# *CCT Mutual Benefit Association, Inc.*

(A non-stock, non-profit association)

**Financial Statements**
**As at and for the years ended December 31, 2022 and 2021**

pwc

Isla Lipana & Co.

Isla Lipana & Co.

## Independent Auditor's Report

To the Board of Trustees of
**CCT Mutual Benefit Association, Inc.**
(A non-stock, non-profit association)
5th Floor, Echelon Tower
2100 A. Mabini St.
Malate, Manila

### Report on the Audits of the Financial Statements

#### *Our Qualified Opinion on the 2022 Financial Statements*

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of CCT Mutual Benefit Association, Inc. (the "Association") as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards ("PFRSs").

*What we have audited*

The financial statements of the Association comprise:

- the statement of assets, liabilities and fund balance as at December 31, 2022;
- the statement of total comprehensive income for the year ended December 31, 2022;
- the statement of changes in fund balance for the year ended December 31, 2022;
- the statement of cash flows for the year ended December 31, 2022; and
- the notes to the financial statements, which include a summary of significant accounting policies.

#### *Basis for Qualified Opinion*

As discussed in Note 1 to the financial statements, in 2022, the Association piloted its option benefit product and the same was approved by the Insurance Commission (IC) on January 3, 2023. Accordingly, the premiums received on the product sold to the members of the Association before the date of approval is reclassified as part of liabilities in the statement of assets, liabilities and fund balance as shown in Note 7 to the financial statements. The Association awaits reconciliation with regulatory matters and fees that the IC may decide in its discretion. The 2022 financial statements did not include any adjustments resulting from this reconciliation.

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



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***Our Opinion on the 2021 Financial Statements***

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with PFRSs.

*What we have audited*

The financial statements of the Association comprise:

- the statement of assets, liabilities and fund balance as at December 31, 2021;
- the statement of total comprehensive income for the year ended December 31, 2021;
- the statement of changes in fund balance for the year ended December 31, 2021;
- the statement of cash flows for the year ended December 31, 2021; and
- the notes to the financial statements, which include a summary of significant accounting policies.

***Basis for Opinion***

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

*Independence*

We are independent of the Association in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

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

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

***Auditor's 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 auditor's 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 auditor's 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 auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

## Report on the Bureau of Internal Revenue Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information under Revenue Regulations Nos. 15-2010 and 34-2020 in Note 20 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 supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Isla Lipana & Co.**

John-John Patrick V. Lim
Partner
CPA Cert. No. 83389
P.T.R. No. 0007706; issued on January 9, 2023 at Makati City
SEC A.N. (individual) as general auditors 83389-SEC , Category A; valid to audit 2022 to 2026 financial statements
SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024 financial statements
T.I.N. 112-071-386
BIR A.N. 08-000745-017-2021, issued on November 23, 2021; effective until November 22, 2024
BOA/PRC Reg. No. 0142, effective until November 14, 2025

Makati City
July 17, 2023

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COLLECTION SECTION

Isla Lipana & Co.

Statement Required by Section 8-A, Revenue Regulations No. V-1

To the Board of Trustees of
**CCT Mutual Benefit Association, Inc.**
(A non-stock, non-profit association)
5th Floor, Echelon Tower
2100 A. Mabini St.
Malate, Manila

None of the partners of the firm has any financial interest in CCT Mutual Benefit Association, Inc. or any family relationships with its president, general manager or trustees.

The supplementary information on taxes and licenses is presented in Note 20 to the financial statements.

**Isla Lipana & Co.**

John-John Patrick V. Lim
Partner
CPA Cert. No. 83389
P.T.R. No. 0007706; issued on January 9, 2023 at Makati City
SEC A.N. (individual) as general auditors 83389-SEC , Category A; valid to audit 2022 to 2026 financial statements
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Makati City
July 17, 2023

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**CCT Mutual Benefit Association, Inc.**
(A non-stock, non-profit association)

Statements of Assets, Liabilities and Fund Balance
As at December 31, 2022 and 2021
(All amounts in Philippine Peso)

| | Notes | 2022 | 2021 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 2 | 125,450,433 | 56,175,213 |
| Short-term investments | 3 | 48,096,463 | 102,852,753 |
| Receivables | 4 | 3,798,175 | 9,481,856 |
| Due from related ministries | 14 | - | 5,487,734 |
| Guaranty deposit | 5 | | |
| Financial asset at fair value through profit or loss (FVTPL) | | 2,732,135 | 2,772,804 |
| Held-to-maturity (HTM) investment | | 5,000,000 | - |
| Certificate of time deposits | | 8,309,614 | 13,309,614 |
| Property and equipment, net | 6 | 1,066,955 | 1,440,087 |
| Intangible asset-in-progress | 6 | 1,843,000 | 1,175,000 |
| Other asset | | 257,034 | 257,034 |
| Total assets | | 196,553,809 | 192,952,095 |
| **LIABILITIES AND FUND BALANCE** | | | |
| Accrued expenses and other liabilities | 7 | 33,985,152 | 8,544,416 |
| Due to related ministries | 14 | 1,026,908 | - |
| Claims and benefits payable | 8 | 399,633 | 320,177 |
| Legal policy reserves | 8 | - | 811,660 |
| Reserve for refund of members' equity | 9 | 89,562,444 | 89,735,777 |
| Retirement savings fund | 10 | 35,365,475 | 35,434,808 |
| Retirement benefit obligation | 11 | 911,874 | 1,058,903 |
| Total liabilities | | 161,251,486 | 135,905,741 |
| Retained surplus | | | |
| Appropriated | 12 | 35,555,065 | 40,361,825 |
| Unappropriated | 12 | - | 17,253,408 |
| Accumulated other comprehensive loss | 11 | (252,742) | (568,879) |
| Total fund balance | | 35,302,323 | 57,046,354 |
| Total liabilities and fund balance | | 196,553,809 | 192,952,095 |

(The notes on pages 1 to 30 are integral part of these financial statements.)

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**CCT Mutual Benefit Association, Inc.**
(A non-stock, non-profit association)

Statements of Total Comprehensive Income
For the years ended December 31, 2022 and 2021
(All amounts in Philippine Peso)

| | Notes | 2022 | 2021 |
|---|---|---|---|
| REVENUES | | | |
| Members' premium contributions | | 3,239,473 | 30,272,617 |
| Membership fees | | 144,400 | 2,132,230 |
| Donations and grants | | 174,600 | 165,000 |
| Investment and other income | 2,3,5 | 1,410,041 | 747,306 |
| Total revenues | | 4,968,514 | 33,317,153 |
| BENEFITS AND CLAIMS EXPENSES | | | |
| Death and other policy benefits | 8 | 1,604,796 | 12,813,037 |
| Allocation for liability on members' equity value | 7,9 | 1,614,962 | 15,139,071 |
| Collection fees | 14 | 112,431 | 49,271 |
| Membership enrollment and marketing | | 5,625,370 | 1,700,362 |
| Research and development | | 260,625 | - |
| Other members' expenses | | - | 534,898 |
| Total benefit and claims expenses | | 9,218,184 | 30,236,639 |
| (DEFICIENCY) EXCESS OF REVENUE OVER BENEFITS | | (4,249,670) | 3,080,514 |
| GENERAL AND ADMINISTRATIVE EXPENSES | 13 | 17,810,498 | 4,256,411 |
| DEFICIENCY OF REVENUE OVER EXPENSES FOR THE YEAR | | (22,060,168) | (1,175,897) |
| OTHER COMPREHENSIVE INCOME | | | |
| Item that will not be reclassified to profit or loss | | | |
| Remeasurement gain on retirement benefit obligation | 11 | 316,137 | 84,846 |
| TOTAL COMPREHENSIVE LOSS FOR THE YEAR | | (21,744,031) | (1,091,051) |

(The notes on pages 1 to 30 are integral part of these financial statements.)

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**CCT Mutual Benefit Association, Inc.**
(A non-stock, non-profit association)

Statements of Changes in Fund Balance
For the years ended December 31, 2022 and 2021
(All amounts in Philippine Peso)

| | Retained surplus (Note 12) | | | Accumulated other comprehensive loss (Note 11) | |
|---|---|---|---|---|---|
| | Appropriated | Unappropriated | Total | | Total |
| Balances at January 1, 2021 | 30,049,615 | 28,741,515 | 58,791,130 | (653,725) | 58,137,405 |
| Comprehensive (loss) income | | | | | |
| Deficiency of revenue over expenses for the year | - | (1,175,897) | (1,175,897) | - | (1,175,897) |
| Other comprehensive gain | - | - | - | 84,846 | 84,846 |
| Total comprehensive loss for the year | - | (1,175,897) | (1,175,897) | 84,846 | (1,091,051) |
| Transactions with owners | | | | | |
| Appropriation of retained surplus | 12,050,608 | (12,050,608) | - | - | - |
| Release of appropriated surplus | (1,738,398) | 1,738,398 | - | - | - |
| Total transactions with owners | 10,312,210 | (10,312,210) | - | - | - |
| Balances at December 31, 2021 | 40,361,825 | 17,253,408 | 57,615,233 | (568,879) | 57,046,354 |
| Comprehensive (loss) income | | | | | |
| Deficiency of revenue over expenses for the year | - | (22,060,168) | (22,060,168) | | (22,060,168) |
| Other comprehensive income | - | - | - | 316,137 | 316,137 |
| Total comprehensive loss for the year | - | (22,060,168) | (22,060,168) | 316,137 | (21,744,031) |
| Transactions with owners | | | | | |
| Appropriation of retained surplus | 161,974 | (161,974) | - | - | - |
| Release of appropriated surplus | (4,968,734) | 4,968,734 | - | - | - |
| Total transactions with owners | (4,806,760) | 4,806,760 | - | - | - |
| Balance at December 31, 2022 | 35,555,065 | - | 35,555,065 | (252,742) | 35,302,323 |

(The notes on pages 1 to 30 are integral part of these financial statements.)

