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Financial Statement of

Peoples Bank of Caraga Mutual Benefit Association, Inc.

December 31, 2014 and 2013

And

Report of Independent Auditors

QuilabCabilinBato& Co., CPAs
A member firm of The Leading Edge Alliance

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Peoples Bank of Caraga
Mutual Benefit Association, Inc.

December 31, 2014 and 2013

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Report of Independent Auditors

QuilabCabilinBato& Co., CPAs
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STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Peoples Bank of Caraga – Mutual Benefit Association, Inc. is responsible for the preparation and fair presentation of its financial statements for the years ended December 31, 2014 and 2013, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

Quilab, Cabilin, Bato& Co., CPAs, the independent auditors appointed by the Board of Trustees for the periods December 31, 2014 and 2013, have examined the financial statements of the Association in accordance with Philippine Standards on Auditing, and in their reports to the Board of Trustees, have expressed their opinions on the fairness of presentation upon completion of such examinations.

April 13, 2015, National Highway, Barangay 5, San Francisco, Agusan del Sur, Philippines.

CARMELITA B. BILAOEN
President/Chairman,BoT

LINDA GRACE B. AREVALO
General Manager

ARLENE S. RARO
Treasurer

PEOPLES BANK OF CARAGA – MUTUAL BENEFIT ASSOCIATION, INC.

National Highway, Brgy. 5, San Francisco, Agusandel Sur

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURNS

The management of Peoples Bank of Caraga – Mutual Benefit Association, Inc. is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2014. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited to, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, management affirms that the attached audited financial statements for the year ended December 31, 2014, and the accompanying Annual Income Tax Return are in accordance with the books and records of Peoples Bank of Caraga – Mutual Benefit Association, Inc., complete and correct in all material respects.

Management likewise affirms that:

a) The Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
b) Any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules have been reported as reconciling items and maintained in the MBA's books and records in accordance with the requirements of Revenue Regulation No. 8-2007 and other relevant issuances;
c) The Peoples Bank of Caraga – Mutual Benefit Association, Inc. has filed all applicable returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

April 13, 2015, National Highway, Barangay 5, San Francisco, Agusan del Sur, Philippines.

CARMELITA B. BILAOEN
President/Chairman,BoT

LINDA GRACE B. AREVALO
General Manager

ARLENE S. RARO
Treasurer

QCB & Co

◆ **QUILAB CABILIN BATO & Co**
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◆ Accreditations
SEC No. 0182-FR-1 (Mar. 25, 2016)
BOA/PRC Reg. No. 0250 (Dec. 31, 2017)
CDA CEA No 0015-AF (Mar. 2, 2017)
NEA No. 2013-07-00011 (Jul. 20, 2016)
IC No. F-2014/017 (Oct. 23, 2017)
BSP (Jun. 30, 2016)

REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY INCOME TAX RETURNS

The Board of Trustees and Members
Peoples Bank of Caraga – Mutual Benefit Association, Inc.
National Highway, Barangay 5, San Francisco, Agusandel Sur

We have audited the financial statements of Peoples Bank of Caraga – Mutual Benefit Association, Inc. for the year ended December 31, 2014, on which we have rendered the attached report dated April 13, 2015.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the Chairman of the Board, General Manager or other members of the Board of Trustees of the Association.

QUILAB CABILIN BATO & Co
By:

RICO P. QUILAB
Partner
CPA Cert. No.46034
TIN No. 129-040-841
PRC/BOA Cert. No. 00250 (12.31.2017)
BIR No. 16-005287-002-2012 (2.14.15)
SEC No. 0906-AR-1 (3.25.2016)
IC No. SP-2014/029-R (10.23.17)
PTR No. 2668893A
January 5, 2015
Cagayan de Oro City

April 13, 2015
Cagayan de Oro City, Philippines

QCB & Co

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IC No. F-2014/017 (Oct. 23, 2017)
BSP (Jun. 30, 2016)

REPORT OF INDEPENDENT AUDITORS

The Board of Trustees and Members
Peoples Bank of Caraga – Mutual Benefit Association, Inc.
National Highway, Barangay 5, San Francisco
Agusan del Sur

Report on the Financial Statements

We have audited the accompanying financial statements of Peoples Bank of Caraga – Mutual Benefit Association, Inc. which comprise the statements of financial position as at December 31, 2014 and 2013, and the related statements of profit or loss, changes in fund balances and cash flows for the years then ended, and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes.

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

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Peoples Bank of Caraga – Mutual Benefit Association, Inc. as of December 31, 2014 and 2013, and of its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, license and fees in Note 19 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements, taken as whole.

QUILAB CABILIN BATO & Co
By:

RICO P. QUILAB
Partner
CPA Cert. No.46034
TIN No. 129-040-841
PRC/BOA Cert. No. 00250 (12.31.2017)
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BSP (Jun. 30, 2016)

REPORT OF INDEPENDENT AUDITORS

The Board of Trustees and Members
Peoples Bank of Caraga – Mutual Benefit Association, Inc.
National Highway, Barangay 5, San Francisco
Agusan del Sur

We have audited the accompanying financial statements of Peoples Bank of Caraga – Mutual Benefit Association, Inc. which comprise the statements of financial position as at December 31, 2014 and 2013, and the related statements of profit or loss, changes in fund balances and cash flows for the years then ended, and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes.

