty cash fund	23,264	31,199
Cash equivalent	<u>-</u>	<u>1,005,038</u>
Total	<u><u>27,097,151</u></u>	<u><u>15,733,086</u></u>

Cash in banks consist of current and savings accounts on different banks, earning interest at prevailing bank deposit rates.

Cash equivalent represents unrestricted time deposit with other financial institution with terms of 30 to 90 days and earns interest ranging from 0.625% to 1% per annum.

Total interest earned for years ended 2017 and 2016 amounted to P158,268 and P93,139 which are included in the other income account (Note 21).

Petty cash fund represents fund established to defray immediate minimal disbursements which are evidenced by duly accomplished and approved vouchers with the corresponding supporting receipts and/or other supporting documents.

None of the foregoing assets was restricted and none was used to secure any liability of the Association.

**Note 8 - TRADE AND OTHER RECEIVABLES**

The account consists of the following:

	<u>2 0 1 7</u>	<u>2 0 1 6</u>
Unremitted members' contributions, dues and fees	395,187	-
Net premiums due and uncollected	318,022	2,486,462
Accrued interest income	1,337	-
Advances to officers and employees	<u>-</u>	<u>41,600</u>
Total	<u><u>714,546</u></u>	<u><u>2,528,062</u></u>

Unremitted members' contributions, dues and fees represent members' contributions, fees and dues collected by partner individuals/institutions on membership certificates (basic policies) but which have not been remitted as of the end of the accounting period

Net premiums due and uncollected represents net premiums due and uncollected at the end of the accounting period on all optional policies which are classified as in force on the Association's valuation records. These are net premiums that are due and uncollected within the grace period.

Accrued interest income pertains to interest income earned from investments but not yet received as of the end of the accounting period.

Advances to officers and employees refer to duly approved cash advances for official business to officers and employees, subject to liquidation in accordance with the Association's policy.

No allowance was set-up during the year for the management believes that receivables are all collectible.

The above receivables were unsecured, non-interest bearing and expected to be collected within one year from the end of the reporting date. Also, there was no indication which warrants the impairment of the foregoing assets. Hence, no impairment loss was recognized during the year. Furthermore, none of the forgoing receivables were used to secure any liability of the Association.

**Note 9 - MEMBERSHIP CERTIFICATE LOANS**

This represents the outstanding balances of loans granted to members at prescribed interest rates, fully secured by the members' equity value of the certificate. These may be in the form of a cash loan applied for by the members or automatic contributions loan applied by the Association, as provided for in the membership certificate, to cover contribution(s) due on the certificate but still unpaid within the grace period.

Total membership certificate loans as of December 31, 2017 and 2016 amounted to P365,860 and P3,439,161, respectively.

No allowance was set-up during the year for the management believes that receivables are all collectible.

The above receivables were unsecured, non-interest bearing and were not expected to be collected within one year from the end of the reporting date. Also, there was no indication which warrants the impairment of the foregoing assets. Hence, no impairment loss was recognized during the year. Furthermore, none of the forgoing receivables were used to secure any liability of the Association.

**Note 10 - OTHER CURRENT ASSETS**

The account consists of the following:

	<u>2017</u>	<u>2016</u>
Prepaid reinsurance premium	1,049,650	712,432
Prepaid expenses	<u>99,120</u>	<u>-</u>
Total	<u><u>1,148,770</u></u>	<u><u>712,432</u></u>

Prepaid reinsurance premium pertains to unamortized portion of reinsurance premium paid with Paramount Life and General Insurance Corporation.

Prepaid expenses represent down payment for audit and compilation of 2017 financial records and additional module databases for NMBAI's requirements.

