



QG Madelene Aze Occeña <madeleneaze@gmail.com>

Fw: Tax Return Receipt Confirmation

1 message

katilingbanon kkk mba <mba4k@yahoo.com>
To: Madelene Aze Occena <mao@quilabgarsuta.com>

Mon, Apr 14, 2025 at 10:32 AM

----- Forwarded Message -----

From: "ebirforms-noreply@bir.gov.ph" <ebirforms-noreply@bir.gov.ph>**To:** "mba4k@yahoo.com" <mba4k@yahoo.com>**Sent:** Monday, April 14, 2025 at 10:30:04 AM GMT+8**Subject:** Tax Return Receipt Confirmation**This confirms receipt of your submission with the following details subject to validation by BIR:**

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- Unionbank Online (for Unionbank Individual and Corporate Account Holders)
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Financial Statements of

**Katilingbanong Kaangayan
Para sa Kasegurohan ug Kalambuan –
Mutual Benefit Association (4K-MBA), Inc.**

December 31, 2024 and 2023

And

Report of Independent Auditors

CERTIFICATION BY EXTERNAL AUDITORS

Contact Information

2F, Executive Centrum Building, J.R. Borja Street
Cagayan de Oro City, Philippines, 9000
(063) 88-856-4401, 0917-7121352
quilabgarsuta.com

Current Accreditations

BOA, BIR, SEC, BSP, IC
CDA, NEA, MISEREOR, KNH

INSURANCE COMMISSION
1071 United Nations Avenue
Manila


Gentlemen:

In connection with our engagement in the audit of the financial statements of Katilingbanong Kaangayan Para sa Kasegurohan ug Kalambuan – Mutual Benefit Association (4K-MBA), Inc., for the year ended December 31, 2024, we hereby certify:

- (1) That there were no weakness or breach in the internal control and risk management of the Association that are material enough to warrant modifications of our report nor were there matters that came to our attention that need our direct reporting to the Insurance Commission (IC);
- (2) That we have nothing to report to the Insurance Commission (IC) with regard to items enumerated under Section 8.1 of Circular Letter No. 2024-03 that came to our attention during the audit, e.g., (1) any material finding involving fraud or error; (2i) losses or potential losses aggregating 10% of consolidated assets of the Association; (3) significant doubt as to the ability of the Association to continue as a going concern; (4) material breach of IC rules and regulations, and (5) material internal control weaknesses; and
- (3) That the engagement partner, manager and auditor-in-charge of the engagement and the members of their immediate families do not have any direct or indirect financial interest with the Association, and their independence is not considered impaired under the circumstances specified in the Code of Professional Ethics for Certified Public Accountants.

This certification is issued in compliance with the requirements mandated by the Insurance Commission (IC) in its Circular Letter No. 2024-03, dated January 29, 2024.

Done this 23rd day of April 2025, at Cagayan de Oro City, Philippines.


ANA MARIAE MICHELLE D. QUILAB-ARRABACA
Engagement Partner

SUBSCRIBED AND SWORN to before me this 23rd day of April 2025 affiant exhibited to me her PRC Identification Number 0121076 valid until June 28, 2026.

Doc. No. 447
Page No. 81
Book No. 17
Series of 2025.

NOTARY PUBLIC
ATTY. MARILEN LEZADA ROSABAL
Notary Public until December 31, 2026
Notarial Commission No. 2025-41
IBP No. 487549/Dec. 26, 2024
PTR Receipt No. 6077742A/Dec. 6, 2024
MCLE No. VIII-0014509/Roll No. 53682
TIN 947-407-463

**AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**



**KATILINGBANONG KAANGAYAN PARA SA KASEGUROHAN
UG KALAMBUAN – MUTUAL BENEFIT ASSOCIATION, INC.
(4K-MBA - formerly RBT-MBA)**

Sebastian Building, Tiano-Echem Sts., Cagayan de Oro City
TeleFax No (088) 856-3503 E-mail: mba4k@yahoo.com



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Katilingbanong Kaangayan Para sa Kasegurohan ug Kalambugan – Mutual Benefit Association (4K-MBA), Inc. is responsible for the preparation and fair presentation of its financial statements for the years ended December 31, 2024 and 2023, in accordance with Philippine Financial Reporting Standards (PFRSs), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Quilab & Garsuta, CPAs, the independent auditors appointed by the Board of Trustees for the periods December 31, 2024 and 2023, have audited the financial statements of the Association in accordance with Philippine Standards on Auditing (PSAs), and in their reports to the Board of Trustees, have expressed their opinions on the fairness of presentation upon completion of such audits.

April 11, 2025 in the City of Cagayan de Oro, Philippines.

MARIA GLENDA S. LOBUSTA
President

LORAIN B. TEMPLADO
Chief Executive Officer

CARMEN B. MACARANAS-AGUINID
Operations Manager

REPORT OF INDEPENDENT AUDITORS

Contact Information

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(063) 88-231-6365, 8822-727515
quilabgarsuta.com

Current Accreditations

BOA, BIR, SEC, BSP, IC
CDA, NEA, MISEREOR, KNH

The Board of Trustees and Members
**Katilingbanong Kaangayan Para sa Kasegurohan ug
Kalambuan – Mutual Benefit Association (4K-MBA), Inc.**
Sebastian Building, Tiano-Echem Street, Cagayan de Oro City

Report on the Financial Statements

Qualified Opinion

We have audited the financial statements of Katilingbanong Kaangayan Para sa Kasegurohan ug Kalambuan – Mutual Benefit Association (4K-MBA), Inc., which comprise the statements of financial position as at December 31, 2024 and 2023, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements comprising of a summary of material accounting policy information and other explanatory notes, collectively referred to as ‘financial statements’.

In our opinion, except for the effect 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 Katilingbanong Kaangayan Para sa Kasegurohan ug Kalambuan – Mutual Benefit Association (4K-MBA), Inc., as of December 31, 2024 and 2023, and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Qualified Opinion

As discussed in Note 10 to the financial statements, the Association’s retirement benefit obligations were computed based on management using the provisions of R.A. 7641, instead of based on actuarial valuations using projected credit unit method as required under PAS/IAS 19 *Employees Benefits*, and PAS/IAS 26 *Accounting and Reporting by Retirement Benefit Plans*. Accordingly, the recorded retirement benefit obligations were not determined in accordance with the requirements of PFRSs and the required disclosures thereof could not be accomplished by the Association. The effect of non-compliance could not be determined by the Association until an actuarial valuation is conducted by professional valuers.

In our report dated April 12, 2024, our opinions on the 2023 and 2022 financial statements were qualified for the effects of not recording the Lifetime Expected Credit Losses (ECL) for past due unremitted members’ contributions and other receivables already considered impaired. During 2024, the Association recorded provision for the impairment of the receivables amounting to ₱1,000,043, thereby fully providing for the ECL of the accounts. Because of this effort, the Association management determined, and we agreed, that the existing allowance for impairment losses is already adequate to cover possible losses from the impairment of the receivables. Accordingly, our present opinions on the 2023 and 2022 financial statements, as expressed herein in so far as the adequacy of ECL provisioning is concerned, are different from those of our previous reports.

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditors’ Responsibilities for the Audit of the Financial Statements* section of our report. 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 audits 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

QUILAB & GARSUTA, CPAs

By:



ANA MARIAE MICHELLE D. QUILAB-ARRABACA

Partner

CPA Cert. No. 121076

TIN No. 948-844-710

CDA CEA No. 1883-SP, 2024-2029

PRC/BOA Cert. No. 7787, 2023-2026

BIR 16-007506-000-2022, 2022-2024

121076-SEC Group B, 2020-2024

121076-BSP Group B, 2020-2024

121076-IC Group A, 2020-2024

PTR No. 6133948 A

January 2, 2025

Cagayan de Oro City

April 11, 2025
Cagayan de Oro City, Philippines

STATEMENTS OF FINANCIAL POSITION

Katilingbanong Kaangayan Para sa Kasegurohan ug Kalambuan – Mutual Benefit Association (4K-MBA), Inc.

December 31,	2024	2023
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	P20,240,012	P17,023,325
Loans and other receivables (Note 6)	11,754,846	11,591,506
Investments in debt and equity securities (Note 7)	–	499,332
Total Current Assets	31,994,858	29,114,163
Non-Current Assets		
Investments in debt and equity securities (Note 7)	17,306,113	17,803,284
Furniture, fixtures and office equipment – net (Note 8)	111,637	46,154
Right-of-use asset – net (Note 9)	–	69,212
Total Non-Current Assets	17,417,750	17,918,650
	P49,412,608	P47,032,813
LIABILITIES AND FUND BALANCES		
Current Liabilities		
Trade and other payables (Note 10)	P1,483,809	P1,734,676
Insurance contract liabilities (Note 11)	1,559,657	714,984
Lease liability (Note 9)	–	60,000
Total Current Liabilities	3,043,466	2,509,660
Non-Current Liabilities		
Aggregate reserves for risks (Note 12)	30,399,718	29,002,467
Total Liabilities	33,443,184	31,512,127
Fund Balances		
Guaranty Fund (Note 13)	13,890,565	13,138,154
General Fund (Note 14)	(1,023,260)	(642,637)
Assigned Surplus Fund (Note 15)	2,758,619	2,758,619
Revaluation reserve on investments at FVTOCI (Note 7)	343,500	266,550
Total Fund Balances	15,969,424	15,520,686
	P49,412,608	P47,032,813

See Notes to Financial Statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Katilingbanong Kaangayan Para sa Kasegurohan ug Kalambuan – Mutual Benefit Association (4K-MBA), Inc.

