KCCDFI MUTUAL BENEFIT ASSOCIATION, INC

ANNUAL REPORT

2020

"We are One in serving the Filipino People in these trying times."

TABLE OF CONTENTS

Seguradong Pang Masa na, Pang Buong Pamilya pa

ABOUT THE REPORT

This Annual Corporate Governance Report (ACGR) provides our dear members with a capsulized detail of the Association's ability to manage its financial resources and expenditures, as well as, its capability to handle the challenges of the "new normal" associated with the Covid-19 pandemic and be able to sustain its reliable composure.

The report covers the period from January 1, 2020 to December 31, 2020 containing the material information of the association relating to its financial and non-financial performance and well-being, operations, risks, and future goals.

Thus, this report has been prepared in compliance with the National Code of Corporate Governance. It provide sources and links to complied items. And explain non-compliance and provide action plan. In addition thereto. it must be signed by the Chairman, CEO, all Independent Directors, Compliance Officers and Corporate Secretary. And to be submitted to Corporate Governance Unit of the AMLCGD of Insurance Commission.

ABOUT THE COVER

2020 was a tough year for the whole world brought about by the Covid-19 pandemic.

In this trying times, since March 2020, when the Philippines was placed on lockdown, our institution is one in serving the Filipino people and coping with Covid-19 through Micro-Insurance.

Indeed, this is what the cover represents - we are one nation and we are one in fighting against this Covid battle.

KCCDFI Mutual Benefit Association, Incorporated

Kasanyangan Center for Community Development Foundation, Inc. - Mutual Benefit Association, Inc. (KCCDFI MBA) is an institution sharing the same mission of greater inclusion and risk protection among member - clients in providing an affordable and relevant micro-insurance programs in the Philippines. It is a duly registered non-stock, non-profit organization owned, governed and managed by the members.

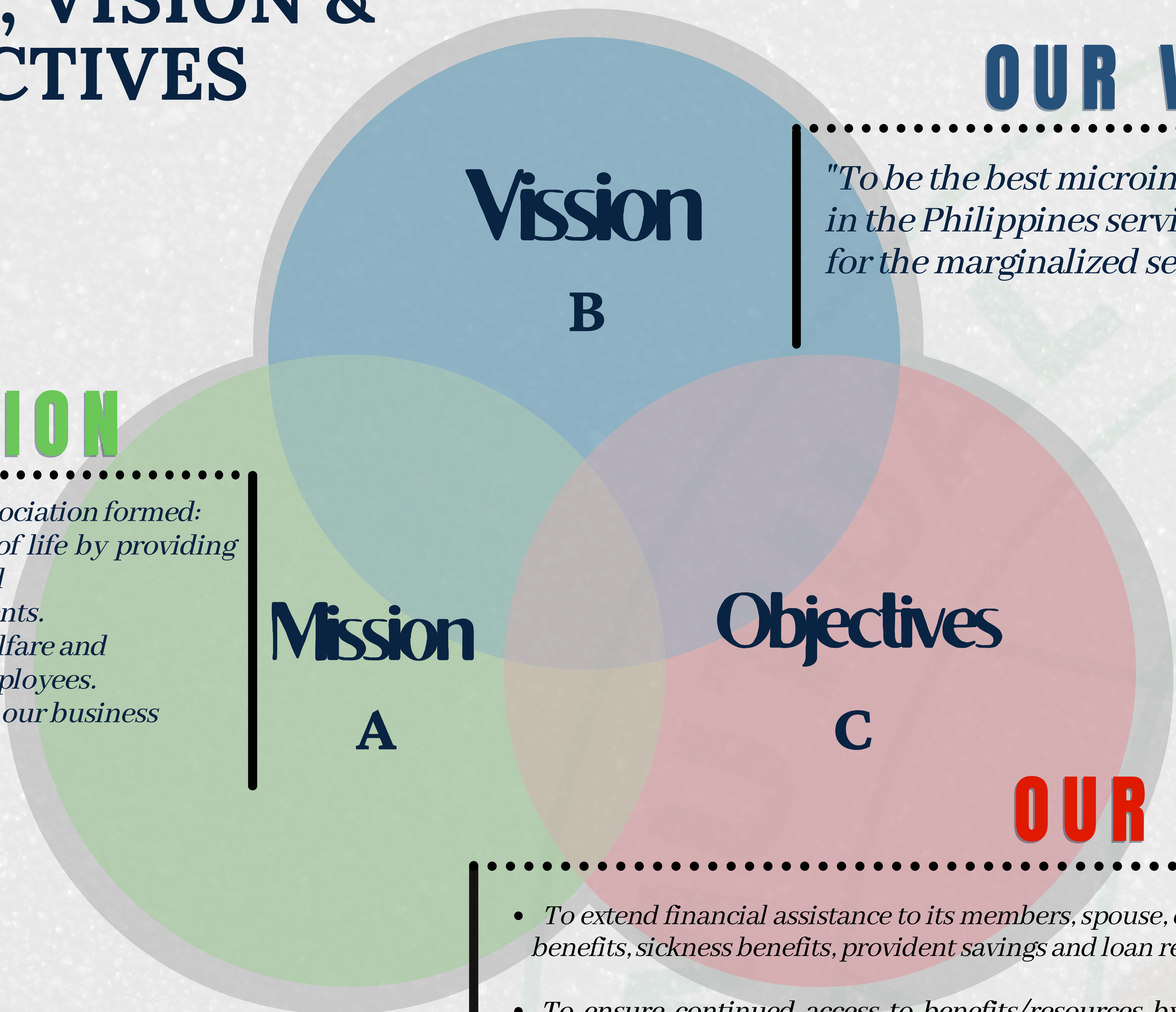
KCCDFI MBA was established in September 2009, authorizing the Association to provide assistance to its members, spouse, children, and parents though death benefits, sickness benefits, retirement savings and loan redemption. As of December 2020 it had 45, 177 individuals covered by insurance.
The total claims reached over Php 14 Million of which death claims constitute Php 5.4 Million benefiting 222 claimants. With an average monthly death claims of Php 450,000.00 covering a total of 19 claimants.

Amidst the challenges of the present time, our institution boldly upholds our vision, mission and corporate values to continuously create sustainable and profitable operations in providing a valuable and affordable product to the marginalized sector of society.

KCCDFI Mutual Benefit Association, Inc. is registered with Securities and Exchange Commission (SEC) and licensed by Insurance Commission (IC) allowing it to transact insurance business. The Association is a member of the Micro-insurance MBA Association of the Philippines Inc. (MiMAP) or RIMANSI, a resource center that helps professionalize the management of Micro-Insurance Mutual Benefit Associations (MI-MBAs) and micro-insurance programs to provide affordable, comprehensive and quality risk protection to millions of poor in Asia and the Pacific.

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

MISSION, VISION & OBJECTIVES



OUR VISION

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

OUR MISSION

KCCDFI MBA is a mutual benefit association formed:

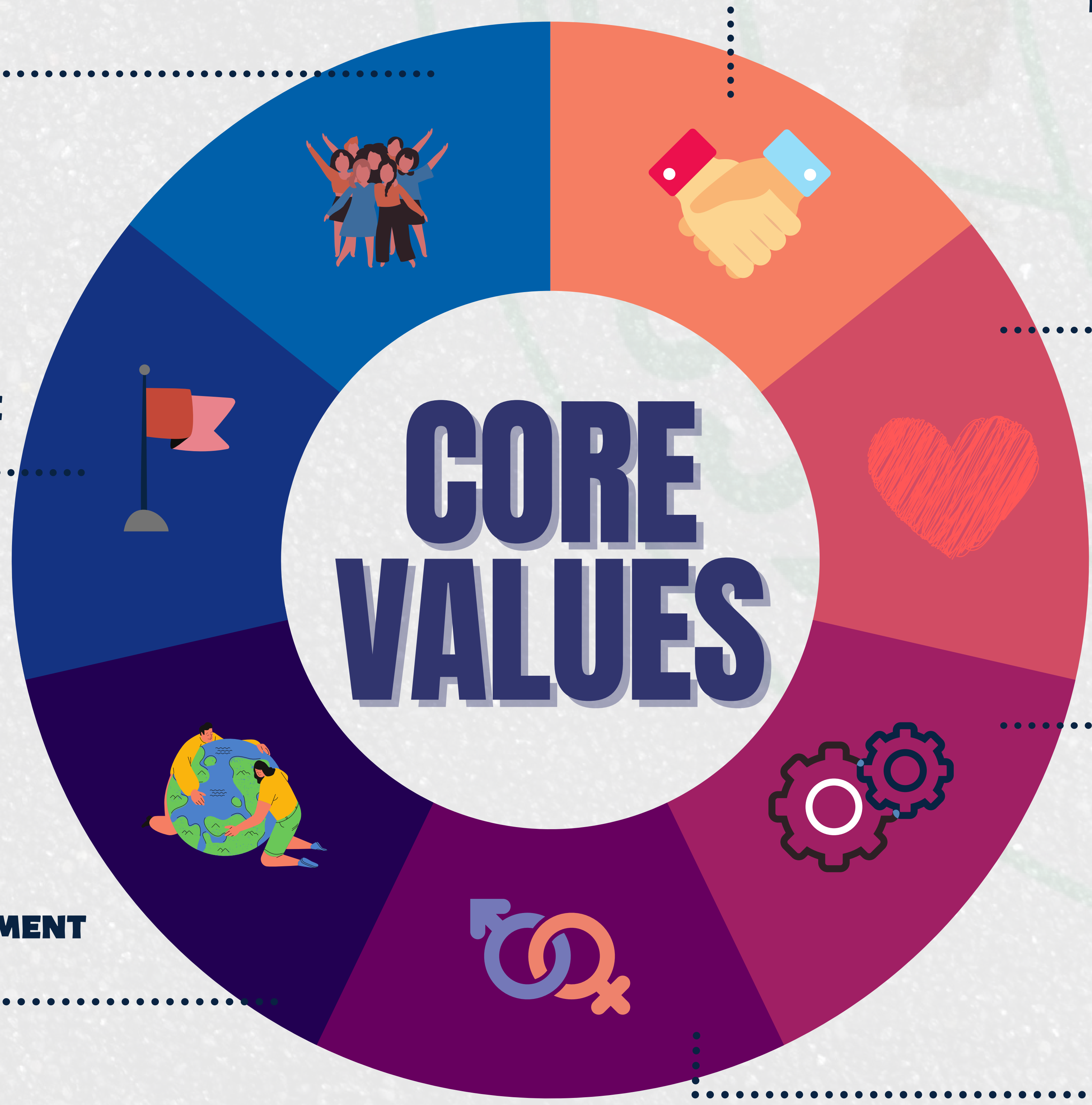
a. To help improve the quality of life by providing excellent financial and non-financial service to our marginalized clients.

b. To continue to sustain the welfare and professional development of our employees.

c. To uphold professionalism in our business relation with our partners.

OUR OBJECTIVES

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



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MESSAGE TO KCCDFI MBA

I wish to congratulate KCCDFI MBA board of trustees, management and members for carrying out its mission to provide micro insurance coverage to poor households, particularly during the past one and a half years of Covid 19 Pandemic.

Millions of people got sick, died and livelihoods of poor people were lost due to this new, contagious and dangerous disease, and many more will suffer death, illness, loss of livelihoods before Covid 19 is overcome.

During these trying times Mutual Benefit Associations, like our own KCCDFI MBA helped people in distress by providing insurance benefits to members. MBA's message "You are not alone"; "Hindi ka nag-iisa" to face grief and economic distress has been put into practice.

With a small contribution of P20.00 per week from around 16,000 members, KCCDFI MBA gave out in the year 2020 the amount of Php 5.6 Million death claim benefits to 236 beneficiaries.
Aside from insurance claim benefits, the KCCDFI MBA returned the savings contribution of members who died or resigned from the association, for the past one and a half years under the pandemic.

KCCDFI MBA was recognized by RIMANSI/MIMAP as one of the most outstanding MBAs in terms of good governance and financial performance. Congrats to the board of trustees and to the management staff of MBA.

However, after thirteen years since KCCDFI MBA started in 2008, its financial sustainability is threatened by the increasing number of death benefit claims. The amount of P20.00 weekly contribution is not sufficient to cover the cost of benefit claims and operating cost. Actually, only P7.50 of the weekly contribution goes to benefit claims and operating cost. the balance of P12.50 goes into savings contribution, which is returned to the member upon death or exit from membership. The amount of P7.50 is not enough to cover the death claims/benefits and the operating cost of KCCDFI MBA.

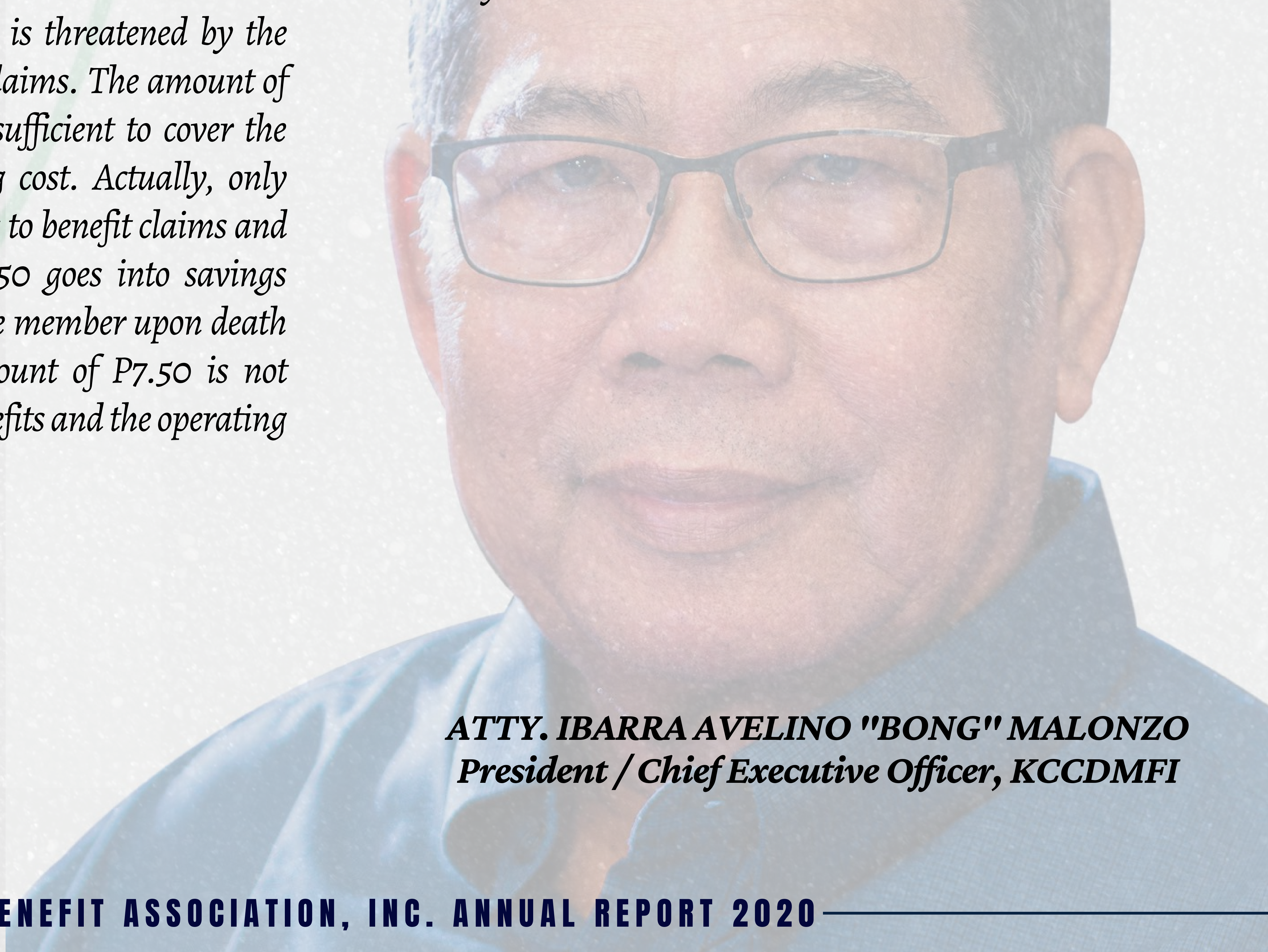
In finding solutions, first the weekly contribution should be increased to P35.00 per member, with P15.00 allocated for benefit claims and cost of operation and P20.00 for savings, which is returned to the member upon exit from KCCDFI MBA. There should be a vigorous information drive carried out to all our members for them to understand the need for these changes.

Second, KCCDFI MBA should expand its membership beyond the clients of KCCDMFI. Increased membership will help improve our financial sustainability, but more than that, KCCDFI MBA should extend its outreach to the thousands of poor households to provide them social protection from the risks of death and accidents.

Third, KCCDFI MBA should follow the example of leading microfinance NGOs and MBA's who partner with the Social Security System for SSS coverage of informal workers. MBA has a membership limit of 65 years old. With SSS coverage and at least 120 monthly of P200 to P300 per month, the beneficiary can get a retirement pension starting at 60 years old and above, with the pension continuing as a survivor pension to the surviving spouse. Old age pension will provide a beneficiary a monthly income and not be totally dependent for support from children and relatives.

KCCDFI MBA should continue to expand its outreach to provide social protection to all.