**Note 11 - PROPERTY AND EQUIPMENT**

A reconciliation of the carrying amounts at the beginning and end of years 2017 and 2016, and the gross carrying amounts and accumulated depreciation of property and equipment are shown below:

<u>Cost</u>	<u>2 0 1 5</u>	<u>Additions</u>	<u>2 0 1 6</u>	<u>Additions</u>	<u>Disposal</u>	<u>2 0 1 7</u>
Office furniture and fixtures	66,715	45,244	111,959	40,500	(34,515)	117,944
Office equipment	341,841	107,900	449,741	-	-	449,741
IT equipment	140,000	555,556	695,556	-	-	695,556
<b>Total</b>	<b>548,556</b>	<b>708,700</b>	<b>1,257,256</b>	<b>40,500</b>	<b>(34,515)</b>	<b>1,263,241</b>
<u>Accumulated depreciation</u>	<u>2 0 1 5</u>	<u>Depreciation</u>	<u>2 0 1 6</u>	<u>Depreciation</u>	<u>Disposal</u>	<u>2 0 1 7</u>
Office furnitures and fixtures	32,734	13,919	46,653	18,130	(16,105)	48,678
Office equipment	264,622	55,961	320,583	62,042	-	382,625
IT equipment	139,444	9,732	149,176	111,199	-	260,375
<b>Total</b>	<b>436,800</b>	<b>79,612</b>	<b>516,412</b>	<b>191,371</b>	<b>(16,105)</b>	<b>691,678</b>
<b>Carrying value</b>	<b>111,756</b>		<b>740,844</b>			<b>571,563</b>

Fully depreciated office furniture and fixtures, office equipment and IT equipment amounting to P13,350, P248,081 and P140,000 respectively are still being used in the Association's operations.

Addition in office furniture and fixtures pertain purchase of office cabinet, office cubicle and chairs used for the Association's operations.

During the year, the Association sold office furniture and fixtures with an acquisition cost amounting to P34,515 at its carrying value which is P18,410.

The amount of depreciation expense charged to Fund assigned for office/services upgrading amounted to P11,364.

There was no objective evidence that warrant the impairment of the above properties and equipment, thus no impairment loss was recognized. Furthermore, none of these was used as collateral to secure any of the Association's liabilities.

**Note 12 - FINANCIAL ASSETS AT AMORTIZED COSTS**

<u>Face value</u>	<u>Maturity date</u>	<u>Premium</u>	<u>Carrying value</u>
2,000,000	11/22/2019	30,691	2,030,691
5,000,000	11/22/2019	55,597	5,055,597
245,000.00	11/22/2019	2,363	247,363
850,000	11/22/2019	24,107	874,107
<u>1,150,000</u>	<u>11/22/2019</u>	<u>1,707</u>	<u>1,151,707</u>
<u>9,245,000</u>		<u>114,465</u>	<u>9,359,465</u>

Financial assets at amortized costs – investment in bonds – government securities represents guaranty deposits (SBC-BTR) assigned and transferred to Insurance Commission to serve as security for the benefit of the members and the creditors of the Association.

The face value of investment amounted to P9,245,000 and P8,095,000 as of December 31, 2017 and 2016, respectively.

Total value of investments at amortized cost amounted to P9,359,465 and P8,317,229 as of December 31, 2017 and 2016, respectively.

The investment has a term of five (5) years and earning interest at 3.24% annually. Total interest earned for years ended 2017 and 2016 amounted to P250,991 and P237,770 respectively, which is included in the other income account (Note 21).

**Note 13 - OTHER NON-CURRENT ASSETS**

The account represents web development cost that is amortized for over useful of 5 years.

Amortization of the asset amounted to P8,000 and P667 for the years ended December 31, 2017 and 2016, respectively.

Carrying value as of December 31, 2017 and 2016 amounted to P31,333 and P39,333, respectively.

**Note 14 - LIABILITY ON INDIVIDUAL EQUITY VALUE**

In accordance with the provisions of the Insurance Code, every outstanding membership certificate must have, after three (3) full years of being continuously in force, an equity value to at least 50% of the total membership dues collected from the members less claims paid. The equity is payable to the members upon termination of their membership in the Association. In accordance with the same code, the Association is required to put up a reserve liability not lower than the equity value of all in-force, active certificates as at the end of each calendar year. Liability on individual equity value of the Association as at December 31, 2017 and 2016 amounted to P5,231,864 and P10,462,474, respectively.