**CCT Mutual Benefit Association, Inc.**
(A non-stock, non-profit association)

Statements of Cash Flows
For the years ended December 31, 2022 and 2021
(All amounts in Philippine Peso)

| | Notes | 2022 | 2021 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Deficiency of revenue over expenses for the year | | (22,060,168) | (1,175,897) |
| Adjustments for: | | | |
| Change in legal policy reserves | 8 | (811,660) | 43,860 |
| Change in incurred but not reported claims | 8 | 79,456 | 71,177 |
| Change in advance members' contributions | 7 | (2,043,281) | 674,627 |
| Retirement benefit expense | 11 | 169,108 | 153,673 |
| Depreciation | 6 | 373,132 | 242,202 |
| Unrealized fair value loss on FVTPL | 5 | 56,526 | - |
| Interest income | 2,3,5 | (1,064,942) | (594,665) |
| Deficiency of revenue over expenses before working capital changes | | (25,301,829) | (585,023) |
| Changes in working capital | | | |
| Decrease in: | | | |
| Receivables | | 5,683,682 | 6,131,932 |
| Due from related ministries | | 5,487,734 | 1,578,675 |
| Increase (decrease) in: | | | |
| Reserve for refund of members' equity | | (173,333) | 10,751,509 |
| Retirement savings fund | | (69,333) | 4,269,026 |
| Accrued expenses and other liabilities | | 27,484,016 | (7,476,959) |
| Due to related ministries | | 1,026,908 | - |
| Claims and benefits payable | | - | (160,000) |
| Cash generated from operations | | 14,137,845 | 14,509,160 |
| Interest received | 2,3,5 | 1,064,942 | 594,665 |
| Net cash from operating activities | | 15,202,787 | 15,103,825 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Decrease (increase) in short-term investments | | 59,756,290 | (74,464,354) |
| Acquisition of | | | |
| Property and equipment and Intangible asset in progress | 6 | (668,000) | (2,661,750) |
| Guaranty deposit | 5 | | |
| Financial asset at FVTPL | | (2,788,661) | (2,772,804) |
| HTM investment | | (5,000,000) | - |
| Proceeds from disposal of financial asset at FVTPL | 5 | 2,772,804 | - |
| Net cash from (used in) investing activities | | 54,072,433 | (79,898,908) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 69,275,220 | (64,795,083) |
| CASH AND CASH EQUIVALENTS | | | |
| January 1 | | 56,175,213 | 120,970,296 |
| December 31 | 2 | 125,450,433 | 56,175,213 |
| Non-cash operating activities | 7,8 | | |

(The notes on pages 1 to 30 are integral part of these financial statements.)

**CCT Mutual Benefit Association, Inc.**
(A non-stock, non-profit Association)

Notes to Financial Statements
As at and for the years ended December 31, 2022 and 2021
(All amounts are shown in Philippine Peso unless otherwise stated)

## Note 1 - General information

CCT Mutual Benefit Association, Inc., (the "Association") was registered with the Securities and Exchange Commission (SEC) as a non-stock, non-profit association on October 6, 2016 with SEC Registration No. CN201623341. The Association was incorporated 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.

In 2016, the Insurance Commission (IC) granted the Association a license to transact business as a mutual benefit association (MBA) which is valid until December 31, 2018. The Association commenced with its MBA operations in February 2017. On February 6, 2019, the IC approved the renewal of the Association's license as a MBA, which is valid until December 31, 2021. On December 3, 2021, the IC approved the renewal of the Association's license as a MBA, which is valid until December 31, 2024.

As a non-stock, not-for-profit entity, the Association is exempt from paying income taxes as set forth in Section 30 (C) of the National Internal Revenue Code.

As at December 31, 2022, the Association has 12 (2021 - 5) employees.

The Association's registered office address is 5th Floor, Echelon Tower, 2100 A. Mabini St., Malate, Manila.

In 2022, the Association piloted its option benefit product and the same was approved by the IC on January 3, 2023. The Association is awaiting reconciliation with regulatory matters and fees that the IC may decide in its discretion.

The accompanying financial statements were approved and authorized for issue on July 10, 2023 by the Association's Board of Trustees (BOT). There are no material events that occurred from July 10, 2023 to July 17, 2023.

## Note 2 - Cash and cash equivalents

Details of the account as at December 31 consist of:

| | 2022 | 2021 |
|---|---|---|
| Cash on hand | 50,000 | 20,000 |
| Cash in banks | 50,803,748 | 37,152,373 |
| Time deposits | 74,596,685 | 19,002,840 |
| | 125,450,433 | 56,175,213 |

Cash in banks earn interest at the prevailing bank deposit rate of .0625% per annum in 2022 and 2021. Interest income earned from cash in banks amounts to P29,547 for the year ended December 31, 2022 (2021 - P43,276).

Time deposits as at December 31, 2022 have an average maturity of 33 days (2021 - 60 days) and earn interest ranging from 0.25% to 3.25% (2021 - 0.60% to 0.25%). Interest income earned from time deposits amounts to P594,656 for the year ended December 31, 2022 (2021 - P45,242).

Cash and cash equivalents are classified as current assets.

## Note 3 - Short-term investments

This account represents placements in time deposits amounting to P48.1 million at December 31, 2022 (2021 - P102.9 million) with a term of 91 to 182 days (2021 - 91 to 182 days) and earns interest ranging from 0.40% to 0.525% per annum (2021 - 0.40% to 0.66%). For the year ended December 31, 2022, interest income earned from short-term investments amounts to P270,347 (2021 - P307,232).

Short-term investments are classified as current assets.

## Note 4 - Receivables

Details of the account at December 31 follow:

| | 2022 | 2021 |
|---|---|---|
| Members' contributions due and uncollected | 450 | 6,865,160 |
| Accrued income | 50,424 | 50,424 |
| Advances and other receivables | 3,747,301 | 2,566,272 |
| | 3,798,175 | 9,481,856 |

The members of the Association contribute on a weekly basis. Any member who fails to pay the weekly contribution shall be given a grace period of 45 days from the date of default of contributions. When the grace period lapses, it can be reinstated within three (3) years from the date the policy lapsed, provided that the equity value has not been surrendered. Otherwise, the membership is cancelled. The reinstatement requires payment of at least one weekly contribution in arrears.

Advances and other receivables mainly include advances to employees which are paid through salary deduction. Accrued income pertains to interest earned from time deposits which are yet to be received.

No allowance for impairment is provided on these receivables as the accounts are deemed to be fully collectible.

All receivables are classified as current assets.

## Note 5 - Guaranty deposit

This account pertains to the Association's guaranty fund in compliance with the licensure requirement of the IC following Section 408 of Republic Act No. 10607, an Act Strengthening the Insurance Industry, Further Amending Presidential Decree No. 612, otherwise known as "The Insurance Code" (the "amended Code"). The amended Code, which was approved on August 15, 2013, provides that no mutual benefit association shall be issued a license to operate as such unless it has constituted and established a guaranty fund with an initial amount of P5,000,000 to answer for any valid claim of any of its members.

Every year, thereafter, under Insurance Memorandum Circular No. 9-2006, all microinsurance MBAs must increase their guaranty fund by an amount equivalent to five percent (5%) of their gross premium collections until the amount of guaranty fund shall reach P62,500,000 or twelve and a half percent (12.5%) of the required capital for domestic life insurance companies of P500,000,000. The Association has P16,041,749 total guaranty deposit in 2022 (2021 - P16,082,418). Of the total guaranty deposit, P8,309,614 (2021 - P13,309,614) is in a five-year time deposit certificate placed in a local bank while P2,732,135 and P5,000,000 (2021 - P2,772,804 and nil), as recommended by the IC, are placed with government securities designated and measured at fair value through profit or loss and as HTM investment, respectively.

The movement in financial assets through FTVPL as at December 31 is as follows:

| | 2022 | 2021 |
|---|---|---|
| January 1 | 2,772,804 | - |
| Additions | 2,788,661 | 2,772,804 |
| Disposals | (2,772,804) | - |
| Fair value adjustment | (56,526) | - |
| December 31 | 2,732,135 | 2,772,804 |

Fair value adjustment is part of investment and other income in the statement of total comprehensive income.

As at December 31, 2022, guaranty deposits earn interest at the prevailing average bank deposit rate per annum of 2.336% (2021 - 1.375%). Interest income earned amounts to P170,392 for the year ended December 31, 2022 (2021 - P198,915).

On May 23, 2023, the BOT approved the appropriation of P161,974 for 2022 and further deposit together with the 2021 appropriated amount of P1,513,631 to fully comply with the guaranty fund requirement of the Insurance Commission.

The certificate of time deposit component of guaranty deposit is classified as a non-current asset. The financial asset at fair value through profit or loss and HTM investment are classified as current assets.

