

Financial Statements

**PRAXIS FIDES MUTUAL BENEFIT
ASSOCIATION, INC.**
(A Non-Stock, Non-Profit Organization)

December 31, 2025 and 2024

PRAXIS FIDES MUTUAL BENEFIT ASSOCIATION, INC.
(A Non-Stock, Non-Profit Organization)
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2025 AND 2024
(Amounts in Philippine Peso)

	2025	2024
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents (Note 5)	P 202,089,866	P 213,353,849
Short-term financial assets (Note 6)	81,666,766	79,862,157
Membership assistance and other receivables (Note 7)	138,095,502	176,169,868
Financial assets at amortized cost (Note 8)	77,512,551	57,937,570
Financial assets at fair value through profit or loss (Note 9)	341,212,324	315,009,246
Other current financial assets (Note 10)	1,002,620	1,848,067
Prepayments	338,188	416,204
Total Current Assets	841,917,817	844,596,961
NON-CURRENT ASSETS		
Long-term financial assets (Note 6)	81,937,983	85,052,915
Membership assistance and other receivables (Note 7)	55,929,446	63,390,478
Financial assets at fair value through other comprehensive income (Note 11)	103,133,470	97,625,000
Property and equipment (Note 12)	10,056,488	11,432,109
Investment property (Note 13)	100,791,112	86,602,730
Retirement asset (Note 23)	3,072,196	3,100,953
Total Non-current Assets	354,920,695	347,204,185
TOTAL ASSETS	P 1,196,838,512	P 1,191,801,146
<u>LIABILITIES AND FUND BALANCE</u>		
CURRENT LIABILITIES		
Accounts payable and other liabilities (Note 14)	P 17,220,162	P 16,312,995
Liability on individual equity value (Note 15)	666,514,473	681,674,588
Basic contingent benefit reserve (Note 16)	1,545,379	1,497,142
Other benefits on basic policies (Note 18)	39,855,737	38,249,397
Claims payable on basic contingent benefit (Note 17)	1,550,000	3,950,000
Income tax payable	202,687	629,637
Total Current Liabilities	726,888,438	742,313,759
NON-CURRENT LIABILITY		
Accounts payable and other liabilities (Note 14)	275,253	44,253
Total Liabilities	727,163,691	742,358,012
FUND BALANCE		
Assigned fund balance (Note 21)	104,853,746	61,918,754
Free and unassigned fund balance (Note 21)	366,262,825	389,462,705
Accumulated other comprehensive loss (Note 21)	(1,441,750)	(1,938,325)
Total Fund Balance	469,674,821	449,443,134
TOTAL LIABILITIES AND FUND BALANCE	P 1,196,838,512	P 1,191,801,146

See Notes to Financial Statements.

PRAXIS FIDES MUTUAL BENEFIT ASSOCIATION, INC.
(A Non-Stock, Non-Profit Organization)
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024
(Amounts in Philippine Peso)

	2025	2024
REVENUES		
Members' contributions <i>(Note 20)</i>	P 146,479,399	P 142,652,326
Interest income on:		
Membership assistance <i>(Note 7)</i>	17,203,240	28,298,790
Investment securities and deposits with banks <i>(Notes 5, 6, 8, 9 and 11)</i>	29,665,817	27,768,387
Gain on sale of financial assets at fair value through profit or loss <i>(Note 9)</i>	896,431	1,322,751
Service charges and fees <i>(Note 7)</i>	5,476,303	6,804,302
Membership fees <i>(Note 20)</i>	977,600	872,200
Fair value gain on financial assets at fair value through profit or loss <i>(Note 9)</i>	7,871,475	5,305,251
Others <i>(Note 19)</i>	8,542,802	8,605,343
	217,113,067	221,629,350
EXPENSES		
Allocation for liability on individual equity value <i>(Notes 15 and 19)</i>	92,262,373	90,309,305
Operating expenses <i>(Note 19)</i>	48,576,506	49,855,493
Benefit/claim expenses <i>(Note 19)</i> through profit or loss <i>(Note 9)</i>	9,555,000	13,460,000
Increase in reserve for basic contingent benefit <i>(Notes 16 and 19)</i>	48,237	22,306
	150,442,116	153,647,104
PROFIT BEFORE TAX	66,670,951	67,982,246
TAX EXPENSE <i>(Note 24)</i>	4,309,212	4,156,913
NET PROFIT	62,361,739	63,825,333
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified subsequently to profit or loss		
Actuarial gain (loss) on post-employment defined benefit obligation <i>(Notes 21 and 23)</i>	496,575	(1,382,340)
TOTAL COMPREHENSIVE INCOME	P 62,858,314	P 62,442,993

See Notes to Financial Statements.

PRAXIS FIDES MUTUAL BENEFIT ASSOCIATION, INC.
(A Non-Stock, Non-Profit Organization)
STATEMENTS OF CHANGES IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024
(Amounts in Philippine Peso)

	Assigned Fund Balance <i>(Note 21)</i>	Free and Unassigned Fund Balance <i>(Note 21)</i>	Accumulated Other Comprehensive Loss <i>(Note 21)</i>	Total
Balance at January 1, 2025	P 61,918,754	P 389,462,705	(P 1,938,325)	P 449,443,134
Appropriation for the year	85,561,619	(85,561,619)	-	-
Withdrawals for the year	(42,626,627)	-	-	(42,626,627)
Total comprehensive income for the year	<u>-</u>	<u>62,361,739</u>	<u>496,575</u>	<u>62,858,314</u>
Balance at December 31, 2025	<u>P 104,853,746</u>	<u>P 366,262,825</u>	<u>(P 1,441,750)</u>	<u>P 469,674,821</u>
Balance at January 1, 2024	P 82,686,253	P 340,028,077	(P 555,985)	P 422,158,345
Appropriation for the year	4,000,000	(4,000,000)	-	-
Withdrawals for the year	(24,767,499)	(10,390,705)	-	(35,158,204)
Total comprehensive income for the year	<u>-</u>	<u>63,825,333</u>	<u>(1,382,340)</u>	<u>62,442,993</u>
Balance at December 31, 2024	<u>P 61,918,754</u>	<u>P 389,462,705</u>	<u>(P 1,938,325)</u>	<u>P 449,443,134</u>

See Notes to Financial Statements.