Increase in individual equity value amounted to P1,475,609 and P4,851,814 for the years ended December 31, 2017 and 2016, respectively.

**Note 15 - MEMBERS CONTRIBUTION RECEIVED IN ADVANCE**

The account represents members contribution received but not yet due/earned amounted to P14,357,909 and P6,975,028 as of December 31, 2017 and 2016, respectively.

The account is expected to be applied to within the next reporting date.

**Note 16 - OTHER PAYABLES**

The account consists of the following:

	<u>2 0 1 7</u>	<u>2 0 1 6</u>
Claims payable on Basic Contingent Benefit - IBNR	1,413,983	1,062,981
Claim payable on Option Benefit - IBNR	165,447	-
Optional Benefit Reserves	900,900	514,637
Accrued expenses	411,926	354,529
Basic contingent benefit reserve	278,198	165,751
Withholding tax payable	40,690	25,107
Others	<u>73,710</u>	<u>33,131</u>
Total	<u><u>3,284,854</u></u>	<u><u>2,156,136</u></u>

Claims payable on basic contingent benefit incurred but not yet reported represents the sum of the individual claims on membership certificates that have already occurred but on which notice has not yet received by the Association. This estimates takes into account any policy reserve liability set up by the Association and any amount recoverable from reinsurers. During the year, claims benefit payables have already been settled.

Claim payable on option benefit incurred but not yet reported represents the sum of the individual claims on optional policies that have already occurred but on which notice has not yet been received by the Association. This estimate takes into account any policy reserve liability set up by the Association and any amount recoverable from reinsurers.

Optional benefit reserve represents the total actuarial reserve set up by the Association pertaining to the policies under optional benefit that is in force as at the end of the accounting period. It refers to the amount of liability which the Association establishes for an optional policy to meet the contractual obligation as it falls due.

Accrued expenses represent unpaid other benefits of Association's employee during the year.

Others mainly consist of unidentified deposits in the Association's bank account. Had the nature of the deposits identified, it will be classified in an appropriate account.

**Note 17 - POST - EMPLOYMENT BENEFIT LIABILITY**

The Board of Trustees duly approved the adoption of R.A. 7641, the provision on providing retirement benefits to its employees. The Association's accrued retirement expense amounted to P671,938 and P354,576 as at December 31, 2017 and 2016, respectively.

Actuarial valuations were performed to determine the retirement expenses and liability to be recognized in the financial statement of NATCCO MBI for the period ending December 31, 2017 in accordance with the International Accounting Standards No. 19 (IAS 19) and to determine appropriate amounts for funding.

The Projected Unit Credit (PUC) method of valuation was used.

The discount rate used during the year was 5.69% p.a. which was based on approximated zero-coupon yield of government bonds with remaining period to maturity approximating the estimated average duration of benefit payment. The average duration is estimated to be 10 years.

To approximate the zero-coupon yield for a given period to maturity, the prevailing yield of coupon-paying government bonds with the same period to maturity, as published by the Philippine Dealing Exchange (PDEX), was simply adopted. This approximation method is based on the principle that zero-coupon bond yields could be higher or lower than the coupon-paying bond yields depending on interest rate outlook and Investors' liquidity requirements as shown by a study of actual market transactions and thus, such rates should be close on the average. All other popular methods produce result consistently lower or high than the coupon-paying yield given a normal yield curve. The salary increase rate was assumed at 5.00% per annum taking into consideration the prevailing inflation rate and Association policy.