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

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Peoples Bank of Caraga – Mutual Benefit Association, Inc. as of December 31, 2014 and 2013, and of its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards.

PTR No. 2668893A
January 5, 2015
Cagayan de Oro City

April 13, 2015
Cagayan de Oro City, Philippines

STATEMENTS OF FINANCIAL POSITION
Peoples Bank of Caraga – Mutual Benefit Association, Inc.

December 31	**2014**	2013
ASSETS		
Cash *(Note 4)*	**₱32,869,361**	₱36,038,885
Receivables from Agents and Others *(Note 5)*	**2,218,844**	1,992,145
Held-to-Maturity-Investment *(Note 6)*	**9,795,207**	2,000,000
Furniture, Fixtures and Office Equipment (net) *(Note7)*	**4,623,034**	1,308,543
	₱49,506,446	₱41,339,573
LIABILITIES AND FUND BALANCES		
Liabilities		
Trade and other payables *(Note 8)*	**₱1,486,380**	₱649,912
Insurance payable *(Note 9)*	**179,318**	540,720
Aggregate reserves for unexpired risks *(Note 10)*	**24,874,558**	19,869,157
Total Liabilities	**26,540,256**	21,059,789
Fund Balances		
Guaranty Fund *(Note 11)*	**8,239,839**	7,525,446
Special Funds (*Note 12*)	**13,641,711**	7,594,420
General Fund *(Note 11)*	**1,084,640**	5,159,918
Total Fund Balances	**22,966,190**	20,279,784
	₱49,506,446	₱41,339,573

See Note to Financial Statements

STATEMENTS OF PROFIT OR LOSS

Peoples Bank of Caraga – Mutual Benefit Association, Inc.

Years Ended December 31	**2014**	2013
REVENUE		
Gross members' premium contributions on life *(Note 13)*	**₱11,552,711**	₱12,418,633
Contributions to Guaranty Fund *(Note 11)*	**(714,393)**	(620,931)
Net premium contributions on life	**10,838,318**	11,797,702
Gross premiumson credit life insurance*(Note 13)*	**2,734,101**	2,743,591
Membership fees *(Note 13)*	**927,000**	1,250,200
Other income	**688,800**	805,407
	15,188,219	16,596,900
BENEFITS AND OPERATING EXPENSES		
Increase in aggregate reserves for unexpired risks *(Note 10)*	**6,452,142**	6,934,915
Gross benefits and claims paid to members	**3,658,195**	4,031,692
Salaries, wages and employees' benefits *(Note 14)*	**1,285,868**	810,445
Collection costs	**778,000**	785,210
General and administrative expenses *(Note 15)*	**773,316**	513,068
Depreciation *(Note 7)*	**268,685**	85,079
	13,216,206	13,160,409
PROFIT FOR THE YEAR	**₱1,972,013**	₱3,436,491

See Note to Financial Statements

STATEMENTS OF CHANGES IN FUND BALANCES

Peoples Bank of Caraga – Mutual Benefit Association, Inc.

December 31	**2014**	2013
GUARANTY FUND		
Opening balance	**₱7,525,446**	₱6,729,337
Contributions during the year	**714,393**	620,931
Adjustment to restate to correct balance *(Note 11)*	**–**	175,178
Closing balance	**8,239,839**	7,525,446
APPROPRIATED SPECIAL FUNDS*(Note 12)*		
Capacity Building Fund	**2,557,821**	1,423,954
Research & Development Fund	**3,410,427**	1,898,604
Upgrading/Improving Operating System Fund	**2,557,821**	1,423,954
Member's Education Fund	**2,557,821**	1,423,954
Mortality Fluctuation Reserve Fund	**2,557,821**	1,423,954
Closing balance	**13,641,711**	7,594,420
GENERAL FUND		
Opening balance	**5,159,918**	9,493,025
Appropriations to Special Funds *(Note 12)*	**(6,047,291)**	(7,594,420)
Adjustment to restate balance of Guaranty Fund *(Note 11)*	**–**	(175,178)
Profit for the year	**1,972,013**	3,436,491
Closing balance	**1,084,640**	5,159,918
	₱22,966,190	₱20,279,783

See Note to Financial Statements

STATEMENTS OF CASH FLOWS

Peoples Bank of Caraga – Mutual Benefit Association, Inc.