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



ATTY. IBARRA AVELINO "BONG" MALONZO
President / Chief Executive Officer, KCCDMFI

Seguradong Pang Masa na, Pang Buong Pamilya pa

MESSAGE TO FELLOW MEMBERS

Greeting! What a wonderful thing it is to be part of KCCDFI MBA! Above all thanking God for always being with us.

It is exciting to look around fellow members during the center meeting and visits in my area of responsibility.

However, due to the pandemic people's movement were limited and even hampered. As the KCCDFI MBA's President, I am deeply worried about the Association's operation and its impact on the general membership.

But, with the active participation and quick response of the Board of Trustees and managements and staff, I firmly believe that hand in hand we will be able to survive and overcome these challenges.

To my fellow members, please stay and I encourage you to stay empowered by not giving up on your family insurance coverage. With that, you would be able to keep your family protected, especially in these difficult times. I know its gonna be hard though, but at the end of it all, the beneficiaries will be benefited.

No doubt for as long as, we remain an active member - KCCDFI MBA will always be there for us. And at the end of the day, all of us are the winners.

So, God Bless us all!

ELLEN M. BENITEZ
KCCDFI MBA Board of Trustee President

AREAS OF OPERATION

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

BRANCHES SERVED BY KCCDFI MBA

SINUNUC
SIOCON
STA. CATALINA
STA. MARIA
TALISAYAN
TALON-TALON
TETUAN
VITALI

CABALUAY
CURUAN
IMELDA
IPIL
KABASALAN
LILOY
MAASIN
MARIKINA
MERCEDES
OLUTANGGA
PUTIK
SANGALI

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OPERATIONS & HIGHLIGHTS 2020

Total Active Members
15, 700

Total Insured Individuals
45,494

Total Amount Claims Paid
13,102,449.00

Total Assets
113,923,335.00

Total Contributions
11,529,402.00

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CLAIMS PAID

BASIC LIFE INSURANCE PLAN

PHP 5,185,705.00

No. of Claims: 228

CREDIT LIFE INSURANCE PLAN

PHP 1,217,737.00

No. of Claims: 95

REFUND OF CONTRIBUTION

PHP 3,934,414.00

No. of Claims: 2771

RETIREMENT SAVINGS FUND

PHP 2,764,593.00

No. of Claims: 2771

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COMMUNITY DEVELOPMENT

CTO

Amidst the limitations brought about by the varying states of the community quarantine protocols in the country, KCCDFI MBA continue to advance and promote the welfare of the poor in particular by supporting its mother institution, KCCDMFI's community development activities and projects.

The Association were able to participate in the conduct of the Covid-19 Barangay Awareness Campaigns, distribution of Face Masks and installation of hand washing facilities in schools.

Thus, the impact of the pandemic on our members / clients and society as as whole is our main concern. And, in keeping with our objectives, we have continuously extending our expansion program to 4P's member's beneficiaries and their relatives, Barangay Officials and their volunteers, and other marginalized organized groups, members of the community by giving them access to our micro-insurance program though our Facebook account, Website and Hotlines. Wherein, we were still able to empower new members following the strict minimum health protocols during these trying times.

Unfortunately, under our social development program the line-up of activities are put on hold and no face to face gathering is allowed, however, our commitment to our members remains the same. And as the world navigates and conforms to the "New Normal", KCCDFI MBA will continue to serve and help improve the quality of life of the marginalized sector of society.

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CORPORATE GOVERNANCE

A good corporate governance is essential in earning the trust and confidence of all our clients / partners and eventually succeeds in all our endeavours.

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

CORPORATE GOVERNANCE CONFIRMATION STATEMENT

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

BOARD OF TRUSTEES

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

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

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

BOARD OF TRUSTEES

Name	Designation	TRUSTEESHIP
ELLEN M. BENITEZ	President	NON-EXECUTIVE
MARY ANN R. CANDOY	Vice President	NON-EXECUTIVE
ARACELI J. AMLIH	Secretary	NON-EXECUTIVE
MYRNA D. GREGORIO	Treasurer	NON-EXECUTIVE
MERCEDES G. FAUSTINO	Member	NON-EXECUTIVE
DEZZA S. MOHAMMAD	Independent Trustee	NON-EXECUTIVE
NEVILYN P. ABUALAS	Independent Trustee	NON-EXECUTIVE
ATTY. IBARRA A. MALONZO	Advisor	N/A
MARIA TERESA C. GONZALES	General Manager	Executive

BOARD OF DIRECTOR

Name	AGE	Year First Elected	No. of years as Trustees
ELLEN M. BENITEZ	47	2015	6
MARY ANN R. CANDOY	44	2018	3
ARACELI J. AMLIH	65	2018	3
MYRNA D. GREGORIO	41	2015	6
MERCEDES G. FAUSTINO	49	2016	5
DEZZA S. MOHAMMAD	41	2015	6
NEVILYN P. ABUALAS	40	2017	4
ATTY. IBARRA A. MALONZO	77	N/A	N/A
CATHERINE A. ELUMBRA	40	N/A	N/A

The Board hold regular meetings virtually via zoom video-conference meeting in 2020:

NAME OF TRUSTEE	TOTAL NO. OF MEETINGS	NO. OF MEETINGS ATTENDED	PERCENTAGE RATING
ELLEN M. BENITEZ BOT President, KCCDFI MBA	9	9	100%
MARY ANN R. CANDOY BOT Vice - President, KCCDFI MBA	9	9	100%
ARACELI J. AMLIH BOT Secretary, KCCDFI MBA	9	9	100%
MYRNA D. GREGORIO BOT Treasurer, KCCDFI MBA	9	9	100%
MERCEDES G. FAUSTINO COO / Vice President, KCCDMFI	9	9	100%
DEZZA S. MOHAMMAD Independent Board, KCCDFI MBA	9	8	90%
NEVILYN P. ABUALAS Independent Board, KCCDFI MBA	9	9	100%

BOARD COMMITTEE

AUDIT COMMITEE

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

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

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

The Audit Committee meet quarterly or as necessary in fulfilling its responsibilities.
Below is the 2020 attendance of each member in the meeting.

NAME OF TRUSTEE	No. of Audit Committee Meeting	No. of Meetings Attended	Percentage Rating
NEVILYN P. ABUALAS Chairman - Independent Board, KCCDFI MBA	1	1	100%
MARY ANN R. CANDOY Member - BOT Vice - President, KCCDFI MBA	1	1	100%
MYRNA D. GREGORIO Member - BOT Treasurer, KCCDFI MBA	1	1	100%

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

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REMUNERATION COMMITTEE

The Remuneration Committee is a separate and independent body to ensure that remuneration arrangement support the strategic aims of the association and enable recruitment, motivation and retention of personnel while complying with the requirements of regulatory and governance bodies, satisfying the expectations of the members and remaining consistent of the wider employee population.

For the year 2020, the committee have decided not to hold any meeting anymore since no unwanted movement in the compensation of the management and staff in the light of the crisis. Although, there were some adjustment made employers salaries were all paid in full for the same year.

Name of Trustee	No. of Remuneration Committee Meeting	No. of Meetings Attended	Percentage Rating
MERCEDES G. FAUSTINO Chairman - BOT Member, KCCDFI MBA	2	2	100%
ELLEN M. BENITEZ BOT President, KCCDFI MBA	2	2	100%
ARACELI J. AMLIH BOT Secretary, KCCDFI MBA	2	2	100%

Nomination and Election Committee

KCCDFI MBA *has a stringent and transparent procedure for the nomination and election of Board of Trustees and ensures that it has as appropriate mix of competence and expertise among its members. The nomination committee is hereby vested sole authority to conduct and supervise the election for the members of the Board and other officers and proclaim the winners.*

The composition of the Nomination and Election Committee, are as follows:

Dezza S. Mohammad - Chairman - Independent Trustee
Ellen M. Benitez - Member
Myrna D. Gregorio - Member

For year 2020, no election was ever conducted since elections are being held every three (3) years during its Annual General Membership Meeting (AGMM).

INVESTMENT COMMITTEE

The following are the appointed members of the Investment Committee:

Chairman: Mercedes G. Faustino - BOT Member

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

The Investment Committee usually meets every quarter, however, during the pandemic the committee decided to meet only during the regular board meeting to discuss any investment matter as part of the regular agenda.

Below shows the attendance details:

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

RELATED PARTY TRANSACTION COMMITTEE

To ensure that the Association's dealing with the public and various stakeholders are imbued with the highest standards of integrity and are in arms-length transaction, the Related Party Transaction Committee was created . It is composed of three (3) members, as follows:

Chairman: Nevilyn P. Abualas - Independent Trustee

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

The Related Party Transaction Committee is tasked to assist the Board in fulfilling its responsibility to strengthen corporate governance and practices particularly on material related party transaction (RPTs).

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

RISK OVERSIGHT COMMITTEE

The appointed members of the Risk Oversight Committee, are listed below:

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

This Committee are responsible to identify and evaluate risk exposure, develop risk management strategy. oversees the implementation of the risk management plan, and review and/or revise the plan as necessary.

INDEPENDENT CHECKS AND BALANCES

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

INTERNAL AUDITOR

The internal auditor function is exercised by the Internal Audit Unit of our mother institution, KCCDFI *headed by* <u>*Ms. Marsha D. Villarubia*</u>*, Internal Audit Specialist, who is under the direct supervision of the Board Audit Committee and administratively to* KCCDMFI *Board of Directors. It provides risk-based and objective assertion, guidance and insight to senior management and the Board, to enhance and protect organizational ethics. Thus, the Internal Audit is also asked to provide independent assessment and reasonable assurance of the adequacy and effectiveness of the Association's internal controls.*

EXTERNAL AUDITOR

External audit plays a significant role in validating KCCDFI MBA's financial position and operation's highlights. The Audit Committee appointed Quilab & Garsuta, CPAs and is hereby authorized to certify financial statements of the association. The External Auditor is headed by <u>*Mr. Rico P. Quilab*</u> *who was engaged in the amount of Seventy - Five Thousand Pesos (Php 75,000.00) only as professional fees inclusive of tax to conduct the external audit of the Association. The Board of Trustees affirmed the result of the Audited Financial Statement during its meeting on June 10, 2020.*

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

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Company Compliance

KCCDFI MBA's Board of Trustee has established a higher standard to ensure good and full compliance of the Association to laws, policies, circulars, memoranda, requirements and guidelines issued by the regulatory agencies such as Insurance Commission, Securities and Exchange Commission, Bureau of Internal Revenue and other government agencies.

The Compliance Officer is responsible for monitoring and maintaining a manual of compliance procedures in relation to the business of **KCCDFI MBA**. In 2020, the Association has fully complied with all the necessary provisions of its Corporate Governance Manual.

Code of Ethics & Business Ethics

KCCDFI MBA institutionalizes the highest ethical standards through the strict implementation of the Association's Code of Conduct that outlines the policies governing the activities of the institutions, its trustees, officers and employees. Hence, the Association adheres to the Code's specification on the fair treatment of the employees and business partners. The Code of Ethics for employees and for clients / partners are anchored on the Association's core / working values of professionalism, compassion for the poor, commitment to service, gender sensitivity, sensitivity to the environment, passion for excellence and teamwork. It is imperative that trustees, officers and employees live by the values that the associations stands for and reflect these values in their behaviours. For easy access, the association's code of conduct are posted in the company website.

Related Party Transactions

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

Transparency & Disclosures

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

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

Board Performance Evaluation

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

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

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

B.) Performance of Duties and Responsibilities.

Stakeholders Interest

KCCDFI MBA exist primarily for the benefits of its members and stakeholders.
Furthermore, it is the primary commitment of the Association to pay benefits without delay to members provided provided that pertinent documents are to be submitted.

Member's Satisfaction

Credible services and member's satisfaction are the Association's main priority. Hence, in ensuring member's satisfaction, KCCDFI MBA Coordinates regularly interact with the General Assembly by visiting at least 4-6 centers in a month to gather feedbacks and to disseminate valuable information for the benefit of the members.

But, because of the implementation of the different state of quarantine protocols in the communities, such as activities was suspended. Nonetheless, our commitment to our members / clients in providing social protection continuous with the collaboration of the MBA Staff and KCCDMFI Staff. With that, majority of our members are still satisfied with our products and services despite of the limitations imposed.

Member's Health & Safety

The Covid-19 pandemic has place our member's health and safety at risk.
Moving forward, the Association have provided alternative ways for the member's health and safety intermitting their monthly contributions such as the remittance centers or the online payment schemes to limit their exposures from getting the virus.

In line with that, the association joined KCCDMFI in donating water tank and wash basins to selected schools in the far flung areas for their protection and access to clean potable water.

As part of its community development projects - the health and safety of its members are inclusive on these enumerated projects.

Disaster Preparedness & First Aid Training

The very nature of an emergency is unpredictable and it can happen at any time wherever you are. That is why being prepared and equipped is very important to protect lives, properties and the environment. Consequently, the association have arranged line-up of trainings for disaster preparedness and First Aid response for year 2020. However, because of the declaration of community lockdowns and strict quarantine statuses by the government, KCCDFI MBA in coordination with KCCDMFI have cancelled the scheduled fire and earthquake drills on March 15, 2020 and other scheduled disasters and calamities trainings.

Supplier / Contractor Selection Criteria

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

Environmentally - Friendly Value Chain

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

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

In furtherance of the Associations commitment to mother nature, on Valentine's Day last February 14, 2020, KCCDFI MBA together with KCCDMFI Have conducted mangrove replanting in Mampang Barangay, this city, covering more or less 5 hectares.

To date, mangrove area have registered a survival rate of less than 75% on account of the presence of waste material left over by refugee families from the 2013 Zamboanga Siege.

Interaction with Communities

The Association recognized the important role that the community played in realizing the organization's vision and mission in empowering the marginalized sector of the community. But, for year 2020, only limited social activities were undertaken due to the Covid-19 Pandemic.

Thus, the Association joined KCCDMDFI in initiating campaigns and awareness drives in barangays to help in containing the spread of the virus. Tarpaulins and posters were hanged in the public places in the barangays / communities.

Nevertheless, some activities for 2020 are put on hold for the next year.

Anti-Corruption Program / Whistle Blowing Policy

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

A process is in place to ensure all grievances and complaints are addressed, investigated fairly, and documented in a timely manner. All Whistle-blowing reports and information are kept confidential, including the identity of the Whistle-blower, unless compelled by law or the Courts to be revealed. Moreover, no trustee, officers, employee or member who in good faith reports a violation of the Code shall suffer discrimination or harassment in the workplace, retaliatory acts, or adverse employment consequence. Thus, this Whistle-blower Policy is intended to encourage and enable employees and other stakeholders to raise serious concerns within the Association before seeking resolution outside the Association.

Furthermore, this policy provides an assurance that a person, the whistleblower who will raise a concern will be protected against any act of retaliation, reprisal or harassment and will be treated with utmost confidentiality.

Creditor's Right

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

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

EMPLOYEES & MEMBER'S DEVELOPMENT PROGRAM

Annual Physical Examination

Good health is crucial in ensuring employee efficiency and productivity, that is why an Annual Physical Examination of all staff is one of the health programs of the association to undergo general check-up to make sure that all employees are physically fit to work.

In 2020, the Association has provided its employees with health card in the amount of Php 10,000.00 only through PhilHealth Care Inc. (PhilCare) as the health care / HMO provider of KCCDFI MBA.

Training & Development

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

Nonetheless, the Association continuously allow and register its employees online to attend different trainings, webinars, and other learning activities virtually for the development and benefit of its work force team via zoom video-conferencing to ensure the safety of everyone.

Seguradong Pang Masa na, Pang Buong Pamilya pa

Below are the listed trainings and webinars attended by the Board of Trustees and Management and Staff:

Name of Trustee	National Micro-Insurance Forum (January 30, 2020)	Mi-MAP AGMM 2020 (March 22, 2020)	Briefer on ARISE Philippines Act (HBN 6815) (July 06, 2020)	Social Media Marketing 101 (July 27, 2020)	Progerso Bonds (RTB 27) Webinar (July 30, 2020)	Briefer on TRAIN Package 4: PIFITA (August 7, 2020)	Revised Code of Corporate Governance and ACGR (August 10, 2020)	Center Meeting at Social Distancing (September 21, 2020)
ELLEN M. BENITEZ BOT President, KCCDFI MBA		✓	✓	✓	✓	✓	✓	
MARY ANN R. CANDOY BOT Vice - President, KCCDFI MBA			✓	✓			✓	
ARACELI J. AMLIH BOT Secretary, KCCDFI MBA			✓	✓	✓	✓	✓	
MYRNA D. GREGORIO BOT Treasurer, KCCDFI MBA			✓		✓	✓	✓	
MERCEDES G. FASUTINO COO / Vice President, KCCDMFI	✓	✓	✓		✓	✓	✓	✓
DEZZA S. MOHAMMAD Independent Board, KCCDFI MBA			✓			✓	✓	
NEVILYN P. ABUALAS Independent Board, KCCDFI MBA			✓		✓	✓	✓	
CATHERINE A. ELUMBRA FOH / Adivsory Board	✓		✓					✓
ATTY. IBARRA A. MALONZO President / CEO / Advisory Board	✓		✓				✓	

Name of Employees	National Microinsurance Forum (January 30, 2020)	Briefer on ARISE Philippines Act (HBN 6815) (July 06, 2020)	Social Media Marketing 101 (July 27, 2020)	Progeso Bonds (RTB 24 Webinar) (July 30, 2020)	Briefer on TRAIN Package 4: PIFITA (August 07, 2020)	Revised Code of Corporate Governance and ACGR (August 10, 2020)	Improving Mi-MBA's Technological Competency (August 17, 2020)	Center Meeting at Social Distancing (September 21, 2021	Financial Management Seminar for Mi-MBA's (October 28, 2020)
MARIA TERESA C. GONZALES	✓	✓	✓	✓	✓	✓	✓	✓	✓
OLIVIA P. ANTONIO		✓		✓	✓		✓		✓
JAZEL U. JANUBAS		✓		✓	✓		✓		✓
MA. PERLA J. MEDINA	✓	✓	✓		✓	✓	✓	✓	
BERNADETTE S. BONIFACIO			✓				✓		
CONCHITA A. ELUMBRA							✓		
JOELYN S. FELISILDA							✓		
ROEL P. MANUEL									

*Lastly, **KCCDFI MBA** is one in celebrating KCCDMFI's 19th Anniversary on December 21, 2020 wherein 23 employees received service awards in recognition of their tenure with KCCDMFI ranging from 5 to 15 years.*

MEMBERS

The sustainability of the MBA relies on the Active involvement and participation of the members in the affairs of the association. And the association is committed to provide continuing education of the members by providing them an updated information regarding its productions and services during the conduct of center meeting by the MBA Coordinators.