The movement in the net liability recognized in the financial position, are presented as follows:

	<u>2 0 1 7</u>	<u>2 0 1 6</u>
Net defined benefit liability, beginning	354,576	546,284
Add: Post-employment benefit cost (Note 20)	331,837	137,125
Less: Remeasurement of net defined benefit liability	(14,475)	(49,029)
Prior years accrual adjustments	-	(279,804)
	<u>671,938</u>	<u>354,576</u>

The changes in present value of defined benefit obligation are presented as follows:

	<u>2 0 1 7</u>	<u>2 0 1 6</u>
Present value of defined benefit liability, beginning	354,576	546,284
Current service cost	90,029	137,125
Net interest in the net defined benefit liability	16,133	-
Past service cost	225,675	-
Remeasurement of net defined benefit liability	(14,475)	(328,833)
	<u>671,938</u>	<u>354,576</u>

**Note 18 - RECEIPTS**

The account consists of the following:

	<u>2 0 1 7</u>	<u>2 0 1 6</u>
Members contribution	21,735,781	15,912,058
Premiums	<u>9,054,707</u>	<u>6,712,002</u>
Total	<u><u>30,790,488</u></u>	<u><u>22,624,060</u></u>

Members' contributions represent considerations given by the member in exchange for the promises of the Association to pay stipulated sum in the event of a loss covered under the basic benefits indicated in the Internal Rules and Regulations (IRR) of the Association and/or membership certificates.

Premiums represent considerations given by the insured in exchange for the promises of the Association to pay; stipulated sum in the event of a loss covered under the optional insurance contract of the Association.

**Note 19 - BENEFIT**

The account consists of the following:

	<u>2 0 1 7</u>	<u>2 0 1 6</u>
Net benefit/claims expenses - basic benefits	7,400,000	4,362,000
Marketing, advertising and promotion	5,173,052	2,029,512
Reinsurance premium expense	2,571,775	1,679,886
Net benefit/claims expenses -optional – micro	1,295,500	1,217,000
Increase in reserve for basic contingent benefit	671,430	72,314
Increase in reserve for optional benefit - micro	343,729	258,621
Net benefit/claims expenses - basic benefits (burial)	196,000	118,000
Benefit/claim expense - incurred but not yet reported	<u>-</u>	<u>467,303</u>
Total	<u><u>17,651,486</u></u>	<u><u>10,204,636</u></u>

Net benefit/claims expenses – basic benefits is computed as follows:

	<u>2 0 1 7</u>	<u>2 0 1 6</u>
Benefits/claims expenses - basic benefits	7,400,000	4,362,000
Benefit/claims expenses - basic benefits (burial)	<u>196,000</u>	<u>118,000</u>
Net benefit/claims expenses - basic benefits	<u><u>7,596,000</u></u>	<u><u>4,480,000</u></u>

Net benefit/claims expenses - optional - micro is computed as follows:

	<u>2 0 1 7</u>	<u>2 0 1 6</u>
Benefits/claims expenses - optional - micro	2,139,225	1,937,300
Benefits/claims recovery - optional - micro	<u>(843,725)</u>	<u>(720,300)</u>
Net benefit/claims expenses -optional - micro	<u><u>1,295,500</u></u>	<u><u>1,217,000</u></u>

Benefits/claims expense represents the aggregate losses and claims, including refund of equity value, if any, against the Association arising from the certificates and insurance contracts issued to members. This can be further classified into basic and optional premium.

Insurance expense represents premium paid on insurance coverage of office building, furniture, fixtures and equipment, IT equipment, vehicles and others. It also includes premium charges on the surety/fidelity bond of the accountable officers and staff.