Years Ended December 31	**2014**	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	**₱1,972,013**	₱3,436,491
Add (deduct) adjustments for:		
Depreciation *(Note 7)*	**268,685**	85,079
Increase in aggregate reserves for unexpected risks *(Note 10)*	**6,452,142**	6,934,915
Interest income	**(401,525)**	(770,313)
Operating income before changes in working capital	**8,291,315**	9,686,172
Add (deduct) changes in working capital, excluding cash:		
Increase in receivables from agents and others *(Note 5)*	**(226,699)**	(714,740)
Increase (decrease) in insurance payables *(Note 9)*	**(361,402)**	55,092
Increase in trade and other payables *(Note 8)*	**836,468**	621,151
Net cash provided from operations	**8,539,682**	9,647,675
Interest income	**401,525**	770,313
Net Increase in Cash from Operating Activities	**8,941,207**	10,417,988
CASH FLOWS FROM FINANCING ACTIVITIES		
Members' withdrawal of equity *(Note 10)*	**(1,446,741)**	(563,488)
Increase in contributions to Guaranty Fund *(Note 11)*	**714,393**	796,109
Net Cash (Used for) Provided from Financing Activities	**(732,348)**	232,621
CASH FLOWS FOR INVESTING ACTIVITIES		
Increase in furniture, fixtures and office equipment *(Note 7)*	**(3,583,176)**	(1,304,871)
Increase in held to maturity investment *(Note 6)*	**(7,795,207)**	–
Direct adjustments to General Fund *(Note 11)*	**–**	(175,178)
Net Cash Used for Investing Activities	**(11,378,383)**	(1,480,049)
NET (DECREASE) INCREASE IN CASH	**(3,169,524)**	9,170,560
OPENING CASH	**36,038,885**	26,868,325
CLOSING CASH *(Note 4)*	**₱32,869,361**	₱36,038,885

See Notes to Financial Statements.

Note 1
Organization and Tax Exemption

The People Bank of Caraga – Mutual Benefit Association, Inc. (henceforth referred to as "Association") is a mutual benefit association organized by the Peoples Bank of Caraga, Inc. (A Rural Bank) (henceforth referred to as "Bank") for the primary purpose of providing life insurance and other allied services to the Bank's clients. It was registered with the Securities and Exchange Commission (SEC) on September 30, 2008, with Registration Number CS2008 15441 and obtained secondary license from the Insurance Commission (IC) on July 1, 2010 with License No. 2010-25-R. The Association has 39,618 members at the end of 2014.

The Association was organized to: (a) 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 (b) ensure continued access to benefits/resources by actively involving the members in the management of the Association that will include implementation of policies and procedures geared towards sustainability and improved services.

The Association maintains Head Office at the 2nd Floor of PBC Corporate Bldg., Barangay 5, San Francisco, Agusan del Sur. The Head Office and the branches of the Bank 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 all the years presented, unless otherwise stated.

Statement of Compliance
The financial statements have been prepared in accordance with Philippine Financial Reporting Standards.

Basis of Preparation
The accompanying financial statements have been prepared using the historical cost basis. 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 accounting policies used in preparing these financial statements have been consistently applied since the previous year.

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 condition date. These estimates and judgments affect the reported amounts of assets and liabilities and contingent liabilities as at statement of financial condition 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.

Adoption of New and Amended Standards and Interpretations
The following standards have been adopted by the Association for the first time for the financial year beginning on or after 1 January 2014. The nature and impact of each new standard and interpretation adopted by the Association is detailed below. Note however that not all new standards and interpretations impact the Association's financial statements.

- IFRS 10 - *Investment Entities* - Amendments to IFRS 10
  The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss, rather than consolidating them in its consolidated financial statements. Measurement at fair value through profit or loss must also be applied to an investment entity's separate financial statements. The amendments also introduce disclosure requirements for investment entities into IFRS 12 Disclosure of Interests in Other Entities and amend IAS 27 Separate Financial Statements.

  An investment entity is an entity that meets all of the following criteria (the definition):

  - It obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services.
  - It commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
  - It measures and evaluates the performance of substantially all of its investments on a fair value basis.

  In assessing whether it meets the definition an entity is required to consider whether it has the following typical characteristics of an investment entity:

  - It has more than one investment
  - It has more than one investor
  - It has investors are not related parties of the entity
  - It has ownership interests in the form of equity or similar interests.

  Not meeting one or more of the typical characteristics does not preclude an entity from being an investment entity. However, it does indicate that additional judgment is required in determining whether the entity meets the definition of an investment entity. Accordingly, an investment entity that does not meet one or more of the typical characteristics is required to disclose the reasons for concluding that it is nevertheless an investment entity.

  An entity will not be disqualified from qualifying as an investment entity simply because: (a) it provides investment-related services (e.g. investment advisory services, investment management, investment support and administrative services), either directly or through a subsidiary, to third parties as well as to its investors, even if those activities are substantial to the entity. (b) if it provides management services, strategic advice and financial support to an investee, directly or through a subsidiary, but only if these activities are undertaken to maximize the investment return (capital appreciation or investment income) from its investees and do not represent a separate substantial business activity or a separate substantial source of income to the investment entity.

  The amendment did not result in any effect on the Association's financial statements.

- *IAS 32 - Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)*
  The amendments address inconsistencies in current practice when applying the offsetting criteria. They clarify: (a) the meaning of 'currently has a legally enforceable right of set-off', and (b) that some gross settlement systems may be considered equivalent to net settlement.

The amendments are part of the IASB's offsetting project. As part of that project, the IASB also separately issued Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) which is mandatory for periods beginning on or after 1 January 2014.

The amendment did not result in any effect on the Association's financial statements.