<i>Years Ended December 31,</i>	2024	2023
REVENUE		
Gross members' premium contributions <i>(Note 14)</i>	P15,048,211	P13,764,309
Less contributions to Guaranty Fund <i>(Note 13)</i>	752,411	688,215
Net members' premium contributions	14,295,800	13,076,094
Interest and investment income <i>(Notes 5 and 7)</i>	820,583	815,384
Other income <i>(Note 16)</i>	457,484	274,301
Total Revenue	15,573,867	14,165,779
BENEFITS AND OPERATING EXPENSES		
Benefits and claims paid to members <i>(Notes 11 and 14)</i>	3,876,945	3,658,513
Collection costs <i>(Note 19)</i>	3,578,958	3,315,141
Increase in aggregate policy reserves <i>(Note 12)</i>	1,397,251	1,424,725
Total benefits and related expenses	8,853,154	8,398,379
Salaries, wages and employees' benefits <i>(Note 17)</i>	3,339,911	2,555,187
General and administrative expenses <i>(Note 18)</i>	3,606,523	2,441,890
Depreciation <i>(Notes 8 and 9)</i>	154,902	281,082
Total Benefits and Operating Expenses	15,954,490	13,676,538
NET SURPLUS (DEFICIT) FOR THE YEAR	(380,623)	489,241
OTHER COMPREHENSIVE INCOME		
<i>Item that may not be subsequently reclassified to profit or loss:</i>		
Changes in value of investments at FVTOCI <i>(Note 7)</i>	76,950	71,700
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	(P303,673)	P560,941

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

Katilingbanong Kaangayan Para sa Kasegurohan ug Kalambuan – Mutual Benefit Association (4K-MBA), Inc.

<i>December 31,</i>	2024	2023
GUARANTY FUND <i>(Note 13)</i>		
Opening balances	P13,138,154	P12,449,939
Contributions during the period	752,411	688,215
Closing balances	13,890,565	13,138,154
GENERAL FUND <i>(Note 14)</i>		
Opening balances	(642,637)	(1,131,878)
Net surplus (deficit) for the year	(380,623)	489,241
Closing balances	(1,023,260)	(642,637)
ASSIGNED SURPLUS FUND <i>(Note 15)</i>	2,758,619	2,758,619
REVALUATION RESERVE ON INVESTMENTS AT FVTOCI <i>(Note 7)</i>		
Opening balances	266,550	194,850
Change in value of investments during the year	76,950	71,700
Closing balances	343,500	266,550
	P15,969,424	P15,520,686

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

Katilingbanong Kaangayan Para sa Kasegurohan ug Kalambuan – Mutual Benefit Association (4K-MBA), Inc.

Years Ended December 31,	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net surplus (deficit) for the year	(P380,623)	P489,241
Add (deduct) adjustments for:		
Interest and investment income (Notes 5 and 7)	(820,583)	(815,384)
Depreciation on furniture, fixtures and office equipment (Note 8)	58,258	95,160
Depreciation on right-of-use asset (Note 9)	69,212	185,922
Provision for ECL on loans and other receivables (Note 6)	1,000,043	399,011
Increase in aggregate reserves for risks (Note 12)	1,397,251	1,424,725
Interest on lease liability (Note 9)	6,000	29,455
Operating surplus before changes in working capital	1,329,558	1,808,130
Add (deduct) changes in working capital, excluding cash and cash equivalents:		
Increase in loans and other receivables (Note 6)	(1,163,382)	(1,384,747)
(Decrease) Increase in trade and other payables (Note 10)	(250,867)	383,361
Increase (decrease) in insurance contract liabilities (Note 11)	844,673	(23,367)
Net Cash Provided from Operating Activities	759,982	783,377
CASH FLOWS FOR INVESTING ACTIVITIES		
Interest and investment income (Notes 5 and 7)	820,583	815,384
Additions to furniture, fixtures and office equipment (Note 8)	(123,742)	(54,525)
Increase in investments in debt and equity securities (Note 7)	1,073,453	(607,828)
Net Cash Provided from (Used for) Investing Activities	1,770,294	153,031
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of principal and interest on lease liability (Note 9)	(66,000)	(264,000)
Increase in Guaranty Fund (Note 13)	752,411	688,215
Net Cash Provided from Financing Activities	686,411	424,215
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,216,687	1,360,623
OPENING CASH AND CASH EQUIVALENTS	17,023,325	15,662,702
CLOSING CASH AND CASH EQUIVALENTS (Note 5)	P20,240,012	P17,023,325

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

Katilingbanong Kaangayan Para sa Kasegurohan ug Kalambuan – Mutual Benefit Association (4K-MBA), Inc.
As of and for the Years Ended December 31, 2024 and 2023

Note 1

Organization and Tax Exemption

The Katilingbanong Kaangayan Para sa Kasegurohan ug Kalambuan – Mutual Benefit Association (4K-MBA), Inc. was originally organized by the borrowers of Rural Bank of Talisayan (Mis. Or.), Inc., “to promote the welfare of the marginalized sector of society, to extend financial assistance to members in the form of death benefits, medical expense subsidy, pensions, mortuary benefits and loan redemption facilities”. It has since expanded its memberships to embrace the members of Ernesto Carbuena Galenzoga (ECG) Foundation, Inc. (formerly SAMULCO Foundation, Inc.), and Fonus Multipurpose Cooperative.

The Association was originally registered with the Securities and Exchange Commission (SEC) on July 5, 2006, and obtained secondary license from the Insurance Commission (IC) on September 6, 2006, under its original name ‘Rural Bank of Talisayan – Mutual Benefits Association (RBT-MBA), Inc.’. It officially started operations in September 2006. The Association obtained approval from the Securities and Exchange Commission for the change of its name, on March 14, 2014, and also subsequently obtained approval of the change from the Insurance Commission (IC).

The Association is governed by a Board of Trustees, which received no compensation. It is holding office at Sebastian Building, Tiano-Echem Street, Cagayan de Oro City.

As at December 31, 2024, the Association has a total membership of 11,928.

Tax Exemptions

The Association is presently processing its application for a Certificate of Tax Exemption from the Bureau of Internal Revenue.

The Association is exempt from the payment of income tax, under Section 30 (C) of the National Internal Revenue Code of 1997, as amended, being an entity incorporated as a nonstock corporation for the exclusive benefit of the members operating under a mutual aid association providing for the payment of life, sickness, accident, or other benefits exclusively to the members of the Association. Notwithstanding the provisions of the Tax Code, the Association is liable to taxes on income of whatever kind and character from any of its properties or from any of its activities conducted for profit regardless of the disposition made of such income. The Association, however, has not undertaken any activity outside of its primary objectives..

Note 2

Statement of Compliance with Philippine Financial Reporting Standards (PFRSs)

Statement of Compliance

The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs) and Philippine Interpretations-IFRIC.

PFRSs include statements named PFRSs and Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International

Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy (BOA) and adopted by the Securities and Exchange Commission (SEC).

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

New and Amended IFRS Accounting Standards that are Effective for the Current Year

In the current year, the Association has applied a number of amendments to PFRS Accounting Standards issued by the International Accounting Standards Board (IASB) and adopted by the FSRSC (as Philippine Financial Reporting Standards) that are mandatorily effective for an accounting period that begins on or after January 1, 2024. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to PAS/IAS 7 Statement of Cash Flows and PFRS 7 Financial Instruments: Disclosures titled Supplier Finance Arrangements

The amendments add a disclosure objective to PAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, PFRS 7 is amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk.

The amendments contain specific transition provisions for the first annual reporting period in which the Association applies the amendments. Under the transitional provisions an entity is not required to disclose:

- Comparative information for any reporting periods presented before the beginning of the annual reporting period in which the entity first applies those amendments
- The information otherwise required by PAS/IAS 7:44H(b)(ii)–(iii) as at the beginning of the annual reporting period in which the entity first applies those amendments.

The Association has no supplier finance arrangements.

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

The Association has adopted the amendments to PAS/IAS 1, published in January 2020, for the first time in the current year. The amendments affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

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

Amendments to PAS/IAS 1 Presentation of Financial Statements—Non-current Liabilities with Covenants

The Association has adopted the amendments to PAS/IAS 1, published in November 2022, for the first time in the current year. The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability

as current or non-current). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date).

The IASB also specifies that the right to defer settlement of a liability for at least twelve months after the reporting date is not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity's right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants.

The Association has no non-current liabilities with covenants.

Amendments to PFRS 16 Leases—Lease Liability in a Sale and Leaseback

The Association has adopted the amendments to PFRS 16 for the first time in the current year. The amendments to PFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in PFRS 15 *Revenue from Contracts with Customers* to be accounted for as a sale. The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognize a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date.

The amendments do not affect the gain or loss recognized by the seller-lessee relating to the partial or full termination of a lease. Without these new requirements, a seller-lessee may have recognized a gain on the right of use it retains solely because of a remeasurement of the lease liability (for example, following a lease modification or change in the lease term) applying the general requirements in PFRS 16. This could have been particularly the case in a leaseback that includes variable lease payments that do not depend on an index or rate.