**Note 20 - OPERATING EXPENSES**

The account consists of the following:

	<u>2 0 1 7</u>	<u>2 0 1 6</u>
Salaries, wages and benefits	2,244,725	1,759,198
Employee welfare and benefits	1,527,888	1,264,508
Meetings and conferences	505,611	407,520
Utilities expense	352,556	262,030
Post-employment benefit costs (Note 17)	331,837	137,125
Technical and professional fees	244,256	219,693
Representation and travel expenses	222,763	123,156
Depreciation expense (Note 11)	191,371	68,248
SSS/EC/Pag-ibig/Philhealth contributions	142,527	112,449
Professional and technical development	72,930	218,747
Annual general assembly	71,487	100,417
Office supplies	67,534	43,012
Dues and subscription	40,460	108,960
Taxes, licenses and fees (Note 25)	13,400	131,597
Bank and other charges	12,372	15,050
Investment management fees	10,000	9,000
Repairs and maintenance	11,750	6,400
Amortization (Note 13)	8,000	667
Insurance expense	-	30,606
Miscellaneous expense	<u>124,910</u>	<u>186,449</u>
Total	<u><u>6,196,377</u></u>	<u><u>5,204,832</u></u>

Salaries, wages and benefits refer to payment to the Association’s employee in exchange for the services rendered.

Miscellaneous represents various expenses incurred by the Association incidental to their function and which are not classified on the above listed expenses such as cost incurred in supervision fee, expenses incurred in submission of annual statements to Insurance Commission, late payment of financial statements and General Information Sheet (GIS).

**Note 21 - OTHER INCOME**

The account consists of the following:

	<u>2 0 1 7</u>	<u>2 0 1 6</u>
Interest income - investments (Note 12)	250,991	237,770
Interest income - bank deposits (Note 7)	<u>158,268</u>	<u>93,139</u>
Total	<u><u>409,259</u></u>	<u><u>330,909</u></u>

**Note 22 - ASSIGNED FUNDS**

Guaranty Funds

The Association, in compliance with the Sec. 405 of the Insurance Code of the Philippines (as amended by R.A. No. 10607, dated August 15, 2013), has constituted and established a guaranty fund which is deposited with the Insurance Commission as a primary requirement for license to operate of every mutual benefit association. Any accrual to such fund, be it interest earned or dividend additions on moneys or securities so deposited, may, be withdrawn by the Association if there is no pending benefit claim against it, including interest thereon or dividend additions.

Any increase in the guaranty fund must be in accordance with Sec. 410 of the Insurance Code of the Philippines (as amended by R.A. No. 10607, dated August 15, 2013) wherein ‘every mutual benefit association must accumulate and maintain, out of periodic dues collected from its members, sufficient reserves for the payment of claims or obligations’. Also, a reserve liability shall be established in accordance with actuarial procedures and shall be approved by the Commissioner.

Net contribution from members, set up by the Association amounted to P1,962,842 and P3,362,466 for the years ended December 31, 2017 and 2016, respectively.

Allocation of Free and Unassigned Funds

During the year 2017, the Association, in compliance with the Sec. 408 of the Insurance Code of the Philippines (as amended by R.A. No. 10607) has allocated unassigned surplus (in excess of 20% of total liabilities per audited financial statement ending December 31, 2016) to the following accounts:

	2 0 1 7		2 0 1 6	
	Allocation	Utilization	Allocation	Utilization
Members' benefit	-	(738,958)	1,110,360	-
Office/services upgrading	-	-	444,144	(32,414)
Product development	-	-	666,216	(376,838)

**Note 23 - PRIOR PERIOD ADJUSTMENTS**

Prior period adjustments are omissions from, and misstatements in, the Association's financial statements for one or more periods arising from a failure to use, or misuse of, reliable information. These adjustments pertain to the following adjustments:

	2 0 1 7	2 0 1 6
Membership certificate loans	1,409,645	1,046,498
Financial assets at amortized costs	50,181	-
Prior year expenses	24,644	212,091
Previous years claims	16,521	48,689
SSS/ECC/Pag-ibig/Philhealth Contributions Payable	11,657	-
Liability on Individual Equity Value	1,800	-
Equity valuation reserves	-	3,355,464
Adjustment on membership certificate loans	(542,846)	348,990
Total	<u>971,602</u>	<u>5,011,732</u>

Membership certificate loans pertain to adjustment due to actuarial valuation.