PRAXIS FIDES MUTUAL BENEFIT ASSOCIATION, INC.
(A Non-Stock, Non-Profit Organization)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024
(Amounts in Philippine Peso)

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	P 66,670,951	P 67,982,246
Adjustments for:		
Impairment losses <i>(Note 7)</i>	3,300,000	3,300,000
Depreciation <i>(Notes 12 and 13)</i>	2,164,298	2,053,293
Retirement expense <i>(Note 23)</i>	838,599	564,487
Income from delisted accounts <i>(Note 19)</i>	(404,716)	(191,974)
Gain on sale of investment property <i>(Note 13)</i>	(632,927)	(2,142,507)
Gain on disposal of financial assets at fair value through profit and loss <i>(Note 9)</i>	(896,431)	(1,322,751)
Unrealized fair value gain of financial assets at fair value through profit or loss <i>(Note 9)</i>	(7,871,475)	(5,305,251)
Interest income <i>(Notes 5, 6, 7, 8, 9 and 11)</i>	(46,869,057)	(56,067,177)
Operating profit before working capital changes	16,299,242	8,870,366
Decrease in membership assistance and other receivables	31,128,694	20,518,769
Decrease in prepayments	78,016	139,700
Increase in retirement asset	(313,267)	(1,799,809)
Increase in accounts payable and other liabilities	1,138,167	3,407,832
Increase in basic contingent benefit reserve	48,237	22,306
Increase in other benefits on basic policies	2,011,056	2,939,632
Decrease (increase) in claims payable on basic contingent benefit	(2,400,000)	1,660,000
Cash generated from operations	47,990,145	35,758,796
Interest received on membership assistance <i>(Note 7)</i>	28,309,944	36,005,432
Cash paid for income taxes <i>(Note 24)</i>	(4,736,162)	(3,527,276)
Net Cash From Operating Activities	71,563,927	68,236,952
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of financial assets at fair value through profit or loss <i>(Note 9)</i>	106,486,633	100,297,347
Interest received on bank deposits and investment securites <i>(Notes 5, 6, 8, 9 and 11)</i>	29,665,817	27,768,387
Proceeds from long-term financial assets	3,114,932	1,456,161
Proceeds from other current financial assets <i>(Note 10)</i>	845,447	15,588,015
Proceeds from sale of investment property <i>(Note 13)</i>	841,679	3,461,003
Acquisitions of property and equipment <i>(Note 12)</i>	(372,711)	(435,933)
Additions to short-term financial assets <i>(Note 6)</i>	(1,804,609)	(17,193,886)
Additions to financial assets at fair value through other comprehensive income <i>(Note 11)</i>	(5,508,470)	(14,975,000)
Additions to investment property <i>(Note 13)</i>	(14,813,100)	-
Additions to financial assets at amortized cost <i>(Note 8)</i>	(19,574,981)	(3,612,432)
Additions to financial assets at fair value through profit or loss <i>(Note 9)</i>	(123,921,805)	(105,517,645)
Net Cash From (Used in) Investing Activities	(25,041,168)	6,836,017
CASH FLOWS FROM FINANCING ACTIVITIES		
Members' contributions allocated to liability on individual equity value <i>(Note 15)</i>	92,262,373	90,309,305
Members' withdrawals <i>(Note 20)</i>	(150,049,115)	(140,858,341)
Net Cash Used in Financing Activities	(57,786,742)	(50,549,036)
NET DECREASE (INCREASE) IN CASH AND CASH EQUIVALENTS	(11,263,983)	24,523,933
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	213,353,849	188,829,916
CASH AND CASH EQUIVALENTS AT END OF YEAR <i>(Note 5)</i>	P 202,089,866	P 213,353,849

See Notes to Financial Statements.

PRAXIS FIDES MUTUAL BENEFIT ASSOCIATION, INC.
(A Non-Stock, Non-Profit Organization)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024
(Amounts in Philippine Peso)

1. CORPORATE INFORMATION

Organization and Objectives

Praxis Fides Mutual Benefit Association, Inc. (the "Association") was incorporated in the Philippines on February 17, 1987, primarily to foster brotherhood thru mutual help and benefit among its members, to encourage the habit of thrift and saving among its members, to provide financial material aid and comforts to members and their families in cases of losses, disability, necessities, unemployment, retirement, or old age as may be authorized by statutes of regulations prescribed by the competent authority, and in general to do such acts and things and to undertake such activities not otherwise prohibited by law which are calculated to help members and necessary for the accomplishment of the purpose of which the association has been organized.

The registered office of the Association is located at 35 Paseo del Congreso, Catmon, Malolos, Bulacan.

Tax Exemption

As a non-stock, non-profit association, the Association is exempt from the payment of income tax under Section 30c of the National Internal Revenue Code. However, the income of whatever kind and character of the Association from any of its properties, real or personal, or from any of its activities conducted for profit, regardless of the disposition made of such income, shall be subjected to tax. Moreover, interest income derived from deposit with banks is subject to final tax.

Approval of Financial Statements

The financial statements of the Association as at and for the year ended December 31, 2025 (including the comparative financial statements as at and for the year ended December 31, 2024) were authorized for issue by the Association's Board of Trustees on March 26, 2026.

2. MEMBERSHIP

Any person eligible for membership shall become a member of the Association only after paying the initial membership fee and the first monthly contribution. Every member in good standing shall have the right, among others, to participate in the distribution of profit of the Association on the basis of his capital contributions after the Association has set aside such reserves as may be required by any existing laws and regulations. In addition, the member can avail of loans in accordance with his borrowing capacity subject to the limitations as provided for under the existing rules and regulations of the Association.

3. MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policy information that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. The policies have been consistently applied to all the years presented unless otherwise stated.

Basis of Preparation of Financial Statements

a. Statement of Compliance with Philippine Financial Reporting Standards (PFRS) Accounting Standards for Mutual Benefits Associations (MBAs)

The financial statements of the Association have been prepared in accordance with Philippine Financial Reporting Standards Accounting Standards in the Philippines applicable to MBAs.

Pursuant to Section 189 of The Amended Insurance Code, the Insurance Commission issued Circular Letter (CL) No. 2014-41 dated September 25, 2014 and subsequently amended under CL 2021-04 dated January 20, 2021, requiring all new and existing mutual benefits associations doing business in the Philippines to use and maintained the revised Standard Chart of Accounts (SCA) for MBAs. The SCA is the prescribed framework for the Association in the preparation of financial statements.

The SCA for MBAs list a uniform system of account numbers categorized based on MBAs' revenue, expenses, assets, liabilities and fund value for similar transactions and events, in compliance with the latest Philippine Accounting Standards (PAS) and PFRS Accounting Standards. PFRS Accounting Standards are adopted by the Financial and Sustainability Reporting Standards Council (FSRSC) from the pronouncements issued by the International Accounting Standards Board (IASB), and approved by the Philippine Board of Accountancy (BOA).

The financial statements have been prepared using the measurement bases specified by PFRS Accounting Standards for each type of assets, liabilities, income and expense. The measurement bases are more fully described in the accounting policies that follow.

b. Presentation of Financial Statements

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

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

c. Functional and Presentation Currency

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

Items included in the financial statements of the Association are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Association operates.