## Note 6 - Property and equipment, net; Intangible asset-in-progress

*Property and equipment, net*

Details of the account at December 31 follow:

| | Computer equipment | Furniture and fixtures | Transportation equipment | Total |
|---|---|---|---|---|
| Cost | | | | |
| At January 1, 2021 | 364,400 | 485,900 | - | 850,300 |
| Additions | 103,500 | 58,250 | 1,325,000 | 1,486,750 |
| At December 31, 2021 | 467,900 | 544,150 | 1,325,000 | 2,337,050 |
| At December 31, 2022 | 467,900 | 544,150 | 1,325,000 | 2,337,050 |
| Accumulated depreciation | | | | |
| At January 1, 2021 | 272,177 | 382,584 | - | 654,761 |
| Depreciation | 102,528 | 117,591 | 22,083 | 242,202 |
| At December 31, 2021 | 374,705 | 500,175 | 22,083 | 896,963 |
| Depreciation | 76,748 | 31,384 | 265,000 | 373,132 |
| At December 31, 2022 | 451,453 | 531,559 | 287,083 | 1,270,095 |
| Net book value | | | | |
| At December 31, 2021 | 93,195 | 43,975 | 1,302,917 | 1,440,087 |
| At December 31, 2022 | 16,447 | 12,591 | 1,037,917 | 1,066,955 |

Depreciation for the year is presented as part of general and administrative expenses in the statement of total comprehensive income (Note 13).

*Intangible asset-in-progress*

As at December 31, 2021, the Association paid P1,175,000 for a software relating to the CCT MBA Insurance System which is expected to be completed and used in 2023. In 2022, the Association paid an additional amount of P668,000 for the intangible asset in progress.

## Note 7 - Accrued expenses and other liabilities

Details of the account at December 31 follow:

| | 2022 | 2021 |
|---|---|---|
| Premium received in advance | 30,098,465 | - |
| Accrued expenses | 1,074,868 | 963,711 |
| Payable to government agencies | 67,571 | 77,655 |
| Accrued members' equity value allocation | - | 3,432,355 |
| Advance members' contributions | - | 2,043,281 |
| Other liabilities | 2,744,248 | 2,027,414 |
| | 33,985,152 | 8,544,416 |

Premium received in advance pertains to contributions received for optional benefits on the new Basic Life Insurance Plan (BLIP). This is subject to any regulatory matters of compliance and fees which the Association awaits reconciliation that the IC may decide in its discretion. The 2022 financial statements did not include any adjustments resulting from this reconciliation.

Accrued expenses pertain to accrual of various expenses such as professional and membership fees.

Payable to government agencies consist of withholding taxes, SSS, PhilHealth and HDMF payable.

Other liabilities mainly pertain to refunds to members made by the branches on behalf of the Association, which are to be reimbursed from the latter upon completion of the necessary requirements.

Accrued expenses and other liabilities are classified as current liabilities.

Accrued members' equity value allocation and advance members' contributions in 2021 pertain to the old BLIP product. There is no existing in-force policy as at the December 31, 2022 reporting date.

The movement in advance members' contributions is accounted for as a non-cash transaction in the statement of cash flows.

**Note 8 - Insurance contract liabilities**

The reconciliation of the Association's claims and benefits payable and legal policy reserves as at December 31 is as follows:

| | Claims and benefits payable | | | Legal policy | |
|---|---|---|---|---|---|
| 2022 | Actual | IBNR | Total | reserves | Total |
| January 1 | - | 320,177 | 320,177 | 811,660 | 1,131,837 |
| Claims expense/provision during the year | 2,337,000 | 79,456 | 2,416,456 | (811,660) | 1,604,796 |
| Claims paid | (2,337,000) | - | (2,337,000) | - | (2,337,000) |
| December 31 | - | 399,633 | 399,633 | - | 399,633 |

| | Claims and benefits payable | | | Legal policy | |
|---|---|---|---|---|---|
| 2021 | Actual | IBNR | Total | reserves | Total |
| January 1 | 160,000 | 249,000 | 409,000 | 767,800 | 1,176,800 |
| Claims expense/provision during the year | 12,698,000 | 71,177 | 12,769,177 | 43,860 | 12,813,037 |
| Claims paid | (12,858,000) | - | (12,858,000) | - | (12,858,000) |
| December 31 | - | 320,177 | 320,177 | 811,660 | 1,131,837 |

*Claims and benefits payable*

Claims and benefits payable include claims on insurance contracts filed or reported to the Association but not yet paid and claims incurred but not yet reported (IBNR) as at reporting date.

*Legal policy reserves*

Legal policy reserves represent the total actuarial reserve for basic life benefit policies in force as at December 31, 2021.

On December 28, 2016, pursuant to Sections 216 and 423 of the amended Code, the IC promulgated the new Valuation Standards for Life Insurance Policy Reserves under Circular Letter (CL) 2016-66, which changed the valuation standards to gross premium valuation with effective date beginning January 1, 2017. However, the IC issued Advisory No. 6-2018, prescribing the deferral of the implementation date of CL 2016-66 until such time the IC issues a new Financial Reporting Framework ("FRF") for MBAs.

The movements in legal policy reserves and IBNR provisions are accounted for as non-cash transactions in the statement of cash flows.

As at December 31, 2022, there is no remaining and existing in-force policy for the basic life insurance product as it is replaced by the new BLIP approved on January 3, 2023.

## Note 9 - Reserve for refund of members' equity

A member shall be entitled to a members' equity value (MEV) equal to at least 50% of the total gross life insurance contributions paid, as required under the amended Code. Interest shall be credited to the equity value annually at a rate determined by the BOT but in no case less than the prevailing savings account interest rate of the top three (3) commercial banks, provided the Association earns a net surplus at the end of reporting period. The MEV, inclusive of interest thereon, is payable upon termination of membership from the Association including, but not limited to, death or total and permanent disability, or upon reaching the termination age of 65 years old.

Movements in the reserve for refund of members' equity as at December 31 follow:

| | 2022 | 2021 |
|---|---|---|
| January 1 | 89,735,777 | 78,984,268 |
| Contributions during the year | 5,052,092 | 18,629,112 |
| Refunds during the year | (5,225,425) | (7,877,603) |
| December 31 | 89,562,444 | 89,735,777 |

No interest is distributed to members in 2022 and 2021.

Reserve for refund of members' equity is classified as a non-current liability.

## Note 10 - Retirement savings fund

A portion of the contributions made by a member is credited to the retirement savings fund (RSF). Interest shall be credited at a rate to be determined by the BOT but in no case less than the prevailing savings account interest rate of the top three (3) commercial banks, provided the Association earns a net surplus at the end of reporting period. The RSF, inclusive of interest thereon, is payable upon termination of membership from the Association including, but not limited to, death or total and permanent disability, or upon reaching the termination age of 65 years old.

Movements in RSF as at December 31 follow:

| | 2022 | 2021 |
|---|---|---|
| January 1 | 35,434,808 | 31,165,782 |
| Contributions during the year | 2,020,837 | 7,451,645 |
| Refunds during the year | (2,090,170) | (3,182,619) |
| December 31 | 35,365,475 | 35,434,808 |

No interest is distributed to members in 2022 and 2021.

Retirement savings fund is classified as a non-current liability.

## Note 11 - Retirement benefit obligation

Under the provisions of Republic Act No. 7641, retirement date is at age 60 and upon completion of at least 5 years of credited service. At that date, employees are entitled to retirement pay equivalent to one-half month's salary for every year of service. The Association engaged an independent third party, Actuarial Exponents, Inc., to perform the retirement benefit obligation valuation.

The term "one-half month salary" includes the following:

- Fifteen-day salary;
- Cash equivalent of not more than 5 days of service incentive leaves; and
- One-twelfth of the 13th month pay (where the 13th month pay is the total basic salary for the last 12 months of the service divided by 12).

The retirement benefit amounts recognized as at and for the years ended December 31 are as follows:

| | 2022 | 2021 |
|---|---|---|
| Statement of assets, liabilities and fund balance | | |
| Retirement benefit obligation | 911,874 | 1,058,903 |
| Remeasurement loss on retirement benefit obligation | (252,742) | (568,879) |
| Statement of total comprehensive income | | |
| Retirement benefit expense | 169,108 | 153,673 |
| Other comprehensive income | 316,137 | 84,846 |

Retirement benefit expense is presented as part of general and administrative expenses in the statement of total comprehensive income (Note 13).

Remeasurement gain on retirement benefit obligation is presented as part of accumulated other comprehensive loss in the statement of statement of assets, liabilities, and fund balance.

The movements in the retirement benefit obligation for the years ended December 31 are as follows:

| | 2022 | 2021 |
|---|---|---|
| At January 1 | 1,058,903 | 990,076 |
| Retirement benefit expense | | |
| Current service cost | 116,269 | 117,139 |
| Interest cost | 52,839 | 36,534 |
| Remeasurement gain | (316,137) | (84,846) |
| At December 31 | 911,874 | 1,058,903 |

The movements in remeasurement gain (loss) recognized in accumulated other comprehensive loss at December 31 follow:

| | 2022 | 2021 |
|---|---|---|
| At January 1 | (568,879) | (653,725) |
| Remeasurement | | |
| Change in financial assumptions | 323,872 | 233,055 |
| Experience adjustments | (7,735) | (148,209) |
| At December 31 | (252,742) | (568,879) |

The principal actuarial assumptions used for the years ended December 31 are as follows:

| | 2022 | 2021 |
|---|---|---|
| Discount rate | 7.14% | 4.99% |
| Future salary increases | 5.00% | 5.00% |

*Discount rate*

The discount rate is determined by reference to market yields at the end of the reporting period based on high quality corporate bonds with currency and term similar to the estimated term of the benefit obligation. There is no deep market in high quality corporate bonds in the Philippines and therefore, the Association used as reference the yields on long-term Philippine Treasury Bonds and adjusted to reflect the term similar to the estimated term of the benefit obligation as determined by the actuary.

*Future salary increases*

This is the expected long-term average rate of salary increase taking into account inflation, seniority, promotion and other market factors. Salary increases comprise of the general inflationary increases plus a further increase for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period over which benefits are expected to be paid.