Financial assets at amortized cost refer to adjustment made to reflect the investment value as of April 2017.

Prior years' expenses includes tax refund on 2016 salaries and wages.

Adjustment on membership certificate loans pertain to earned premium in prior years.

**Note 24 - INCOME TAX**

The Association is not subject to income tax under Section 30 (c) of the National Internal Revenue Code with respect to income received from its not-for-profit activities such as donations, gifts or charitable contributions. However, income from any of its properties, real and personal, or from any of its activities conducted for profit shall be subject to income tax.

Interest earnings on deposits of members with Association, as well as the shares of its members from the net income of the Association shall be exempt from income tax (BIR Ruling No. 347-98 dated July 28, 1998).

The application for tax exemption of the Association was received by the Bureau of Internal Revenue (BIR) dated May 27, 2014, other documents required were received on August 17, 2015 and was still awaiting for BIR's approval and issuance of the certificate of tax exemption.

**Note 25 - SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE**

Presented below is the supplementary information, which is required by the BIR under its existing revenue regulations to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

**25.1 Requirements under Revenue Regulations No. 15-2010**

In compliance with BIR Revenue Regulations No. 15-2010 (amending certain provision of Sec. 2 of RR No. 21-2002), which requires addition to the disclosures mandated under the Philippine Financial Reporting Standards, and such other standards and convention, the notes to the financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year particularly on the following which is applicable to the Association:

Value-added Tax

The Association is not a VAT-registered entity.

Taxes on Importation

The Association has no importation transaction during the year.

Excise Tax

The Association has no transaction in 2017 which is subject to excise tax.

Documentary Stamp Tax

The Association did not pay documentary stamp tax during the year.

### Taxes and Licenses

The details of taxes and licenses account are as follows:

	<u>2 0 1 7</u>	<u>2 0 1 6</u>
<u>Local</u>		
Business permit, clearance and registration	10,980	41,097
Others	1,920	-
Sub-total	<u>12,900</u>	<u>41,097</u>
<u>National</u>		
Annual registration	500	500
Certificate of accreditation	-	90,000
Sub-total	<u>500</u>	<u>90,500</u>
Total	<u><u>13,400</u></u>	<u><u>131,597</u></u>

### Withholding Taxes

The total withholding taxes for the year ended December 31, 2017 are shown below.

	<u>Paid</u>	<u>Accrued</u>
Compensation and employee benefits	329,936	34,775
Expanded	12,667	-
Total	<u><u>342,603</u></u>	<u><u>34,775</u></u>

### Deficiency Tax Assessments and Tax Cases

As of December 31, 2017, the Association does not have any final deficiency tax assessment from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

## **25.2 Requirements under Revenue Regulations No. 19-2011**

Revenue Regulations No. 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and/or services, itemized deductions and other significant tax information, to be disclosed in the notes to the financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR, hence, may not be the same as the amounts of revenues reflected in the 2017 statement of comprehensive income, which is based on PFRS.

### Taxable Revenue

The Association no had taxable revenue for the year ended December 31, 2017.

Deductible Cost of Services

The Association has no deductible costs of services under regular tax regime for December 31, 2017.

Taxable Other Income

The Association has no taxable other income in 2017, which are subject to regular tax rate.

Itemized Deductions

The Association has no itemized deductions under the regular tax regime for the year ended December 31, 2017.

**Note 26 - RELATED PARTY TRANSACTIONS**

The gross remuneration of the key management personnel of the Association which pertains to short-term benefits amounted to P735,000 and P796,000 for the years ended December 31, 2017 and 2016, respectively.

**Note 28 - EVENTS AFTER THE REPORTING PERIOD**

An entity shall adjust the amounts recognized in its financial statements to reflect adjusting events after the reporting period.

An entity shall not adjust the amounts recognized in its financial statements to reflect non-adjusting events after the reporting period. If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions of users taken on the basis of financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

- a) the nature of the event; and
- b) an estimate of its financial effect or a statement that such an estimate cannot be made.