As part of the amendments, the IASB amended an Illustrative Example in IFRS 16 and added a new example to illustrate the subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate. The illustrative examples also clarify that the liability that arises from a sale and leaseback transaction that qualifies as a sale applying IFRS 15 is a lease liability.

A seller-lessee applies the amendments retrospectively in accordance with PAS/IAS 8 to sale and leaseback transactions entered into after the date of initial application, which is defined as the beginning of the annual reporting period in which the entity first applied PFRS 16.

New and Revised IFRS Accounting Standards in Issue But Not Yet Effective

At the date of authorization of these financial statements, the Association has not applied the following new and revised IFRS Accounting Standards (which will become PFRS Accounting Standards) that have been issued but are not yet effective and in some cases had not yet been adopted by the FSRSC.

- PFRS 17 *Insurance Contracts* (including the June 2020 and December 2021 amendments to IFRS 17)
- Amendments to PAS 7 *Statement of Cash Flows* and PFRS 7 *Financial Instruments: Disclosures* titled *Supplier Finance Arrangements*
- Amendments to IAS 21 *Lack of Exchangeability*
- IFRS 18 *Presentation and Disclosures in Financial Statements*

– IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

The Board of Directors does not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Association in future periods, except if indicated below, when applicable.

IFRS 17 Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance Contracts*. IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

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

In December 2021, the IASB issued Initial Application of IFRS 17 and IFRS 9—Comparative Information (Amendment to IFRS 17) to address implementation challenges that were identified after IFRS 17 was published. The amendment addresses challenges in the presentation of comparative information. IFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

The FSRSC adopted the amendments on December 15, 2021 and amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

The Association has determined that its existing products extended to its members has significant insurance risk and therefore meets the definition of an insurance contract. Presently, these are accounted for under PFRS 4, which will be superseded by PFRS 17 beginning January 1, 2025. The Association is working closely with its actuaries and the mutual benefit industry association it belongs to for guidance and understanding in the implementation of the provision of PFRS 17.

Amendments to PAS 7 Statement of Cash Flows and PFRS 7 Financial Instruments: Disclosures titled Supplier Finance Arrangements

The FSRSC has adopted the amendments to IAS 7 and IFRS 7 on June 19, 2023, to be effective beginning January 1, 2025. The amendments add a disclosure objective to PAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, PFRS 7 is amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk.

The amendments contain specific transition provisions for the first annual reporting period in which the Association applies the amendments. Under the transitional provisions an entity is not required to disclose:

- Comparative information for any reporting periods presented before the beginning of the annual reporting period in which the entity first applies those amendments
- The information otherwise required by PAS 7:44H(b)(ii)–(iii) as at the beginning of the annual reporting period in which the entity first applies those amendments.

The Association has no supplier finance arrangements.

Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates titled Lack of Exchangeability

The amendments specify how to assess whether a currency is exchangeable, and how to determine the exchange rate when it is not. The amendments state that a currency is exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations.

An entity assesses whether a currency is exchangeable into another currency at a measurement date and for a specified purpose. If an entity is able to obtain no more than an insignificant amount of the other currency at the measurement date for the specified purpose, the currency is not exchangeable into the other currency.

The assessment of whether a currency is exchangeable into another currency depends on an entity's ability to obtain the other currency and not on its intention or decision to do so.

When a currency is not exchangeable into another currency at a measurement date, an entity is required to estimate the spot exchange rate at that date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.

The amendments do not specify how an entity estimates the spot exchange rate to meet that objective. An entity can use an observable exchange rate without adjustment or another estimation technique. Examples of an observable exchange rate include: (a) a spot exchange rate for a purpose other than that for which an entity assesses exchangeability, and (b) the first exchange rate at which an entity is able to obtain the other currency for the specified purpose after exchangeability of the currency is restored (first subsequent exchange rate).

An entity using another estimation technique may use any observable exchange rate—including rates from exchange transactions in markets or exchange mechanisms that do not create enforceable rights and obligations—and adjust that rate, as necessary, to meet the objective as set out above.

When an entity estimates a spot exchange rate because a currency is not exchangeable into another currency, the entity is required to disclose information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows.

The amendments add a new appendix as an integral part of IAS 21. The appendix includes application guidance on the requirements introduced by the amendments. The amendments also add new Illustrative Examples accompanying IAS 21, which illustrate how an entity might apply some of the requirements in hypothetical situations based on the limited facts presented.

In addition, the IASB made consequential amendments to IFRS 1 to align with and refer to the revised IAS 21 for assessing exchangeability.

The amendments are effective for annual reporting periods beginning on or after 1 January 2025, with earlier application permitted. An entity is not permitted to apply the amendments retrospectively. Instead, an entity is required to apply the specific transition provisions included in the amendments.

The Board of Directors of the Association anticipates that the application of these amendments may not have any impact on the Association's financial statements in future periods.

IFRS 18 Presentation and Disclosures in Financial Statements

The FSRSC has adopted PFRS 18 on October 10, 2024, to be effective beginning January 1, 2027. PFRS 18 replaces PAS 1, carrying forward many of the requirements in PAS 1 unchanged and complementing them with new requirements. In addition, some PAS 1 paragraphs have been moved to PAS 8 and PFRS 7. Furthermore, minor amendments were made to PAS 7 and PAS 33 *Earnings per Share*.

PFRS 18 introduces new requirements to: (1) present specified categories and defined subtotals in the statement of profit or loss, (2) provide disclosures on management-defined performance measures (MPMs) in the notes to the financial statements, and (3) improve aggregation and disaggregation.

An entity is required to apply PFRS 18 for annual reporting periods beginning on or after 1 January 2027, with earlier application permitted. The amendments to PAS 7 and PAS 33, as well as the revised PAS 8 and PFRS 7, become effective when an entity applies PFRS 18. PFRS 18 requires retrospective application with specific transition provisions.

The Board of Directors of the Association anticipates that the application of these amendments may have an impact on the Association's financial statements in future periods.

IFRS 19 Subsidiaries without Public Accountability: Disclosures

IFRS 19 permits an eligible subsidiary to provide reduced disclosures when applying IFRS Accounting Standards in its financial statements. A subsidiary is eligible for the reduced disclosures if it does not have public accountability and its ultimate or any intermediate parent produces consolidated financial statements available for public use that comply with IFRS Accounting Standards. IFRS 19 is optional for subsidiaries that are eligible and sets out the disclosure requirements for subsidiaries that elect to apply it.

An entity is only permitted to apply PFRS 19 if, at the end of the reporting period: (1) it is a subsidiary (this includes an intermediate parent), (2) it does not have public accountability, and (3) its ultimate or any intermediate parent produces consolidated financial statements available for public use that comply with PFRS Accounting Standards.

A subsidiary has public accountability if: (1) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or (2) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, banks, credit unions, insurance entities, securities brokers/dealers, mutual funds and investment banks often meet this second criterion).

Eligible entities can apply IFRS 19 in their consolidated, separate or individual financial statements. An eligible intermediate parent that does not apply IFRS 19 in its consolidated financial statement may do so in its separate financial statements.

The new standard is effective for reporting periods beginning on or after 1 January 2027 with earlier application permitted. If an entity elects to apply IFRS 19 for a reporting period earlier than the reporting period in which it first applies IFRS 18, it is required to apply a modified set of disclosure requirements set out in an appendix to IFRS 19. If an entity elects to apply IFRS 19 for an annual reporting period before it applied the amendments to IAS 21, it is not required to apply the disclosure requirements in IFRS 19 with regard to Lack of Exchangeability.

The Board of Directors of the Association does not anticipate that IFRS 19 (to become PFRS 19 in the Philippines) will be applicable to the financial statements of the Association.

Note 3

Summary of Material Accounting Policy Information

The material accounting policies that have been used in the preparation of these financial statements are summarized below. The Company's management expects these policies to influence the decisions of users of the financial statements. Accounting policies related to immaterial transactions or events were no longer disclosed.

Going Concern

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

Basis of Preparation

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

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

The financial statements are presented in Philippine peso, which is the Association's functional and presentation currency, and all values are recorded to the nearest peso except when otherwise indicated. The preparation of the financial statements made use of estimates, assumptions and judgments by management based on management's best knowledge of current and historical facts as at statement of financial position date. These estimates and judgments affect the reported amounts of assets and liabilities and contingent liabilities as at statement of financial position date, as well as affecting the reported income and expenses for the year. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Association.

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

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

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

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

Financial Instruments

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

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

Financial Assets

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

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

Classification of Financial Assets

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

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

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

Despite the foregoing, the Association may make the following irrevocable election/designation at initial recognition of a financial asset: (a) the Association may irrevocably elect to present subsequent changes in fair

value of an equity investment in other comprehensive income if certain criteria are met [see (iii) below]; and (b) the Association may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch [see (iv) below].

(i) Amortized Cost and Effective Interest Method

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

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

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

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

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

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

Cash and Cash Equivalents

Cash and cash equivalents are carried in the financial statements at cost. Cash comprise unrestricted cash on hand, deposits held at call with banks, and time deposits with banks that can be pre-terminated anytime without significant risk of change in value. Cash equivalents (including those invested in a trust fund) represent short-term, highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. At the end of the year, the Association has no cash equivalents.