Fortunately, before the implementation of the various state of community quarantines in the country, the MBA team were able to conduct refreshers training last February 14, 2020, a Valentine's date right after the mangrove replanting at mampang barangay, to 12 MBA Coordinators. However, our MBA Coordinators were not able to roll out the latest update due to the rise-up of the pandemic.

Thus, in finding ways to move forward, our Branch Managers and Field Development Officers served as our bridges in reaching out to our members nationwide.

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THE BOARD OF TRUSTEES

ELLEN M. BENITEZ

KCCDFI MBA, BOT PRESIDENT/ CHAIRMAN

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

MARY ANN R. CANDOY

KCCDFI MBA, BOT VICE PRESIDENT,

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

ARACELI J. AMLIH

KCCDFI MBA, BOT SECRETARY

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

MYRNA D. GREGORIO

KCCDFI MBA, BOT TREASURER

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

MERCEDES G. FAUSTINO

KCCDMFI, COO / VICE PRESIDENT

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

DEZZA S. MOHAMMAD

KCCDFI MBA, INDEPENDENT BOARD

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

NEVILYN P. ABUALAS

KCCDFI MBA, INDEPENDENT BOARD

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

THE BOARD ADVISERS

ATTY. IBARRA A. MALONZO

PRESIDENT / CEO, KCCDMFI

Currently the President and CEO of KCCDMFI.
Bachelor of Laws,
Bachelor of Arts in English and Comparative Literature
University of the Philippines - Diliman
Member, Integrated Bar of the Philippines

Atty. Ibarra Avelino Malonzo, 77, Filipino, is an Advisory Board of the Association. He assumed to the Board of Trustee on December 08, 2016. He serves as a Trustee of Kasanyangan Mindanao Foundation Incorporated, the mother institution of KCCDMFI, from 1999 to present.

*Currently, he is the President and Chief Executive Officer of **KCCDMFI** since 2016. during his tenure as President / CEO, he managed to steer the institution from a period of rehabilitation in 2016 to a period of recovery in 2018. And managed to have KCCDMFI accredited as a Microfinance institution by Micro-insurance NGO Regulatory Council (MNRC) for FY 2018 ti 2019 and FY 2020 to 2021.*

He successfully leads to institution in continuing its business operations despite the challenges of the Covid-19 pandemic.

Atty. Malonzo is a non-voting member of the Board of Trustee of KCCDFI MBA. On the other hand, he serves as a Trustee of KCCMFI, from 2006 to present.

CATHERINE A. ELUMBRA

FIELD OPERATIONS HEAD, KCCDMFI

*40, Filipino, is an Advisory Board of the Association since December 08, 2016 up to the present. She is a graduate of Bachelor of Science in Social Work. She is the Field Operations Department Head of **KCCDMFI**.*

Ms. Elumbra is a non-voting member of the Board of Trustee of KCCDFI MBA and she holds no directorship or any position in any listed company.

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THE MANAGEMENT AND STAFF

MARIA TERESA C. GONZALES

GENERAL MANAGER, KCCDFI MBA

40, Filipino, is the General Manager of KCCDFI MBA since August 1, 2017. She is a Bachelor of Science in Commerce Major in Accounting Technology graduate and currently resides in Cabaluay, Zamboanga City. She attends and participates in various trainings and seminars, the latest of which is on Corporate Governance and Board Committee Orientation Workshop in September 2019, briefer on Revised Code of Corporate Governance for IC Regulated Companies and Annual Corporate Governance Report in August 2020, and Financial Management Seminars for Mi-MBA's in October 2020, among others which was conducted by RIMANSI.

JAZEL U. JANUBAS

ACCOUNTING SPECIALIST, KCCDFI MBA

31, Filipino, is the Accounting Specialist of KCCDFI MBA since April 17, 2017. She is a Bachelor of Science in Commerce Major in Management Accounting graduate and currently resides in San Isidro St. Culianan, Zamboanga City. She attends and participates in various trainings and seminars in accounting and other related fields such as Accounting for non-Accountants and Financial Literacy Training in September 2019, Progreso Bonds(RTB24) Webinar in July 2020, and Financial Management Seminar for Mi-MBA's in October 2020, among others and last two seminars was conducted by RIMANSI.

MA. PERLA J. MEDINA

PROMOTIONS & UNDERWRITING OFFICER, KCCDFI MBA

38, Filipino, is the Promotion and Underwriting Officer of KCCDFI MBA since April 17, 2017 and acts as the Board of Trustees Secretariat. She has a degree in Bachelor of Science in Psychology and a graduate on Bachelor of Laws. She is currently residing at Zone 6, Gapuh, Talabaan, Zamboanga City. She attended trainings and seminars related to micro-insurance MBA, the most recent if which are the 2019 Management forum "Managing Regulatory, Performance and System Risks" in July 2019, Corporate Governance and Board of Committee Orientation Workshop in September 2019, and Revised Code of Corporate Governance for IC Regulated Companies and Annual Corporate Governance Report in August 2020.

OLIVIA P. ANTONIO

ADMIN & FINANCE SPECIALIST, KCCDFI MBA

45, Filipino, is the Administration and Finance Specialist of KCCDFI MBA since April 17, 2017. She has a degree in Bachelor of Science in Commerce Major in Accounting and Master's Degree on Public Administration (12 units). She is a bona fide resident of Zone 3, Lunzuran, Zamboanga City. She underwent various trainings ans seminars, the latest of which is on Risk Reduction Management Training in October 2019, Briefer on TRAIN Package 4: PIFITA in August 2020, and Financial Management Seminar for Mi-MBA's in October 2020 among others.

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BERNADETTE S. BONIFACIO

MANAGEMENT INFORMATION SYSTEM SPECIALIST, KCCDFI MBA

30, Filipino, is the Management Information System Specialist of KCCDFI MBA since April 17, 2017. She is a graduate of Diploma in Food Processing and has an extensive experience as Computer Encoder. She currently resides at Zone 2, San Isidro Rd. Boalan, Zamboanga City. She attended trainings and seminars related to MIS, the most latest of which is on Risk Reduction Management Training in October 2019, Social Media Marketing 101 in July 2020, and Improving Mi-MBA's Technological Competency in August 200 which was conducted by RIMANSI.

JOELYN S. FELISILDA

INSURANCE & CLAIMS SPECIALIST, KCCDFI MBA

38, Filipino, is the Insurance and Claims Specialist of KCCDFI MBA since April 17, 2017. She has a degree in Bachelor of Science in Accountancy and currently residing at Zone 1-b Carpio Compound, View Island, Mercedes, Zamboanga City. She underwent different trainings and seminars, the most recent of which are Accounting for Non-accountant and Financial Literacy Training in September 2019, Risk Reduction Management Training in October 2019, and Improving Mi-MBA's Technological Competency in August 2020, majority of which conducted by RIMANSI.

CONCHITA A. ELUMBRA

INSURANCE & CLAIMS SPECIALIST, KCCDFI MBA

44, Filipino, is the Insurance and Claims Specialist of KCCDFI MBA since April 17, 2017. She is a Bachelor of Public Administration graduate and currently resides in Teodoro Lane Gov. Ramos Ave., Sta. Maria, Zamboanga City. She attended and participates in trainings and seminars, the latest of which is on Accounting for Non-Accountant and Financial Literacy Training in September 2019, Risk Reduction Management Training in October 2019, and Improving Mi-MBA's Technological Competency in August 2020 among others.

ROEL P. MANUEL

DRIVER / MESSENGER, KCCDFI MBA

49, Filipino, is the Driver / Messenger of KCCDFI MBA since May 27, 2013. He attended high school at Zamboanga City State Polytechnic College. He is a bona fide resident of Zone 2, Pasobolong, Zamboanga City.
He attended trainings and seminars on Accountancy for Non-accountant and Financial literacy Training in September 2019 and Risk Reduction Management Training in October 2019 which was conducted by the institution.