Adoption of Amended PFRS Accounting Standards

a. Effective in 2025 that are Relevant to the Association

The Association adopted for the first time amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability*, which are mandatorily effective for annual periods beginning on or after January 1, 2025. The amendments require entities to assess whether a currency is exchangeable and to determine a spot exchange rate when exchangeability is lacking. These amendments also mandate the disclosure of information that enables users of financial statements to understand the impact of a currency not being exchangeable. The amendments had no significant impact on the financial statements of the Association.

b. Effective Subsequent to 2025 but not Adopted Early

There are amendments to existing standards effective for annual periods subsequent to 2025, which are adopted by the FSRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and unless otherwise indicated, none of these are expected to have significant impact on the Association's financial statements:

- i. PFRS 9 and PFRS 7 (Amendments), Financial Instruments, and Financial Instruments: Disclosures – Amendments to the Classification and Measurement of Financial Instruments (effective from January 1, 2026).*
- ii. PFRS 9 and PFRS 7 (Amendments), Financial Instruments, and Financial Instruments: Disclosures – Amendments to Contracts Referencing Nature-dependent Electricity (effective from January 1, 2026).*
- iii. PFRS 17, Insurance Contracts – Insurance Contracts (effective from January 1, 2027).*
- iv. PFRS 17 (Amendments), Insurance Contracts – Initial Application of PFRS 17 and PFRS 9 – Comparative Information (effective from January 1, 2027).*
- v. PFRS 18, Presentation and Disclosure in Financial Statements (effective from January 1, 2027). The new standard impacts the classification of profit or loss items (i.e., into operating, investing and financing categories) and the presentation of subtotals in the statement of profit or loss (i.e., operating profit and profit before financing and income taxes). The new standard also changes the aggregation and disaggregation of information presented in the primary financial statements and in the notes. It also introduces required disclosures about management-defined performance measures. The amendments, however, do not affect how an entity recognizes and measures its financial condition, financial performance and cash flows.*
- vi. PFRS 19, Subsidiaries without Public Accountability: Disclosures (effective from January 1, 2027) The new standard reduces the disclosure requirements prescribed by other standards for subsidiaries without public accountability. It changes disclosure requirements prescribed by other standards as the reporting entity will instead refer to PFRS 19 for required disclosures.*

- vii. PFRS 10 and PAS 28 (Amendments), *Consolidated Financial Statements and Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date deferred indefinitely).

Current versus Non-Current Classification

The Association presents assets and liabilities in the statements of financial condition based on current and non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or,
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after the reporting period; or,
 - There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

Deferred income tax assets and liabilities are classified.

Financial Instruments

a. Financial Assets

Financial assets are recognized when the Association becomes a party to the contractual terms of the financial instruments. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

Regular purchases and sales of financial assets are recognized on their trade date (i.e., the date that the Association commits to purchase or sell the asset).

Classification, Measurement and Reclassification of Financial Assets

The classification and measurement of financial assets are driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described in the succeeding pages.

i. Financial Assets at Amortized Cost

Financial assets are measured at amortized cost if both of the following conditions are met (and are not designated as FVTPL):

- the asset is held within the business model whose objective is to hold financial assets in order to collect contractual cash flows (“hold to collect”); and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding.

Except for other receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, all financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Association’s financial assets at amortized cost are presented in the statements of financial condition as Cash and cash equivalents, Short-term and Long-term financial assets, investments securities presented at Financial assets at amortized cost and Other non-current financial assets in the statements of financial condition.

Financial assets measured at amortized cost are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash.

Cash and cash equivalents comprise accounts with original maturities of three months or less, including cash. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Short-term financial assets are time deposits with original maturities of more than three months to one year. Deposits with original maturities of more than one year are classified as long-term financial assets.

Membership assistance and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Membership assistance and other receivables are measured at amortized cost using the effective interest method, less any impairment.

Financial assets at amortized costs consisting mainly of treasury bills are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in statements of operations as part of Finance income.

ii. *Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)*

The Association accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell (“hold to collect and sell”); and
- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Association can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Association for trading or as mandatorily required to be classified as FVTPL.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation reserves account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation reserves account is not reclassified to profit or loss but is reclassified directly to Free and unassigned balance account, except for those debt securities classified as FVOCI wherein cumulative fair value gains or losses are recycled to profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in statements of operations as part of Finance income.

Any dividends earned on holding equity instruments are recognized in profit or loss as part of Miscellaneous under Other income account, when the Association’s right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Association, and, the amount of the dividend can be measured reliably unless the dividends clearly represent a recovery of a part of the cost of the investment.

As at December 31, 2025 and 2024, the Association’s financial assets designated at FVOCI are discussed in Note 11.

iii. Financial Assets at Fair Value Through Profit or Loss (FVTPL)

Financial assets that are held within a different business model other than “hold to collect” or “hold to collect and sell” are categorized at FVTPL. Further, irrespective of the business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the Association designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Association’s financial assets at FVTPL include equity securities that are held for trading purposes or designated as at FVTPL.

Financial assets at FVTPL are measured at fair value with gains or losses recognized in profit or loss as part of Finance income in the statements of operations. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

Interest earned on these investments is included in the net fair value gains (losses) on these assets presented as part of Finance Income in the statements of operations.

As at December 31, 2025 and 2024, the Association’s financial assets designated at FVTPL are discussed in Note 9.

The Association can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Association is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument’s contractual cash flows meet the amortized cost criteria.

A change in the objective of the Association’s business model will take effect only at the beginning of the next reporting period following the change in the business model.

b. Impairment of Financial Assets

At the end of the reporting period, the Association assesses and recognizes an allowance for ECL on a forward-looking basis associated with its financial assets carried at amortized cost and debt instruments measured at FVOCI. Recognition of credit losses is no longer dependent on the Association’s identification of a credit loss event. Instead, the Association considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the collectability of the future cash flows of the financial assets.

The Association applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all membership assistance and other receivables and contract assets. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL, the Association uses its historical experience, external indicators and forward-looking information to calculate the ECL using a provision matrix. The Association also assesses the impairment of trade receivables on a collective basis as they possess shared credit risk characteristics, and have been grouped based on the days past due.

For debt instruments measured at FVOCI and at amortized cost, the allowance for credit losses is based on the ECL associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since the origination of the financial asset, in such case, a lifetime ECL for a purchased or originated credit-impaired, the allowance for credit losses is based on the change in the ECL over the life of the asset. The Association recognized a loss allowance for such losses at each reporting date.

The Association determines whether there has been a significant increase in credit risk for the financial asset since the initial recognition by comparing the risk of a default occurring over the expected life of the financial asset between the reporting date and the date of the initial recognition. In making this assessment, the Association considers both quantitative and qualitative information that may indicate an actual or expected deterioration of the credit quality of the financial assets.