Trade and Other Receivables

Trade and other receivables are outstanding balances from debtors less the allowance for impairment losses. Receivables are recognized when the Association becomes party to the contract, which

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

Investments in Debt Securities at Amortized Costs

Investment in treasury bills and treasury bonds issued by the Philippine Government are held primarily to collect the contractual cash flow rather than selling the asset prior to its maturity. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss.

(ii) *Debt Instruments Classified as at FVTOCI*

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

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

(iii) *Equity Instruments Designated as at FVTOCI*

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

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investment revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings. Dividends on these investments in equity instruments are recognized in profit or loss in accordance with PFRS 9 unless the dividends clearly represent a recovery of part of the cost of the investment.

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

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

(iv) *Financial Assets at FVTPL*

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

- Investments in equity instruments are classified as at FVTPL, unless the Association designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition [see (iii) above].
- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria [see (i) and (ii) above] are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Association has not designated any debt instruments as at FVTPL.

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

Impairment of Financial Assets

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

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

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

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

(i) Significant Increase in Credit Risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Association compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Association considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Association's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Association's core operations.

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

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

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

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

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

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

(ii) Definition of Default

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

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

(iii) Credit-impaired Financial Assets

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

(iv) Write-Off Policy

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

(v) Measurement and Recognition of Expected Credit Losses (ECL)

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e., the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Association's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

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

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

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

Derecognition of Financial Assets

The Association derecognizes a financial asset only when the contractual rights to the cash flows from the asset

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

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which the Association has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss but is transferred to retained earnings.

Financial Liabilities and Equity

Classification as Debt or Equity

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

Equity Instruments

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

Financial Liabilities

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

Financial Liabilities at FVTPL

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

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

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

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The

net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other services and other income' line item in profit or loss.

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

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

Financial Liabilities Measured Subsequently at Amortized Cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period.

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

Derecognition of Financial Liabilities

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

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

Prepayments

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

Furniture, Fixtures and Office Equipment

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

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

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

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The carrying values of furniture, fixtures and office equipment are reviewed for impairment when changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of Association's furniture, fixtures and office equipment is the greater of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction.

Impairment of Non-Financial Assets

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

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

Actuarial Policies

Actuarial liabilities (reserves for life policy and members' equity) are computed by the Consulting Actuary of the Association using actuarial practices generally accepted in the Philippines. Actuarial liabilities and other policy liabilities represent the estimated amounts which, together with estimated future premiums and net investment income, will provide for outstanding claims, estimated future benefits, and expenses on in-force policies. In calculating actuarial liabilities, assumptions must be made about the timing and amount of many events, including death, investment, inflation, policy termination, expenses, taxes, premiums and commissions. The Association uses best estimate assumptions for expected future experience. Uncertainty is inherent in the process, as no one can accurately predict the future. Some assumptions relate to events that are anticipated to occur for many years in the future and are likely to require subsequent revision.

Additional provisions are included in the actuarial liabilities to provide for possible adverse deviations from the best estimates. If the assumption is more susceptible to change or if the actuary is less certain about the underlying best estimate assumption, a correspondingly larger provision is included in the actuarial liabilities. In determining these provisions, the Association ensures: (a) when taken one at a time, the provision is reasonable with respect to the underlying best estimate assumption, and the extent of uncertainty present in making that assumption, and (b) in total, the cumulative effect of all provisions is reasonable with respect to the total actuarial liabilities.

With the passage of time and resulting reduction in estimation risk, the provisions are released into income. The best estimate assumptions and margins for adverse deviations are reviewed annually and revisions are made where deemed necessary and prudent.

Recording of Claims from Policyholders

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

Revenue and Cost Recognition

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

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

PFRS 4 defines an insurance contract as a 'contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.' PFRS 4 temporarily exempts the Association from some requirements of other PFRSs until the efficacy of PFRS 17, beginning January 1, 2025.

The Association recognizes revenue as follows:

(1) Premium Contributions

This represents considerations given by the member in exchange for the promises of the MBA to pay a stipulated sum in the event of a loss covered under the basic benefits indicated in the Internal Rules and Regulations (IRR) of the MBA and/or membership certificates. Under the provisions of PFRS 4, the Association recognizes premium contributions as earned when collected with corresponding allocation as approved by the Insurance Commission (IC). The proportion of the premiums collected pertaining to periods after reporting date is carried forward to subsequent accounting periods as unearned premiums, so that earned premiums relate to risks carried during the accounting period.

The members' gross premium contributions are allocated as follows:

- 50% goes to the reserve for members' equity, intended for members' entitlements of equity value after three (3) full years of continuous membership in the Association, representing 50% of the total membership dues collected less claims paid;
- 25% goes to cover basic benefits of members;
- 5% goes to guarantee fund; and
- the remaining 20% goes to general operations, to cover administrative costs.

The Association collects premiums/contributions of members through its partner cooperatives and organized groups with a certain service fee (collection cost).

(2) Investments Income

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

(3) Non-Insurance Revenues

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

For each contract with a customer, the Association:

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

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

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

(4) Cost and Expenses

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

Insurance-related costs are accounted as follows:

- Changes in the required actuarial and other reserves are recognized as expense during the year.
- Plan benefits and claims paid to members, including refund of members' equity value, are recognized for benefits availed of by members/beneficiaries.
- Collection costs (representing commissions to collecting affiliate) are due and payable for every premium income recognized. Commission rates are based on IC-approved rates.

(5) Grants, Donations and Other Income

Grants, donations and other income received are valued at fair market value at the time the grants are received.

Compensation and Employees Benefits Expense

Employee benefits are all forms of consideration given by the Association in exchange for services rendered by employees or for the termination of their employments in the Association. The Association recognizes: (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and (b) an expense when the Association consumes the economic benefit arising from the service provided by an employee in exchange for employee benefits. The following represent the accounting followed by the Association for all types of employee benefits, except share-based payment, to which there is none.

- Short-Term Employee Benefits

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

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

- Post-Employment Benefit Plans

Post-employment benefit plans that are provided to employees only cover their retirement benefits, which are paid in lump sum payments at the time of their retirements. The retirement benefits are provided to employees through a defined benefit plan. A defined benefit plan is a retirement plan that defines the amount of retirement benefit an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for the benefits of the retirement plan remains with the Association, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Association's defined benefit retirement plan covers all regular full-time employees.

The Association computed its retirement benefit obligations beginning 2021 based on the provisions of R.A. 7641. The Association's work force is considered young. The Board of Trustees is cognizant of the need to provide post-employment benefits to its employees; however, the cost-benefit estimate favors using the provisions of R.A. 7641 and no actuarial services were engaged presently at this time on the issue of the immateriality of the amount involved.

- Termination Benefits

Termination benefits are payable when employment is terminated by the Association before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Association recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the statement of financial position date are discounted to present value.

Leases – The Association as Lessee

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined,

the Association uses its incremental borrowing rate. The Association has no borrowings, but it is investing funds. It uses the average rates that its investments in financial instruments are getting as the discounted rate justifying that it becomes the opportunity cost when such investible funds are used to the leases.

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

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

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.

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

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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

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

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

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

The right-of-use assets, if any, are presented as a separate line item in the statement of financial position.

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

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

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

Leases – The Association as Lessor

The Association is not a lessor of properties.

Related Party Relationships and Transactions

Related party transactions are transfers of resources, services or obligations between the Association and its related parties, regardless of whether a price is charged. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Association; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Association that gives them significant influence over the Association and close members of the family of any such individual; and (d) the Association's funded retirement plan. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

Contingencies

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

Provisions

Provisions are recognized when the Association has a present obligation (legal or constructive) as a result of a past event, it is probable that the Association will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Events After 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 events that are not adjusting events are disclosed in the notes to financial statements when material.

Note 4

Significant Critical Accounting Judgment and Key Sources of Estimation Uncertainty

In applying the Association's accounting policies, which are described in Note 3, *Summary of Material accounting policy information*, the management of the Association are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognized and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Going concern

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

Critical Judgements in Applying the Association's Accounting Policies

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

Business Model Assessment

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

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

Significant Increase in Credit Risk

Expected credit losses (ECL) are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. PFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Association takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Key Sources of Estimation Uncertainty

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

Calculation of Loss Allowance

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

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

Fair Value Measurements and Valuation Processes

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

Estimating Useful Lives of Furniture, Fixtures and Office Equipment

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

Impairment of Non-Financial Assets

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

Retirement Benefits

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

Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 3.

Note 5

Cash and Cash Equivalents

This account is composed of the following:

<i>December 31,</i>	2024	2023
Cash equivalents	P13,113,623	P7,907,722
Cash in banks	7,056,389	9,045,603
Revolving fund	70,000	70,000
	P20,240,012	P17,023,325

Cash equivalents include short-term placements in various commercial banks. The effective interest rate on short-term placements ranges from 0.5% to 6.0%, maturing in 30 to 365 days. Interest income earned amounted to ₱257,783 and ₱312,092 in 2024 and 2023, respectively.

A portion of the short-term placements in banks serve as additional funding for the Association's Guaranty Fund. (See Note 13.)