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Activities

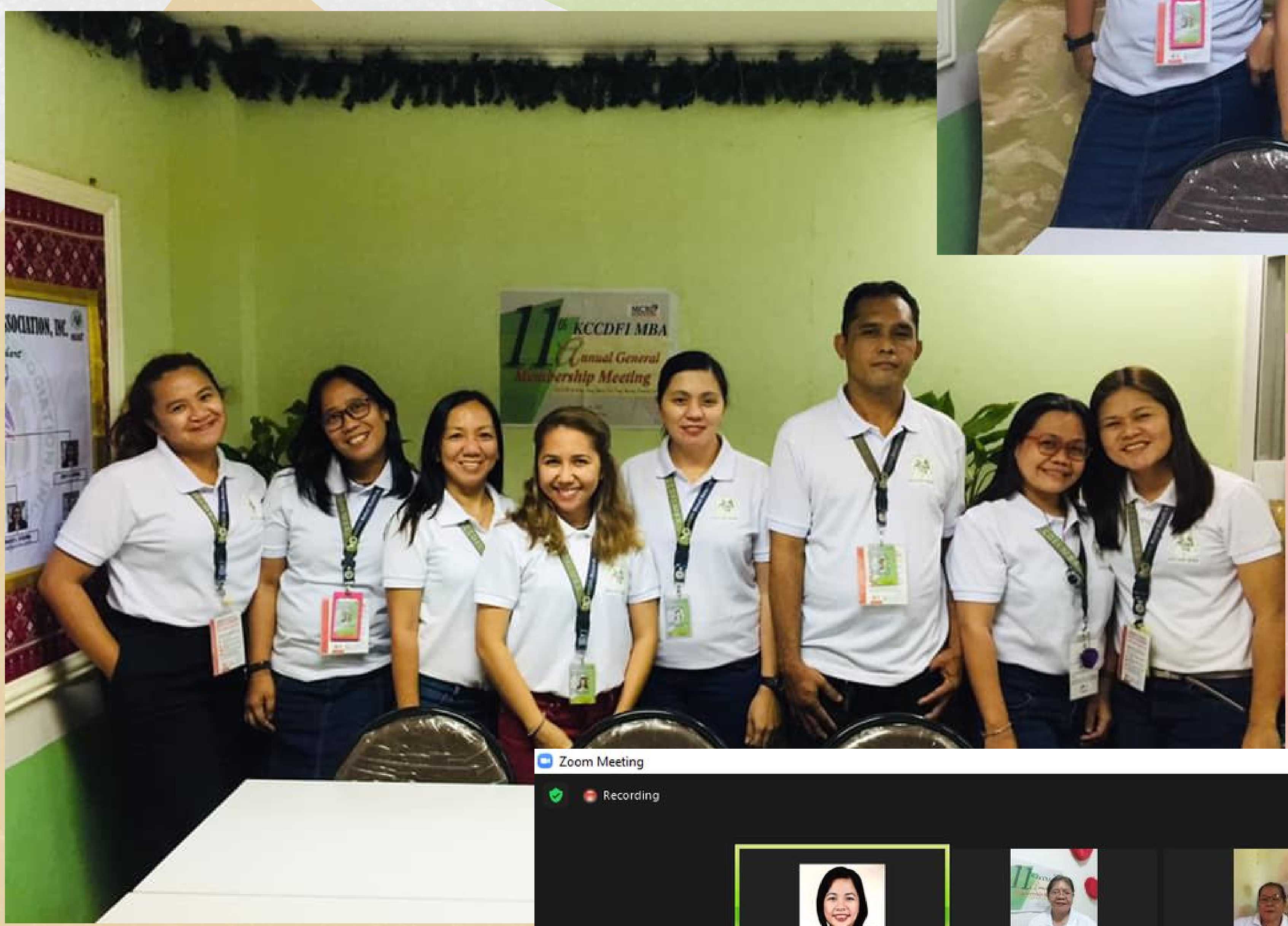
Tree Planting 2020

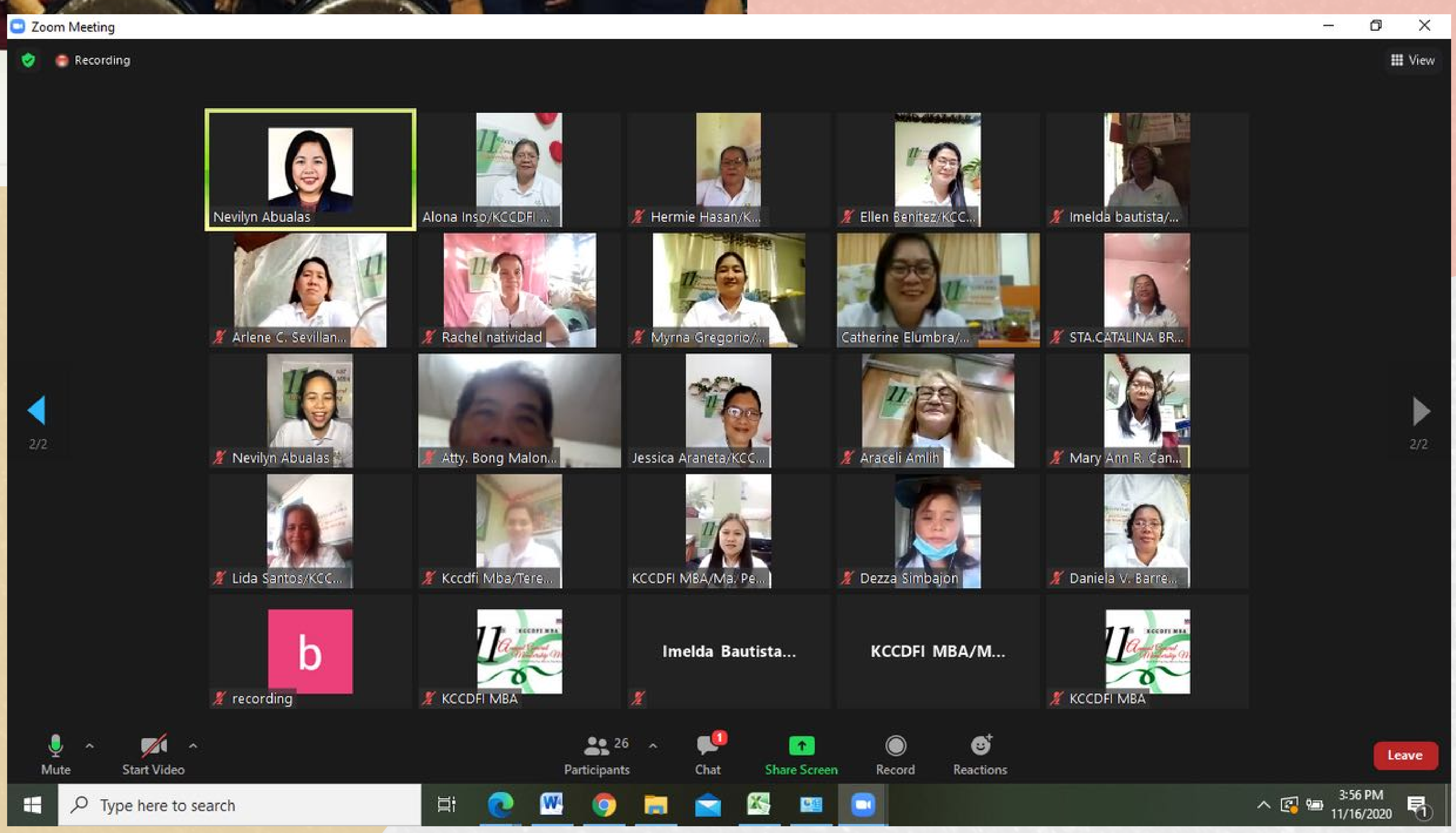
CTO

Seguradong Pang Masa na, Pang Buong Pamilya pa

PHOTO *Gallery*

General Assembly 2020



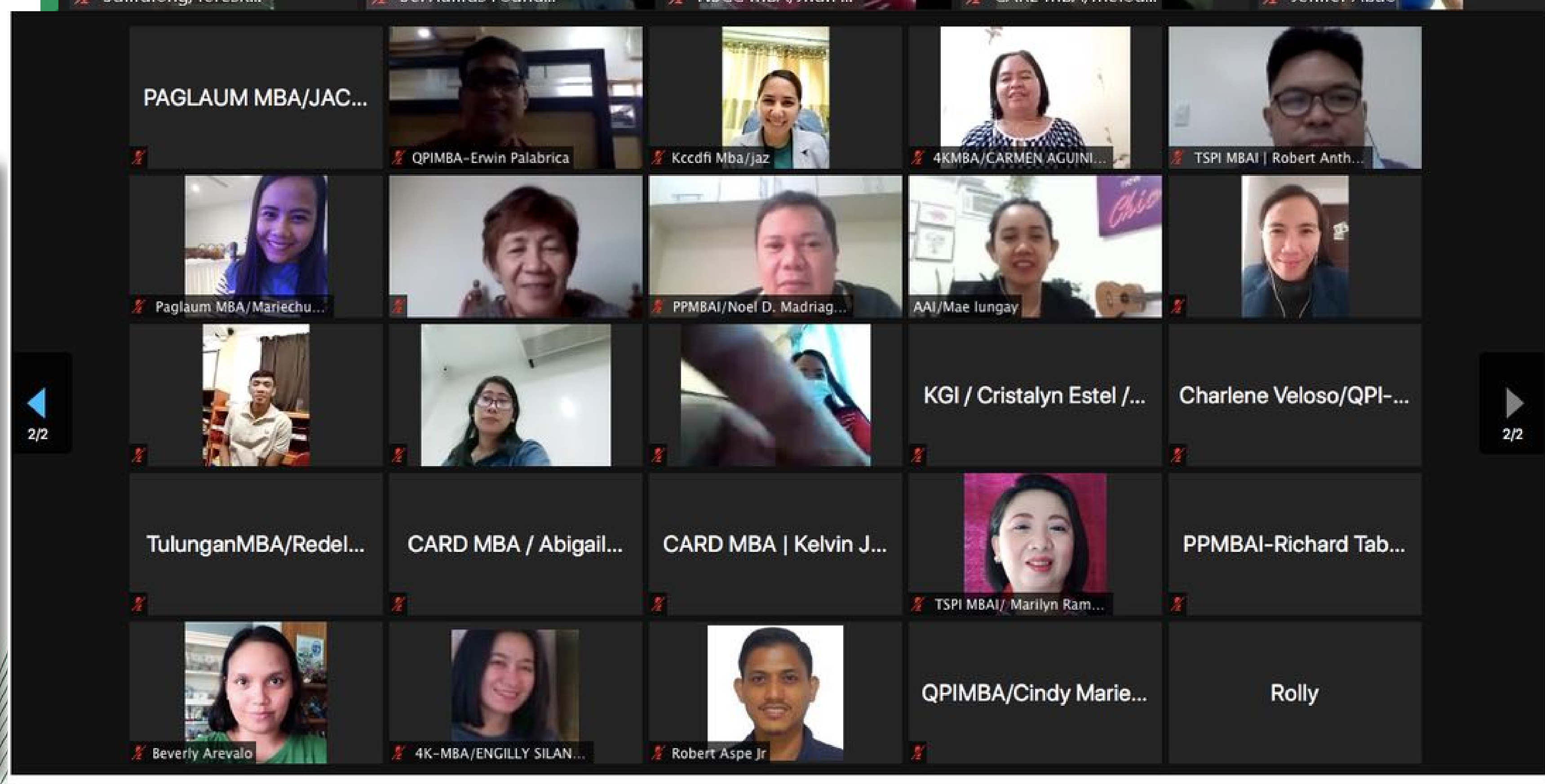


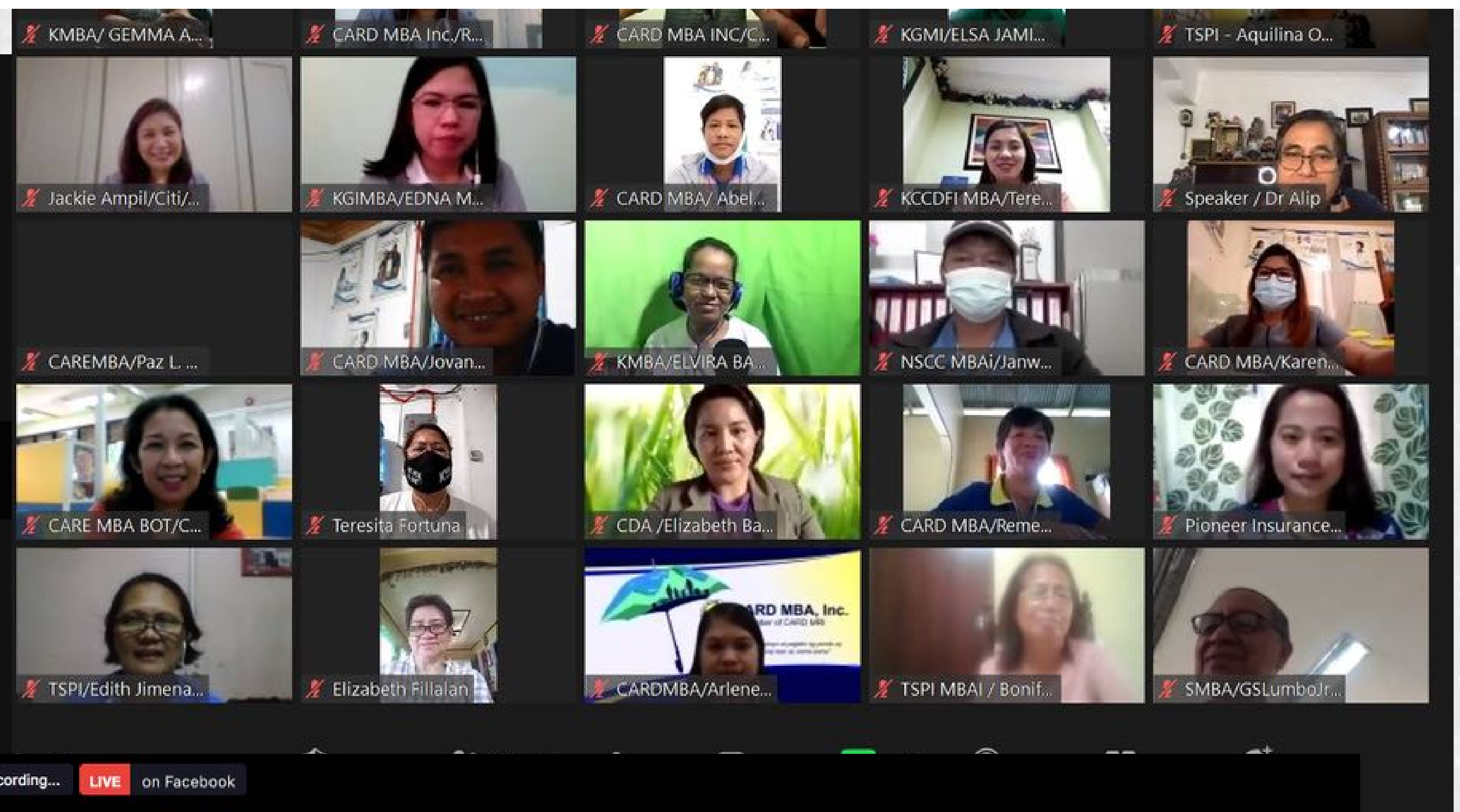
Seguradong Pang Masa na, Pang Buong Pamilya pa

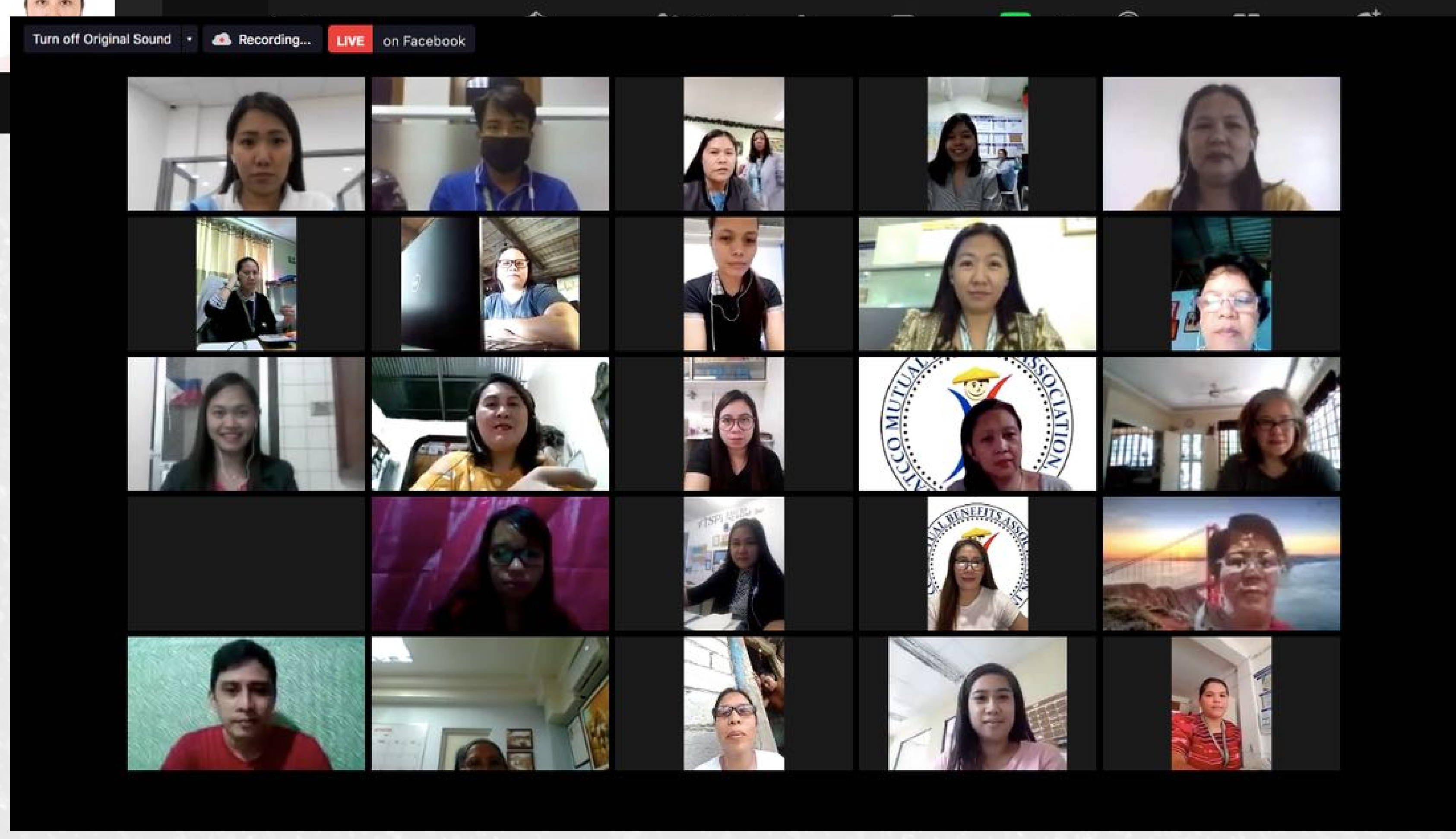
WOMANS MONTH 2020

Seguradong Pang Masa na, Pang Buong Pamilya pa

TRAININGS AND SEMINARS VIA ZOOM

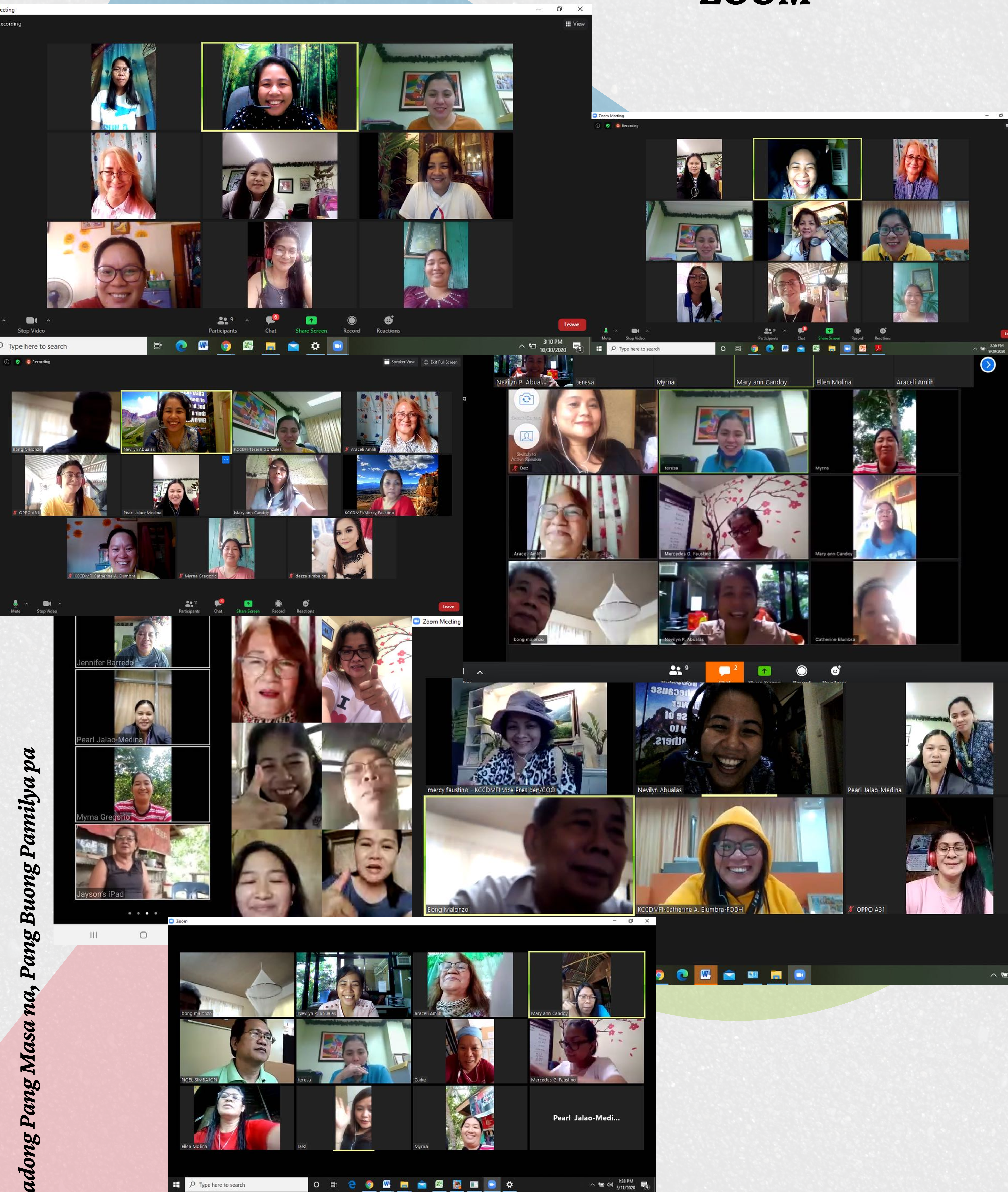






Seguradong Pang Masa na, Pang Buong Pamilya pa

BOARD MEETINGS VIA ZOOM



Seguradong Pang Masa na, Pang Buong Pamilya pa

AUDITED FINANCIAL STATEMENT 2020

Financial Statements of

KCCDFI Mutual Benefit Association, Inc.

December 31, 2020 and 2019

And

Report of Independent Auditors

QUILAB & GARSUTA
CERTIFIED PUBLIC ACCOUNTANTS

quilabgarsuta.com

2F KCCDFI Building
MCLL Highway, Guiwan
7000 Zamboanga City, Philippines
Tel. No. (062) 990-2429
Email: kccdfi_mba@yahoo.com

KCCDFI Mutual Benefit Association, Inc.

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of KCCDFI Mutual Benefit Association, Inc. is responsible for the preparation and fair presentation of its financial statements for the years ended December 31, 2020 and 2019, in accordance with Philippine Financial Reporting Standards (PFRSs), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Trustees is responsible for overseeing the Association's financial reporting process.

The Board of Trustees reviews and approves the financial statements and submits the same to the members of the Association.

Quilab & Garsuta, CPAs, the independent auditors appointed by the Board of Trustees for the periods December 31, 2020 and 2019, have audited the financial statements of the Association in accordance with Philippine Standards on Auditing (PSAs), and in their reports to the Board of Trustees, have expressed its opinion on the fairness of presentation upon completion of such audits.

April 12, 2021, in the City of Zamboanga, Philippines.

ELLEN M. BENITEZ
President

MARIA TERESA C. GONZALES
General Manager

MYRNA D. GREGORIO
Treasurer

QUILAB & GARSUTA
Certified Public Accountants

quilabgarsuta.com

Accreditations, Expiry
PRC/BOA 7787, 07.05.23
BIR 16-007506-000-2019, 02.15.22
NEA 2020-12-00070, 12.10.23
7787-SEC Group B, 12.17.25
7787-BSP Group B, 12.10.25
7787-IC Group A, 12.10.25
CDA 119-AF, 03.01.24
MISEREOR

REPORT OF INDEPENDENT AUDITORS

The Board of Trustees and Members
KCCDFI Mutual Benefit Association, Inc.