The key elements used in the calculation of ECL are as follows:

- *Probability of default* – It is an estimate of the likelihood of default over a given time horizon.
- *Loss given default* – It is an estimate of loss arising in a case where default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Association would expect to receive, including the realization of any collateral.
- *Exposure at default* – It represents the gross carrying amount of the financial instruments subject to the impairment calculation.

The Association recognizes an impairment loss in profit or loss for all financial instruments subject to impairment assessment with corresponding adjustments to their carrying amount through a loss allowance account, except for debt instruments measured at FVOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in Revaluation reserves account, and does not reduce the carrying amount of the financial asset in the statements of financial condition.

The Association considers a financial asset in default or past due when contractual payments are not paid on due date. However, in certain cases, the Association may also consider a financial asset to be in default or past due when internal or external information indicates that the Association is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Association.

c. *Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. 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.

d. Classification and Measurement of Financial Liabilities

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Association designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

Financial liabilities, which include accounts payable and other liabilities [except output value-added tax (VAT) and other taxes payable and post-employment obligation], liability on individual equity value, basic contingent benefit reserve, other benefits of basic policies, and claims payable on basic contingent benefit, are recognized when the Association becomes a party to the contractual agreements of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in profit or loss under the caption Finance costs in statements of operations.

Accounts payable and other liabilities are recognized initially at their fair values and subsequently measured at amortized cost, using an effective interest method for maturities beyond one year, less settlement payments.

Liability on individual equity value is recognized initially at fair value, which is the issue proceeds (the fair value of the consideration received), and subsequently measured at amortized cost.

Claims payable represent benefit claims on membership certificates filed or reported to the association but not yet paid as of the end of the accounting period. It includes claims due and unpaid, claims in the course of settlement, resisted claims, and those which are incurred but not reported. These accounts shall be measured in accordance with generally accepted actuarial principles and internationally accepted actuarial standards.

Basic contingent/life insurance benefit reserve represents the total actuarial reserve set up by the Association for the basic life insurance benefit that is in force as at the end of the accounting period. It refers to the amount of liability that the Association establishes for a certificate to meet the contractual obligation as it falls due. This account shall be computed based on the valuation standards for the association to be prescribed by the Insurance Commission.

Other benefits in basic policies represents the sum of the individual claims for maturity surrenders and withdrawals on optional policies of which for one reason or another final action has not taken either by approving the claims for payments in full or by rejecting it in part or in full. This is recognized as financial liability based on the amounts recommended by an independent actuary.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or the Association does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

e. Derecognition of Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged, canceled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss in the statements of operations.

f. Items of Income and Expense Related to Financial Assets

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Interest income or Interest expense, Impairment losses, Gain on disposal of financial assets, Dividend income and Recoveries from accounts written-off (presented as part of Other income) in the statements of operations.

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

g. Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Association currently has legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future events. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

Prepayments

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

Prepayments are recognized and measured at transaction costs or the amount of cash paid. Subsequently, these are charged to income as they are consumed in operations or expire with the passage of time.

Other recognized assets of similar nature, when future economic benefits are expected to flow to the Association beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

Property and Equipment

Land and building and improvements are measured at acquisition or construction cost less depreciation for building and improvements. As no finite useful life for land can be determined, related carrying amounts are not depreciated. All other property and equipment are carried at acquisition cost less accumulated depreciation and any impairment in value.

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

Except for lands, depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Building and improvements	2-30 years
Transportation equipment	2-5 years
Furniture, fixtures and equipment	2-5 years

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

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

An item of property and equipment, including the related accumulated depreciation and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statements of operations in the year the item is derecognized.

Investment Property

This account includes parcels of land acquired in settlement of loans recorded at the lower of the total loan exposure or bid price at the same time of foreclosure, which should not be higher than the fair value of the property less cost to sell. Any excess of the loan balance over the bid price that is not recoverable from the borrower is included under Other losses in the statements of operations. Holding costs subsequent to foreclosure or acquisition of the properties are charged to operations as incurred.

Other investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is measured initially at cost, which includes acquisition price plus directly attributable cost incurred such as legal fees, transfer taxes and other transaction cost. Subsequent measurements are measured at cost less accumulated depreciation and any accumulated impairment.

Except for land, depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Land improvements	5 years
Building	30 years

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statements of operations in the period of derecognition.

Impairment of Non-financial Assets

The Association's property and equipment and investment property are subject to impairment testing. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Association's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

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

Provisions and Contingencies

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When the time value of money is material, long-term provisions are discounted to their present values using a pre-tax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as an interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be

measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Association that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Association can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

Revenue and Expense Recognition

The Association follows a 5-step process to determine whether to recognize revenue:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as a performance obligation(s) are satisfied.

For Step 1 to be achieved, the following five gating criteria must be present:

- i. the parties to the contract have approved the contract either in writing, orally, or in accordance with other customary business practices;
- ii. each party's rights regarding the goods or services to be transferred or performed can be identified;
- iii. the payment terms for the goods or services to be transferred or performed can be identified;
- iv. the contract has commercial substance (i.e., the risk, timing, or amount of the future cash flows is expected to change as a result of the contract); and,
- v. collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized either at a point in time or over time, when (or as) the Association satisfies performance obligations by transferring the promised goods or services to its members.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

- i. the customer simultaneously receives and consumes the benefits provided by the Association's performance as the Association performs;
- ii. the Association's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
- iii. the Association's performance does not create an asset with an alternative use to the Association and the entity has an enforceable right to payment for performance completed to date.

The Association recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statements of financial position. Similarly, if the Association satisfies a performance obligation before it receives the consideration, the Association recognizes either a contract asset or a receivable in its statement of financial condition, depending on whether something other than the passage of time is required before the consideration is due.

The Association recognizes revenue from contracts with customers within the scope of PFRS 15 as follows:

- *Membership fees, dues and contributions* – Revenue are recognized at a point in time when these become due and demandable from members, and the Association has the right to consideration. If such fees relate to services to be provided over a period, revenue is recognized over time on a straight-line basis over the membership period.
- *Service charges and fees* – Fees arising from the provision of transaction services are recognized as revenue at a point in time upon completion of the underlying transaction. Fees or components of fees that are linked to the satisfaction of specific performance obligations are recognized as revenue when the related performance obligations have been fulfilled.
- *Other income* – revenue is recognized at a point-in time once the performance of the related obligation is completed.

The following are the recognition criteria for revenues of the Association that are outside the scope of PFRS 15 and are accounted for in accordance with the relevant applicable standards:

- *Interest* - revenue is recognized based on the effective interest method of accounting. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

When calculating the effective interest rate, the Association estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss..

- *Rental income*- revenue from rental fees is recognized on a straight- line basis over the lease term.

Cost and operating expenses are recognized in profit or loss upon utilization of services or at the date they are incurred.