Note 6
Loans and Other Receivables

This account consists of the following:

<i>December 31,</i>	2024	2023
Loans receivable – members	₱5,711,122	₱5,118,926
Loans receivable – employees	2,232,313	2,166,553
Accounts receivable – Fonus Cooperative	1,475,054	1,475,054
Unremitted members' contribution	1,388,397	1,395,045
Accounts receivable – ECG Foundation	1,930,640	1,336,011
Accounts receivable – various	407,706	488,567
Accrued interest receivable <i>(Note 7)</i>	93,768	96,061
Prepaid expenses	90,900	90,300
Total	13,329,900	12,166,517
Less allowance for expected credit losses (ECL)	1,575,054	575,011
Net	₱11,754,846	₱11,591,506

The following are the natures of the accounts:

- (1) The main office and the branches of RBT Bank, Inc., as well as the offices of Ernesto Carbuena Galenzoga (ECG) Foundation, Inc. (formerly SAMULCO Foundation, Inc.) serve as collecting agents of the Association. They remit the collections regularly to the Association.
- (2) The loans receivable consists of balances from members availing themselves of the Association's equity loans. Active members who are three years and above are qualified to avail themselves of an equity loan for emergency purposes of not more than 80% of their equity value. The accounts are generally from active accounts and are not impaired at the end of the year.
- (3) The unremitted members' contributions in 2024 and 2023 are mostly receivables from Ernesto Carbuena Galenzoga (ECG) Foundation, Inc. (formerly SAMULCO Foundation, Inc.) and Alexander G. Beltran Foundation (AGB) and are considered current.
- (4) The receivable from FONUS represents borrowings made by FONUS Multipurpose Cooperative for their operating expenses, which totaled ₱1,575,054 for 2023. During 2024, the Association has provided with full allowance for expected credit losses (ECL) for 5 years per IC verification last July 11, 2023.

Allowance for Expected Credit Losses (ECL)

The movement of the allowance for expected credit losses (ECL) are accounted as follows:

<i>December 31,</i>	2024	2023
Opening balances	₱575,011	₱176,000
Provisions for the year	1,000,043	399,011
Closing balances	₱1,575,054	₱575,011

The receivables were provided with 12-month ECL at 1% of principal. Accounts past due for over 1 year have been provided with lifetime ECL at 100%.

Note 7
Investments in Debt and Equity Securities

This account consists of the following investments and their purposes:

<i>December 31,</i>	2024	2023
Investments in debt securities at amortized cost	P14,588,323	P14,063,143
Investments in equity securities at amortized cost	874,290	2,472,923
Investments in equity securities at FVTOCI	1,843,500	1,766,550
Total investments	17,306,113	18,302,616
Less presented under current assets	-	499,332
Presented Under Non-Current Assets	P17,306,113	P17,803,284

This consists of the following investments in debt and equity of other entities:

<i>December 31,</i>	2024	2023
<u>Investment in Equity Securities at Amortized Cost</u>		
Fonus Cooperative	P750,000	P750,000
FPSD Cooperative	119,290	117,923
MASS-SPECC Cooperative	5,000	5,000
Ernesto Carbuena Galenzoga (ECG) Foundation	-	1,600,000
Sub-Total	874,290	2,472,923
<u>Investment in Debt Securities at Amortized Cost</u>		
<u>Retail Treasury Bonds</u>		
Metropolitan Bank and Trust Company (MBTC)	14,588,323	13,563,811
<u>Treasury Bills</u>		
Metropolitan Bank and Trust Company (MBTC)	-	499,332
Sub-Total	14,588,323	14,063,143
<u>Investments in Equity Securities at FVTOCI</u>		
Bank of the Philippine Islands (BPI)	1,843,500	1,766,550
Total	P17,306,113	P18,302,616

The following are the details of the investments:

– **Retail Treasury Bonds**

The Association has placements in treasury bonds with face value of P6,000,000, purchased on August 2012, and will mature on March 1, 2027. In accordance with the provisions of the Insurance Code of the Philippines, the Association assigned the whole amount to the Insurance Commission (IC) for the benefit and security of policyholders and creditors of the Association. In July 2019, the Association purchased additional treasury bonds with face value of P510,000, to mature on July 22, 2020.

During 2024, the Association purchased the treasury bond:

- a) 3-year, 4.63% MBTC bond with face value of P510,000, purchased on October 4, 2024, and

will mature on June 2, 2027; and

- b) 1-year, 5.86% MBTC bond with face value of P540,000, purchased on November 27, 2024, and will mature on November 19, 2025.

During 2022, the Association purchased the treasury bond:

- a) 5-year, 5.75% MBTC bond with face value of P1,020,000, purchased on December 3, 2022, and will mature on March 7, 2028.

During 2021, the Association purchased the following treasury bonds:

- a) 10-year, 3.50% MBTC bond with face value of P500,000, purchased on October 20, 2021 and will mature on September 20, 2026;
- b) 10-year, 3.50% MBTC bond with face value of P600,000, purchased on December 22, 2021, and will mature on September 20, 2026; and
- c) 10-year, 3.50% MBTC bond with face value of P710,000, purchased on December 2, 2021, and will mature on September 20, 2026.

The roll-forward analysis of the retail treasury bonds is as follows:

<i>December 31,</i>	2024	2023
Retail treasury bonds	P14,651,048	P13,630,000
Unamortized bond (discount) premium	(62,725)	(66,189)
Carrying Amount	P14,588,323	P13,563,811

– Treasury Bill

The treasury bill represents short-term, zero-coupon investment in quoted government debt securities which are issued at a discount on their face value. The treasury bill purchased through Metropolitan Bank and Trust Company (MBTC) matured on November 27, 2024.

The roll forward analysis of this account is as follows:

<i>December 31,</i>	2024	2023
Face value	P–	P520,000
Net discount	–	(20,668)
Carrying Amount	P–	P499,332

Investments in Equity Securities at Fair Value through Other Comprehensive Income

This consists of investments in BPI's Bayanihan Balanced Fund, initially purchased at P1,500,000. At the end of 2024, the fair value of the investment in Unit Investment Trust Fund (UITF) amount to P1,843,500. An increase in the value of investment amounting to P76,950 was recorded in the Other Comprehensive Income for the year 2023. In 2023, the investment value increased by P71,700.

Interest Income and Accrued Interest Receivable

Interest income earned amounted to P562,800 and P503,292 in 2024 and 2023, respectively.

Accrued interest receivable on the investments amounted to P93,768 in 2024 and P96,061 in 2023.

Note 8
Furniture, Fixtures and Office Equipment, At Cost

This consists of the following items which are recorded in the books at cost.

<i>December 31,</i>	2024	2023
Office equipment	P248,392	P193,635
IT equipment	892,988	824,004
Leasehold improvements	545,135	545,135
Furniture and fixtures	230,900	230,900
Total	1,917,415	1,793,674
Less accumulated depreciation	1,805,778	1,747,520
Net Book Value	P111,637	P46,154

Reconciliation of the Movements of the Accounts During the Year

<i>December 31, 2024</i>	<i>Opening Balances</i>	<i>Additions</i>	<i>Retirement</i>	<i>Closing Balances</i>
<u>Cost</u>				
Office equipment	P193,635	P54,757	P-	P248,392
IT equipment	824,004	68,984	-	892,988
Leasehold Improvements	545,135	-	-	545,135
Furniture and fixtures	230,900	-	-	230,900
Total	1,793,674	123,741	-	1,917,415
<u>Less accumulated depreciation</u>				
Office equipment	193,635	26,810	-	220,445
IT equipment	759,257	50,041	-	809,298
Leasehold improvements	572,567	-	(27,432)	545,135
Furniture and fixtures	222,061	8,839	-	230,900
Total	1,747,520	85,690	(27,432)	1,805,778
Net Book Value	P46,154	P38,051	(P27,432)	P111,637

December 31, 2023

<u>Cost</u>				
Office equipment	P193,635	P-	P-	P193,635
IT equipment	769,479	54,525	-	824,004
Leasehold improvements	545,135	-	-	545,135
Furniture and fixtures	230,900	-	-	230,900
Total	1,739,149	54,525	-	1,793,674
<u>Less accumulated depreciation</u>				
Office equipment	193,635	-	-	193,635
IT equipment	729,257	30,000	-	759,257
Leasehold improvements	521,807	50,760	-	572,567
Furniture and fixtures	207,661	14,400	-	222,061
Total	1,652,360	95,160	-	1,747,520
Net Book Value	P86,789	(P40,635)	P-	P46,154

Note 9
Right-of-Use Asset

This consists of the following:

<i>December 31,</i>	2024	2023
Right-of-use asset	P-	P936,258
Less accumulated depreciation	-	867,046
Net Book Value	P-	P69,212

Reconciliation of the Movements of the Accounts During the Year

<i>December 31, 2024</i>	<i>Opening Balances</i>	<i>Additions</i>	<i>Retirement</i>	<i>Closing Balances</i>
Right-of-use asset	P936,258	P-	P936,258	P-
Less accumulated depreciation	867,046	-	867,046	-
Net Book Value	P69,212	P-	P69,212	P-
<i>December 31, 2023</i>				
Right-of-use asset	P936,258	P-	P-	P936,258
Less accumulated depreciation	681,124	185,922	-	867,046
Net Book Value	P255,134	(P185,922)	P-	P69,212

Lease

The Association has a lease contract for the use of its office space which covers one year, effective from October 1, 2022, to March 31, 2023, at a monthly rate of P23,000, P24,000 from April 1, 2023 to June 30, 2023 and P20,000 starting July 1, 2023 to June 30, 2025. The Association, however, designed the leasehold as a long-term undertaking by investing in leasehold improvements that has more than one year life. The increase in rental payments also increased the value of the right-of-use asset.