- *IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS39*
  The amendments introduce a narrow scope exception that would allow the continuation of hedge accounting under IAS 39 (and IFRS 9) when a derivative is novated, subject to the following criteria: (1) the novation comes as a consequence of laws or regulations (or the introduction of laws or regulations), (2) the parties to the hedging instrument agree that one or more clearing counter parties replace their original counterparty to become the new counterparty of each party, and (3) any changes to the hedging instrument are limited only to those that are necessary to effect such a replacement of the counterparty.

  These changes are limited to those that are consistent with the terms that would be expected if the hedging instrument were originally cleared with the clearing counterparty, and include: (a) changes in collateral requirements, (b) tights to offset receivables and payables balances, and (c) charges levied.

  The amendment did not result in any effect on the Association's financial statements.

- *IAS 36 - Recoverable Amount Disclosures for Non-financial Assets – Amendments to IAS 36*
  The amendments align the disclosures required for the recoverable amount of an asset (or CGU) when this has been determined on the basis of fair value less costs of disposal with those required where the recoverable amount has been determined on the basis of value in use, and require an entity to:

  1) Disclose the recoverable amount of an asset (or CGU) only in periods in which impairment has been recorded or reversed in respect of that asset (or CGU)
  2) Disclose the discount rate when an asset (or CGU) has been impaired (or impairment reversed) where the recoverable amount has been determined based on fair value less costs of disposal using a present value technique
  3) To expand and clarify the disclosure requirements when an assets (CGUs) recoverable amount has been determined on the basis of fair value less disposal, including:
     - The level of the fair value hierarchy1 within which the fair value measurement of the asset (cash-generating unit) is categorized in its entirety (without taking into account whether the 'costs of disposal' are observable)
     - For fair value measurements categorized within Level 21 and Level 31 of the fair value hierarchy, a description of the valuation technique(s) used to measure fair value less costs of disposal. If there has been a change in valuation technique, the entity is required to disclose that change and the reason(s) for making it
     - For fair value measurements categorized within Level 21 and Level 31 of the fair value hierarchy, each key assumption on which management has based its determination off air value less costs of disposal. Key assumptions are those to which the asset's (CGU's)recoverable amount is most sensitive
     - The discount rate(s) used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique.

  The amendment did not result in any effect on the Association's financial statements.

- *IFRIC 21 - Levies*
  IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

A levy is defined as an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/ or regulations), except for:

a) Outflows of resources within the scope of other IFRSs (e.g. income taxes under IAS 12
b) Income Taxes)
c) Fines or other penalties relating to breaches of the legislation.

The following factors do not create or imply the existence of an obligating event:

- Preparation of the financial statements under the going concern principle
- Economic compulsion of the entity.

The recognition of a levy liability occurs progressively so long as the obligating event itself occurs over a period of time.
If the levy is subject to a minimum threshold, recognition of a levy liability occurs only at the point the minimum threshold is breached, and not before

The amendment did not result in any effect on the Association's financial statements.

New and Revised IFRSs in Issue but not yet Effective
The Association has not applied the following new and revised IFRSs that have been issued but are not yet effective:

(a) IFRS 9 - Financial Instruments, which will become effective for annual periods beginning on or after January 1, 2018, with earlier application permitted;
(b) IFRS 15 – Revenue from Contracts with Customers, which will become effective for annual periods beginning on or after January 1, 2017, with earlier application permitted;
(c) Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations, which will become effective for annual periods beginning on or after January 1, 2016, with earlier application permitted;
(d) Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization, which will become effective for annual periods beginning on or after January 1, 2016, with earlier application permitted;
(e) Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants, which will become effective for annual periods beginning on or after January 1, 2016, with earlier application permitted;
(f) Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions, which will become effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

There are no other PFRSs or Philippine Interpretation IFRIC that are not yet effective that would be expected to have a material impact on the financial statements of the Association.

Cash and Cash Equivalents
Cash and cash equivalents comprise cash on hand, deposits with banks and other short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and are subject to an insignificant risk of changes in value and are free of any encumbrances. Cash and cash equivalents are carried in the books at cost. As at December 31, 2014, there are no cash equivalents.

Financial Assets
Financial assets, which are recognized when the Association becomes a party to a contractual term of the financial instrument, include cash and other financial instruments. The Association classifies its financial assets, when available, in the following categories: financial assets at FVTPL, loans and receivables, held-

to-maturity (HTM) investments and available for sale (AFS) securities. The classification depends on the purpose for which the financial assets were acquired.

Management determines the classification of its financial assets at initial recognition. Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Association commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

The Association's financial assets consist only of the following:

- *Loans and Receivables*
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise with the Association provides money, goods and services directly to the debtor with no intention of trading the receivables. Included in this category are financial assets arising from insurance contracts, such as amounts due from policyholders and members of the mutual benefit association, agents and brokers, reinsures and accounts with officers and employees. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

  Receivables from agents and others are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are receivables arising from insurance contracts, such as amounts due from policyholders and members of the mutual benefit association, agents and brokers, and accounts with officers and employees. The receivables are reviewed regularly for impairment and are carried at amortized cost using the effective interest method.

  Loans and receivables are subsequently carried at amortized cost using the effective interest method.