Employee Benefits

The Association provides short-term benefits and post-employment benefits to employees through a defined benefit plan, as well as various defined contribution plans.

a. *Short-term Benefits*

Wages, salaries and bonuses are recognized as an expense in the year in which the associated services are rendered by employees. Short-term accumulating compensated absences such as paid annual leave are recognized when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognized when the absences occur.

b. *Defined Benefit Plan*

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that 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 any benefits from this kind of post-employment plan remains with the Association, even if plan assets for funding the defined benefit have been acquired. Plan assets may include assets specially designated to a long-term benefit fund, as well as qualifying insurance policies. The Association's defined benefit post-employment plans cover all regular full-time employees.

The liability recognized in the statements of financial condition for a defined benefit pension plan is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated futures cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance costs or Finance income account in the statements of operations.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment.

c. *Defined Contribution Plan*

A defined-contribution plan under which the Association pays fixed contributions into an independent entity such as Social Security System (SSS), Philhealth and Pag-ibig. The Association has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

d. 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 at the earlier of when or can no longer withdraw the offer of such benefits and when it recognized costs for a restructuring that is within the scope of PAS 37 and it involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due of more than 12 months after the end of the reporting period are discounted to present value.

Leases

The Association accounts for its leases as follows:

Association as Lessee

For any new contracts entered into, the Association considers whether a contract is, or contains a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Association assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Association;
- the Association has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Association has the right to direct the use of the identified asset throughout the period of use. The Association assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

The Association has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and a lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

Association as Lessor

Leases wherein the Association substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Association's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Association's net investment outstanding in respect of the finance lease.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

Income Taxes

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the statements of operations.

Related Party Transactions and Relationship

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; and, (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.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

Fund Balance

Assigned fund balance represents the amount set aside based on a certain percentage of net profit during the year which includes guaranty fund and funds assigned for members' benefit.

Free and unassigned fund balance includes all current and prior period results as disclosed in the statements of operations and net of member's withdrawals and transferred to assigned balance.

Accumulated other comprehensive loss includes all the accumulated fair value changes in defined benefit obligation.

Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Association's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Critical Management Judgments in Applying Accounting Policies

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

a. Determination of ECL on Membership Assistance and Other Receivables

The Association uses a provision matrix to calculate ECL for membership assistance and other receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is based on the Association's historical observed default rates. The Association's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions).

The details of ECL is presented in Note 7.

b. Evaluation of Business Model Applied in Managing Financial Instruments

The Association developed business models which reflect how it manages its portfolio of financial instruments. The Association's business models need not be assessed at the entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Association) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of an individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Association evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Association (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relating to the Association's investment and trading strategies.

c. Testing the Cash Flows Characteristics of Financial Assets and Continuing Evaluation of the Business Model

In determining the classification of financial assets, the Association assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing the time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents the time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as the modified time value of money, the Association assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows).

If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Association considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, the standard emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Association considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Association can explain the reasons for those sales and why those sales do not reflect a change in the Association's objective for the business model.

d. Distinction Between Investment Properties and Owner-managed Properties

The Association determines whether a property qualifies as an investment property. In making its judgment, the Association considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

e. Determination of Timing of Satisfaction of Performance Obligations

The Association exercises judgment in determining the appropriate timing of recognition of membership contributions, fees and dues, taking into account the terms of the membership agreements and the period of coverage of the related benefits. Revenue is recognized as earned, consistent with the period over which the Association is exposed to risk and provides coverage to its members.

f. Determination of Lease Term of Contracts with Renewal and Termination Options

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

For leases of the premises/offices, the factors that are normally the most relevant are (a) if there are significant penalties should the Association pre-terminate the contract, and (b) if any leasehold improvements are expected to have significant remaining value, the Association is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Association considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The Association included the renewal period as part of the lease term due to the significance of these assets to its operations. Some leases have a short, non-cancellable lease period and there will be a significant negative effect on Association's operation if a replacement is not readily available.

The lease term is reassessed if an option is actually exercised or not exercised, or the Association becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Association.

g. *Evaluating Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2 above and disclosures on relevant provisions and contingencies are presented in Note 25.

Key Sources of Estimation Uncertainty

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

a. *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost and at FVOCI is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., the likelihood of customers defaulting and the resulting losses).

The carrying value of membership assistance and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 7.

b. *Estimation of Impairment of Financial Assets*

The Association reviews its financial assets to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Association makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the financial asset or a portfolio of similar financial assets. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The total impairment losses on financial assets recognized in profit or loss is presented in Note 7.

c. Fair Value Measurement of Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument.

Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Fair value gain of P7,871,475 in 2025 and P5,305,251 in 2024 on financial assets at fair value through profit and loss was reported in the statements of operations (*see Note 9*).

The fair values of the Association's financial instruments are disclosed in Note 27.

d. Estimation of Useful Lives of Property and Equipment and Investment Property Except Land

The Association estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property and equipment and investment property are analyzed in Notes 12 and 13. Based on management's assessment as at December 31, 2025 and 2024, there is no change in the estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

e. Impairment of Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

f. Valuation of Post-employment Defined Benefit Obligation

The determination of the Association's obligation and cost of post-employment is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 23 and include, among others, discount rates, expected rate of return on plan assets and expected rate of salary increases. In accordance with PFRS Accounting Standards for MBAs, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of the post-employment benefit as well as the significant assumptions used in estimating such obligation are presented in Note 23.

g. *Valuation of Basic Contingent Benefit Reserve and Claims Payable*

Basic contingent benefit reserve represents estimates of the present value of future benefit payments to members. Claims payable include claims due and unpaid, claims in the course of settlement, resisted claims, and those which are incurred but not reported. These estimates and claims are based on the valuation method, subject to the provisions of the Insurance Code and guidelines set by IC.

At each reporting date, these estimates and claims are reassessed for adequacy, and changes will be reflected in adjustments to the liability.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as at December 31:

	<u>2025</u>	<u>2024</u>
Cash in banks	P 160,759,872	P 164,261,595
Short-term placements	41,239,994	49,002,254
Cash on hand	<u>90,000</u>	<u>90,000</u>
	P 202,089,866	P 213,353,849

Cash in banks generally earns interest at rates based on daily banks deposit rates. Short-term placements are made for varying periods between 30 to 90 days and earn effective annual interest ranging from 4.65% to 5.5% in 2025 and 4% to 5.5% in 2024.

The interest earned on cash in banks and short-term placements amounted to P1,046,814 in 2025 and P3,599,434 in 2024 and are presented as part of Interest on investment securities and deposits with banks in the statements of operations.

6. SHORT-TERM AND LONG-TERM FINANCIAL ASSETS

These accounts are presented as follows:

	<u>2025</u>	<u>2024</u>
Short- term investments	P 81,666,766	P 79,862,157
Long- term investments	<u>81,937,983</u>	<u>85,052,915</u>
	P 163,604,749	P 164,915,072

Short-term financial assets are time deposits with original maturities of more than three months but less than one year. Deposits with original maturities of more than one year are classified as long-term financial assets. These financial assets bear an annual effective interest ranging from 4% to 6.25% in both years.