The Association is certain that it will remain in the same premises in the next five (5) years. It has also determined that, while the lease contract contained option for the Association and the lessor to terminate the lease, the Association is certain that both parties would not exercise the option as the Association is determined not to commit the conditions for terminating the lease. In view thereof, the Association recognizes right-of-use assets for five (5) years, and it is reflected in the statement of financial position as a right-of-use asset and a lease liability.

The right-of-use asset is presented in the statement of financial position separately.

The Association discounted the future lease payments on the lease at 10% per annum, the incremental borrowing rate based on an actual offer of a bank for a loan collateralized by its deposits. The observable rate was no longer adjusted for credit risk and other factors as management determined that any adjustments are immaterial.

Lease Liability

Lease liability is presented in the statement of financial position as follows:

<i>December 31,</i>	2024	2023
Current (portion due for the next 12 months)	P-	P60,000
Non-current (portion due in excess of 12 months, until April 1, 2024)	-	-
Total Lease Liability	P-	P60,000

Each lease imposes a restriction that, unless there is written approval of the lessor to sublet the asset to another party, the right-of-use asset can only be used by the Association. The lease contains an option to extend the lease

for a further term under such terms and conditions as may be mutually agreed upon by the parties.

The Association is prohibited from selling or pledging the leased property as security. For leases over office spaces and premises the Association must keep the properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Association must insure items of property and equipment inside the leased premises and incur maintenance fees on such items in accordance with the lease contracts.

Payments made on the lease was P66,000 for 2024 and P264,000 for 2023. Interest paid on lease liability amounted to P6,000 and P29,455 for 2024 and 2023, respectively.

Note 10
Trade and Other Payables

This consists of trade and other payables which are non-interest-bearing and are generally on 30 to 60-day terms, consisting of the following:

<i>December 31,</i>	2024	2023
Accrued expenses	P897,256	P845,258
Retirement benefit obligation (see paragraphs below)	433,110	433,110
Unremitted contributions to Government agencies	39,075	35,766
Other payables	114,368	420,542
	P1,483,809	P1,734,676

Retirement Benefit Obligation

The Association's regular/permanent employees are provided with retirement benefits beginning 2013. An employee who reaches five (5) years in service is entitled to a retirement benefit equal to 2% of his/her latest monthly salary multiplied by 12 months then multiplied to number of years in service. Employees who have served less than five (5) years are only entitled to their total deducted salary savings, which is 2% of their salary.

Benefits are paid in a lump sum upon retirement or separation in accordance with the terms of the plan. There were no plan amendments, curtailment, or settlement recognized as of December 31, 2024. The policy defines the amount of retirement benefit an employee will receive at the time of retirement or separation from service. The legal obligation on the payment of retirement benefits to the employees remains with the Association. The Association has 9 regular employees at the end of 2024.

Under the above simplified method, the Association ignores factors such as estimated future salary increases, future service of current employees and possible in-service mortality of current employees between reporting date and date the employees are expected to retire.

The retirement benefit obligation of the Association was computed based on the existing retirement benefit system of the Association approved by its Board of Directors in the past. The computation was based on the accumulated benefit obligation method that hews closely with the provisions of R.A. 7641, *An Act Amending Article 287 of Presidential Decree No. 442, as Amended, Otherwise Known as the Labor Code of the Philippines, by Providing for Retirement Pay to Qualified Private Sector Employees in the Absence of any Retirement Plan in the Establishment.*

The management of the Association recognizes the fact that the recorded retirement benefit liability is not based on actuarial valuations, it considers the anticipated effect of the matter to be presently immaterial. However, the Association will endeavor to secure the services of an Actuary to determine the retirement benefit obligation next year.

Note 11
Insurance Contract Liabilities

This account consists of the following:

<i>December 31,</i>	2024	2023
Incurring but not reported claims for credit policies	1,210,000	P164,430
Claims due and unpaid for life policies	200,000	177,500
Incurring but not reported claims for life policies	67,657	82,966
Claims in course of settlement for credit policies	52,000	213,000
Claims resisted/denied for life policies	30,000	-
Claims due and unpaid for credit policies	-	77,088
	P1,559,657	P714,984

Claims due and unpaid benefits represent claim benefits that have been processed and that the Association recognizes liability on the claims by the member or its beneficiaries. The aggregate liability includes checks payments that are still outstanding at the accounting office for various reasons like returned/staled checks, undelivered checks to addressees either because the addressees changed addresses or refused to accept payment, etc. Claims in the course of settlement are claims reported and unpaid at the end of the year pending submission of documentary requirements. No decision has yet been made whether to deny or to pay the claim.

Incurring but not reported claims are claims reported beyond December 31, 2024, whose date of claim happened before the reporting date. Resisted or denied claims are claim benefit applications whose benefit payments are being contested/resisted by the Association due to infraction(s) of the Association's Rules and Regulations.

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

Total basic benefits and claims paid to members amounted to P3,317,833 in 2024 and P3,218,483 in 2023.

Note 12
Aggregate Reserves for Risks

This consists of the following reserves:

<i>December 31,</i>	2024	2023
Reserves for members' equity	P28,466,002	P26,356,393
Reserves for credit life insurance	1,894,864	2,597,489
Reserves for life policies	38,852	48,585
	P30,399,718	P29,002,467

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

The reserves for members' equity represents the total amount of obligations set-up by the MBA on membership certificates pertaining to the 50% equity value as required under the Insurance Code, and any incremental amount declared by the MBA. In accordance with the provisions of the Insurance Code, every outstanding membership certificate must have, after three (3) full years of being continuously in force, an equity value to at least 50% of the total membership dues collected from the member.

The equity is payable to the members upon termination of their membership in the Association. In accordance with the same Code, the Association is required to put up a reserve liability not lower than the equity value of all in-force, active certificates as at the end of each calendar year; hence, the Association sets up the 50% of its gross premium collections as its reserves for members' equity.

The reserve for credit life insurance represents the amount of credit life insurance on members/debtors in connection with a specific loans or other credit transaction with the Association which is intended to provide for satisfaction of the loans, in whole or in part, upon the death of an insured members/debtors.

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

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

<i>December 31, 2024</i>	<i>Reserves for Credit Life Insurance</i>	<i>Reserves for Members' Equity</i>	<i>Reserves for Life Policies</i>	<i>Total</i>
Provisions during 2007	P-	P2,560,284	P85,343	P2,645,627
Provisions during 2008	-	3,432,048	32,768	3,464,816
Provisions during 2009	-	4,859,761	(55,289)	4,804,472
Provisions during 2010	-	2,851,865	1,934	2,853,799
Provisions during 2011	1,631,540	2,560,962	(11,152)	4,181,350
Provisions during 2012	(357,511)	2,256,492	(8,915)	1,890,066
Provisions during 2013	(273,417)	(1,503,013)	287,415	(1,489,015)
Provisions during 2014	716,774	1,524,701	(298,664)	1,942,811
Provisions during 2015	(384,242)	1,373,878	3,450	993,086
Provisions during 2016	(87,788)	(5,881,402)	2,075	(5,967,115)
Provisions during 2017	377,859	1,400,298	(2,854)	1,775,303
Provisions during 2018	(768,966)	1,545,317	2,333	778,684
Provisions during 2019	270,000	1,826,950	4,651	2,101,601
Provisions during 2020	46,230	1,812,846	15,147	1,874,223
Provisions during 2021	297,572	1,923,211	(2,474)	2,218,309
Provisions during 2022	1,539,908	1,978,083	(8,266)	3,509,725
Provisions during 2023	(410,470)	1,834,112	1,083	1,424,725
Balances as of December 31, 2023	2,597,489	26,356,393	48,585	29,002,467
Provisions during 2024	(702,625)	2,109,609	(9,733)	1,397,251
Balances as of December 31, 2024	P1,894,864	P28,466,002	P38,852	P30,399,718

The amount of aggregate reserves for members' equity, reserve for credit life insurance and reserves for life policies for every year presented above have been computed and certified by the Consulting Actuary of the Association to be in accordance with commonly accepted actuarial standards consistently applied and that the legal policy reserves and other actuarial items are fairly stated in accordance with sound actuarial principles.

Note 13 **Guaranty Fund**

This represents the amount required by the Insurance Commission (IC) to be established to guaranty the benefits and security of policyholders and creditors of the Association, in accordance with the provisions of The Amended Insurance Code (R.A. No. 10607). The Fund is augmented by the regular contributions of members. (See Note 14.)

The Guaranty Fund is funded by investments in debt and equity securities (Note 7) as well as portions of cash and cash equivalents (Note 5).

Accounting of the Movement of the Guaranty Fund

<i>December 31,</i>	2024	2023
Opening balances	P13,138,154	P12,449,939
Contribution from members representing 5% of total premiums received	752,411	688,215
Closing balances	P13,890,565	P13,138,154

Note 14

Members' Premium Contribution

The Association's members are charged twenty pesos (P20.00) per week during their active membership in the Association for basic life insurance. Total premiums collected are as follows:

<i>Years Ended December 31,</i>	2024	2023
Gross members' premium contributions on life	P5,337,443	P4,548,282
Gross members' premium contributions for credit life policies	9,710,768	9,216,027
	P15,048,211	P13,764,309

In accordance with the Implementing Rules and Regulations of the Association's Basic Life Insurance Plan approved by the Insurance Commission (IC) on September 6, 2006, the Association disaggregates the members' contributions for basic life insurance of P20.00 into the following:

- (a) 50% is allocated as reserve for members' equity intended for the members' entitlements of equity value after three (3) full years of continuous membership in the Association, representing 50% of the total membership dues collected less claims paid;
- (b) 25% is intended to cover basic benefits such as payments for death or permanent disability claims of a member or its legal spouse, or any of the members' biological and/or legally adopted children who are single and more than 21 years old but disabled and incapacitated to work. If single without children, the members' legal dependents include the member's biological parents less than 60 years old. If a member is single and with children, the member's legal dependents are the biological and/or legally adopted children who are 90 days to 21 years old or more but disabled and incapacitated to work;
- (c) 5% is intended as additional guaranty fund; and
- (d) 20% is intended to cover administrative costs and expenses.