*Demographic assumptions*

Assumptions regarding mortality experience are set based on published statistics and experience in the Philippines.

The retirement benefit plan typically exposes the Association to a number of risks such as interest rate risk and salary risk. The most significant risk relates to interest rate risk. A decrease in the government bond yields will increase the defined benefit obligation. Hence, the present value of retirement benefit obligation is directly affected by the discount rate to be applied by the Association.

The expected future retirement benefit payments as at December 31 are as follows:

| | 2022 | 2021 |
|---|---|---|
| More than 10 years | 9,686,967 | 7,132,911 |

The sensitivity of the retirement benefit obligation to changes in the weighted principal assumptions as at December 31 follows:

| | Impact on retirement benefit obligation | | |
|---|---|---|---|
| 2022 | Change in assumption | Increase in assumption | Decrease in assumption |
| Discount rate | +/- 1.0% | (116,980) | 136,700 |
| Salary increase rate | +/- 1.0% | 138,401 | (120,523) |

| | Impact on retirement benefit obligation | | |
|---|---|---|---|
| 2021 | Change in assumption | Increase in assumption | Decrease in assumption |
| Discount rate | +/- 1.0% | (147,392) | 174,663 |
| Salary increase rate | +/- 1.0% | 172,743 | (148,783) |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the retirement benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement benefit obligation recognized within the statement of assets, liabilities and fund balance.

## Note 12 - Retained surplus

As at January 1, 2021, the Association, has total appropriated amounting to P30,049,615. These appropriations are intended for the following purposes:

- Systems development and trainings;
- Guaranty fund as required by IC;

- Increment benefit to individual equity value;
- Other members' benefit related to system upgrade and office equipment acquisition;
- Community development for trainings and calamity;
- Education and training for members;
- Other members' benefit related to medical assistance; and
- Community development for calamity

In 2021, total appropriations made by the Association amounted to P12,050,608 with the details shown below:

- P1.5 million allocation for additional guaranty fund requirement for 2021 (Note 5) which will take effect in the third quarter of 2022;
- P10.5 million allocation for the 2020 beginning guaranty fund not yet assigned as recommended by the IC 2020 results of verification.

During the same year, the Association released appropriations amounting to P1,738,398.

In 2022, the Association appropriated additional guaranty fund requirement amounting to P161,974. The Association also released P4,968,734 appropriations from systems and development trainings to an unappropriated retained earnings.

Management will continue to evaluate the need to declare dividends after considering the regulatory capital requirements of the IC on fixed capitalization and RBC requirements. Approval of the BOT will be requested as appropriate.

The amended Code provides that a mutual benefit association shall only maintain free and unassigned surplus of not more than twenty percent (20%) of its total liabilities as verified by the Insurance Commissioner. Excess amount shall be returned to the members by way of dividends, enhancing the equity value or providing benefits in kind and other relevant services. The Association is in compliance with this provision.

## Note 13 - General and administrative expenses

Details of the account for the years ended December 31 follow:

| | Notes | 2022 | 2021 |
|---|---|---|---|
| Provision for members' claims | | 12,240,000 | - |
| Salaries, wages and benefits | | 1,831,462 | 1,053,810 |
| Professional fees | | 1,763,416 | 1,621,810 |
| Utilities expense | | 520,233 | 410,349 |
| Depreciation | 6 | 373,132 | 242,202 |
| Retirement benefit expense | 11 | 169,108 | 153,673 |
| Meetings and conferences | | 114,117 | 91,659 |
| Supplies | | 77,746 | 65,308 |
| Repairs and maintenance | | 67,120 | 32,981 |
| Taxes and licenses | | 65,370 | 149,711 |
| Penalties and surcharges | | 59,250 | 39,000 |
| Transportation and travel | | 27,075 | 31,383 |
| Dues and subscriptions | | 10,000 | 70,000 |
| Termination fee | | - | 30,699 |
| Miscellaneous expense | | 492,469 | 263,826 |
| | | 17,810,498 | 4,256,411 |

Provision for members' claims pertains to payment of members' claims for the new product sold in 2022.

**Note 14 - Related ministry transactions**

The table below summarizes the Association's transactions and balances with its related ministries.

*As at and for the year ended December 31, 2022*

| | Transactions | Outstanding balances [Due from (to) related ministries] | Terms and conditions |
|---|---|---|---|
| Ministries under common control | | | |
| Unremitted collections [a] | 335,563 | 29,788,514 | - Unguaranteed and unsecured<br>- Non-interest bearing<br>- Collectible in cash at net amount |
| Collection fees [a] | (112,431) | - | - Unguaranteed and unsecured<br>- Non-interest bearing<br>- Payable in cash at net amount |
| Advances and transfers [b] | (6,850,205) | (30,815,422) | - Unguaranteed and unsecured<br>- Non-interest bearing<br>- Payable in cash at net amount |
| | | (1,026,908) | |

*As at and for the year ended December 31, 2021*

| | Transactions | Outstanding balances [Due from (to) related ministries] | Terms and conditions |
|---|---|---|---|
| Ministries under common control | | | |
| Unremitted collections [a] | 14,521,840 | 29,452,951 | - Unguaranteed and unsecured<br>- Non-interest bearing<br>- Collectible in cash at net amount |
| Collection fees [a] | (49,271) | - | - Unguaranteed and unsecured<br>- Non-interest bearing<br>- Payable in cash at net amount |
| Advances and transfers [b] | (16,100,515) | (23,965,217) | - Unguaranteed and unsecured<br>- Non-interest bearing<br>- Payable in cash at net amount |
| | | 5,487,734 | |

a) The Association's related ministries collect premium contributions from members on behalf of the Association and remit such to the latter at the end of every month. In consideration thereof, the Association pays the related ministries a service fee based on the total amount of collections.

b) The related ministries pay the approved claims to the members on behalf of the Association upon approval of the Benefits Review Committee. The Association then makes advances and transfers to related ministries for working capital requirements and to pay approved claims due to members.

c) There is no key management compensation for 2022 and 2021.

## Note 15 - Fair value determination

*Financial assets and liabilities not measured at fair value*

The following table provides information about the fair values of the Association's financial assets and liabilities, which are not measured at fair value in the statement of assets, liabilities and fund balance.

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| **Assets** | | | | |
| Cash and cash equivalents | 125,450,433 | 125,450,433 | 56,175,213 | 56,175,213 |
| Short-term investment | 48,096,463 | 48,096,463 | 102,852,753 | 102,852,753 |
| Receivables | 3,798,175 | 3,798,175 | 9,481,856 | 9,481,856 |
| Due from related ministries | - | - | 5,487,734 | 5,487,734 |
| Guaranty deposit | | | | |
| Certificate of time deposit | 8,309,614 | 8,309,614 | 13,309,614 | 13,309,614 |
| HTM investment | 5,000,000 | 5,000,000 | - | - |
| | 190,654,685 | 190,654,685 | 187,307,170 | 187,307,170 |
| **Liabilities** | | | | |
| Accrued expenses and other liabilities | 3,819,116 | 3,819,116 | 6,423,480 | 6,423,480 |
| Due to related ministries | 1,026,908 | 1,026,908 | - | - |
| Claims and benefits payable | 399,633 | 399,633 | 320,177 | 320,177 |
| Reserve for refund of members' equity | 89,562,444 | 89,562,444 | 89,735,777 | 89,735,777 |
| Retirement savings fund | 35,365,475 | 35,365,475 | 35,434,808 | 35,434,808 |
| | 130,173,576 | 130,173,576 | 131,914,242 | 131,914,242 |

Accrued expenses and other liabilities exclude premium received in advance, advance members' contributions and payable to government agencies.

*Financial asset measured at fair value*

The following table as at December 31 provides information about the fair value of the Association's financial asset, which is measured at fair value in the statement of assets, liabilities and fund balance.

2022

| | Carrying value | Level 1 | Level 2 | Level 3 | Total Fair value |
|---|---|---|---|---|---|
| Guaranty deposit | | | | | |
| Financial asset at fair value through profit or loss | 2,732,135 | 2,732,135 | - | - | 2,732,135 |

2021

| | Carrying value | Level 1 | Level 2 | Level 3 | Total Fair value |
|---|---|---|---|---|---|
| Guaranty deposit | | | | | |
| Financial asset at fair value through profit or loss | 2,772,804 | 2,772,804 | - | - | 2,772,804 |

The fair value of debt security under Level 1 of the fair value hierarchy is determined by reference to quoted market bid prices, at the close of business reporting date, or the last reporting date.

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

## Note 16 - Insurance and financial risk management objectives and policies

The primary objective of the Association's financial risk management framework is to protect the Association's members from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. The Association recognizes the critical importance of having efficient and effective risk management systems in place.

The Association has established a risk management function with reference from the Board of Trustees and its management. This is supplemented with a clear organizational structure. The Association also established a Benefits Review Committee (BRC), a body responsible to recommend the payment of benefits to the members.

The operations of the Association are subject to the regulatory requirements of the IC. The IC is primarily interested in protecting the rights of the members and in monitoring the Association closely to ensure that the Association is satisfactorily managing its affairs for its members' benefit. At the same time, the IC is also interested in ensuring that the Association maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

### Note 16.1 - Insurance risk

The principal risk the Association faces under insurance contracts is that the actual claims and benefit payments or timing thereof differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid that 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 main insurance risks the Association is exposed to are:

- Mortality risk - risk of loss arising due to member death experience being different than expected.
- Morbidity risk - risk of loss arising due to member health experience being different than expected.
- Longevity risk - risk of loss arising due to annuitant living longer than expected.
- Expense risk - risk of loss arising from returns being different from expected.
- Member decision risk - risk of loss arising due to member experiences being different than expected.