The interest earned on these investments amounted to P11,795,562 in 2025 and P7,503,947 in 2024 and are presented as part of Interest on investment securities and deposits with banks in the statements of operations.

7. MEMBERSHIP ASSISTANCE AND OTHER RECEIVABLES

This account consists of credit accommodations or financial assistance receivables exclusively granted to members of the Association on the security of a pledge or chattel mortgage of personal properties of the borrowers or on the security of the membership certificate of the borrowing members with the following details:

	<u>2025</u>	<u>2024</u>
Membership assistance	P 182,926,613	P 221,791,835
Accrued interest income	25,765,986	36,872,690
Accounts receivable	<u>5,101,548</u>	<u>3,031,633</u>
	213,794,147	261,696,158
Allowance for impairment losses	(19,769,199)	(22,135,812)
	<u>P 194,024,948</u>	<u>P 239,560,346</u>

In the statements of financial condition, these are presented as follows:

	<u>2025</u>	<u>2024</u>
Current	P 138,095,502	P 176,169,868
Non-current	<u>55,929,446</u>	<u>63,390,478</u>
	<u>P 194,024,948</u>	<u>P 239,560,346</u>

The Association grants membership assistance ranging from P500 to P5,000,000 in 2025 and P1,000 to P10,000,000 in 2024, with annual effective interest rates ranging from 3% to 16% in both years. The credit terms on membership assistance ranges from 3 months to 10 years.

The interest received on membership assistance and other receivables amounted to P17,203,240 in 2025 and P28,298,790 in 2024 and are presented as Interest on membership assistance in the statements of operations.

Accounts receivable pertains to unremitted collections and receivable to borrowers who reacquired their previously foreclosed properties.

The Association collects service fees at 3% of membership assistance granted. Service fees amounted to P5,476,303 and P6,804,302 in 2025 and 2024, respectively, and presented as Services charges and fees in the statements of operations.

Past due loans amounted to P51,470,465 and P74,590,173 as at December 31, 2025 and 2024, respectively.

The movements in the allowance for impairment losses in loans receivables are as follows:

	<u>2025</u>		<u>2024</u>	
Balance at beginning of year	P	22,135,812	P	19,607,033
Impairment losses for the year (see Note 19)		3,300,000		3,300,000
Written-off	(	5,666,613)	(	771,221)
 Balance at end of year	 P	 19,769,199	 P	 22,135,812

An analysis of changes in the gross carrying amount of membership assistance and the corresponding ECL allowances follows:

		<u>2025</u>			
		<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Gross carrying amounts as at January 1, 2025	P	92,076,797	P 78,870,466	P 50,844,572	P 221,791,835
New assets originated		194,485,390	-	-	194,485,390
Assets derecognized or prepaid	(	227,683,999)	-	-	(227,683,999)
Accounts written-off		-	-	(5,666,613)	(5,666,613)
Transfer to Stage 1		20,675,058	(7,773,844)	(12,901,214)	-
Transfer to Stage 2		-	-	-	-
Transfer to Stage 3		-	-	-	-
 Gross carrying amounts as at December 31, 2025	 P	 79,553,246	 P 71,096,622	 P 32,276,745	 P 182,926,613
ECL allowance as at January 1, 2025	P	1,700,117	P 389,629	P 20,046,066	P 22,135,812
Provision for credit losses		-	-	3,300,000	3,300,000
Write-off		-	-	(5,666,613)	(5,666,613)
 ECL allowance as at December 31, 2025	 P	 1,700,117	 P 389,629	 P 17,679,453	 P 19,769,199
		<u>2024</u>			
		<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Gross carrying amounts as at January 1, 2024	P	170,011,741	P 51,279,828	P 30,443,316	P 251,734,885
New assets originated		229,384,309	-	-	229,384,309
Assets derecognized or prepaid	(	258,556,138)	-	-	(258,556,138)
Accounts written-off		-	-	(771,221)	(771,221)
Transfer to Stage 1		-	-	-	-
Transfer to Stage 2	(	27,590,638)	27,590,638	-	-
Transfer to Stage 3	(	21,172,477)	-	21,172,477	-
 Gross carrying amounts as at December 31, 2024	 P	 92,076,797	 P 78,870,466	 P 50,844,572	 P 221,791,835
ECL allowance as at January 1, 2024	P	1,700,117	P 389,629	P 17,517,287	P 19,607,033
Provision for credit losses		-	-	3,300,000	3,300,000
Write-off		-	-	(771,221)	(771,221)
 ECL allowance as at December 31, 2024	 P	 1,700,117	 P 389,629	 P 20,046,066	 P 22,135,812

8. FINANCIAL ASSETS AT AMORTIZED COST

This account pertains to government treasury bills (T-bills) amounting to P77,512,551 and P57,937,570 as at December 31, 2025 and 2024, respectively. The T-bills have terms ranges from 83 to 202 days in 2025 and 364 to 366 days in 2024 that bears interest ranging from 4.775% to 5% in 2025 and 5.30% to 5.95% in 2024. The interest earned on this financial asset amounted to P3,656,303 in 2025 and P3,376,420 in 2024 and are presented as part of Interest on investment securities and deposits with banks in the statements of operations.

The Association's financial assets at amortized cost have been reviewed for indicators of impairment. Based on management's evaluation, no impairment losses need to be recognized for 2025 and 2024.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account comprises of investment securities as follows:

	<u>2025</u>	<u>2024</u>
Equity securities under Investment Management Agreement (IMA)	P 151,660,313	P 123,790,393
Mutual funds	83,930,619	91,864,773
Quoted equity securities	47,253,225	46,555,059
Unit investment trust fund (UITF)	31,546,890	32,154,253
Bonds	26,821,277	20,644,768
	<u>P 341,212,324</u>	<u>P 315,009,246</u>

The reconciliation of the carrying amounts of these financial assets at FVTPL is as follows:

	<u>2025</u>	<u>2024</u>
Balance at beginning of year	P 315,009,246	P 303,160,946
Additions	123,921,805	105,517,645
Disposals	(105,590,202)	(98,974,596)
Fair value gain - net	7,871,475	5,305,251
	<u>P 341,212,324</u>	<u>P 315,009,246</u>

In 2025 and 2024, the Association recognized gain from disposal of financial assets at FVTPL amounting to P896,431 and P1,322,751, respectively. These are presented as Gain on sale of financial assets at fair value through profit or loss in the statements of operations. The proceeds from this sale amounts to P106,486,633 and P100,297,347 in 2025 and 2024, respectively.

The investment in bonds have maturity ranging from 122 days to seven years in 2025 and three to seven years in 2024 and bears annual interest ranging from 4.77% to 7.63% in 2025 and 3.30% to 5.70% in 2024.