Opinion
We have audited the financial statements of KCCDFI Mutual Benefit Association, Inc. which comprise the statements of financial position as at December 31, 2020 and 2019, the statements of profit or loss and other comprehensive income, statements of changes in fund balances and statements of cash flows for the years then ended, and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of KCCDFI Mutual Benefit Association, Inc. as of December 31, 2020 and 2019, and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

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

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

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

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

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 disclosures 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 audits.

Quilab & Garsuta, CPAs
PTR No. 4929527 A
January 4, 2021
Cagayan de Oro City

April 12, 2021
Cagayan de Oro City, Philippines

CAGAYAN DE ORO CITY OFFICE: 2F, Executive Centrum Building, J. R. Borja Street, 9000 Contact Addresses: (088) 856-4401, 231-6365, (08822) 72-7515, qcb_co@yahoo.com
GENERAL SANTOS CITY OFFICE: MF, RDRDC Building, Pioneer Avenue, 9500 Contact Addresses: (083) 552-4043, 09175966762, fgarsuta@yahoo.com

STATEMENTS OF FINANCIAL POSITION

KCCDFI Mutual Benefit Association, Inc.

December 31,	**2020**	2019
ASSETS		
Current Assets		
Cash and cash equivalents *(Note 4)*	**₱25,718,002**	₱4,904,837
Receivables from agents and others *(Note 5)*	**1,579,638**	30,972,944
Prepayments and other assets *(Note 6)*	**27,583**	55,550
Total Current Assets	**27,325,223**	35,933,331
Non-Current Assets		
Property and equipment – net *(Note 7)*	**511,385**	696,931
Right-of-use asset – net *(Note 7)*	**840,913**	963,974
Investments in debt and equity securities *(Note 8)*	**85,245,814**	74,210,562
Total Non-Current Assets	**86,598,112**	75,871,467
	₱113,923,335	₱111,804,798
LIABILITIES AND FUND BALANCES		
Current Liabilities		
Trade and other payables *(Note 9)*	**₱1,425,213**	₱1,360,979
Insurance contract liabilities *(Note 10)*	**442,586**	608,881
Lease liability *(Note 7)*	**103,127**	95,048
Total Current Liabilities	**1,970,926**	2,064,908
Non-Current Liabilities		
Aggregate reserves for unexpired risks *(Note 11)*	**42,508,491**	40,648,007
Retirement Trust Fund *(Note 12)*	**33,869,159**	32,459,277
Lease liability *(Note 7)*	**801,258**	904,385
Total Non-Current Liabilities	**77,178,908**	74,011,669
Total Liabilities	**79,149,834**	76,076,577
Fund Balances		
Guaranty Fund *(Note 13)*	**17,029,019**	16,283,317
General Fund *(Note 15)*	**16,820,676**	19,004,504
Revaluation reserve on investments at FVTOCI *(Note 8)*	**923,806**	440,400
Total Fund Balances	**34,773,501**	35,728,221
	₱113,923,335	₱111,804,798

See Notes to Financial Statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

KCCDFI Mutual Benefit Association, Inc.

Years Ended December 31,	**2020**	2019
REVENUE		
Gross members' premium contributions *(Note 14)*	**₱14,914,031**	₱18,516,250
Less contributions to Guaranty Fund *(Note 13)*	**745,702**	925,813
Net members' premium contributions	**14,168,329**	17,590,437
Interest and investment income *(Notes 4 and 8)*	**1,740,568**	2,589,764
Interest income on unremitted collections *(Note 5)*	**1,221,120**	2,195,545
Membership fees *(Note 14)*	**242,850**	712,350
Other income *(Note 16)*	**490,320**	377,432
Total Revenue	**17,863,187**	23,465,528
BENEFITS AND OPERATING EXPENSES		
Gross benefits and claims paid to members *(Notes 10 and 14)*	**10,698,464**	11,350,294
Increase in aggregate reserves for unexpired risks *(Note 11)*	**1,860,484**	3,114,581
Collection expenses *(Note 19)*	**1,323,939**	1,895,102
Interest expense *(Note 12)*	**332,258**	618,151
Membership enrolment and marketing expenses *(Note 18)*	**205,430**	227,063
Total Members' Benefits and Expenses	**14,420,575**	17,205,191
Compensation and employees' benefits *(Note 17)*	**3,250,410**	3,193,244
General and administrative expenses *(Note 18)*	**2,041,873**	2,444,319
Depreciation *(Note 7)*	**334,157**	318,705
Total Benefits and Operating Expenses	**20,047,015**	23,161,459
NET (DEFICIT) SURPLUS FOR THE YEAR	**(2,183,828)**	304,069
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that may not be subsequently reclassified to profit or loss:		
Changes in value of investments at FVTOCI *(Note 8)*	**923,806**	440,400
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR	**(₱1,260,022)**	₱744,469

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN FUND BALANCES

KCCDFI Mutual Benefit Association, Inc.

December 31,	**2020**	2019
GUARANTY FUND *(Note 13)*		
Opening balances	**₱16,283,317**	₱15,357,504
Contributions from members during the year	**745,702**	925,813
Closing balances	**17,029,019**	16,283,317
GENERAL FUND *(Note 15)*		
Opening balances	**19,004,504**	18,700,435
Net surplus for the year	**(2,183,828)**	304,069
Closing balances	**16,820,676**	19,004,504
REVALUATION RESERVE ON INVESTMENTS AT FVTOCI *(Note 8)*		
Opening balances	**440,400**	(38,400)
Changes in value of investments during the year	**483,406**	478,800
Closing balances	**923,806**	440,400
	₱34,773,501	₱35,728,221

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

KCCDFI Mutual Benefit Association, Inc.

Years Ended December 31,	**2020**	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (deficit) surplus for the year	**(₱2,183,828)**	₱304,069
Add (deduct) adjustments for:		
Depreciation – property and equipment *(Note 7)*	**211,096**	195,644
Depreciation – right-of-use assets *(Note 7)*	**123,061**	123,061
Increase in aggregate reserves for risks *(Note 11)*	**1,860,484**	3,114,581
Interest on lease liability *(Note 7)*	**84,952**	92,398
Interest and investment income *(Notes 4 and 8)*	**(1,740,568)**	(2,589,764)
Operating (deficit) surplus before changes in working capital	**(1,644,803)**	1,239,989
Add (deduct) changes in working capital, excluding cash and cash equivalents:		
Decrease in receivables from agents and others *(Note 5)*	**29,393,306**	4,983,740
Decrease in prepayments and other current assets *(Note 6)*	**27,967**	170,300
Increase in trade and other payables *(Note 9)*	**64,234**	195,819
Increase (decrease) in insurance contract liabilities *(Note 10)*	**(166,295)**	38,048
Net Cash Provided from Operating Activities	**27,674,409**	6,627,896
CASH FLOWS FOR INVESTING ACTIVITIES		
Additions to property and equipment *(Note 7)*	**(25,550)**	(715,119)
Increase in investments in debt and equity securities *(Note 8)*	**(10,551,846)**	(24,649,686)
Interest and investment income *(Notes 4 and 8)*	**1,740,568**	2,589,764
Net Cash Used for Investing Activities	**(8,836,828)**	(22,775,041)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in Retirement Trust Fund *(Note 12)*	**1,409,882**	2,367,557
Increase in contributions to Guaranty Fund *(Note 13)*	**745,702**	925,813
Payment of lease principal and interest *(Note 7)*	**(180,000)**	(180,000)
Net Cash Provided from Financing Activities	**1,975,584**	3,113,370
NET DECREASE IN CASH AND CASH EQUIVALENTS	**20,813,165**	(13,033,775)
OPENING CASH AND CASH EQUIVALENTS	**4,904,837**	17,938,612
CLOSING CASH AND CASH EQUIVALENTS *(Note 4)*	**₱25,718,002**	₱4,904,837

See Notes to Financial Statements.

Statement of Compliance
The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs) and Philippine Interpretations-IFRIC. PFRSs include statements named PFRSs and Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the Board of Accountancy of the Professional Regulation Commission (BOA/PRC and the Securities and Exchange Commission (SEC).

Because the Association is a supervised entity by the Insurance Commission (IC), it also abides by the regulations of the Commission particularly those that are set forth under Section 189 of The Amended Insurance Code and with IC Circular Letter No. 2014-41 *Standard Chart of Accounts (SCA) for MBAs,* and all applicable IC Circular Letters and accounting requirements. These regulations and requirements are substantially compliant with PFRSs and the Revised SRC Rule 68 (2019).

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

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

The financial statements are presented in Philippine peso, which is the Association's functional and presentation currency and all values are recorded to the nearest peso except when otherwise indicated.

The preparation of the financial statements made use of estimates, assumptions and judgments by management based on management's best knowledge of current and historical facts as at statement of financial position date. These estimates and judgments affect the reported amounts of assets and liabilities and contingent liabilities as at statement of financial position date, as well as affecting the reported income and expenses for the year. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The principal accounting policies adopted are set out below.

Going Concern
The Board of Trustees has, at the time of approving the financial statements, a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

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

Impact of the Initial Application of Covid-19-Related Rent Concessions Amendment to IFRS 16
In May 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by

NOTES TO FINANCIAL STATEMENTS

KCCDFI Mutual Benefit Association, Inc.

As of and for the Years Ended December 31, 2020 and 2019

Note 1

Organization and Tax Exemption

The KCCDFI Mutual Benefit Association, Inc. (henceforth referred to as "Association") is a mutual benefit association organized by the Kasanyangan Center for Community Development Foundation, Inc. (KCCDFI) for the primary purpose of providing life insurance and other allied services to the Foundation's members and beneficiaries. It was registered with the Securities and Exchange Commission (SEC) on June 12, 2008 and started operations on September 1, 2008, while still obtaining its secondary license from the Insurance Commission (IC), which the Association subsequently obtained on October 15, 2009.

The Association has 15,700 members at the end of 2020.

The Association was organized to: (1) extend financial assistance to its members, their spouses, children and parents in the form of death and sickness benefits, provident savings and loan redemption assistance; and (2) ensure continued access to benefits/resources by actively involving the members in the management of the Association that would include implementation of policies and procedures geared towards sustainability and improved services.

Besides providing benefits to members through the mutual benefit fund, the Association also undertakes the provision of micro-insurance and retirement savings to members. Its loan insurance package aims to cover members' loan payments to all accredited lending institutions in case of death or physical disability of member/borrower. The member-borrower contributes 1.5% of his principal loans payable in one (1) year, or 0.08% to 0.75% of his principal for loans payable in six (6) months, or 0.04% to 0.38% of his principal for loans payable in three (3) months. The coverage of the Fund is co-terminus with the term of the loan.

The Retirement Savings Fund is a regular feature in the membership requirements of the Association. A member is required to pay a weekly contribution of ₱5.00, which is refunded to the member upon reaching the age of 65 or if a member resigns from the Association prior to reaching 65. The member is entitled to the payment of 100% of his total contributions plus interest earnings. Interest shall be credited to the fund every anniversary at 2% per annum.

The Association maintains its Head Office at the Second Floor of KCCDFI Building located along Ma. Clara L. Lobregat Highway, Guiwan, Zamboanga City. The Head Office and the branches of KCCDFI act as the collecting agents of the Association for certain collection fees.

In accordance with Section 30 (C) of the National Internal Revenue Code, as amended, the Association is exempted from the payment of taxes from income derived by it.

Note 2

Summary of Significant Accounting Policies

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

introducing a practical expedient to IFRS 16. The Philippine's FRSC adopted the amendments as 'Amendment to PFRS 16' on June 1, 2020.

The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying PFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and

c) There is no substantive change to other terms and conditions of the lease.

In 2020, the Association considers the Amendment not applicable considering that it has not received any rent related concessions and it is not expecting to request or be given rent related concessions in the coming months.

Impact on Accounting for Changes in Lease Payments Applying the Exemption
The Association has not applied the practical expedient to all rent concessions that meet the conditions in PFRS 16:46B. The Association has not benefited from waiver of lease payments on its lease of the office spaces, nor any payment holiday. In accordance with PFRS 16:46B, had the Association received any waiver of lease payments or any payment holiday, or even discounts or reduction in lease payments, it needs to remeasure the lease liability using the revised lease payments and revise the discount rate originally applied to the lease, so that it would result in a decrease in the lease liability, and which should be recognized as a negative variable lease payment in profit or loss.

Impact of Initial Application of Other New and Amended PFRS Standards that are Effective for the Current Year
In the current year, the Association has applied the below amendments to PFRS Standards and Interpretations issued by the Financial Reporting Standards Council (FRSC) of the Professional Regulatory Commission (PRC) that are effective for an annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to References to the Conceptual Framework in PFRS Standards
The Association has adopted the amendments included in Amendments to References to the Conceptual Framework in PFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The Standards which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Amendments to IFRS 3 Definition of a Business
The Association has adopted the amendments to PFRS 3 for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after 1 January 2020.

Amendments to IAS 1 and IAS 8 Definition of Material
The Association has adopted the amendments to PAS/IAS 1 and PAS/IAS 8 for the first time in the current year. The amendments make the definition of material in PAS/IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in PFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in PAS/IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency.

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

- IFRS 17 *Insurance Contracts*
- IFRS 10 and IAS 28 (amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Amendments to IAS 1 Classification of Liabilities as Current or Non-current
- Amendments to IFRS 3 Reference to the Conceptual Framework
- Amendments to IAS 16 Property, Plant and Equipment—Proceeds before Intended Use
- Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract
- Annual Improvements to IFRS Standards 2018-2020 Cycle
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting
- Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture

The management and the Board of Trustees do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Association in future periods, except as noted below:

PFRS 17 Insurance Contracts
PFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes PFRS 4 *Insurance Contracts*.

PFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

In June 2020, the IASB issued Amendments to IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 was published. The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. At the same time, the IASB issued Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) that extends the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023.

In the Philippines, the Insurance Commission (IC) approved to defer the implementation of IFRS 17 (it will become PFRS 17) to January 1, 2023, per IC Circular Letter No. 218-69, dated December 28, 2018. This Circular was further amended by Circular Letter No. 2020-62, dated May 18, 2020, further extending the implementation of IFRS 17 to January 1, 2025.

The Association anticipates no impact on PFRS 17 in its 2020 financial statements.

Amendments to PFRS 10 and PAS/IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to PFRS 10 and PAS/IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB (and consequently by the FRSC); however, earlier application of the amendments is permitted. The management and the Board of Trustees of the Association do not anticipate that the application of these amendments may have an impact on the Association's financial statements in future periods should such transactions arise.

Amendments to PAS/IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to PAS/IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

Amendments to PFRS 3 – Reference to the Conceptual Framework
The amendments update PFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to PFRS 3 a requirement that, for obligations within the scope of PAS/IAS 37, an acquirer applies PAS/IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

Amendments to PAS/IAS 16 – Property, Plant and Equipment—Proceeds before Intended Use
The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e., proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with PAS/IAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. PAS/IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The Association shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of the General Fund (or other component of equity, as appropriate) at the beginning of that earliest period presented.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Amendments to PAS/IAS 37 – Onerous Contracts—Cost of Fulfilling a Contract
The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labor or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated.

Instead, the entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Annual Improvements to IFRS Standards 2018–2020
The Annual Improvements include amendments to four Standards.

PFRS 1 First-time Adoption of Philippine Financial Reporting Standards
The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in PFRS 1: D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to PFRS Standards if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in PFRS 1: D16(a).

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

PFRS 9 Financial Instruments
The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

PFRS 16 Leases
The amendment removes the illustration of the reimbursement of leasehold improvements. As the amendment to PFRS 16 only regards an illustrative example, no effective date is stated.

PAS/IAS 41 Agriculture
The amendment removes the requirement in PAS/IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in PAS/IAS 41 with the requirements of PFRS 13 Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pretax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

The amendment is applied prospectively, i.e., for fair value measurements on or after the date an entity initially applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

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

market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Association.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Association uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

Financial instruments
Financial assets and financial liabilities are recognized in the Association's statement of financial position when the Association becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables that do not have a significant financing component which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

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

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

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

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

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

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

(i) *Amortized Cost and Effective Interest Method*

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

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

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

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

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

The Association's financial assets at amortized costs includes cash and cash equivalents and trade and other receivables.

Cash and Cash Equivalents

Cash and cash equivalents are carried in the financial statements at cost. Cash comprise unrestricted cash on hand, deposits held at call with banks, and time deposits with banks that can be preterminated anytime without significant risk of change in value. Cash equivalents (including those invested in a trust fund) represent short-term, highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and Other Receivables
Trade and other receivables are outstanding balances from debtors less the allowance for impairment losses. Receivables are recognized when the Association becomes party to the contract which happens when the goods or services are dispatched. They are derecognized when the rights to receive the cash flows have expired e.g., due to the settlement of the outstanding amount or where the Association has transferred substantially all the risks and rewards associated with that contract. Other receivables are stated at invoice value less an allowance for impairment losses. Trade and other receivables are subsequently measured at amortized cost as the business model is to collect contractual cash flows and the debt meets the SPPI criterion.

(ii) Debt Instruments Classified as at FVTOCI
The Association has no financial assets held at FVTOCI. But debt instruments classified as at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these financial assets as a result of foreign exchange gains and losses (see below), impairment gains or losses (see below), and interest income calculated using the effective interest method (see (i) above) are recognized in profit or loss.