The Association's basic life insurance policy (BLIP), represented by Certificate of Membership (COM), entitles a member to life insurance with accidental death benefits, total and permanent disabilities, and dismemberment coverage.

The increase in the overall frequency of claims is mainly due to widespread changes in lifestyle and pre-existing conditions of death, resulting in earlier or more claims than expected.

The Association manages its insurance risk by ensuring that it generates lasting returns from its financial assets, so that it will be able to fund its obligation arising from its insurance contracts. The Association also closely monitors its assets and liabilities to attempt to match the expected pattern of claim payments with the maturity dates of its assets.

The Association does not have significant exposure or any major concentration of risk to any member.

The Association's policy reserve in 2021 is sensitive to death and health development experience of its members. The uncertainty in the estimation process is not possible to quantify. The Association considers it impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding these estimates. As at December 31, 2022, there is no remaining and existing in-force policy for the basic life insurance product which was replaced by the new product approved on January 3, 2023.

### Note 16.2 - Financial risk

The Association is exposed to a financial risk through its financial assets and financial liabilities. In particular, the key financial risk that the Association is exposed to is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts.

Safety of principal is the foremost objective of the investment program. Investment shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. The Association does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The financial risks to which the Association is exposed to include credit risk, liquidity risk, and market risk.

**Note 16.2.1 - Credit risk**

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Association.

The Association minimizes its credit risk by:

- limiting the investment to those allowed by the IC or as approved by the Insurance Commissioner;
- pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisers with which the Association will do business; and
- defining the membership requirements and verifying that the member has met satisfactorily the set requirements.

All active members of the Association shall be bound by its implementing Rules and Regulations from time of implementation.

The maximum credit risk exposure of the Association's financial assets at December 31, which is equal to the carrying amounts in the statement of assets, liabilities and fund balance, is shown below:

| | 2022 | 2021 |
|---|---|---|
| Cash and cash equivalents (excluding cash on hand) | 125,400,433 | 56,155,213 |
| Short-term investment | 48,096,463 | 102,852,753 |
| Receivables | 3,798,175 | 9,481,856 |
| Due from related ministries | - | 5,487,734 |
| Guaranty deposit | | |
| Financial asset at FVTPL | 2,732,135 | 2,772,804 |
| HTM investment | 5,000,000 | - |
| Certificate of time deposit | 8,309,614 | 13,309,614 |
| | 193,336,820 | 190,059,974 |

Cash in banks and short-term investment are held in banks that qualify as universal banks to minimize credit risk exposure. Universal banks, as defined by the Philippine Banking System, represent the largest single group, resource-wise, of financial institutions in the country that have good credit ratings.

Receivables pertain to receivables from members, employees and officers which are short-term and non-interest bearing. Contributions from members are collected on a weekly basis and a grace period of 45 days is provided to members in case of default in the weekly contributions. Advances to employees and officers are paid mainly through salary deduction in accordance with the Association's policy.

The Association does not perceive any significant credit risk exposure arising from related party transactions and balances. Due from related ministries consist of unremitted premium contributions from members collected by the related ministries on behalf of the Association (Note 14).

The certificate of time deposit component of guaranty deposit is placed in a local bank with a good credit rating without any history of default. The Association's financial assets at fair value through profit or loss and HTM investment are debt securities issued by the Philippine government and have an average credit rating of stable investment grade (Baa2) by Moody's. The guaranty deposit is established to comply with the requirement of the IC to answer for any valid claim of any of its members.

All of the financial assets of the Association are neither past due nor impaired as at December 31, 2022 and 2021. No history of default or write-offs noted for both 2022 and 2021.

**Note 16.2.2 - Liquidity risk**

Liquidity risk is the risk that the Association is unable to meet its financial obligations when due.

Prudent liquidity risk management implies maintaining sufficient cash ensuring the availability of funding through an adequate amount of committed credit. This is important to ensure that the Association can meet all present and future financial obligations as they fall due and comply with contractual obligations.

The table below presents the maturity profile of the Association's financial assets and obligations based on undiscounted cash flows, which it uses to manage the inherent liquidity risk. The analysis into maturity groupings is after the reporting period and until contractual maturity date or, if earlier, the expected date the financial liability will be settled.

| | 2022 | | |
|---|---|---|---|
| | Up to 1 year | 1 to 5 years | Total |
| **Assets** | | | |
| Cash and cash equivalents | 125,450,433 | - | 125,450,433 |
| Short-term investments | 48,096,463 | - | 48,096,463 |
| Receivables | 3,798,175 | - | 3,798,175 |
| Due from related ministries | - | - | - |
| Guaranty deposit | | | |
| Financial assets at FVTPL | 2,732,135 | - | 2,732,135 |
| HTM investment | 5,000,000 | - | 5,000,000 |
| Certificate of time deposit | - | 8,309,614 | 8,309,614 |
| | 185,077,206 | 8,309,614 | 193,386,820 |
| **Liabilities** | | | |
| Accrued expenses and other liabilities* | 3,819,116 | - | 3,819,116 |
| Legal policy reserves | - | - | - |
| Claims and benefits payable | 399,633 | - | 399,633 |
| Reserve for refund of member's equity | - | 89,562,443 | 89,562,443 |
| Retirement savings fund | - | 35,365,475 | 35,365,475 |
| | 4,218,749 | 124,927,918 | 129,146,667 |

**Excluding premium received in advance and payable to government agencies amounting to P30,166,036.*

| | 2021 | | |
|---|---|---|---|
| | Up to 1 year | 1 to 5 years | Total |
| **Assets** | | | |
| Cash and cash equivalents | 56,175,213 | - | 56,175,213 |
| Short-term investments | 102,852,753 | - | 102,852,753 |
| Receivables | 9,481,856 | - | 9,481,856 |
| Due from related ministries | 5,487,734 | - | 5,487,734 |
| Guaranty deposit | | | |
| Financial assets at fair value through profit or loss | 2,772,804 | - | 2,772,804 |
| HTM investment | - | - | - |
| Certificate of time deposit | - | 13,309,614 | 13,309,614 |
| | 176,770,360 | 13,309,614 | 190,079,974 |
| **Liabilities** | | | |
| Accrued expenses and other liabilities* | 6,423,480 | - | 6,423,480 |
| Legal policy reserves | - | 811,660 | 811,660 |
| Claims and benefits payable | 320,177 | - | 320,177 |
| Reserve for refund of member's equity | - | 90,184,456 | 90,184,456 |
| Retirement savings fund | - | 35,611,982 | 35,611,982 |
| | 6,743,657 | 126,608,098 | 133,351,755 |

**Excluding advance members' contributions and payable to government agencies amounting to P2,120,936.*

It is unusual for an association primarily transacting an insurance business to predict the requirements of funding with absolute certainty as the theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are thus based on management's best estimate based on statistical techniques and past experience.

## Note 16.2.3 - Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk includes foreign currency risk, interest rate and other price risks. The Association has no financial assets and liabilities that are exposed to foreign currency risk and other price risks.

*Interest rate risk*

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

The Association takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may also result in losses in the event that unexpected movements arise. The Association's investment portfolio is exposed to market risk depending on the nature of underlying securities. For example, a bond fund which is comprised mainly of debt securities are primarily exposed to interest rate risk, while an equity fund is exposed to price risk.

The Association's government securities at FVTPL bear fixed interest rates, thus, subject to fair value interest rate risk. The sensitivity analysis below is performed by the Association for reasonable possible shift of 100 basis points in interest rates, with all other variables held constant, considering the impact on fair value changes on financial assets at FVTPL in the statement of total comprehensive income:

| | 2022 | 2021 |
|---|---|---|
| +100 basis points | decrease by P14,116 | decrease by P19,776 |
| -100 basis points | increase by P14,260 | increase by P20,559 |

## Note 17 - Capital management and regulatory requirements

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

The Association manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Association's activities. In order to maintain or adjust the capital structure, the Association may adjust the amount of experience refund paid to members.

*RBC requirements*

The RBC ratio is used to measure the adequacy of the Association's statutory surplus in relation to the risks inherent in its business. The RBC method involves developing a risk-adjusted target level of statutory surplus by applying certain factors to various assets, premiums and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items. The target level of statutory surplus varies not only as a result of the insurer's size, but also on the risk profile of the insurer's operations.

Every MBA is annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio will trigger regulatory intervention by the IC. The RBC ratio of the MBA shall be calculated as members' equity divided by the RBC requirement. As provided by Insurance Memorandum Circular No. 11-2006 dated December 8, 2006, members' equity is defined as admitted assets minus all liabilities inclusive of actuarial reserves and other obligation under the policies and membership certificates.

The following table shows how the RBC ratio as at December 31 has been determined by the Association:

| | 2022 | 2021 |
|---|---|---|
| Member's equity | 30,196,605 | 37,700,034 |
| RBC requirement | 5,531,798 | 3,342,362 |
| | 545.87% | 1128% |

As at December 31, 2022 and 2021, the Association has complied with the minimum RBC ratio.

## Note 18 - Significant accounting estimates and judgments

The Association makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates, assumptions 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 estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### Note 18.1 - Significant estimates

*(a) The ultimate liability arising from claims made under insurance contracts (Note 8)*

The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Association will ultimately pay for such claims. The major uncertainties are the frequency of claims due to the contingencies covered and the timing of benefit payments.

With this, it is reasonably possible, based on existing knowledge, that the outcomes within the next financial year are different from assumptions and could require a material adjustment to the carrying amount of the asset or liability affected including reserve for outstanding losses.