The Association has evaluated subsequent events through \_\_\_\_\_, which is the date of the financial statements were available to be issued.

**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION  
FILED SEPARATELY FROM THE BASIC FINANCIAL STATEMENTS**

**The Members and the Board of Trustees  
NATIONAL CONFEDERATION OF COOPERATIVES  
MUTUAL BENEFIT ASSOCIATION (NATCCO MBA), INC.  
227 J.P. Rizal Street, Bayanihan  
Project 4, Quezon City**

We have audited the financial statements of **NATIONAL CONFEDERATION OF COOPERATIVES MUTUAL BENEFIT ASSOCIATION (NATCCO MBA), INC.**, as at and for the year ended December 31, 2017, on which we have rendered the attached report, dated \_\_\_\_\_. The supplementary information of the Schedule of Financial Reporting Framework as at December 31, 2017, as required by Part I, Section 4 (J) of Rule 68 of the Securities Regulation Code, is presented for purposes of filing with the Securities and Exchange Commission and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in the audits of the basic financial statements. In our opinion, the supplementary information has been prepared in accordance with Part I, Section 4 (J) of Rule 68 of the Securities Regulation Code.

**BANARIA, BANARIA AND COMPANY, CPAs**

By: IRENISA D. LAYCO  
Partner  
CPA Certificate No. 44776  
Tax Identification No. 131-939-866  
PTR No. 5642329-C, January 11, 2018, Quezon City  
CTC No. 22111480, January 11, 2018, Quezon City  
BOA Accreditation No. 0030, valid until December 31, 2018 (Firm)  
SEC Accreditation No. 0260-FR-1, valid until May 1, 2019 (Firm)  
SEC Accreditation No. C-770-A, valid until April 30, 2018 (Partner)  
BIR Accreditation No. 07-000931-1-2015, valid until September 3, 2018 (Partner)  
BIR Accreditation No. 07-001323-2-2017, valid until June 27, 2020 (Firm)

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**NATIONAL CONFEDERATION OF COOPERATIVES MUTUAL BENEFIT ASSOCIATION, INC.**  
**SCHEDULE OF PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS**  
**Adopted by the Securities and Exchange Commission and Financial Reporting Standards Council**  
**As of December 31, 2017**

<b>Philippine Financial Reporting Standards and Interpretations</b> <b>Effective as of December 31, 2017</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Framework for the Preparation and Presentation of Financial Statements</b>				
	Conceptual Framework Phase A: Objectives and qualitative characteristics	✓		
<b>PFRSs Practice Statement Management Commentary</b>		✓		
<b><u>Philippine Accounting Standards (PAS)</u></b>				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendment to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendment to PAS 7 - Disclosure Initiative			✓
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendment to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses	✓		
	Amendment to PAS 12 - Income tax consequences of payments on financial instruments classified as equity (part of Annual Improvements to PFRS Standards 2015-2017)**		Not early adopted	
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of servicing equipment	✓		
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation	✓		
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization		Not early adopted	
	Amendments to PAS 16: Bearer Plants			✓
PAS 17	Leases			✓
PAS 18	Revenue	✓		

<b>Philippine Financial Reporting Standards and Interpretations</b> <b>Effective as of December 31, 2017</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions	✓		
	Amendments to PAS 19: Plan Amendment, Curtailment or Settlement**		Not early adopted	
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions	✓		
	Amendments to PAS 19: Regional Market Issue regarding Discount Rate*			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates			✓
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓
	Amendment to PAS 23 - Borrowing costs eligible for capitalization (part of Annual Improvements to IFRS Standards 2015-2017)**			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Entities providing key management personnel services	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plan	✓		
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendment to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendment to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Amendment to PAS 28: Measuring an Associate or Joint Venture at Fair Value			✓
	Amendment to PAS 28: Long-term Interests in Associates and Joint Ventures*			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax effect of equity distributions			✓