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

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

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

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

The Association designated all investments in equity instruments that are not held for trading as at FVTOCI on initial recognition (See Note 9).

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

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

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

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

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

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

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

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

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

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

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

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

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g., a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor; and
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

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

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

(ii) *Definition of Default*

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

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

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

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

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

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

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

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

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

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

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

In contrast, on derecognition of an investment in an equity instrument which the Association has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss but is transferred to retained earnings.

Financial Liabilities and Equity

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

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

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

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

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

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

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

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

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

Financial Liabilities Measured Subsequently at Amortized Cost
Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

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

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

Prepayments
Prepaid expenses are expenditures paid for in one accounting period, but for which the underlying assets will not be consumed until a future period. When the asset is eventually consumed, it is charged to expense. Prepayments are carried at cost and are amortized on a straight-line basis, over the period of intended usage, which is equal to or less than 12 months or within the normal operating cycle.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and any impairment in value, if any. Such cost includes the cost of replacing part of such furniture, fixtures and office equipment when that cost is incurred, if the recognition criteria are met.

An item of furniture, fixtures and office equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which is five (5) years.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The carrying values of Association's furniture, fixtures and office equipment are reviewed for impairment when changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of Association's furniture, fixtures and office equipment is the greater of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss in the year the asset is derecognized.

Right-of-Use Assets

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

Impairment of Non-Financial Assets

The Association's furniture, fixtures and office equipment and other assets are subject to impairment testing. Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting the market conditions less cost to sell, and value in use, based on an internal evaluation of discounted cash flow. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the previously recognized impairment loss.

Actuarial Policies

Actuarial liabilities (reserves for life policy and members' equity) are computed by the Consulting Actuary of the Association using actuarial practices generally accepted in the Philippines. Actuarial liabilities and other policy liabilities represent the estimated amounts which, together with estimated future premiums and net investment income, will provide for outstanding claims, estimated future benefits, and expenses on in-force policies.

In calculating actuarial liabilities, assumptions must be made about the timing and amount of many events, including death, investment, inflation, policy termination, expenses, taxes, premiums and commissions. The Association uses best estimate assumptions for expected future experience. Uncertainty is inherent in the process, as no one can accurately predict the future. Some assumptions relate to events that are anticipated to occur many years in the future and are likely to require subsequent revision.

Additional provisions are included in the actuarial liabilities to provide for possible adverse deviations from the best estimates. If the assumption is more susceptible to change or if the actuary is less certain about the underlying best estimate assumption, a correspondingly larger provision is included in the actuarial liabilities. In determining these provisions, the Association ensures: (a) when taken one at a time, the provision is reasonable with respect to the underlying best estimate assumption, and the extent of uncertainty present in making that assumption, and (b) in total, the cumulative effect of all provisions is reasonable with respect to the total actuarial liabilities. With the passage of time and resulting reduction in estimation risk, the provisions are released into income. The best estimate assumptions and margins for adverse deviations are reviewed annually and revisions are made where deemed necessary and prudent.

Recording of Claims from Policyholders
Claims incurred comprise settlement and handling costs of paid and outstanding claims arising during the year and adjustments to prior year claim provisions. Outstanding claims comprise claims incurred up to, but not paid, at the end of the year, whether reported or not.

Revaluation Reserves on FVTOCI Investments
The accumulated other comprehensive income account is an equity category comprised of the cumulative amounts of other comprehensive income (OCI). OCI presently comprises the change in the fair value of the investments in FVTOCI.

Revenue and Cost Recognition
The Association's revenue arises primarily from the premium contributions of members and secondarily from investment-related transactions such as investment income, dividend income, interest income and other sources of revenues.

Management has determined that the revenue from premium contributions of members is within the scope of PFRS 4 *Insurance Contracts* while the income from investments in financial instruments are within the scope of PFRS 9 *Financial Instruments*. Income from other sources is within the scope of PFRS 15 *Revenue from Contracts with Customers*.

PFRS 4 defines an insurance contract as a 'contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.' PFRS 4 temporarily exempts the Association from some requirements of other PFRSs until the efficacy of PFRS 17, beginning January 1, 2023. (Per IC Circular Letter No. 218-69, dated December 28, 2018) This Circular was further amended by Circular Letter No. 2020-62, dated May 18, 2020, further extending the implementation of IFRS 17 to January 1, 2025. However, the Standard: (a) prohibits provisions for possible claims under contracts that are not in existence at the reporting date; (b) requires a test for the adequacy of recognized insurance liabilities and an impairment test for reinsurance assets, and (c) requires an insurer to keep insurance liabilities in its balance sheet until they are discharged or cancelled, or expire, and prohibits offsetting insurance liabilities against related reinsurance assets and income or expense from reinsurance contracts against the expense or income from the related insurance contract.

The Association recognizes revenue as follows:

(1) *Premium Contributions*
This represents considerations given by the member in exchange for the promises of the MBA to pay a stipulated sum in the event of a loss covered under the basic benefits indicated in the Internal Rules and Regulations (IRR) of the MBA and/or membership certificates. Under the provisions of PFRS 4, the Association recognizes premium contributions as earned when collected with corresponding

allocation as approved by the Insurance Commission (IC). The proportion of the premiums collected pertaining to periods after reporting date is carried forward to subsequent accounting periods as unearned premiums, so that earned premiums relate to risks carried during the accounting period.

The members' gross premium contributions are allocated as follows:

- 50% goes to the reserve for members' equity, intended for members' entitlements of equity value upon payment of the first contribution to the Association, representing 50% of the total membership dues collected;
- 35% goes to cover basic benefits of members;
- 5% goes to Guaranty Fund; and
- the remaining 10% goes to general operations, to cover administrative costs.

The Association collects its premiums through KFI Center for Community Development Foundation, Inc. (KCCDFI), an affiliate.

(2) *Investments Income*
Income from investments in debt and equity securities are accounted for under PFRS 9. Income from investments held to collect contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realize its fair value changes) are recognized at amortized cost, with interest income recognized at the effective interest rate.

(3) *Non-Insurance Revenues*
The Association recognizes non-insurance revenues in accordance with PFRS 15 *Revenue from Contracts with Customers* at an amount that reflects the consideration to which the Association is expected to be entitled in exchange for transferring goods or services to a customer.

For each contract with a customer, the Association:

(1) Identifies the contract with a customer;
(2) Identifies the performance obligations in the contract;
(3) Determines the transaction price which takes into account estimates of variable consideration and the time value of money;
(4) Allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and
(5) Recognizes revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognized as deferred revenue in the form of a separate refund liability.

(4) *Cost and Expenses*
Costs and expenses are recognized in the statement of profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen which can be measured reliably. Costs and expenses are recognized in the statement of profit or loss: i) on the

basis of a direct association between the cost incurred and the earnings of specific items of income; ii) on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or iii) immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

Insurance-related costs are accounted as follows:

- Changes in the required actuarial and other reserves are recognized as expense during the year.

- Plan benefits and claims paid to members, including refund of members' equity value, are recognized for benefits availed of by members/beneficiaries.

- Collection costs (representing commissions to collecting affiliate) are due and payable for every premium income recognized. Commission rates are based on IC-approved rates.

(5) Grants and Donations
Grants and donations received are valued at fair market value at the time the grants are received.

Compensation and Employees Benefits Expense
Employee benefits are all forms of consideration given by the Association in exchange for services rendered by employees or for the termination of their employments in the Association. The Association recognizes: (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and (b) an expense when the Association consumes the economic benefit arising from the service provided by an employee in exchange for employee benefits.

The following represent the accounting followed by the Association for all types of employee benefits, except share-based payment, to which there is none.

- *Short-Term Employee Benefits*
  Short-term employee benefits are those expected to be settled wholly before twelve months after the end of the annual reporting period during which employee services are rendered, but do not include termination benefits. These benefits include wages, salaries and bonuses (if there are any) and non-monetary benefits paid to current employees. These are recognized when the employee has rendered the service and are measured at the undiscounted amounts of benefits expected to be paid in exchange for that service.

  The benefits also include compensated absences which are recognized for the number of paid leave days (including holiday entitlement) remaining at the reporting date. The expected cost of short-term compensated absences is recognized as the employees render service that increases their entitlement or, in the case of non-accumulating absences, when the absences occur, and includes any additional amounts the Association expects to pay as a result of unused entitlements at end of period. The amounts recognized are included in Trade and Other Payables account in the statement of financial position at undiscounted amount that the Association expects to pay as a result of the unused entitlement.

- *Post-Employment Benefit Plans*
  Post-employment benefit plans that are provided to employees only cover their retirement benefits, which are paid in lump sum payments at the time of their retirements. The retirement benefits are provided to employees through a defined benefit plan. A defined benefit plan is a retirement plan that defines an amount of retirement benefit an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for the benefits of

the retirement plan remains with the Association, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Association's defined benefit retirement plan covers all regular full-time employees.

The Association has not yet computed its retirement benefit obligations at the end of the reporting periods as it considers its retirement liability to be still immaterial considering that the operations of the Association is just less than five years old and just three years under operating status. The Association's work force is considered young. The Board of Trustees is cognizant of the need to provide post-employment benefits to its employees; however, the cost-benefit estimate favors postponement of any action at this time on the issue of the immateriality of the amount involved.

- *Termination Benefits*
  Termination benefits are payable when employment is terminated by the Association before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Association recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than12 months after the statement of financial position date are discounted to present value.

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

Applying PFRS 16, for all leases, the Association: (a) recognizes right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments; (b) recognizes depreciation of right-of-use assets and interest on lease liabilities in profit or loss, and (c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the statement of cash flows. Lease incentives (e.g., rent-free period) are recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under PAS/IAS 17 they resulted in the recognition of a lease incentive, amortized as a reduction of rental expenses generally on a straight-line basis.

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Association uses its incremental borrowing rate. The Association has no borrowings, but it is investing funds. It uses the average rates that its investments in financial instruments are getting as the discounted rate justifying that it becomes the opportunity cost when such investible funds are used to the leases.

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

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

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

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

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

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

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

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

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

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

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

The right-of-use assets and the corresponding lease liability are presented separately in the statement of financial position as required under IC Circular Letter No. 2019-70, dated December 2, 2019.

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

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

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

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

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

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

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Association's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Association's net investment outstanding in respect of the leases.

When a contract includes both lease and non-lease components, the Association applies PFRS 15 to allocate the consideration under the contract to each component.

The Association is not a lessor of properties.

Contingencies
A contingency arises when there is a situation for which the outcome is uncertain, and which should be resolved in the future, possibly creating a loss. The accounting for a contingency is essentially to recognize only those losses that are probable and for which a loss amount can be reasonably estimated. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable. Contingent liabilities are not recognized either, but these are generally disclosed unless the possibility of an outflow of resources is remote.

Provisions and Contingent Liabilities
Provisions, if any, are recognized when the Association has legal or constructive obligations as a result of a past event: it is probable that an outflow of resources will be required to settle the obligation and estimate can be made of the amount obligation. Provisions are recognized when present obligation will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the statement of financial position date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of related provision.

Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate. In those cases where the possible outflow of the economic resources as a result of present obligation is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Probable inflows of economic benefits that do not yet meet the recognition criteria of the asset are considered contingent assets, hence, are not recognized in the financial statements. No contingent liabilities have been incurred during the year.

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

Note 3
Significant Accounting Estimates and Judgments

In applying the Association's accounting policies, which are described in Note 2, *Summary of Significant Accounting Policies*, the management of the Association are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognized and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Business Model Assessment
Classification and measurement of financial assets depends on the results of the SPPI and the business model tests. The Association determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

The Association monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Association's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

Significant Increase in Credit Risk
Expected credit losses (ECL) are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. PFRS 9 does not define what constitutes a significant increase in credit

risk. In assessing whether the credit risk of an asset has significantly increased the Association takes into account qualitative and quantitative reasonable and supportable forward-looking information.

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

Calculation of Loss Allowance
When measuring ECL the Association uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Fair Value Measurements and Valuation Processes
Some of the Association's assets and liabilities are measured at fair value for financial reporting purposes. Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. In estimating the fair value of an asset or a liability, the management uses market-observable data to the extent it is available. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible; but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Estimating Useful Lives of Property and Equipment
The Association reviews annually the estimated useful lives of its property and equipment based on expected asset utilization. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of these properties would increase recorded depreciation and amortization expense and decrease the related asset accounts.

Impairment of Non-Financial Assets
In assessing impairment, management estimates the recoverable amount of each asset based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Retirement Benefits
The determination of the Association's obligation and cost for pension and other employee benefits is dependent on the selection of certain assumptions used by management in calculating such amounts. While the Association believes that the assumptions used are reasonable and appropriate, significant differences in the actual experience or significant changes in assumptions may materially affect employee benefit obligations.

Provisions and Contingencies
Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.

Note 4
Cash and Cash Equivalents

This account consists of the following:

December 31,	**2020**	2019
Petty cash fund	**₱10,000**	₱10,000
Cash in banks	**21,694,830**	2,044,837
Cash equivalents	**4,013,172**	2,850,000
	₱25,718,002	₱4,904,837

The cash in banks earn interest at the prevailing market rates. The cash equivalents represent time deposits in commercial banks with maturity dates ranging from 30 to 60 days but can be withdrawn at any time before maturity. Interest income earned from bank deposits amounted ₱19,065 in 2020 and ₱10,114 in 2019.

Note 5
Receivables from Agents and Others

This account consists of the following:

December 31,	**2020**	2019
Accounts receivable – agents	**₱1,631,609**	₱31,166,033
Advances to officers and employees	**201,102**	166,040
Accrued interest receivable	**4,935**	4,070
Total	**1,837,646**	31,336,143
Less allowance for expected credit losses (ECL)	**258,008**	363,199
Net	**₱1,579,638**	₱30,972,944

Nature of the Receivables
The receivable from agent consists principally of receivables from KFI Center for Community Development Foundation, Inc. (KCCDFI), a micro-finance NGO based in Zamboanga City, whose main office and branches serve as the collecting agents of the Association. The receivables represents actual collections of agents at the end of the year but are subsequently remitted to the Association on a staggered basis. The Association recognizes the delay in the remittances of the agents of its collection of members' contributions, and as agreed, interest at 6% per annum are charged on the unremitted amount. Total interest income earned on the unremitted collections amounted ₱1,221,120 in 2020 and ₱2,195,545 in 2019.

By Age of the Accounts

December 31, 2020	*Current*	*Past Due*	***Total***
Accounts receivable – agents	₱1,631,609	₱–	**₱1,631,609**
Advances to officers and employees	201,102	–	**201,102**
Accrued interest receivable	4,935	–	**4,935**
	₱1,837,646	₱–	**₱1,837,646**
December 31, 2019			
Accounts receivable – agents	₱31,166,033	₱–	**₱31,166,033**
Advances to officers and employees	166,040	–	**166,040**
Accrued interest receivable	4,070	–	**4,070**
	₱31,336,143	₱–	**₱31,336,143**

Allowance for Expected Credit Losses (ECL)
The receivables are provided with 12-month ECL at 1% of principal for current 30 days and 34% for past due less than one year. Accounts past due for over 1 year have been provided with lifetime ECL at 100%.

A reconciliation of the allowance for expected credit losses during the period is presented as follows:

December 31,	**2020**	2019
Opening balances	**₱363,199**	₱363,199
Accounts written-off	**(105,191)**	–
Closing balances	**₱258,008**	₱363,199

No ECL was provided during the year as the existing allowance already covers the required ECL.

The accounts written-off represent the loans that have been uncollected over long periods of time and have been recommended by management for write-off after exhausting all possible collection strategies. The accounts written-off have been approved by the Board of Directors.

Management believes the remaining receivables were not impaired at the end of the year.

Note 6
Details of Prepayments and Other Current Assets

December 31,	**2020**	2019
Unused office supplies	**₱27,583**	₱–
Prepaid taxes and licenses	**–**	55,550
	₱27,583	₱55,550

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

Details of Property and Equipment – Net

December 31,	**2020**	2019
Property and Equipment		
Furniture, fixtures and office equipment	**₱1,044,320**	₱1,018,770
Transportation equipment	**709,000**	709,000
Leasehold improvements	**111,558**	111,558
Total	**1,864,878**	1,839,328
Less accumulated depreciation	**1,353,493**	1,142,397
Net Book Value	**₱511,385**	₱696,931

Reconciliation of the Movements of the Accounts

December 31, 2020	*Opening Balances*	*Additions*	*Retirement*	***Closing Balances***
Cost				
Furniture, fixtures & office equipment	₱1,018,770	₱25,550	₱–	**₱1,044,320**
Transportation equipment	709,000	–	–	**709,000**
Leasehold improvements	111,558	–	–	**111,558**
Total	1,839,328	25,550	–	**1,864,878**

(Carried Forward.)