The Association considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the ultimate liability arising from claims made under insurance contracts as the major uncertainties may differ significantly.

The carrying value of claims payable as at December 31, 2022 amounts to P399,633 (2021 - P320,177). There are no in-force policies, thus, legal policy reserves as at December 31, 2022 is nil (2021 - P811,660).

*(b) Principal assumptions and estimation of retirement benefit (Note 11)*

The present value of the retirement benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining retirement benefit include the discount rate. Any changes in these assumptions will impact the carrying amount of retirement obligation.

The Association determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligation. In determining the appropriate discount rate, the Association considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related retirement obligation.

Other key assumptions for retirement benefit obligation are based in part on current market conditions. Additional information is disclosed in Note 11. Retirement benefit expense charged to general and administrative expenses in the statement of total comprehensive income amounts to P169,108 for the year ended December 31, 2022 (2021 - P153,673). The related carrying amount of retirement benefit obligation at December 31, 2022 amounts to P911,874 (2021 - P1,058,903).

**Note 18.2 - Significant judgment**

*a) Recoverability of receivables (Note 4) and due from related ministries (Note 14)*

In determining the recoverable amount of the Association's receivables and due from related ministries which are non-investment grade financial assets, management considers the historical experience of unexpected losses established for these receivables and due from related ministries based on the ageing analysis. In this case, management uses judgments based on the best available facts and circumstances, including but not limited to their payment history. An evaluation of the receivables and due from related ministries, designed to identify potential charges to the provision, is performed on a continuous basis throughout the year. If any such evidence exists, changes in those estimates and judgments could have a significant effect on the carrying value of receivables and due from related ministries and the amount and timing of recorded provision for any period.

No allowance for impairment is provided on receivables as the accounts are deemed to be fully collectible. As at December 31, 2022, receivables amount to P3,798,175 (2021 - P9,481,856).

There is no outstanding due from related ministries as at December 31, 2022. Due from related ministries as at December 31, 2021 of P5,487,734 is determined to be neither past due nor impaired. No amounts were written off as at December 31, 2022 and 2021.

*b) Classification of HTM investment (Note 5)*

The Association classifies non-derivative investments with fixed or determinable payments and fixed maturities as HTM investment. This classification requires significant judgment. In making this judgment, the Association evaluates its intention and ability to hold such investments to maturity. If the Association fails to keep these investments to maturity other than in certain specific circumstances (for example sales that are so close to maturity) it will be required to reclassify the entire portfolio as AFS financial assets. The investment would therefore be measured at fair value and not at amortized cost.

As at December 31, 2022, the carrying value of HTM investment amounted to P5,000,000 (Note 4).

**Note 19 - 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 both years presented, unless otherwise stated.

**Note 19.1 - Basis of preparation**

The financial statements of the Association have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). The term PFRSs in general includes all applicable PFRSs, Philippine Accounting Standards (PASs) 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 and Sustainability Reporting Standards Council (FSRSC), formerly Financial Reporting Standards Council (FRSC), and adopted by the SEC.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with PFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Association's accounting policies. 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 18.

*Revised standard chart of accounts (SCA)*

On September 25, 2014, the IC issued Circular Letter No. 2014-41 presenting a revised SCA for MBAs. The revised SCA is in line with the requirements of SRC Rule 68, Section 189 of the amended Code, and current accounting standards in the Philippines.

## Changes in accounting policy and disclosures

*(a) Amendments to existing standards adopted by the Association*

The Association has adopted the following amendments to existing standards effective January 1, 2021.

- Amendments to PAS 16, 'Property, Plant and Equipment' *(effective January 1, 2022)*

  The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling the items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset.

- Amendment to PAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' *(effective January 1, 2022)*

  The amendment clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling the contract. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

- Annual Improvements to PFRSs 2018-2020 *(effective January 1, 2022)*

  The following improvements were finalized in May 2020:

  i. PFRS 9, 'Financial Instruments', clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
  ii. PFRS 16, 'Leases', amendment to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

The adoption of the above amendments did not have a material impact on the financial statements of the Association.

There are no other new standards, amendments to existing standards or interpretations which are effective beginning on January 1, 2022 that are considered relevant on the financial statements of the Association.

*(b) New and amended standards not yet effective and not yet adopted by the Association*

- Amendments to PAS 1, 'Classification of Liabilities as Current or Non-current' *(effective January 1, 2024)*

  The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). The amendment also clarifies what PAS 1 means when it refers to the 'settlement' of a liability.
- Amendment to PAS 1 and PFRS Practice Statement 2, 'Disclosure of Accounting Policies' *(effective January 1, 2023)*

  The amendment requires entities to disclose their material rather than their significant accounting policies. The amendment defines what is a 'material accounting policy information' and explain how to identify when accounting policy information is material. It further clarifies that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

- Amendments to PAS 8, 'Definition of Accounting Estimates' *(effective January 1, 2023)*

  The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

- PFRS 9 'Financial instruments' and its interaction with PFRS 4 'Insurance Contracts'

  PFRS 9 replaces the multiple classification and measurement models for financial assets in PAS 39, *'Financial Instruments: Recognition and Measurement,'* with a single model that has three classification categories: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL). Classification under PFRS 9 is driven by the entity's business model for managing and holding the financial assets and whether the contractual characteristics of these financial assets represent solely payments of principal and interest (SPPI). Investments in equity instruments are required to be measured at FVTPL with the irrevocable option at inception to present changes in fair value in OCI for those equity instruments not for trading. The classification and measurement of financial liabilities under PFRS 9 remains the same as in PAS 39, except where an entity has chosen to measure a financial liability at FVTPL. For such liabilities, changes in fair value arising from changes in the entity's own credit risk are presented separately in OCI.

  The impairment rules of PFRS 9 introduce an 'expected credit loss' model that replaces the 'incurred credit loss' model used in PAS 39. Such new impairment model will generally result in earlier recognition of losses compared to PAS 39.

  The hedging rules of PFRS 9 better align hedge accounting with an entity's risk management strategies. Also, some of the prohibitions and rules in PAS 39 are removed or changed, making hedge accounting easier or less costly to achieve for many hedges.

  In September 2016, 'Applying PFRS 9 Financial Instruments with PFRS 4, Insurance Contracts (Amendments to PFRS 4)' was issued, which provides optional relief to insurers meeting certain criteria from any adverse impact that may arise from the different effective dates of PFRS 9 and PFRS 17. The two options for entities that issue contracts within the scope of PFRS 4 permit an entity to either:

  (1) reclassify from profit or loss to other comprehensive income some of the income or expenses arising from designated financial assets; referred to as the 'overlay approach', or
  (2) for entities whose predominant activity is issuing contracts within the scope of PFRS 4, defer the application of PFRS 9 entirely; referred to as the 'deferral approach'.

  The Association has opted to apply the deferral approach. Based on the requirements of the standard, the Association can elect to apply the deferral approach if it satisfies the following criteria:

  - The Association has not previously applied any versions of PFRS 9; and,
  - The Association's activities are predominantly connected with insurance at annual reporting date that immediately precedes April 1, 2016 i.e., December 31, 2015, based on the eligibility assessment that:
    i. the carrying amount of liabilities arising from contracts within the scope of PFRS 4 is greater than 90% of the total carrying amount of liabilities; or
    ii. the carrying amount of liabilities arising from contracts within the scope of PFRS 4 is less than 90% and the total carrying amount of liabilities connected with insurance is equal to or less than 90% but greater than 80% of total carrying amount of all its liabilities.

The Association has not applied any versions of PFRS 9. The Association also made an assessment of its activities at an annual reporting date before December 31, 2018 i.e., December 31, 2017, considering that it has only commenced with its operations in 2017. The Association has concluded that the carrying amount of its liabilities arising from contracts within the scope of PFRS 4 was significant compared to the total carrying amount of all its liabilities. The percentage of the total carrying amount of its liabilities connected with insurance contracts relative to the total carrying amount of all its liabilities as at December 31, 2017 is determined to be at 98%. Subsequent to this date, there has been no significant change in the Association's activities, which are predominantly connected with insurance contracts.

The following tables set out the fair value at December 31, 2022 and 2021 and the changes in fair values for the years ended December 31, 2022 and 2021, of financial assets separately for the following groups:

- Financial assets that meet the solely payments of principal and interest on principal outstanding (SPPI) criteria in PFRS 9, excluding those financial assets that are defined as 'held-for-trading' or that are managed and evaluated on a fair value basis; and
- All other financial assets, including those assets that do not meet the SPPI criteria in PFRS 9 and those financial assets that are defined as 'held-for-trading' or that are managed and evaluated on a fair value basis.

Financial assets that meet the SPPI criteria in PFRS 9 are those whose cash flows comprise SPPI.