- *HTM Investments*
  This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Association has the positive intention and ability to hold on to maturity. These are mostly investments in fixed treasury notes with maturity of five (5) years, and which management has the express intentions of holding to maturity. Subsequent to initial recognition, HTM investments are measured at amortized costs using effective interest method, less impairment losses, if any. Impairment loss, which is the difference between the carrying value and the present value of estimated cash flows of the investment, is recognized when there is objective evidence that the investment has been impaired. Any changes to the carrying amount of the investment due to impairment are recognized in profit or loss.

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

Impairment of Financial Assets
For assets carried at amortized cost, the Association assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Association may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of profit or loss.

For assets classified as available for sale, the Association assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Association uses the criteria used in assets carried at amortized cost. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss. Impairment losses recognized in the statement of profit or loss on equity instruments are not reversed through the statement of profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of profit or loss.

Financial Liabilities
Financial liabilities include trade and other payables, claims payable and unearned premium contributions, which are measured at amortized cost using effective interest rate method. Financial liabilities are recognized when the Association becomes a party to the contractual agreement of the instrument. All interest and related charges are recognized as an expense in the income statement under the caption Interest Expense.

Trade and other payables are initially recognized at their nominal value and subsequently measured at amortized cost less settlement payments.

Furniture, Fixtures and Office Equipment
Furniture, fixtures and office equipment are stated at cost less accumulated depreciation. 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. Interests incurred on borrowed funds used to finance the construction of properties during the construction period are capitalized. Other borrowing costs are expensed. 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 two (2) to five (5) years.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to income. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits arising from the renovations will flow to the organization.

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.

Impairment of Non-Financial Assets
The carrying values of furniture, fixtures and equipment are subject to impairment testing. All other individual assets are tested for impairment whether events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. The impairment loss is charged to profit and loss. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss. Any amount recovered is recognized in profit and 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/ 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. Reinsurance recoveries, if any, are accounted for in the same period as the related claim.

Income and Cost Recognition
The Association recognizes income and expenses as follows:

(a) Members' premium contributions are recorded as income in the period in which the risk commences. The proportion of the premium contributions written relating to periods of risk after the reporting date is carried forward to subsequent accounting periods as unearned premium contributions so that earned premium contributions relate to risks carried during the accounting period.

(b) Interests earned from Association deposits and investments are carried in the books net of taxes.

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

(d) Cost and expenses are recognized in the income statement upon utilization of the service or at the date they are incurred.

Employee Benefits
The Association does not provide any post-employment benefits to its officers and employees. The Association's employees are provided with the following benefits:

- *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 than 12 months after the statement of financial condition date are discounted to present value.

- *Compensated Absences*
  Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the statement of financial condition date. The amounts recognized are included in Trade and Other Payables account in the statement of financial condition at the undiscounted amount that the Association expects to pay as a result of the unused entitlement.

Leases
The Association determines whether an arrangement is, or contains a lease based on the substance of the arrangements. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys the right to use the asset. The Association accounts for its lease of the office space of the Corporate Office of People's Bank of Caraga as an operating lease.

The Association's lease to the office space does not transfer to the Association all the risks and benefits of ownership of the assets. The Association however is presently enjoying free use of the office space it is occupying. For capitalized leasehold improvements, the Association depreciates the assets over the shorter of the estimated useful lives of the asset or the lease term.

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 condition 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 condition 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 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.

Events After the End of the Reporting Period
Any post year-end events that provide additional information about the Cooperative Bank's financial position at the end of the reporting period (adjusting events), are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed in the notes to financial statements when material.

Note 3
Significant Accounting Judgment and Estimates

The preparation of the financial statements in accordance with PFRS requires the Association to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following critical accounting estimates and judgments may be applicable, among many other possible areas not presented in the Association's financial statements:

Impairment Losses on Insurance Contracts Receivable
The Association reviews its receivable portfolios to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in the statement of income, the Association makes judgment as to whether there is any observable data indicating that there has been measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual account in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors or local economic condition that correlates with defaults on assets in the Association. Management uses estimates based on historical experience and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-Maturity (HTM) Investments
The classification to HTM investment requires significant judgment by management. In making this judgment, the Association evaluates its intention and ability to hold on to such investments until maturity. If the Association fails to keep these investments to maturity other than in certain specific circumstances, for example, selling an insignificant amount close to maturity, it will be required to reclassify the entire portfolio as available-for-sale investments. The investments would therefore be measured at fair value and not at amortized cost.

Estimating Useful Lives of Association Furniture, Fixtures and Office Equipment
The Association reviews annually the estimated useful lives of its furniture, fixtures and office 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.

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

This account consists of the following:

December 31	**2014**	2013
Cash with commercial banks	**₱28,329,934**	₱29,408,269
Cash in Peoples Bank of Caraga, Inc. (A Rural Bank)	**4,537,427**	6,628,616
Petty cash fund	**2,000**	2,000
	₱32,869,361	₱36,038,885

A portion of the cash with commercial banks placed in time deposit with Land Bank of the Philippines, serves as funding for the Association's Guaranty Fund and is restricted from being used for operations *(Note 11)*. The Association assigned about ₱6.7 million of these deposits to the Insurance Commission (IC) for the benefit and security of policyholders and creditors of the Association, in accordance with the provisions of the Insurance Code of the Philippines.