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

The members withdrawal of equity value, presented in the statement of profit or loss as part of benefits paid to members, amounted to P559,112 in 2024 and P440,030 in 2023.

General Fund

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

As of December 31, 2024, there is no excess on 20% limitation of its total liabilities for savings allocations.

Note 15

Assigned Surplus Fund

The Assigned Surplus Fund represents the equity value reserves of members whose policies have lapsed beyond the mandated reinstatement period of three (3) years restricted for a certain period and only becomes unrestricted (unassigned) after: (a) the Association has initiated at least two (2) actions to locate and inform said members of their equity value; and (b) the Association maintains a comprehensive schedule in the event that these members will make a claim in the future.

In accordance with agreements reached during the July 19, 2016, dialogue with the Insurance Commission (IC) and the Board of the Microinsurance MBA Association of the Philippines (RIMANSI) on the "Treatment of Equity Value of Members Before the Implementation of the Amended Insurance Code in 2013" (subsequently approved by the IC on October 16, 2016) the Association treated the floating equity value reserves of deceased, lapsed and resigned members as follows:

- The equity value reserves of deceased members are transferred to the Unassigned Surplus of the Fund Balance;
- The equity value reserves of members whose policies have lapsed beyond the mandated reinstatement period of three (3) years have been transferred to the Assigned Surplus of the Fund Balance, after the Association: (a) initiated at least two (2) actions to locate and inform said members of their equity value; and (b) maintained a comprehensive schedule in the event that these members will make a claim in the future; and
- The equity value reserves of resigned members before the amended Insurance Code of 2013, with less than three (3) years of membership have been transferred to the Unassigned Surplus of the Fund Balance.

Note 16

Details of Other Income

<i>Years Ended December 31,</i>	2024	2023
Membership fees	P331,030	P145,280
Other income	126,454	129,021
	P457,484	P274,301

The membership fees substantially represent the one-time application fee of P200 charged to new members, which is non-refundable and does not form part of the members' accumulated and refundable contributions.

Note 17

Details of Salaries, Wages and Employees' Benefits

<i>Years Ended December 31,</i>	2024	2023
Compensation and employees' benefits	P3,339,911	P2,555,187
Post-employment benefits <i>(Note 10)</i>	-	-
	P3,339,911	P2,555,187

Note 18

Details of General and Administrative Expenses

<i>Years Ended December 31,</i>	2024	2023
Provision for expected credit losses <i>(Note 6)</i>	₱1,000,043	₱399,011
Meetings, conferences and staff development	483,604	263,333
Promotions and networking	438,175	440,674
Transportation and travel	351,489	319,186
Taxes, licenses and fees <i>(Note 25)</i>	266,288	256,710
Light and water	231,518	211,693
Rent	174,000	3,000
Supplies and materials	157,240	102,684
Professional fees	117,460	118,120
Service fees	104,037	95,789
Membership fees and dues	79,016	72,004
Social and community services	49,894	46,949
Members' services	38,728	39,067
Interest expense on lease liability <i>(Note 9)</i>	6,000	29,455
Miscellaneous	109,031	44,215
	₱3,606,523	₱2,441,890

In computing the allocation of the premiums received during the year for general and administrative expenses, the Association excludes the amount recognized as provisions for expected credit losses.

Note 19

Related Party Transactions

In the ordinary course of trade or business, the Association has transactions with its related parties which include its Board of Trustees, members of various committees and its officers and employees, who are also members of the Association. These transactions are made substantially on the same terms and conditions as with other members of comparable risks. None of the transactions incorporate special terms and conditions and no guarantee is given or received. Outstanding balances are usually settled in cash.

The Association has no associates, affiliates or joint venture projects. The following summarizes transactions with related parties:

- The Association accepts insurance business from the borrowers of RBT Bank, Inc. (A Rural Bank), members of Ernesto Carbuena Galenzoga (ECG) Foundation, Inc. (formerly SAMULCO Foundation, Inc.), members of South Bank and members of FONUS MPC and authorizes these institutions to collect premium contributions from these members for certain collection fees. Total premiums collected from these institutions amounted to ₱11,854,242 in 2024 and ₱8,490,753 in 2023. Collections costs amounted to ₱3,578,958 in 2024 and ₱3,315,141 in 2023.
- The Association also extends cash advances to employees and directors.
- The key management compensation during 2024 and 2023 follow:

<i>Years Ended December 31,</i>	2024	2023
Salaries and wages	₱2,006,400	₱908,400
Employees' benefits	1,565,000	222,000
	₱3,571,400	₱1,130,400

Note 20
Fair Value Measurement

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

The table in the following page summarizes the fair value hierarchy of the Association's financial assets and financial liabilities which are not measured at fair value in the 2024 statement of financial condition but for which fair value is disclosed.

<i>December 31, 2024</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<i><u>Financial assets</u></i>				
Cash and cash equivalents (Note 5)	P20,240,012	P-	P-	P20,240,012
Loans and other receivables (Note 6)	-	-	11,754,846	11,754,846
Inv. in debt & equity securities (Note 7)	-	-	17,306,113	17,306,113
	P20,240,012	P-	P29,060,959	P49,300,971
<i><u>Financial liabilities</u></i>				
Aggregate reserves for risks (Note 12)	P-	P-	P30,399,718	P30,399,718
Insurance contract liabilities (Note 11)	-	-	1,559,657	1,559,657
Trade and other payables (Note 10)	-	-	1,483,809	1,483,809
Lease liability (Note 9)	-	-	-	-
	P-	P-	P33,443,184	P33,443,184
<i><u>December 31, 2023</u></i>				
<i><u>Financial assets</u></i>				
Cash and cash equivalents (Note 5)	P17,023,325	P-	P-	P17,023,325
Loans and other receivables (Note 6)	-	-	11,591,506	11,591,506
Inv. in debt & equity securities (Note 7)	-	-	18,302,616	18,302,616
	P17,023,325	P-	P29,894,122	P46,917,447
<i><u>Financial liabilities</u></i>				
Aggregate reserves for risks (Note 12)	P-	P-	P29,002,467	P29,002,467
Insurance contract liabilities (Note 11)	-	-	714,984	714,984
Trade and other payables (Note 10)	-	-	1,734,676	1,734,676
Lease liability (Note 9)	-	-	60,000	60,000
	P-	P-	P31,512,127	P31,512,127

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

Fair Value Measurement for Non-financial Assets

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as of December 31, 2024 and 2023.

<i>December 31, 2024</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Furn., fixt. and office equipment (Note 8)	P-	P-	P111,637	P111,637

<u>December 31, 2023</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Furn., fixt. and office equipment (Note 8)	P-	P-	P46,154	P46,154

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

Note 21

Capital Management Objectives, Policies and Procedures

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

Compliance with Capitalization Requirements

In accordance with the provisions of Chapter VII, Title 1, Section 405 of R.A. 10607, *The Amended Insurance Code*, a mutual benefit association incorporated after the effectivity of the Code shall constitute and establish a Guaranty Fund with initial amount of P5 million, in cash or in government securities, to answer for any valid benefit claim of any of its members. The Association has complied with this requirement by having its Guaranty Fund of P13,890,565 (Note 13) and having funded it with investments in financial instruments of P14,588,323 (Note 7) and cash equivalents amounting to P13,113,623 (Note 5). The totals of these funds are intended to be higher than the required level of Guaranty Fund to allow the Association adequate flexibility in dealing with certain contingencies.

Note 22

Risk Management Objectives and Policies

The Association is exposed to various risks in relation to financial instruments. The Association's principal financial instruments are its cash and cash equivalents (Note 5), loans and other receivables (Note 6), investments in debt and equity securities (Note 7), trade and other payables (Note 10) and insurance contract liabilities (Note 11). The main types of risks are insurance risk, credit and concentration risks, market risk and liquidity risk. The Association is not exposed to foreign currency risk since it has no foreign currency deposits. In 2024, the Association purchased financial instruments as part of its investment strategies. The Association is now exposed to investment risks beginning 2024.

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

Risk Management Structure

The Board of Trustees is mainly responsible for the overall risk management and for the approval of risk strategies and principles of the Association. The Board of Trustees also has the overall responsibility for the

development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Association's approach to risk issues in order to make relevant decisions.

Insurance Risk

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

Credit and Concentration Risks/Investment Risk

Credit risk refers to the risk that counterparty will default and/or not honor its financial or contractual obligations resulting in financial losses to the Association. The Association is exposed to credit risk from financial assets including its cash held in banks, trade and other receivables and investments in financial instruments. The credit risk in respect of cash balances held with banks and time deposits with banks are managed via diversification of bank deposits and are only with major reputable financial institutions and are regularly monitored. Trade receivables consist of premiums receivable from active members and from the unremitted premium collections by the agent-affiliate. The Association does not hold any security on the trade and other receivables balance and the accounts are monitored on an ongoing basis with the result that the Association's exposure to impairment is not significant.