The interest earned on these financial assets amounted to P9,111,026 in 2025 and P9,632,786 in 2024 and are presented as part of Interest on investment securities and deposits with banks in the statements of operations.

The acquisition cost and accumulated fair value gain or loss of these financial assets at FVTPL are presented below:

		<u>Acquisition Cost</u>	<u>Fair Market Value</u>	<u>Accumulated Fair Value Gain or Loss</u>
December 31, 2025				
Equity securities under IMA	P	156,711,714	P 151,660,313	(P 5,051,401)
Mutual funds		83,397,896	83,930,619	532,723
Quoted equity securities		65,536,666	47,253,225	(18,283,441)
Unit investment trust fund (UITF)		31,084,109	31,546,890	462,781
Bonds		<u>23,930,000</u>	<u>26,821,277</u>	<u>2,891,277</u>
		<u>P 360,660,385</u>	<u>P 341,212,324</u>	<u>(P 19,448,061)</u>
December 31, 2024				
Equity securities under IMA	P	103,391,714	P 123,790,393	P 20,398,679
Mutual funds		91,183,126	91,864,773	681,647
Quoted equity securities		68,865,007	46,555,059	(22,309,948)
Unit investment trust fund (UITF)		33,000,887	32,154,253	(846,634)
Bonds		<u>20,830,000</u>	<u>20,644,768</u>	(185,232)
		<u>P 317,270,734</u>	<u>P 315,009,246</u>	<u>(P 2,261,488)</u>

Quoted equity securities consist of investments in companies listed in the Philippine Stock Exchange. The fair values of listed equity securities have been determined directly by reference to published prices in active markets.

Equity securities under Investment Management Agreement (IMA) consist of bonds, note placements and shares of listed companies managed by several local banks.

The fair values of mutual funds, UITF, bonds and equity securities under IMA have been determined directly by reference to published prices in active markets.

10. OTHER CURRENT FINANCIAL ASSETS

This account pertains to available funds for stock investments amounting to P1,002,620 and P1,848,067 as at December 31, 2025 and 2024, respectively.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

This account consists of the following treasury bonds and unquoted securities:

	<u>2025</u>		<u>2024</u>
Corporate bonds			
5-year treasury bonds	P 17,000,000	P	32,000,000
5.5-year treasury bonds	5,000,000		5,000,000
20-year treasury bonds	17,508,470		7,000,000
Treasury bonds			
3-year treasury bonds	43,125,000		33,125,000
5.5-year treasury bonds	20,000,000		20,000,000
Unquoted equity securities	500,000		500,000
	<u>P 103,133,470</u>		<u>P 97,625,000</u>

Corporate bonds are debt securities issued by a corporation and sold to investors. The corporate bonds bear annual interest ranging from 4.625% to 5.875% in 2025 and 4.5% to 5.875% in 2024.

Treasury bonds bear interest ranging from 1.375% to 6.25% in both years. Portion of these treasury bonds include investments that were set aside as guarantee fund reserves in compliance with the Association's registration as a mutual benefit association (*see Note 21*).

The interest earned on those investments amounted to P4,056,112 in 2025 and P3,655,800 in 2024 and are presented as part of Interest on investment securities and deposits with banks in the statements of operations.

Unquoted equity security consists of investment in a non-stock association. The fair values of unquoted equity securities are neither readily available nor is there an alternative basis for deriving a reasonable valuation as of reporting date. Management believes that no impairment should be recognized with this investment.

As of reporting dates, the fair value are not readily determinable, and there are no alternative valuation technique that would provide a reliable measure of fair value without the use of significant unobservable inputs. Accordingly, management has determined that cost approximates fair value. Management assesses these investments for indicators of impairment at each reporting date.

12. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation at the beginning and end of 2025 and 2024 are shown below:

	<u>Land</u>	<u>Building and Improvements</u>	<u>Transportation Equipment</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Total</u>
December 31, 2025					
Cost	P 3,133,124	P 15,336,972	P 3,667,600	P 5,775,384	P 27,913,080
Accumulated depreciation	<u>-</u>	<u>(9,315,148)</u>	<u>(3,282,500)</u>	<u>(5,258,944)</u>	<u>(17,856,592)</u>
Net carrying amount	<u>P 3,133,124</u>	<u>P 6,021,824</u>	<u>P 385,100</u>	<u>P 516,440</u>	<u>P 10,056,488</u>
December 31, 2024					
Cost	P 3,133,124	P 15,360,792	P 3,667,600	P 5,402,673	P 27,564,189
Accumulated depreciation	<u>-</u>	<u>(8,548,152)</u>	<u>(2,753,793)</u>	<u>(4,830,135)</u>	<u>(16,132,080)</u>
Net carrying amount	<u>P 3,133,124</u>	<u>P 6,812,640</u>	<u>P 913,807</u>	<u>P 572,538</u>	<u>P 11,432,109</u>
January 1, 2024					
Cost	P 3,133,124	P 28,236,767	P 5,129,800	P 5,050,640	P 41,550,331
Accumulated depreciation	<u>-</u>	<u>(8,053,171)</u>	<u>(3,794,493)</u>	<u>(4,506,174)</u>	<u>(16,353,838)</u>
Net carrying amount	<u>P 3,133,124</u>	<u>P 20,183,596</u>	<u>P 1,335,307</u>	<u>P 544,446</u>	<u>P 25,196,493</u>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2025 and 2024 is shown below:

	<u>Land</u>	<u>Building and Improvements</u>	<u>Transportation Equipment</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Total</u>
Balance at January 1, 2025, net of accumulated depreciation					
	P 3,133,124	P 6,812,640	P 913,807	P 572,538	P 11,432,109
Additions	-	-	-	372,711	372,711
Reclassification - cost (see Note 13)	-	(23,820)	-	-	(23,820)
Depreciation charges for the year (see Note 19)	<u>-</u>	<u>(766,996)</u>	<u>(528,707)</u>	<u>(428,809)</u>	<u>(1,724,512)</u>
Balance at December 31, 2025, net of accumulated depreciation	<u>P 3,133,124</u>	<u>P 6,021,824</u>	<u>P 385,101</u>	<u>P 516,440</u>	<u>P 10,056,488</u>

	<u>Land</u>	<u>Building and Improvements</u>	<u>Transportation Equipment</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Total</u>
Balance at January 1, 2024, net of accumulated depreciation	P 3,133,124	P 20,183,596	P 1,335,307	P 544,466	P 25,196,493
Additions	-	-	83,900	352,033	435,933
Reclassification – cost (see Note 13)	-	(12,875,975)	-	-	(12,875,975)
Reclassification – accumulated depreciation (see Note 13)	-	286,132	-	-	286,132
Retirement - cost	-	-	(1,546,100)	-	(1,546,100)
Retirement – accumulated depreciation	-	-	1,546,100	-	1,546,100
Depreciation charges for the year (see Note 19)	-	(781,113)	(505,400)	(323,961)	(1,610,474)
Balance at December 31, 2024, net of accumulated depreciation	<u>P 3,133,124</u>	<u>P 6,812,640</u>	<u>P 913,807</u>	<u>P 572,538</u>	<u>P 11,432,109</u>

As at December 31, 2025 and 2024, the management believes that there is no indication of impairment and that the carrying value of the property and equipment can be recovered through use in operations.