The fair value of financial instruments at December 31 classified between those that meet and those that fail the SPPI criterion are described as follows:

| | 2022 | | | |
|---|---|---|---|---|
| | Financial assets that meet the SPPI criteria | | All other financial assets | |
| | Fair value | Fair value change during the reporting period | Fair value | Fair value change during the reporting period |
| Cash and cash equivalents | 125,450,433 | - | - | - |
| Short-term investment | 48,096,463 | - | - | - |
| Receivables | 3,798,175 | - | - | - |
| Due from related ministries | - | - | - | - |
| Guaranty deposit | | | | |
| Financial assets at fair value through profit or loss | - | - | 2,732,135 | 56,526 |
| HTM investment | 5,000,000 | - | - | - |
| Certificate of time deposit | 8,309,614 | - | - | - |
| | 190,654,685 | - | 2,732,135 | 56,526 |

| | 2021 | | | |
|---|---|---|---|---|
| | Financial assets that meet the SPPI criteria | | All other financial assets | |
| | Fair value | Fair value change during the reporting period | Fair value | Fair value change during the reporting period |
| Cash and cash equivalents | 56,175,213 | - | - | - |
| Short-term investment | 102,852,753 | - | - | - |
| Receivables | 9,481,856 | - | - | - |
| Due from related ministries | 5,487,734 | - | - | - |
| Guaranty deposit | | | | |
| Financial assets at fair value through profit or loss | - | - | 2,772,804 | - |
| HTM investment | - | - | - | - |
| Certificate of time deposit | 13,309,614 | - | - | - |
| | 187,307,170 | - | 2,772,804 | - |

For financial assets as at December 31 that meet the SPPI criteria, the current carrying values measured in accordance with PAS 39 are analyzed in the following table by credit rating:

| | 2022 | | | |
|---|---|---|---|---|
| | Neither past due nor impaired | | | |
| | Investment grade | Non-investment grade | Past due or impaired | Total |
| Cash and cash equivalents | 125,450,433 | - | - | 125,450,433 |
| Short-term investment | 48,096,463 | - | - | 48,096,463 |
| Receivables | - | 3,798,175 | - | 3,798,175 |
| Due from related ministries | - | - | - | - |
| Guaranty deposit | | | | |
| HTM investment | 5,000,000 | - | - | 5,000,000 |
| Certificate of time deposit | 8,309,614 | - | - | 8,309,614 |
| | 186,856,510 | 3,798,175 | - | 190,654,685 |

| | 2021 | | | |
|---|---|---|---|---|
| | Neither past due nor impaired | | | |
| | Investment grade | Non-investment grade | Past due or impaired | Total |
| Cash and cash equivalents | 56,175,213 | - | - | 56,175,213 |
| Short-term investment | 102,852,753 | - | - | 102,852,753 |
| Receivables | - | 9,481,856 | - | 9,481,856 |
| Due from related ministries | - | 5,487,734 | - | 5,487,734 |
| Guaranty deposit | | | | |
| HTM investment | - | - | - | - |
| Certificate of time deposit | 13,309,614 | - | - | 13,309,614 |
| | 172,337,580 | 14,969,590 | - | 187,307,170 |

The fair values of financial assets included in the table above that are non-investment grade, and thus do not have low credit risk as of December 31, 2022 and 2021, approximately equal to their respective carrying amounts.

- PFRS 17, 'Insurance Contracts' *(effective January 1, 2025)*

  PFRS 17 was issued in May 2017 as a replacement for PFRS 4, '*Insurance Contracts.*' PFRS 17 represents a fundamental change in the accounting framework for insurance contracts requiring liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of (1) discounted probability-weighted cash flows, (2) an explicit risk adjustment, and (3) a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period. The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under PFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

  On March 17, 2020, the IASB has decided to further defer the effective date of the standard to annual reporting periods beginning on or after January 1, 2023. Taking into consideration the implications of the pandemic, the IC recognizes that the insurance industry has to realign its priority programs and focus on modifying its business operations under a new normal. The IC sees the need to support the insurance industry and hence, it delays full implementation of the standard to January 1, 2025, two (2) years after IASB's implementation in 2023.

Management is currently reviewing the financial and operational impact of PFRS 17 to the Association.

There are no other new standards, amendments to existing standards or interpretations effective after January 1, 2021 that may be considered relevant or would be expected to have a material impact on the Association's financial statements.

## Note 19.2 - Financial assets

### Note 19.2.1 - Classification

The Association classifies its financial assets in the following categories: (a) at FVTPL, (b) loans and receivables, (c) held-to-maturity investments (HTM investment) and (d) available-for-sale 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. The Association only hold financial assets classified as FVTPL and loans and receivables as at December 31, 2022 and 2021. As at December 31, 2022, the Association also had HTM investment.

*Fair value through profit or loss*

This category consists of financial assets that are held for trading or designated by management as financial assets at FVTPL on initial recognition.

Financial assets classified in this category are designated by management on initial recognition when any of the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

- The assets and liabilities are part of a group of financial assets which are managed, and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Association's financial assets at FVTPL pertain to the Association's investments in debt securities amounting to P2,732,135 (2021 - 2,772,804) (Note 5).

*HTM investment*

HTM investment are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities which the Association's management has the positive intention and ability to hold to maturity. Where the Association sells other than an insignificant amount of HTM investment, the entire category would be tainted and reclassified as AFS financial assets.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the statement of total comprehensive income when the HTM investment are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of total comprehensive income.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of being traded. The Association's loans and receivables comprise of cash and cash equivalents (Note 2), short-term investments (Note 3), receivables (Note 4), due from related ministries (Note 14) and guaranty deposit to the extent of the time deposit placement (Note 5).

Cash and cash equivalents include cash on hand and deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less from the dates of acquisition.

Short-term investments pertain to time deposits in a local bank, which is readily available to fund the Association's operations.

Receivables include members' contributions due and uncollected, accrued income and advances to employees which are paid mainly through salary deduction.

Due from related ministries consist of unremitted premium contributions from members collected by the related ministries on behalf of the Association.

Guaranty deposit pertains to time deposit placements with maturities of more than one year (considered as loans and receivables), which represent the Association's guaranty fund in compliance with the requirement of the IC.

**Note 19.2.2 - Recognition and measurement**

*Initial recognition and measurement*

Regular-way purchases and sales of financial assets are recognized on trade-date - the date on which the Association commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at FVTPL. Financial assets carried at FVTPL are initially recognized at fair value; and transaction costs are recognized in the statement of total comprehensive income.

*Subsequent measurement*

FVTPL are subsequently carried at its fair value.

HTM investment and loans and receivables are subsequently carried at amortized cost using the effective interest rate method.

**Note 19.2.3 - Impairment**

The Association assesses at each reporting date whether there is an objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is an 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.

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

A provision for impairment is established when there is an objective evidence that the Association will not be able to collect all amounts due according to the original credit terms. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments are considered indicators that the financial asset is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in the statement of total comprehensive income. When a financial asset is uncollectible, it is written off against the allowance account. Such receivable is written off after all the necessary procedures have been completed and the amount of loss has been determined. If in a subsequent period, the amount of 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 previously recognized impairment loss is reversed by adjusting the allowance account. The amount of reversal is recognized in the statement of total comprehensive income as a reduction of impairment losses for the year.

**Note 19.2.4 - Derecognition**

A financial asset is derecognized when the contractual right to receive the cash flows from the asset has ceased to exist or the asset has been transferred and substantially all the risks and rewards of ownership of the asset are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Association tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

**Note 19.3 - Financial liabilities**

The Association's financial liabilities are limited to other financial liabilities at amortized cost as at December 31, 2022 and 2021. There are no financial liabilities at FVTPL (including financial liabilities held for trading and those that are designated at fair value).

The Association's other financial liabilities include accrued expenses and other liabilities (excluding premium received in advance, advance members' contributions and payable to government agencies) (Note 7), claims and benefits payable (Note 8), reserve for refund of members' equity (Note 9) and RSF (Note 10).

Accrued expenses and other liabilities include accruals for members equity value allocation and other expenses, advance members' contributions, and refunds to members made by the branches on behalf of the Association which are to be reimbursed from the latter upon completion of the necessary requirements.

Claims and benefit payable include claims on insurance contracts filed or reported to the Association but not yet paid and claims incurred but not yet reported as at reporting date.

Reserve for refund of members' equity represents at least 50% of the total gross life insurance contributions paid, as required under the amended Code.

RSF represents a portion of contributions made by the members relating to their retirement savings.

**Note 19.3.1 - Recognition and measurement**

Financial liabilities are initially measured at fair value plus transaction costs for all financial liabilities not carried at FVTPL. Financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

**Note 19.3.2 - Derecognition**

Financial liabilities are derecognized when extinguished.

## Note 19.4 - Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of assets, liabilities and fund balance 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Association or the counterparty.

## Note 19.5 - 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 of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The Association classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and,
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

For non-financial assets, the Association uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- Market approach - A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as a business.
- Income approach - A valuation technique that convert future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The fair values were determined in reference to observable market inputs reflecting orderly transactions, i.e. market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions.

## Note 19.6 - Property and equipment; Intangible asset-in-progress

*Property and equipment*

Property and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes the purchase price and other expenditures that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The cost of replacing parts is added to the carrying amount of property and equipment when the replacement part is expected to provide incremental future benefits. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of total comprehensive income during the period in which they are incurred.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging, as follows:

| | |
|---|---|
| Computer equipment | 1 to 5 years |
| Transportation equipment | 1 to 5 years |
| Furniture and fixtures | 1 to 5 years |

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal at which time the cost and the related accumulated depreciation and amortization are removed from the accounts. Any gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and are recognized in the statement of total comprehensive income.

*Intangible asset- in-progress*

Intangible asset-in-progress pertains to acquired insurance software capitalized on the basis of the costs incurred to acquire and bring to use the specific software. The capitalized costs represent probable future economic benefits associated with the item that will flow to the Association and can be reliably measured. Intangible assets under development are reclassified to software and amortization will commence at such time that the relevant assets are completed and are ready for intended use.

Software is carried at cost less any accumulated amortization and any accumulated impairment losses. Amortization is computed using the straight-line method over their estimated useful lives, which do not exceed five years. The amortization period and the amortization method for an intangible asset with a finite useful life start when the software is ready for use and are reviewed at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of the future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense is recognized in profit or loss.

Software are derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset is included in profit or loss in the year the asset is derecognized.