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

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

<i>December 31, 2024</i>	<i>Neither Past Due Nor Impaired</i>	<i>Past Due But Not Impaired</i>	<i>Total</i>
Cash and cash equivalents <i>(Note 5)</i>	P20,240,012	P-	P20,240,012
Loans and other receivables <i>(Note 6)</i>	11,095,835	659,011	11,754,846
Inv. in debt & equity securities <i>(Note 7)</i>	17,306,113	-	17,306,113
	P48,641,960	P659,011	P49,300,971
	98.66%	1.34%	100%
<i>December 31, 2023</i>			
Cash and cash equivalents <i>(Note 5)</i>	P17,023,325	P-	P17,023,325
Loans and other receivables <i>(Note 6)</i>	10,331,463	1,260,043	11,591,506
Inv. in debt & equity securities <i>(Note 7)</i>	18,302,616	-	18,302,616
	P45,657,404	P1,260,043	P46,917,447
	97.31%	2.69%	100%

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

<i>December 31, 2024</i>	<i>High Grade</i>	<i>Standard Grade</i>	<i>Impaired</i>	<i>Total</i>
Cash and cash equivalents <i>(Note 5)</i>	P20,240,012	P-	P-	P20,240,012
Loans and other receivables <i>(Note 6)</i>	-	11,754,846	-	11,754,846
Inv. in debt & equity securities <i>(Note 7)</i>	-	17,306,113	-	17,306,113
	P20,240,012	P29,060,959	P-	P49,300,971

<i>December 31, 2023</i>	<i>High Grade</i>	<i>Standard Grade</i>	<i>Impaired</i>	<i>Total</i>
Cash and cash equivalents <i>(Note 5)</i>	P17,023,325	P-	P-	P17,023,325
Loans and other receivables <i>(Note 6)</i>	-	11,591,506	-	11,591,506
Inv. in debt & equity securities <i>(Note 7)</i>	-	18,302,616	-	18,302,616
	P17,023,325	P29,894,122	P-	P46,917,447

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

Market Risks

Market risk is the possibility that changes in equity prices or interest rates will adversely affect the value of the Association’s assets, liabilities or expected future cash flows. The Association has no exposure arising from complex investments since it is not engaging in high-risk investments, forward contracts, hedging, and the likes, whether local or foreign transactions. The Association has no exposure to price risks as its investment in quoted equity and debt securities are of fixed interest rates. The Association’s interest rate risk arises from its time deposits with banks. The Association invested in fixed rate deposits to mitigate the risks. The Association is not exposed to foreign currency risks as it has no assets nor liabilities denominated in foreign currency.

Liquidity Risks

Liquidity risk is that the Association might be unable to meet its obligations. The Association’s objectives to manage its liquidity profile are: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; and (c) to be able to access funding when needed at the least possible cost. The Association manages its liquidity by carefully monitoring its scheduled servicing payments for financial liabilities as well as its cash flows due on its day-to-day business.

The data used for analyzing these cash flows is consistent with that used in the contractual maturity analysis in the following table. Net cash requirements are compared to available cash position in order to determine headroom or any shortfalls. This analysis shows that the available cash position is expected to be sufficient over the lookout period. The Association considers its expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade receivables. The Association’s existing cash resources and trade receivables (see tables in the preceding page) significantly exceed the current cash outflow requirements. Cash flows from trade and other receivables are all contractually due within six months.

Maturity Profile of the Association’s Financial Liabilities

<i>December 31, 2024</i>	<i>Due in One Year</i>	<i>Due Over One Year</i>	<i>Total</i>
Aggregate reserves for risks <i>(Note 12)</i>	P-	P30,399,718	P30,399,718
Insurance contract liabilities <i>(Note 11)</i>	1,559,657	-	1,559,657
Trade and other payables <i>(Note 10)</i>	1,483,809	-	1,483,809
	P3,043,466	P30,399,718	P33,443,184
	9.18%	90.82%	100%

Note 23

Commitments and Contingencies

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

Note 24

Authorization of Financial Statements

The Association's financial statements as of December 31, 2024, and for the year then ended, were authorized for issue by the Board of Trustees on April 11, 2025.

Note 25

Details of Taxes, Licenses and Fees

<i>Years Ended December 31,</i>	2024	2023
Supervision	₱95,950	₱95,950
Business permits	92,108	81,560
IC license and filing fees	50,500	50,500
BIR registration	730	500
Other taxes	27,000	28,200
	₱266,288	₱256,710

**LETTER OF RECOMMENDATIONS
AUDIT YEAR 2024**

Letter of Recommendations to

**Katilingbanong Kaangayan
Para sa Kasegurohan ug Kalambuan –
Mutual Benefit Association (4K-MBA), Inc.**

Audit Year December 31, 2024

Recommended by:



April 11, 2025

The Board of Directors
**Katilingbanong Kaangayan Para sa Kasegurohan ug
Kalambuan – Mutual Benefit Association (4K-MBA), Inc.**
Sebastian Building, Tiano-Echem Street, Cagayan de Oro City

Attention: **Ms. Maria Glenda S. Robusta**, President
Ms. Loraine B. Templado, Chief Executive Officer and
Ms. Carmen B. Macaranas-Aguinid, Operations Manager

Gentlemen:

We have audited the financial statements of **Katilingbanong Kaangayan Para sa Kasegurohan ug Kalambuan – Mutual Benefit Association (4K-MBA), Inc.** as of and for the year ended December 31, 2024 and have issued our report dated April 11, 2025. As part of our engagement, we made a study and evaluation of the Association's system of internal accounting control to the extent we considered necessary to obtain understanding of internal control over financial reporting, to assess the risk that a material weakness exists, and to test and evaluate the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances.

Management's Responsibility Over Internal Control

The management of the Association is responsible for establishing and maintaining the internal control structures of the Association. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related cost of control procedures. An internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Philippine Financial Reporting Standards (PFRSS). An internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Association; (2) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with PFRSS, and that receipts and disbursements are being made only in accordance with budgets and authorizations of management; and (3) provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use, or disposition of the Association's assets that could have a material effect on the financial statements in general.

Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Our objective is to use our knowledge of the Association gained during our routine audit work to make useful comments and suggestions for you to consider. However, you will appreciate that our routine audit work is designed to enable us to form an opinion on the financial statements of the Association and it should not be relied upon to disclose all irregularities that may exist or to disclose errors that are not material in relation to the financial statements. Accordingly, we do not express an opinion on the system of

internal accounting control of **Katilingbanong Kaangayan Para sa Kasegurohan ug Kalambuan – Mutual Benefit Association (4K-MBA), Inc.**, taken as a whole.

The purpose of this letter is to set out certain matters that came to our attention during the course of our audit of the financial statements of the Association for the year ended December 31, 2024. Our report is designed to include useful recommendations that may help improve performance and avoid weaknesses that could lead to material loss or misstatement. It is your obligation to take the actions needed to remedy those weaknesses and should you fail to do so we shall not be held responsible if loss or misstatement occurs as a result.

FINDINGS, COMMENTS AND RECOMMENDATIONS

General Findings

Generally, the internal controls tested were found to be working. We did not identify any reportable conditions or material weakness in internal control. In accordance with Philippine Standards on Auditing (PSAs), reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Association's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Suggestions to Improve Internal Controls

During our audit, we noted the following matters where management may have to give attention to improve internal control:

Item 1

Obtain an Actuarial Valuation Report for the Association's Retirement Benefit Payable

The Association's retirement benefit payable is currently not being computed based on actuarial assumptions. We recommend that management secure an actuarial valuation report for the 2025 retirement benefit payable.

Management Response

The Board of Trustees approved during BOT meeting dated November 16, 2024 that 4K-MBA will request an actuarial computation for retirement benefit of employees since we we're advised by the IC, but our financial status cannot afford to set up since we also have a long time IC audit findings on FONUS Receivable (dissolved partner), which was prioritized to set up an allowance for one-time Expected Credit Losses (ECL) for the year 2024 as compliance of the 2023 IC findings. The association was scheduled for a meeting with the Actuary on June 2025 regarding this matter.

Item 2

Request Actuary's Recommendation on Amount to Reclassify to General Fund from Assigned Surplus

In 2024, the Association's total Assigned Surplus amounted P2,758,619. There were no transactions, no amounts were returned to members during the year. Meanwhile, the General Fund as reached P1,023,260.

We recommend that the Management consult with the Actuary and request for a portion of the Assigned Surplus to be reclassified back to the General Fund to help reduce the negative amount.

Management Response

This is also one of the agenda on June 2025 meeting with the Actuary.

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This report is submitted solely for the information of the Board of Directors and management and should not be quoted or shown to other parties outside of the Association because of the possibility of misunderstanding by persons who may not be aware of the objectives and limitations, as well as the special circumstances surrounding our examination of the Association's financial statements. We will accept no responsibility to any third party in relation to it.

Please let us know should you have queries on the foregoing matters.

Very truly yours,

Quilab & Garsuta, CPAs
PTR No. 6133948 A
January 2, 2025
Cagayan de Oro City