Cash in banks earned annual interest based on the prevailing market rates. Total interest earned amounted ₱308,265 in 2014 and ₱306,823 in 2013.

Note 5
Receivables from Agents and Others

December 31	**2014**	2013
Receivables from agents	**₱1,648,132**	₱1,510,527
Accrued interest receivable	**298,688**	210,196
Amounts recoverable from reinsurance	**248,300**	–
Prepayments	**23,724**	271,422
	₱2,218,844	₱1,992,145

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

Note 6
Held-to-Maturity Investments (Statutory Deposits)

This represents investments inUnsecured Subordinated Notes, placed in a local bank on May 9, 2012, with face value of₱2,000,000, and would mature on May 9, 2022. The note carries interest at 5.875% per annum payable quarterly. Another investment was placed in 2014, with a face value of₱7,926,000, to mature on May 23, 2018.The Association assigned the whole amount to the Insurance Commission (IC) for the benefit and security of policyholders and creditors of the Association, in accordance with the provisions of the Insurance Code of the Philippines.

The Association earned interest income from HTM investments of ₱361,151 in 2014 and₱93,387 in 2013.

Note 7
Furniture, Fixtures and Office Equipment

This consists of the following items which are recorded in the books at costs:

December 31	**2014**	2013
Land	**₱1,429,310**	₱–
Furniture, fixtures and office equipment	**193,145**	133,246
MBA software and computer equipment	**3,377,567**	1,283,600
	5,000,022	1,416,846
Less accumulated depreciation	**376,988**	108,303
	₱4,623,034	₱1,308,543

The reconciliation of the movements of the accounts during 2014 and 2013 follows:

December 31, 2014	*Opening Balances*	*Additions*	*Adjustments*	***Closing Balances***
Cost				
Land	₱–	₱1,429,310	₱–	**₱1,429,310**
Furniture, fixtures and office equipt.	133,246	59,899		**193,145**
MBA software and computer equipt.	1,283,600	2,093,967		**3,377,567**
	1,416,846	3,583,176	–	**5,000,022**
Accumulated Depreciation				
Furniture, fixtures and office equipt.	61,536	62,646	–	**124,182**
MBA software and computer equipt.	46,767	206,039		**252,806**
	108,303	268,685	–	**376,988**
Net Book Value	₱1,308,543	₱3,314,491	₱–	**₱4,623,034**

December 31, 2013	*Opening Balances*	*Additions*	*Adjustments*	***Closing Balances***
Cost				
Furniture, fixtures and office equipt.	₱111,075	₱21,271	₱900	**₱133,246**
MBA software and computer equipt.	–	1,283,600	–	**1,283,600**
	111,075	1,304,871	900	**1,416,846**
Accumulated Depreciation				
Furniture, fixtures and office equipt.	22,324	38,312	900	**61,536**
MBA software and computer equipt.	–	46,767	–	**46,767**
	22,324	85,079	900	**108,303**
Net Book Value	₱88,751	₱683,122	₱–	**₱1,308,543**

Note 8
Trade and Other Payable

This consists of the following:

December 31	**2014**	2013
Others	**₱1,206,380**	**₱89,912**
Accounts payable to RIMANSI	**280,000**	**560,000**
	₱1,486,380	**₱649,912**

Note 9
Insurance Payable

This consists of the following:

December 31	**2014**	2013
Claims incurred but not reported	**₱113,318**	₱288,031
Claim resisted/denied	**48,000**	215,500
Claims in course of settlement	**18,000**	37,189
	₱179,318	₱540,720

Incurred but not reported claims are claims reported beyond the reporting date whose date of claim happened three months before the reporting date. For 2014, claims reported in the months of November 2014, December 2014 and January 2015 whose date of death/claim is before November 1, 2014 are included in this category.

Resisted or denied claims 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.

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.

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. There are no unpaid claims at the end of the year.

The amounts recorded as insurance contract liabilities were certified by the Association's Actuary to be in accordance with sound actuarial principles.

Note 10
Aggregate Reserves for Unexpired Risks

This consists of the following reserves:

December 31	**2014**	2013
Aggregates reserves for members equity	**₱24,240,137**	₱19,022,565
Aggregates reserves for credit life insurance	**454,902**	634,203
Aggregates reserves for life policies	**179,519**	212,389
	₱24,874,558	₱19,869,157

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 reserve for life policies 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.

The reserve for credit life insurance represents the amount which is considered adequate to cover future guaranteed benefits on a debtor pursuant to or in connection with his/her specific loans and other credit transactions with Peoples of Bank of Caraga, Inc.

The amount of aggregate reserves for members' equity, reserves for life policies and reserves for credit policies for the years ended December 31, 2014 and 2013, 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.

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

December 31, 2014	*Opening Balances*	*Provisions*	*Withdrawal*	***Total***
Reserves for members equity	₱19,022,565	₱6,452,142	₱1,234,570	**₱24,240,137**
Reserves for life policies	212,389	–	32,870	**179,519**
Reserves for credit life insurance	634,203	–	179,301	**454,902**
	₱19,869,157	₱6,452,142	₱1,446,741	**₱24,874,558**

Note 11
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, deposited in a local depository bank. (See Note 4.) To comply with the IC requirements, the Association obtained a donation from Peoples Bank of Caraga, Inc, (A Rural Bank) amounting ₱5.8 million. The Fund is increased by the 5% contributions from members.