**Note 19.7 - Impairment of non-financial assets**

Assets that have definite useful lives, particularly property and equipment and intangible assets, are subject to depreciation and amortization, respectively, and are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts 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 an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at the end of each reporting period. Reversals of previously recorded impairment loss, if any, are credited to the statement of total comprehensive income.

**Note 19.8 - Insurance contracts**

Insurance contracts are defined as those contracts under which the Association accepts significant insurance risk from another party (the members) by agreeing to compensate the members if a specified uncertain future event (the insured event) adversely affects the member.

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

**Note 19.9 - Insurance contract liabilities**

Life insurance contract liabilities are recognized when the contracts are entered into and the premiums are recognized.

*Legal policy reserves*

Legal policy reserve represents the accumulated total liability for policies in force at the reporting date. Such reserves are established at amounts adequate to meet the estimated future obligations of all life insurance policies in force. The reserves are calculated using actuarial methods and assumptions as approved by the IC, subject to the liability adequacy test.

*Insurance benefits and claims*

Insurance benefit and claims are recorded when incurred. These are recorded when notices of claims have been received or when policies reach maturity. Unpaid claims, including IBNR claims, are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date. These costs pertain to estimates of the Association's obligations to the members where the Association has not yet received notification on. Delays can be experienced in the notification and settlement of claims, therefore the ultimate cost could not be known with certainty at the reporting date. The Association develops estimates for IBNR using services of an external actuary accredited by the IC. The actuarial models consider factors such as time from the date of service to claim receipt and claim backlogs. Each period, the Association re-examines previously established provisions for claims based on actual claim submissions and other changes in facts and circumstances.

*Liability adequacy test*

At each reporting date, a liability adequacy test is performed for the insurance contract liabilities. In performing this test, current best estimates of future cash flows and claims handling and administration expenses, as well as investment income from the asset backing such liabilities are used. Any deficiency is immediately charged against current operations.

Long-term insurance contracts are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimates assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities. Liabilities for future policy benefits on in-force policies have been computed based on methods and assumptions that are in accordance with generally accepted actuarial principles. Changes in the balance of legal policy reserves at each reporting date are charged to the statement of total comprehensive income.

**Note 19.10 - Premium received in advance and advance members' contributions**

Premium received in advance represents contributions received by the Association in excess of their contributions due and are classified as part of accrued expenses and other liabilities (Note 7). As at December 31, 2022, this pertains to the collections received on the policies sold to the members before the regulatory approval of the newly launched product. Premium received in advance will be reclassified to premium revenue starting January 3, 2023 (regulatory approval date) following the terms of the issued policies.

Advance members' contributions pertains to contributions received from the BLIP insurance product offered by the Association not yet due as at December 31, 2021 reporting date. Advance members' contributions are reclassified to premium revenue when payments are due from the members over the coverage period of the policy contract.

**Note 19.11 - Reserve for refund of members' equity**

Reserve for refund of members' equity represents the amount of obligation set-up by the Association on membership certificates pertaining to 50% of the equity value, as required under the Insurance Code. Consequently, an allocation for liability on MEV is recognized in the statement of total comprehensive income.

The MEV earns interest of 0.50% per annum. Interest expense is charged to general and administrative expenses in the statement of total comprehensive income.

**Note 19.12 - Retirement savings fund**

Under the Association's BLIP, a certain portion of the contribution received from a member represents the member's retirement savings in the Association. The RSF contribution shall not form part of the MEV.

The RSF earns interest rate of 0.50% per annum. Interest expense is charged to general and administrative expenses in the statement of total comprehensive income.

**Note 19.13 - Retirement benefit obligation**

The Association has an unfunded defined benefit plan following Republic Act No. 7641. A defined benefit plan is a pension plan under which the Association does not pay fixed contributions into a separate entity. Typically, defined benefit plans determine an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statement of assets, liabilities and fund balance in respect of defined benefit pension plan is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets. The defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating the terms of the related pension liability.

Actuarial gains and losses are recognized in other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in the statement of total comprehensive income.

**Note 19.14 - Retained surplus**

Retained surplus represents the cumulative balance of excess revenue over expenses. Unappropriated retained surplus represents that portion which is free and can be declared for distribution to the members. Appropriated retained surplus represents that portion which is restricted and therefore not available for members' distribution or for any refund declaration.

**Note 19.15 - Revenue**

Revenue is recognized to the extent that it is probable that economic benefits will flow to the entity and the amount of revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

*Members' premium contributions*

Insurance premiums are recognized as revenue when they become due from members.

In 2022, the premiums received on the product sold to the members of the Association before the date of approval is classified as part of liabilities in the statement of assets, liabilities and fund balance (Note 7).

*Membership fees*

Membership fees are recognized when cash is received from membership application.

*Donations and grants*

Donations and grants are recognized when actually received by the Association or when donors have entered into an enforceable agreement to contribute to the Association.

*Interest income*

Interest income is recognized on a time-proportion basis using the effective interest rate method.

**Note 19.16 - Expenses**

Cost and expenses are recognized in the statement of total comprehensive income when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

*Benefits and claims*

Benefits and claims consist of benefits paid as insurance protection, and financial and material aid to members, as well as changes in the valuation of insurance contract liabilities. Death claims are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

An allocation for liability on MEV is recognized in the statement of total comprehensive income with a corresponding increase in reserve for refund of members' equity which is recognized in the statement of assets, liabilities and fund balance.

Collection fees paid to individuals and/or partner institutions for collection services are recognized upon rendering of service.

Other claims expenses are recognized when incurred. Membership enrollment and marketing expenses include member mobilization costs and expenses incurred on the production of policy forms and promotional materials, among others. Research and development expenses represent costs incurred for research - related activities such as conduct of impact assessments and satisfaction surveys for its existing products.

*General and administrative expenses*

Expenses are recognized in the statement of total comprehensive income when incurred.

**Note 19.17 - Provision and contingencies**

Provisions are recognized when the Association has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made with the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, an increase in provision due to the passage of time is recognized as an interest expense. When the Association expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the statement of total comprehensive income, net of any reimbursement.

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements, but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements.

## Note 19.18 - Related party transactions

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel or trustees. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Due from related ministries is recognized initially at fair value and measured subsequently at amortized cost using the effective interest rate method, less any provision for impairment. A provision for impairment of due from related ministries is established when there is an objective evidence that the Association will not be able to collect all amounts due according to the original terms of the receivable. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of loss is recognized in the statement of total comprehensive income. When the amount becomes uncollectible, it is written-off against the allowance account for receivables. Subsequent recoveries of amounts previously written-off are credited in the statement of total comprehensive income. Due from related ministries is derecognized when the Association receives payment from the related ministries.

Due to related ministries are initially recognized at fair value plus transaction costs and subsequently measured at amortized cost using the effective interest rate method. They are derecognized when, and only when, they are extinguished, i.e., when the obligation is discharged or is cancelled or expires.

Due from/to related ministries are settled net when there is a legally enforceable right to offset or as agreed by the ministries.

## Note 19.19 - Subsequent events (or events after the reporting date)

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 adjusting events that are non-adjusting events are disclosed in the notes to financial statements when material.

## Note 20 - Supplementary information required by the Bureau of Internal Revenue (BIR)

*RR 15-2010*

Below is the supplementary information required by Revenue Regulations No. 15-2010. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements. As part of its registration with the BIR (Note 1), the Association is exempted from payment of taxes from income derived by it.

*i. Value-added taxes*

The Association has no registered activities covered by value-added taxes.

*ii. Local and national taxes*

The Association's local and national taxes for the year ended December 31, 2022, which are presented as part of general and administrative expenses in the statement of total comprehensive income, follow:

| | Amount |
|---|---|
| License fees | 46,950 |
| Business permits | 16,320 |
| Others | 2,100 |
| | 65,370 |

*iii. Withholding taxes*

Withholding taxes paid and accrued as at December 31, 2022 consist of:

| | Paid | Accrued | Total |
|---|---|---|---|
| Withholding tax on compensation | 216,055 | 18,971 | 235,026 |
| Expanded withholding tax | 35,750 | 424 | 36,174 |
| | 251,805 | 19,395 | 271,200 |

Withholding taxes payable is presented as part of accrued expenses and other liabilities under payable to government agencies in the statement of assets, liabilities and fund balance.

*iv. Tax assessments*

Taxable years 2021, 2020 and 2019 are open tax years as at December 31, 2022. The Association did not receive any Final Assessment Notice from the BIR as at and for the year ended December 31, 2022.

*v. Tax cases*

The Association has no outstanding cases which are under preliminary investigation and/or prosecution in court or bodies outside the BIR as at and for the year ended December 31, 2022.

*vi. Other information*

All other information prescribed to be disclosed by the BIR has been included in this note.

*RR 34-2020*

On December 18, 2020, the BIR issued RR No. 34-2020, Prescribing the Guidelines and Procedures for the Submission of BIR Form No. 1709, Transfer Pricing Documentation (TPD) and other Supporting Documents, amending for this Purpose the Pertinent Provisions of RR No. 19-2020 and 21-2002, as amended by RR No. 15-2010, to streamline the guidelines and procedures for the submission of BIR Form 1709, TPD and other supporting documents providing safe harbors and materiality thresholds. Section 2 of the RR provides the list of taxpayers that are required to file and submit the RPT Form, together with the Annual Income Tax Return. Subsequently, the BIR issued Revenue Memorandum Circular (RMC) No. 54-2021 on April 27, 2021 which clarifies certain provisions of RR No. 34-2020.

The Association is not covered by the requirements and procedures for related party transactions provided under this RR as it is not required to file an RPT Form as clarified by RMC No. 54-2021.