(Brought Forward.) *December 31, 2020*	*Opening Balances*	*Additions*	*Retirement*	***Closing Balances***
Less accumulated depreciation				
Furniture, fixtures & office equipment	933,661	61,373	–	**995,034**
Transportation equipment	125,033	141,800	–	**266,833**
Leasehold improvements	83,703	7,923	–	**91,626**
Total	1,142,397	211,096	–	**1,353,493**
Net Book Value	₱696,931	(₱185,546)	₱–	**₱511,385**
December 31, 2019				
Cost				
Furniture, fixtures & office equipment	₱953,651	₱65,119	₱–	**₱1,018,770**
Transportation equipment	59,000	650,000	–	**709,000**
Leasehold improvements	111,558	–	–	**111,558**
Total	1,124,209	715,119	–	**1,839,328**
Less accumulated depreciation				
Furniture, fixtures & office equipment	855,240	78,421	–	**933,661**
Transportation equipment	15,733	109,300	–	**125,033**
Leasehold improvements	75,780	7,923	–	**83,703**
Total	946,753	195,644	–	**1,142,397**
Net Book Value	₱177,456	₱519,475	₱–	**₱696,931**

Right-of-Use Assets – Net

This consists of the following:

December 31,	**2020**	2019
Right-of-use asset	**₱1,087,035**	₱1,087,035
Less accumulated depreciation	**246,122**	123,061
Net Book Value	**₱840,913**	₱963,974

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

The Association discounted the future lease payments at 8.50% per annum, the incremental borrowing rate based on an actual offer of a bank for a loan that is collateralized by the investment in financial instruments invested in the same bank. The observable rate was no longer adjusted for credit risk and other factors as management determined that any adjustments are immaterial. Total interest expense amounted ₱84,952 in 2020 and ₱92,398 in 2019.

The Association initially recognized in 2019 the right-of-use asset at ₱1,087,035 and recognized the corresponding lease liability amounting ₱999,433. The depreciation was computed at ₱123,061 both in 2020 and 2019.

Total lease payments (including interest) amounted ₱180,000 both in 2020 and 2019.

Accounting of the Movement of Right-of-Use Assets

December 31, 2020	*Opening Balances*	*Additions*	*Retirement*	***Closing Balances***
Right-of-use asset	₱1,087,035	₱–	₱–	**₱1,087,035**
Less accumulated depreciation	123,061	123,061	–	**246,122**
Net Book Value	₱963,974	(₱123,061)	₱–	**₱840,913**

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

Details of Lease Liability

December 31,	**2020**	2019
Current (portion due for the next 12 months)	**₱103,127**	₱95,048
Non-current (portion due in excess of 12 months, until October 31, 2027)	**801,258**	904,385
Total Lease Liability	**₱904,385**	₱999,433

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

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

Note 8
Investments in Debt and Equity Securities

This account consists of the following investments in:

December 31,	**2020**	2019
Investment in debt securities at amortized cost	**₱74,322,008**	₱63,770,162
Investment in equity securities at FVTOCI	**10,923,806**	10,440,400
	₱85,245,814	₱74,210,562

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

December 31,	**2020**	2019
Treasury Bills		
Land Bank of the Philippines (LBP)	**₱8,607,893**	₱16,438,788
Metropolitan Bank and Trust Company (MBTC)	**14,257,423**	34,126,216
Total	**22,865,316**	50,565,004
Retail Treasury Bonds		
Metropolitan Bank and Trust Company (MBTC)	**26,347,598**	–
Land Bank of the Philippines (LBP) – unrestricted	**8,312,072**	5,005,158
Land Bank of the Philippines (LBP) – restricted	**16,797,022**	8,200,000
Total	**51,456,692**	13,205,158
	₱74,322,008	₱63,770,162

The Association earned interest income from the investments amounting ₱1,721,503 in 2020 and ₱2,579,650 in 2019.

Treasury Bills
Treasury bills represent short-term, zero-coupon investments in quoted government debt securities which are typically issued at a discount on its face value. The treasury bills purchased through LBP will mature on February 10 and May 19, 2021. The treasury bills purchased through MBTC will mature on January 6, April 28, May 19, and June 9, 2020.

The rollforward analysis of this account is as follows:

December 31,	**2020**	2019
Face value	**₱22,914,000**	₱50,754,000
Net discount	**(48,684)**	(188,996)
Carrying Amount	**₱22,865,316**	₱50,565,004

Retail Treasury Bonds
Retail treasury bonds are medium- to long-term, coupon investments in quoted government debt securities which are issued either at a premium or discount on its face value. The retail treasury bonds purchased through LBP have coupon rates ranging from 3.79% to 5.035% that will mature on June 13, 2021 and February 11, 2023. The retail treasury bonds purchased through MBTC have coupon rates ranging from 2.625% to 4.875% that will mature on June 13, 2021, December 4, 2022, February 11, 2023, and August 12, 2025.

The rollforward analysis of the unrestricted account is as follows:

December 31,	**2020**	2019
Face value	**₱51,258,000**	₱5,000,000
Net premium	**198,692**	5,158
Carrying Amount	**₱51,456,692**	₱5,005,158

Restrictions on Investments in Debt Securities
The Association assigns to the Insurance Commission (IC) its investments in debt securities to guaranty the benefits and security of policyholders and creditors of the Association, in accordance with the provisions of The Amended Insurance Code (R.A. No. 10607). The Association assigned retail treasury bonds purchased through LBP with face value of ₱16,780,000 to partially cover the Guaranty Fund of ₱17,029,019. (See Note 13.)

Investment in Equity Securities Accounted at Fair Value through Other Comprehensive Income (FVTOCI)
This consists of Unit Investment Trust Fund (UITF) investments in BPI's Bayanihan Balanced Fund, initially purchased at ₱10 million, with fair value at the end of 2019 amounted ₱10,923,806. The increase in value of the investment, amounting ₱923,806, was recorded in the other comprehensive income for the year.

Note 9
Trade and Other Payables

This account consists of the following:

December 31,	**2020**	2019
Accrued expenses	**₱758,490**	₱866,646
Accrued employees' benefits	**456,733**	294,333
Accounts payable – others	**200,000**	200,000
Unearned premiums	**9,990**	–
	₱1,425,213	₱1,360,979

Trade and other payables are non-interest-bearing and are generally on a 30-day or 60-day credit terms.

Accrued expenses include unpaid commissions to agents; accounts payable – others represents a trust fund payable.

Note 10
Insurance Contract Liabilities

This account consists of the following:

December 31,	**2020**	2019
Incurred but not reported claims	**₱347,416**	₱244,175
Claims due and unpaid	**81,976**	219,337
Claims in the course of settlement	**13,194**	145,369
	₱442,586	₱608,881

Incurred but not reported claims is the sum of individual claims on membership certificates that have already occurred, but notice has not been received by MBA before reporting date. Incurred but not reported claims are claims reported beyond the reporting date whose date of claim happened three months before the reporting date. For 2020, claims reported in the months of November 2020, December 2020 and January 2021 whose date of death/claim is before November 1, 2020 are included in this category.

Incurred but not reported claims is the sum of individual claims of membership certificates that have already occurred, but notice has not been received by MBA before reporting date. These refers to deaths which occurred before December 31, 2020 but were reported after December 31, 2020.

Claims due and unpaid benefits represent claim benefits that have been processed and that the Association recognizes liability on the claims by the member or its beneficiaries. The aggregate liability includes checks payments that are still outstanding at the accounting office for various reasons like returned/staled checks, undelivered checks to addressees either because the addressees changed addresses or refused to accept payment, etc. Claims in the course of settlement are claims reported and unpaid at the end of the year pending submission of documentary requirements. No decision has yet been made whether to deny or to pay the claim. Resisted or denied claims, if any, are claim benefit applications whose benefit payments are being contested/resisted by the Association due to infraction(s) of the Association's Rules and Regulations.
The amount of aggregate reserves for members' equity, reserves for life policies and reserves for credit policies for the years ended December 31, 2020 and 2019, have been computed and certified by the Consulting Actuary of the Association to be in accordance with commonly accepted actuarial standards consistently applied and that the legal policy reserves and other actuarial items are fairly stated in accordance with sound actuarial principles.

Total basic and optional benefits paid to members amounted ₱6,321,465 in 2020 and ₱7,301,806 in 2019.

Note 11
Aggregate Reserves for Unexpired Risks

This consists of the following reserves:

December 31,	**2020**	2019
Aggregate reserves for members' equity	**₱41,942,957**	₱39,959,603
Aggregate reserves for credit policies	**389,615**	488,889
Aggregate reserves for life policies	**175,919**	199,515
	₱42,508,491	₱40,648,007

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

December 31, 2020	*Reserves for Credit Policies*	*Reserves for Members' Equity*	*Reserves for Life Policies*	**Total**
Provisions during 2008	₱–	₱13,562,425	₱–	**₱13,562,425**
Provisions during 2009	608,497	7,044,721	199,282	**7,852,500**
Provisions during 2010	201,500	6,241,570	84,297	**6,527,367**
Provisions during 2011	315,117	5,361,161	(71,374)	**5,604,904**
(Carried Forward.)				
(Brought Forward.)				
Provisions during 2012	(108,107)	5,318,774	8,659	**5,219,326**
Provisions during 2013	(300,315)	4,374,946	(14,421)	**4,060,210**
Provisions during 2014	(251,350)	2,355,337	1,397	**2,105,384**
Provisions during 2015	(142,161)	(146,676)	(37,897)	**(326,734)**
Provisions during 2016	9,256	1,409,321	(14,226)	**1,404,351**
Provisions during 2017	27,268	1,186,534	7,436	**1,221,238**
Provisions during 2018	30,118	(9,714,420)	(13,243)	**(9,697,545)**
Provisions during 2019	99,066	2,965,910	49,605	**3,114,581**
Balances, January 1, 2020	488,889	39,959,603	199,515	**40,648,007**
Provisions during 2020	(99,274)	1,983,354	(23,596)	**1,860,484**
Balances, December 31, 2020	₱389,615	₱41,942,957	₱175,919	**₱42,508,491**

The aggregate policy reserves represents the amount which is considered adequate to cover future guaranteed benefits as they become payable under the provisions of the policies in force. The reserve is the aggregate value of future guaranteed benefits less the present value of future net premiums.

In accordance with the provisions of the Insurance Code, every outstanding membership certificate must have, after three (3) full years of being continuously in force, an equity value to at least 50% of the total membership dues collected from the member less claims paid. The equity is payable to the members upon termination of their membership in the Association. In accordance with the same Code, the Association is required to put up a reserve liability not lower than the equity value of all in-force, active certificates as at the end of each calendar year; hence, the Association sets up the 50% of its gross premium collections as its reserves for members' equity.

The amount of aggregate reserves for members' equity, reserves for life policies and reserves for credit policies for the year ended December 31, 2020 have been computed and certified by the Consulting Actuary of the Association to be in accordance with commonly accepted actuarial standards consistently applied and that the legal policy reserves and other actuarial items are fairly stated in accordance with sound actuarial principles.
In accordance with its policies, those that withdrew their equity and were below the required three (3) full years of being continuously in force were charged with 40% surcharges.

The Association recognized other income on the surrender charges amounting ₱363,676 during 2020 and ₱346,715 during 2019.

Note 12
<u>Retirement Trust Fund</u>

The ₱5.00 contributions for retirement savings fund (See Note 14.) and any interest accruals thereon shall go to the Retirement Savings Account which is intended to finance the retirement obligations in the event of the members' resignation and termination of coverage. The fund incurs interest at 2% per annum.

The cumulative retirement trust fund amounted ₱33,869,159 at the end of 2020 and ₱32,459,277 at the end of 2019. Interest incurred amounted ₱332,258 in 2020 and ₱618,151 in 2019.

The interest income or capital gains net of investment expenses that would be derived from the prudent account management of the Association's funds is allocated to the Investment Income Account which may be distributed to the Equity Account. After satisfying the minimum interest that must be credited to the Equity Account the remaining Investment Account may be allocated to the General Account.

Note 13
Guaranty Fund

This represents the amount required by the Insurance Commission (IC) to be established to guaranty the benefits and security of policyholders and creditors of the Association, in accordance with the provisions of the Insurance Code of the Philippines. The Fund is increased by the 5% contributions from members.

The following is the accounting of the Fund:

December 31,	**2020**	2019
Opening balances	**₱16,283,317**	₱15,357,504
Contribution from members representing 5% of total premiums received	**745,702**	925,813
Closing balances	**₱17,029,019**	₱16,283,317

The Guaranty Fund is funded by the restricted investments in debt securities (see Note 8).

Note 14
Members' Premium Contributions

The Association's members are charged twenty pesos (₱20.00) per week, during their active membership in the Association for basic life insurance (₱15.00) and for retirement savings fund (₱5.00). Total premiums collected are as follows:

Years Ended December 31,	**2020**	2019
Gross members' premium contributions on life	**₱11,529,402**	₱13,547,594
Gross members' premium contributions for credit life policies	**3,384,629**	4,968,656
	₱14,914,031	₱18,516,250

In accordance with the Implementing Rules and Regulations of the Association's Basic Life Insurance Plan approved by the Insurance Commission (IC) on October 29, 2010, the Association disaggregates the members' contributions for basic life insurance of ₱15.00 into the following funds:

(a) 50% for Equity Account which is intended to support the members' equity or termination value and any other promised accrued interest earnings on equity value;

(b) 35% for Benefit Account which is intended to cover contractual benefits in the insurance plan such as death, disability or hospitalization;

(c) 5% for Guaranty Fund which is intended to build-up the guaranty fund as required by the Insurance Commission; and

(d) 10% for General Account which is intended to finance the general administrative costs and expenses in administering the insurance program.

Every outstanding membership certificate must have, after three (3) full years of being continuously in force, an equity value to at least 50% of the total membership dues collected from the member less claims paid. The equity is payable to the members upon termination of their membership in the Association.

Every year, a number of members withdrew their equity from the Association. During 2020 and 2019, the total value of equity withdrawn amounted ₱3,934,414 and ₱4,048,488, respectively. The withdrawal of equity is treated as part of the benefits paid to members.

Membership Fees
The members are also charged with one-time membership fee of ₱50.00, which is non-refundable and does not form part of the members' accumulated and refundable contributions. The membership fee is intended to cover expenses incurred in processing the membership application.

Total membership fees collected amounted ₱242,850 in 2020 and ₱712,350 in 2019.

Note 15
General Fund

This represents portion of the fund balance that is not restricted. In accordance with Section 408, paragraph 3 of the Insurance Code, as amended (R.A. No. 10607), a mutual benefit association shall only maintain free and unassigned surplus of not more than twenty percent (20%) of its total liabilities. Any amount in excess shall be returned to the members by way of dividends, enhancing the equity value or providing benefits in kind and other relevant services. In addition, subject to the approval of the Commissioner, a mutual benefit association may allocate a portion for capacity building and research and development, upgrading and improving operating systems and equipment, and continuing member education.

The Association's General Fund already breached the 20% threshold of its total liabilities at the end of 2020. The Association's management however has not yet assigned the excess surplus but will propose to the Insurance Commission (IC) the establishment of special funds to absorb the excess portion of the Fund.

Note 16
Details of Other Income

Years Ended December 31,	**2020**	2019
Penalties and surcharges	**₱363,676**	₱346,715
Others	**126,644**	30,717
	₱490,320	₱377,432

Note 17
Details of Compensation and Employees' Benefits

Years Ended December 31,	**2020**	2019
Compensation and employees' benefits	**₱3,088,010**	₱3,057,661
Post-employment benefits	**162,400**	135,583
	₱3,250,410	₱3,193,244

The post-employment benefits in 2020 were based on the provisions of R.A. 7641.

The Association's employees have all been hired recently and have not yet accumulated years of service to the Association. The Association has 8 regular employees at the end of 2020.

Note 18
Details of General and Administrative Expenses

Years Ended December 31,	**2020**	2019
Board and management meetings and related expenses	**₱517,597**	₱581,216
Dues and subscriptions	**225,382**	328,718
Coordinators' honorarium and allowances	**209,710**	242,353
Taxes, licenses and fees *(Note 26)*	**182,668**	203,465
Professional fees	**173,136**	338,855
Light and water	**151,039**	156,224
Interest expense on lease liability *(Note 7)*	**84,952**	92,398
Members' expenses	**82,172**	106,373
Materials and supplies	**61,425**	78,378
General assembly expenses	**59,926**	164,178
Repairs and maintenance	**46,660**	23,884
Travel and transportation	**31,060**	36,097
Service fees	**22,404**	40,400
Insurance	**–**	16,337
Miscellaneous	**193,742**	35,443
	₱2,041,873	₱2,444,319

Reclassifications of 2019 Figures

(1) The Board and management meetings and related expenses as originally reported in 2019 have been restated from the amount previously reported in order to present separately the expenses 'Coordinators' honorarium and allowances' and 'General assembly expenses', to conform to the presentation in 2020.

(2) The miscellaneous expenses as originally presented in 2019 has been restated from amount originally reported to separately present the membership enrolment and marketing expenses, amounting ₱227,063, under members' benefits and expenses, as required by the Standard Chart of Accounts (SCA) for MBAs. Members' benefits and expenses represent expenses for marketing, including member mobilization, and production of policy forms and promotional materials, among others.

The foregoing reclassifications did not affect the statement of financial position, the statement of changes in equity and the statement of cash flows.

Note 19
Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Transactions with related parties are made at normal market prices. None of the transactions incorporate special terms and conditions and no guarantee is given or received. Outstanding balances are usually settled in cash.

Significant of these related party transactions are as follows:

1) In the ordinary course of trade or business, the Association accepts insurance business from the members of KFI Center for Community Development Foundation, Inc. (KCCDFI). Total annual gross members' premium contributions for life and credit life policies amounted ₱14,914,031 in 2020 and ₱18,516,250 in 2019. (See Note 14.)