Philippine Financial Reporting Standards and Interpretations Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 33	Earnings per Share			✓
PAS 34	Interim Financial Reporting			✓
	Amendments to PAS 34: Interim financial reporting and segment information for total assets and liabilities			✓
	Amendments to PAS 34: Disclosure of Information 'elsewhere in the interim financial report'			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39: Financial Guarantee Contracts			✓
	Amendments to PAS 39: Reclassification of Financial Assets	✓		
	Amendments to PAS 39: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Amendment to PAS 40: Interrelationship between PFRS 3 and PAS 40			✓
	Amendment to PAS 40: Transfers of Investment Property			✓
PAS 41	Agriculture			✓
	Amendment to PAS 41: Bearer Plants			✓

**Philippine Financial Reporting Standards and Interpretations**  
**Effective as of December 31, 2017**

		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b><u>Philippine Financial Reporting Standards</u></b>				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing costs			✓
	Amendments to PFRS 1: Meaning of 'Effective PFRSs	✓		
	Amendments to PFRS 1: Deletion of short-term exemptions for first-time adopters			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amended to PFRS 3: Previously held interest in a joint operation (part of Annual Improvements to IFRS Standards 2015–2017)**			✓
PFRS 4	Insurance Contracts	✓		
	Amendments to PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'	✓		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		

Philippine Financial Reporting Standards and Interpretations Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures		Not early adopted	
	Amendments to PFRS 7: Amendments to PFRS 7: Servicing Contracts			✓
	Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments			✓
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓
PFRS 9	Financial Instruments (2010 version)	✓		
	Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)*			✓
	Financial Instruments (2014 or final version)		Not early adopted	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		Not early adopted	
	Applying PFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' to address concerns about the different effective dates of IFRS 9 and the new insurance contracts standard		Not early adopted	
	Amendments to PFRS 9: Prepayment Features with Negative Compensation*			✓
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendment to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendment to PFRS 10 and PAS 28: Investment Entities - Applying the Consolidation Exemption			✓
PFRS 11	Joint Arrangements			✓
	Amendment to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
	Amended to PFRS 3: Previously held interest in a joint operation (part of Annual Improvements to IFRS Standards 2015-2017)**			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 12: Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014- 2016 Cycle)			✓
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13: Short-term receivable and payables	✓		

<b>Philippine Financial Reporting Standards and Interpretations Effective as of December 31, 2017</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
	Amendments to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
IFRS 15	Revenue from Contracts with Customers		Not early adopted	
IFRS 16	Leases			✓
PFRS 17	Insurance Contracts	✓		
<b><i>Philippine Interpretations - International Financial Reporting Interpretation Committee (IFRIC)</i></b>				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining whether an Arrangement contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9: Embedded Derivatives			✓
	Improvements to IFRSs (scope of IFRIC 9 and revised IFRS 3)			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendment to Philippine Interpretation IFRIC-14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for the Construction of Real Estate***			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration			✓
IFRIC 23	Uncertainty over Income Tax Treatments*			✓

**Philippine Financial Reporting Standards and Interpretations**  
**Effective as of December 31, 2017**

		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<i><b>Philippine Interpretations - Standing Interpretation Committee (SIC)</b></i>				
SIC-7	Introduction of the Euro	_____	_____	✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities	_____	_____	✓
SIC-15	Operating Leases - Incentives	_____	_____	✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	_____	_____	✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓	_____	_____
SIC-29	Service Concession Arrangements: Disclosures	_____	_____	✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services	_____	_____	✓
SIC-32	Intangible Assets - Web Site Costs	✓	_____	_____

\* Subject to approval by the Board of Accountancy

\*\* New standard issued by the IASB has not yet been adopted by the FRSC.

\*\*\* The effective date of Philippine Interpretation IFRIC-15 was deferred, until the final Revenue standard is issued by the International Accounting Standards Board, and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.