The following is the accounting of the Fund:

December 31	**2014**	2013
Opening balances	**₱7,525,446**	₱6,729,337
Contribution from members representing 5% of total premiums received	**714,393**	620,931
Additional set up from General Fund	**–**	175,178
Closing balances	**₱8,239,839**	₱7,525,446

In 2013, at the advice of the examiners from the Insurance Commission, management adjusted the balance of the Guaranty Fund by appropriating the amount of ₱175,178 from General Fund to raise the balance of the Guaranty Fund to the computed totals by the IC examiners.

The Guaranty Fund is funded by the following:

December 31	**2014**	2013
HTM investment assigned to the Insurance Commission (IC) *(Note 6)*	**₱9,795,207**	₱2,000,000
Portion of cash in banks and time deposits *(Note 4)*	**–**	5,525,446
	₱9,795,207	₱7,525,446

Note 12
Special Funds

In accordance with the recommendations of the Insurance Commission, the Association's Board of Trustees approved on January 18, 2014, the appropriation of the following special funds from the General Fund:

December 31	**2014**	2013
Capacity Building Fund	**₱2,557,821**	₱1,423,954
Research and Development Fund	**3,410,427**	1,898,604
Upgrading/Improving Operating System Fund	**2,557,821**	1,423,954
Members' Education Fund	**2,557,821**	1,423,954
Mortality Fluctuation Fund	**2,557,821**	1,423,954
	₱13,641,711	₱7,594,420

The appropriated funds are funded by the cash and cash equivalents of the Association.

The movements of the appropriated funds during 2014 and 2013, as follows:

December 31, 2014	*Beg. Balance*	*2014 Allocation of General Funds*	***End Balance***
Capacity Building Fund (15%)	₱1,423,954	₱1,133,867	**₱2,557,821**
Research and Development Fund (20%)	1,898,604	1,511,823	**3,410,427**
Upgrading/Improving Operating System Fund (15%)	1,423,954	1,133,867	**2,557,821**
Members' Education Fund (15%)	1,423,954	1,133,867	**2,557,821**
Mortality Fluctuation Fund (15%)	1,423,954	1,133,867	**2,557,821**
	₱7,594,420	₱6,047,291	**₱13,641,711**

December 31, 2013	*Beg. Balance*	*2013 Allocation of General Funds*	***End Balance***
Capacity Building Fund (15%)	₱–	₱1,423,954	**₱1,423,954**
Research and Development Fund (20%)	–	1,898,604	**1,898,604**
Upgrading/Improving Operating System Fund (15%)	–	1,423,954	**1,423,954**
Members' Education Fund (15%)	–	1,423,954	**1,423,954**
Mortality Fluctuation Fund (15%)	–	1,423,954	**1,423,954**
	₱–	₱7,594,420	**₱7,594,420**

Note 13
Members' Premium Contribution

The Association's members are charged twelve pesos (₱12.00) per week, during their active membership in the Association. In accordance with its Rules and Regulations approved by the Insurance Commission (IC), the Association allocates the contributions as follows:

(a) 50% is allocated as reserve for members' equity intended for the members' entitlements of equity value;
(b) 35% is intended to cover basic benefits such as payments for death or permanent disability claims of a member or its legal spouse, or any of the members' biological and/or legally adopted children who are two weeks old to 18 years old single and must be living with the member. If single without

children, the members' legal dependents include the member's biological parents not more than 75 years. If a member is single and with children, the member's legal dependents are all biological and/or legally adopted children who are two weeks old to 18 years old and must be living with the member;

(c) 5% is intended as additional guaranty fund, and (d) 10% is intended to cover administrative costs and expenses.

The members are also charged with one-time membership fee of ₱200, which is non-refundable and does not form part of the members' accumulated and refundable contributions. The amount is treated as income to finance part of the requirements for general and administrative expenses not covered by the 10% allocation from gross premium contributions.

Gross premiums on credit life insurance are income from loans on member's which are included in the monthly payments of the loans. The amount of contribution is based on the principal amount and term of loans.

The Association's withdrawal of equity amounted to ₱1,446,741 in 2014 and ₱563,488 in 2013.