2) The Head Office and branches of KCCDFI act as the collecting agents of the Association for certain collection fees. Total collection costs incurred amounted ₱1,323,939 in 2020 and ₱1,895,102 in 2019.

3) The collecting agent has unremitted collections from Association's members amounting ₱1,631,609 in 2020 and ₱31,166,033 in 2019, of which, interest is charged to the collecting agent for the period the accounts remain unremitted. Total interest earned from the receivables amounted ₱1,221,120 in 2020 and ₱2,195,545 in 2019. (See Note 5.)

4) The key management personnel of the Association include all personnel having a position of General Manager and above. The key management compensation follows:

Years Ended December 31,	**2020**	2019
Compensation and employees' benefits	**₱628,000**	₱548,700
Post-employment benefits	**38,700**	32,250
	₱666,700	₱580,950

Note 20
Fair Value Measurement

Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The following table summarizes the fair value hierarchy of the Association's financial assets and liabilities which are not measured at fair value in the 2020 statement of financial condition but for which fair value is disclosed.

December 31, 2020	*Level 1*	*Level 2*	*Level 3*	***Total***
Financial assets				
Cash and cash equivalents *(Note 4)*	₱25,718,002	₱–	₱–	**₱25,718,002**
Receivable from agents, etc. *(Note 5)*	–	–	1,579,638	**1,579,638**
Invstmnts in debt/equity secu. *(Note 8)*	85,245,814	–	–	**85,245,814**
	₱110,963,816	₱–	₱1,579,638	**₱112,543,454**
Financial liabilities				
Lease liability *(Note 7)*	₱–	₱–	₱904,385	**₱904,385**
Trade and other payables *(Note 9)*	–	–	1,425,213	**1,425,213**
Insurance contract liab. *(Note 10)*	–	–	442,586	**442,586**
Retirement trust fund *(Note 12)*	–	–	33,869,159	**33,869,159**
	₱–	₱–	₱36,641,343	**₱36,641,343**
December 31, 2019				
Financial assets				
Cash and cash equivalents *(Note 4)*	₱4,904,837	₱–	₱–	**₱4,904,837**
Receivable from agents, etc. *(Note 5)*	–	–	30,972,944	**30,972,944**
Invstmnts in debt/equity secu. *(Note 8)*	74,210,562	–	–	**74,210,562**
	₱79,115,399	₱–	₱30,972,944	**₱110,088,343**
Financial liabilities				
Lease liability *(Note 7)*	₱–	₱–	₱999,433	**₱999,433**
Trade and other payables *(Note 9)*	–	–	1,360,979	**1,360,979**
Insurance contract liab. *(Note 10)*	–	–	608,881	**608,881**
Retirement trust fund *(Note 12)*	–	–	32,459,277	**32,459,277**
	₱–	₱–	₱35,428,570	**₱35,428,570**

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

Fair Value Measurement for Non-Financial Assets
The table in the following page shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as of December 31, 2020 and 2019.

December 31, 2020	*Level 1*	*Level 2*	*Level 3*	***Total***
Property and equipment *(Note 7)*	₱–	₱–	₱511,385	**₱511,385**
Right-of-use asset *(Note 7)*			840,913	**840,913**
	₱–	₱–	₱1,352,298	**₱1,352,298**
December 31, 2019				
Property and equipment *(Note 7)*	₱–	₱–	₱696,931	**₱696,931**
Right-of-use asset *(Note 7)*			963,974	**963,974**
	₱–	₱–	₱1,660,905	**₱1,660,905**

The Level 3 fair value of the buildings and improvements included under the Property and Equipment account was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

Note 21
Capital Management Objectives, Policies and Procedures

The Association maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect its members. The level of capital maintained is always aimed to be higher than the minimum capital requirements of the IC. The Association considers the entire equity in determining the capital.

The Association maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect its members. The Association's Board of Trustees reviews regularly its capital structure and considers the cost of capital and the risks associated with each class of capital. Management regularly monitors the capital requirements of the Association, taking account of future balance sheet growth, profitability, and any anticipated regulatory changes, in order to ensure that the Association is at all times able to meet the forecast future minimum capital requirements. The Association's overall strategy remains unchanged from the past year.

Compliance with Capitalization Requirements
In accordance with the provisions of Chapter VII, Title 1, Section 405 of R.A. 10607, *The Amended Insurance Code*, a mutual benefit association incorporated after the effectivity of the Code shall constitute and establish a Guaranty Fund with initial amount of ₱5 million, in cash or in government securities, to answer for any valid benefit claim of any of its members.

The Association has substantially complied with this requirement by having established its Guaranty Fund of ₱17,029,019 (see Note 13) and having funded it with restricted investments in debt securities at the end of 2020, amounting ₱16,780,000 and the balance still co-mingled with the general fund. The Association will increase these deposits at the beginning of the year 2021 to match with the reported Guaranty Fund.

Note 22
Risk Management Objectives and Policies

The Association is exposed to various risks in relation to financial instruments. The Association's principal financial instruments are its cash and cash equivalents (Note 4), receivables from agents and others (Note 5), investments in debt and equity securities (Note 8), trade and other payables (Note 9) and insurance contract liabilities (Note 10). The main types of risks are insurance risk, credit and concentration risks, market risk and liquidity risk. The Association is not exposed to foreign currency risk since it has no foreign currency deposits. In 2020, the Association purchased financial instruments as part of its investment strategies. The Association is now exposed to investment risks beginning 2020.

The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Association's financial performance and financial position. The Association actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties principle.

Risk Management Structure
The Board of Trustees is mainly responsible for the overall risk management and for the approval of risk strategies and principles of the Association. The Board of Trustees also has the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Association's approach to risk issues in order to make relevant decisions.

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

Credit and Concentration Risks/Investment Risk
Credit risk refers to the risk that counterparty will default and/or not honor its financial or contractual obligations resulting in financial losses to the Association. The Association is exposed to credit risk from financial assets including its cash held in banks, trade and other receivables and investments in financial instruments.

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

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

The Association deals only with creditworthy counterparties duly approved by the Board of Trustees. Its maximum exposure to credit risk for the components of the statements of financial position is the carrying amounts as shown in the table in the following page:

December 31, 2020	*Neither Past Due Nor Impaired*	*Past Due But Not Impaired*	*Total*
Cash and cash equivalents *(Note 4)*	₱25,718,002	₱–	**₱25,718,002**
Receivable from agents and others *(Note 5)*	1,579,638	–	**1,579,638**
Investments in debt and equity securities *(Note 8)*	85,245,814	–	**85,245,814**
	₱112,543,454	₱–	**₱112,543,454**
	100.00%	0.00%	**100.00%**
December 31, 2019			
Cash and cash equivalents *(Note 4)*	₱4,904,837	₱–	**₱4,904,837**
Receivable from agents and others *(Note 5)*	30,972,944	–	**30,972,944**
Investments in debt and equity securities *(Note 8)*	74,210,562	–	**74,210,562**
	₱110,088,343	₱–	**₱110,088,343**
	100%	0.00%	**100%**

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

December 31, 2020	*High Grade*	*Standard Grade*	*Impaired*	***Total***
Cash and cash equivalents *(Note 4)*	₱25,718,002	₱–	₱–	**₱25,718,002**
Receivable from agents & others *(Note 5)*	1,579,638	–	–	**1,579,638**
Investments in securities *(Note 8)*	–	85,245,814	–	**85,245,814**
	27,297,640	85,245,814	₱–	**₱112,543,454**
December 31, 2019				
Cash and cash equivalents *(Note 4)*	₱4,904,837	₱–	₱–	**₱4,904,837**
Receivable from agents & others *(Note 5)*	30,972,944	–	–	**30,972,944**
Investments in securities *(Note 8)*	–	74,210,562	–	**74,210,562**
	₱35,877,781	₱74,210,562	₱–	**₱110,088,343**

Financial instruments classified as "high grade" are those cash transacted with reputable local banks and receivables with no history of default on the agreed contract terms. Financial instruments classified as "standard grade" are those receivables from parties who need to be reminded of their duties. No financial assets were deemed by management as impaired.

Market Risks
Market risk is the possibility that changes in equity prices or interest rates will adversely affect the value of the Association's assets, liabilities or expected future cash flows. The Association has no exposure arising from complex investments since it is not engaging in high risk investments, forward contracts, hedging, and the likes, whether local or foreign transactions.

(a) *Price risk.*
The Association has no exposure to price risks as its investments in quoted equity and debt securities are of fixed interest rates.

(b) *Interest rate risk.*
The Association's interest rate risk arises from its time deposits with banks. The Association invested in fixed rate deposits to mitigate the risks.

(c) *Foreign currency exchange rate risk.*
The Association is not exposed to foreign currency risks as it has no assets nor liabilities denominated in foreign currency.

Liquidity Risks
Liquidity risk is that the Association might be unable to meet its obligations. The Association's objectives to manage its liquidity profile are: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs, and (c) to be able to access funding when needed at the least possible cost. The Association manages its liquidity by carefully monitoring its scheduled servicing payments for financial liabilities as well as its cash flows due on its day–to–day business. The data used for analyzing these cash flows is consistent with that used in the contractual maturity analysis in the following table. Net cash requirements are compared to available cash position in order to determine headroom or any shortfalls. This analysis shows that available cash position is expected to be sufficient over the lookout period.

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

Maturity Profile of the Association's Financial Liabilities

December 31, 2020	*Due in One Year*	*Due Over One Year*	***Total***
Lease liability *(Note 7)*	₱103,127	₱801,258	**₱904,385**
Trade and other payables *(Note 9)*	1,425,213	–	**1,425,213**
Insurance contract liabilities *(Note 10)*	442,586	–	**442,586**
Retirement trust fund *(Note 12)*	–	33,869,159	**33,869,159**
	₱1,970,926	₱34,670,417	**₱36,641,343**
	5.38%	94.62%	**100.00%**

Note 23
Commitments and Contingencies

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

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

At the time of the authorization of these financial statements, the Philippine Government continues to implement varying degrees of quarantine protocols nationwide through April 30, 2021, as its effective measures against the spread of the Corona Virus (COVID-19). The country remains under Code Red Sublevel 2 on its code alert system, indicating ongoing local virus transmission with greater numbers of cases than the Government can address.

The Central Government has ordered Metro Manila and the surrounding provinces of Bulacan, Cavite, Laguna, and Rizal to enforce the enhanced community quarantine (ECQ) through April 4, which was extended for another week. Additional localities will enforce the general community quarantine (GCQ), the third-strictest level of curbs from April 1-30. The continuing GCQ in Metro Manila and selected areas nationwide came after reports of a mutated COVID-19 variant emerging from United Kingdom, South Africa and even the variants from Brazil.

The Philippine Government continues to restrict the movements of its citizens who are 17 years old and below, as well those over 65 years. Face-to-face or in-person classes are still suspended; mass gatherings are still prohibited. However, religious gatherings in areas under the GCQ have been allowed up to fifty percent (50%) of the seating capacity.

The Government has begun the safe opening of the economy and transition to the new normal. The management of the risk has been identified as the key to economic recovery. The Philippine National Vaccination Program and Implementation Plan is in place and the vaccination program is expected to start in March 2021 for front liners using the vaccines donated by the WHO and by the Chinese Government.

The Philippines pre-COVID-19 has been enjoying strong economic growth and was considered as one of the fastest growing economies in the Asia, with real GDP growing on average 6.3% over ten years up to 2019. The onset of COVID-19 pandemic brought the country's economy into recession as the country implemented one of the longest lockdowns in the world, where 75% of the economy was shut down.

The shutdown shrank the GDP by 11.5% year on year in the third quarter of 2020 bouncing back with a smaller contraction from the 16.9% in the previous quarter. The GDP growth rate assumption for 2020 had been adjusted to -8.5% to -9.5% while the inflation rate is projected to range from 2.4% to 2.6%. The inflation projection for 2021 and 2022 is retained at 2.0% to 4.0%. Thus, the Government remained hopeful that the economy will see a strong recovery in 2021 as it moves towards full reopening. GDP growth is projected to bounce back to reach 6.5 to 7.5 percent in 2021 and 8 to 10 percent in 2022.

The foregoing paragraphs have been based on the article published in this link:
https://www.flandersinvestmentandtrade.com/export/nieuws/coronavirus-situation-philippines

The Association management has determined that the COVID -19 Pandemic has greatly affected its operations and it has hit hard on the Association's finances. The Pandemic decreased the revenue collection resulting to a negative surplus for 2020. A decrease in membership was also observed because some of the policies of the members have lapsed due to non-payment of contributions and premiums beyond the prescribed 45 days grace period and the extension given due to the implementation of Bayanihan Acts 1 and 2.

The impact on the Association of the COVID-19 Pandemic have been abetted by the following factors:

(a) The implementation of Bayanihan Act 1 precluded the Association from collecting insurance contribution starting the last week of March until May 2020. No insurance premiums were also collected from Credit Life Insurance because the partner MFI has suspended its loan disbursements during this period.

(b) The Association was operating on skeleton workforce.

(c) The implementation of Bayanihan Act 2, which provided the mandatory 60-day grace period of accounts due, resulted to a lower collection rate of insurance contributions from October to December 2020, since our partner MFI cannot enforce collections from members.

(d) Some of the member clients have lost their jobs and businesses resulting to difficulty in paying their loans and insurance contributions.

(e) Interest and investment rates have fallen down to 1% and below.

Management has determined that the impact of the COVID-19 pandemic will continue to be felt in 2021 because of the following factors:

(1) Some of the member clients are still struggling to recover from loss of jobs and businesses.

(2) New membership applications are still low due to limitations on mass gatherings and face-to-face contacts.
(3) The Philippine economy might not be able to recover immediately henceforth interest and investment rates will still be low.

The Association has determined that the impact of COVID-19 will continue to be felt in 2021 and that there have been no adjustments necessary on its 2020 financial statements.

Note 25
Authorization of Financial Statements

The Association's financial statements as of December 31, 2020, and for the year then ended, were authorized for issue by its Executive Committee on April 12, 2021.

Note 26
Details of Taxes, Licenses and Fees

In accordance with the supplementary information required under Revenue Regulations No. 15-2010, the Association discloses the following:

Years Ended December 31,	**2020**	2019
Insurance filing fee and renewal of license	**₱171,700**	₱146,450
Land registration and related fees	**–**	31,212
Documentary stamp	**130**	18,210
Business permits	**6,947**	7,149
Motor vehicle renewal	**3,391**	444
Penalties and surcharges	**500**	–
	₱182,668	₱203,465

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

(Brought Forward.) December 31, 2020	Opening Balances	Additions	Retirement	Closing Balances
Less accumulated depreciation				
Furniture, fixtures & office equipment	933,661	61,373	–	**995,034**
Transportation equipment	125,033	141,800	–	**266,833**
Leasehold improvements	83,703	7,923	–	**91,626**
Total	1,142,397	211,096	–	**1,353,493**
Net Book Value	₱696,931	(₱185,546)	₱–	**₱511,385**
December 31, 2019				
Cost				
Furniture, fixtures & office equipment	₱953,651	₱65,119	₱–	**₱1,018,770**
Transportation equipment	59,000	650,000	–	**709,000**
Leasehold improvements	111,558	–	–	**111,558**
Total	1,124,209	715,119	–	**1,839,328**
Less accumulated depreciation				
Furniture, fixtures & office equipment	855,240	78,421	–	**933,661**
Transportation equipment	15,733	109,300	–	**125,033**
Leasehold improvements	75,780	7,923	–	**83,703**
Total	946,753	195,644	–	**1,142,397**
Net Book Value	₱177,456	₱519,475	₱–	**₱696,931**

Right-of-Use Assets – Net

This consists of the following:

December 31,	**2020**	2019
Right-of-use asset	**₱1,087,035**	₱1,087,035
Less accumulated depreciation	**246,122**	123,061
Net Book Value	**₱840,913**	₱963,974

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

The Association discounted the future lease payments at 8.50% per annum, the incremental borrowing rate based on an actual offer of a bank for a loan that is collateralized by the investment in financial instruments invested in the same bank. The observable rate was no longer adjusted for credit risk and other factors as management determined that any adjustments are immaterial. Total interest expense amounted ₱84,952 in 2020 and ₱92,398 in 2019.

The Association initially recognized in 2019 the right-of-use asset at ₱1,087,035 and recognized the corresponding lease liability amounting ₱999,433. The depreciation was computed at ₱123,061 both in 2020 and 2019.

Total lease payments (including interest) amounted ₱180,000 both in 2020 and 2019.

Accounting of the Movement of Right-of-Use Assets

December 31, 2020	*Opening Balances*	*Additions*	*Retirement*	***Closing Balances***
Right-of-use asset	₱1,087,035	₱–	₱–	**₱1,087,035**
Less accumulated depreciation	123,061	123,061	–	**246,122**
Net Book Value	₱963,974	(₱123,061)	₱–	**₱840,913**

"IF GOD IS WITH US, WHO CAN BE AGAINST US"

-Romans 8:31

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KCCDFI MUTUAL BENEFIT ASSOCIATION, INC.

2nd floor KCCDFI Bldg.
MCLL Highway Guiwan, Zamboanga City, Philippines
Tel. No. 062-990-2429

www.kccdfimba.com