Note 14
Details of Salaries, Wages and Employees' Benefits

Years Ended December 31	**2014**	2013
Salaries and wages	**₱955,804**	₱623,993
Employees' benefits	**330,064**	186,452
	₱1,285,868	₱810,445

Note 15
Details of Administrative and General Expenses

Years Ended December 31	**2014**	2013
Taxes, licenses and fees *(Note 21)*	**₱304,251**	₱17,819
Rent	**109,000**	36,000
Association dues	**97,448**	40,000
Professional fees	**68,040**	67,464
Promotions and networking	**54,772**	45,702
Communication	**48,372**	19,589
Annual General Assembly expense	**41,675**	29,300
Seminars and trainings	**26,500**	15,900
Transportation and travel	**10,724**	42,081
Stationeries and supplies	**5,028**	90,480
Insurance	**1,556**	104,277
Fuel and lubrication	**–**	2,201
Miscellaneous	**5,950**	2,255
	₱773,316	₱513,068

Note 16
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:

a. In the ordinary course of trade or business, the Association accepts insurance business from the borrowers of Peoples Bank of Caraga, Inc. (A Rural Bank). Total annual gross members' premium contributions amounted ₱14,286,812 in 2014 and ₱12,418,633 in 2013.

b. The Bank's Main Office and branches also act as the collecting agents of the Association with certain percentage as commission. Total service fees incurred amounted ₱778,001 in 2014 and ₱ 785,210in 2013.

c. 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	**2014**	2013
Salaries and wages	**₱176,984**	₱623,993
Employees' benefits	**31,016**	232,155
	₱208,000	₱856,148

Note 17
Risk Management Objectives and Policies

The Association is exposed to a variety of risks in performing its activities. Its risk management is coordinated by its Board of Trustees. It is principally exposed to insurance risk, the risk that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. Management addresses this issue by ceding portion of the risks to reinsurers.

The Association is also exposed to a variety of financial risks. Its strategy focuses principally on securing short to medium term cash flows by minimizing exposures to financial markets. The Association does not actively engage in the trading of financial assets nor does it write options. It has no significant exposure to foreign currency risks as most transactions are denominated in Philippine peso, its functional currency. It likewise has little exposure to interest rate risk as its investments and deposits have fixed interest rates. Its exposure to credit risk is limited to the carrying amount of financial assets recognized at the statement of financial position date. Among these assets, the potential effect of losses from its HTM financial assets is significantly reduced by placing the investments in safer time deposits with a local Government bank.

As at December 31, 2014, the Association's financial assets are composed of the following:

December 31, 2014	*Neither Past Due Nor Impaired*	*Past Due But Not Impaired*	*Total*
Cash	₱32,869,361	₱–	**₱32,869,361**
Receivables from agents and others	2,218,844	–	**2,218,844**
	₱35,088,205	₱–	**₱35,088,205**

The Association is likewise exposed to liquidity or funding risk, the risk that it will encounter difficulty in raising funds to meet commitments associated with financial instruments. It may result from either the inability to sell financial assets quickly at their fair values; or the counterparty failing to repay a contractual obligation; or insurance liabilities falling due for payment earlier than expected; or inability to generate cash inflows as anticipated. Management addresses this issue by maintaining its available cash resources in demand deposits or time deposits that can be pre-terminated anytime and in such volume as to ensure that it meets its obligations on time.

Maturity Analysis of Assets and Liabilities

December 31, 2014	*Within One Year*	*Beyond One Year*	***Total***
Financial Assets			
Cash	₱32,869,361		**₱32,869,361**
Receivable from agents and others	2,218,844		**2,218,844**
HTM investments	–	₱9,795,207	**9,795,207**
Nonfinancial Assets			
Furniture, fixtures and office equipment	–	4,623,034	**4,623,034**
Total Assets	35,088,205	14,418,241	**49,506,446**
Financial Liabilities			
Aggregate reserves for life policies		24,874,558	**24,874,558**
Insurance payables	179,318	–	**179,318**
Other liabilities	1,486,380	–	**1,486,380**
Total Liabilities	₱1,665,698	₱24,874,558	**₱26,540,256**

December 31, 2013	*Within One Year*	*Beyond One Year*	***Total***
Financial Assets			
Cash	₱36,038,885		**₱36,038,885**
Receivable from agents and others	1,992,145		**1,992,145**
HTM investments	–	₱2,000,000	**2,000,000**
Nonfinancial Assets			
Furniture, fixtures and office equipment	–	1,308,543	**1,308,543**
Total Assets	38,031,030	1,308,543	**41,339,573**
Financial Liabilities			
Aggregate reserves for life policies		19,869,157	**19,869,157**
Insurance payables	540,720	–	**540,720**
Other liabilities	649,912	–	**649,912**
Total Liabilities	₱1,190,632	₱540,720	**₱21,059,789**

Note 18
Capital Management Objectives, Policies and Procedures

The Association maintains a certain level of equity to ensure sufficient solvency margins and to adequately protect its members. The Association's Board of Trustees reviews regularly its equity structure and considers the cost and the risks associated with each class of equity. The level of equity maintained is usually higher than the minimum reserve requirements set by the Insurance Commission (IC).Management regularly monitors the reserve 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 reserve requirements.Management's strategy includes maintaining its cash and investments in local government banks.

Note 19
Events After Reporting Date

There were no events after reporting date that would require disclosures or adjustments on the financial statements of the Association.

Note 20
Approval of Financial Statements

The Association's financial statements as of December 31, 2014 and for the year then ended, were authorized for issue by its Executive Committee on April 13, 2015.

Note 21
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	**2014**	2013
Withholding taxes on compensation	**₱52,506**	₱33,464

Details of Taxes and Licenses		
License renewal and filing fees	**₱158,517**	
Local taxes/fees (business permits, etc)	**145,734**	
	₱304,251	