In addition, no property and equipment pledged as security or collateral for liabilities for both years.

13. INVESTMENT PROPERTY

The Association’s investment property pertains to the portion of the land and land improvements held for sale and lease and real properties acquired in satisfaction of unsettled debts. The Association currently holds these acquired assets for purposes of capital appreciation and continues to value its properties using the cost model.

The breakdown of this account is as follows:

	<u>2025</u>	<u>2024</u>
Land and land improvements held for sale and lease	P 58,310,259	P 58,532,631
Building	11,758,298	12,160,644
Real properties acquired	<u>30,722,555</u>	<u>15,909,455</u>
	<u>P 100,791,112</u>	<u>P 86,602,730</u>

The gross carrying amounts and the accumulated depreciation of investment property are shown below:

	<u>Land</u>	<u>Land Improvements</u>	<u>Building</u>	<u>Total</u>
December 31, 2025				
Cost	P 88,903,467	P 265,547	P 12,899,795	P 102,068,809
Accumulated depreciation	-	(136,200)	(1,141,497)	(1,277,697)
Net carrying amount	<u>P 88,903,467</u>	<u>P 129,347</u>	<u>P 11,758,298</u>	<u>P 100,791,112</u>
December 31, 2024				
Cost	P 74,299,119	P 265,547	P 12,875,975	P 87,440,641
Accumulated depreciation	-	(122,580)	(715,331)	(837,911)
Net carrying amount	<u>P 74,299,119</u>	<u>P 142,967</u>	<u>P 12,160,644</u>	<u>P 86,602,730</u>
January 1, 2024				
Cost	P 75,617,615	P 265,547	P -	P 75,883,162
Accumulated depreciation	-	(108,960)	-	(108,960)
Net carrying amount	<u>P 75,617,615</u>	<u>P 156,587</u>	<u>P -</u>	<u>P 75,774,202</u>

The reconciliations of the carrying amounts at the beginning and end of 2025 and 2024, of investment property, are shown below:

	<u>Land</u>	<u>Land Improvements</u>	<u>Building</u>	<u>Total</u>
Balance at January 1, 2025, net of accumulated depreciation	P 74,299,119	P 142,967	P 12,160,644	P 86,602,730
Additions	14,813,100	-	-	14,813,100
Reclassification (see Note 12)	-	-	23,820	23,820
Disposals	(208,752)	-	-	(208,752)
Depreciation charges for the year (see Note 19)	-	(13,620)	(426,166)	(439,786)
Balance at December 31, 2025, net of accumulated depreciation	<u>P 88,903,467</u>	<u>P 129,347</u>	<u>P 11,758,298</u>	<u>P 100,791,112</u>
Balance at January 1, 2024, net of accumulated depreciation	P 75,617,615	P 156,587	P -	P 75,774,202
Reclassification – cost (see Note 12)	-	-	12,875,975	12,875,975
Reclassification – accumulated depreciation (see Note 12)	-	-	(286,132)	(286,132)
Disposals	(1,318,496)	-	-	(1,318,496)
Depreciation charges for the year (see Note 19)	-	(13,620)	(429,199)	(442,819)
Balance at December 31, 2024, net of accumulated depreciation	<u>P 74,299,119</u>	<u>P 142,967</u>	<u>P 12,160,644</u>	<u>P 86,602,730</u>

The Association recognized a gain on sale of investment property amounting to P632,927 in 2025 and P2,142,507 in 2024 (see Note 19) and is presented as part of Other income under miscellaneous in the statements of operations. The proceeds from this sale amounts to P841,679 and P3,461,003 in 2025 and 2024, respectively.

The fair value information of the investment property as at December 31, 2025 and 2024 cannot be determined reliably, primarily due to the lack of active market data, including infrequent comparable market transactions and the unavailability of reliable alternative valuation techniques such as discounted cash flow projections. However, based on management's assessment, there were no indicators of impairment as at reporting dates, thus, no impairment losses were recognized in both years.

Furthermore, no investment property has been pledged as security or collateral for any of the Associations's liabilities for both years.

14. ACCOUNTS PAYABLE AND OTHER LIABILITIES

This account consists of:

	<u>2025</u>	<u>2024</u>
Current:		
Accounts payable	P 11,005,864	P 9,041,883
Accrued expenses	5,311,091	6,462,792
Due to government agencies	<u>903,207</u>	<u>808,320</u>
	<u>P 17,220,162</u>	<u>P 16,312,995</u>
Non-current:		
Advance deposits	<u>P 275,253</u>	<u>P 44,253</u>

Accounts payable are non-interest bearing and are normally within 30 days to 120 days term. These are generally paid within 3 to 12 months after the end of the financial reporting period.

Accrued expenses pertain to accruals of various incurred expenses. These are expected to be settled within one to three months from the end of the financial reporting period.

Due to government agencies pertain to statutory payables to BIR and other government agencies which are remitted at an average term of 10 to 15 days after the end of the financial reporting period.

Advance deposits are given by the lessee at the inception of the lease agreement that will be refunded at the end of the lease agreement after all the valid claims have been cleared.

15. LIABILITY ON INDIVIDUAL EQUITY VALUE

This account pertains to legal policy reserve which represents the amount set up by the Association to cover future benefit payments to members based on the amounts recommended by an independent actuary accredited by the Insurance Commission as at December 31, 2025 and 2024, respectively which corresponds to 50% equity value, as required under the Insurance Code, and any incremental amount declared by the Association. The liability on equity value can be withdrawn upon the termination of membership.

The movement of liability on individual equity value is presented below:

	<u>2025</u>	<u>2024</u>
Balance at beginning of year	P 681,674,588	P 697,065,420
Allocation of equity participation for the year (see Note 19)	92,262,373	90,309,305
Withdrawals from equity participation for the year (see Notes 20 and 21)	(107,422,488)	(105,700,137)
Balance at end of year	<u>P 666,514,473</u>	<u>P 681,674,588</u>

16. BASIC CONTINGENT BENEFIT RESERVE

This account represents the amount set up by the Association as insurance premium reserves based on 50% of the total insurance collected from the members to cover any insurance claim by the members as recommended by an independent actuary accredited by the Insurance Commission.

The account is broken down as follows:

	<u>2025</u>	<u>2024</u>
Insurance fund collateral	P 3,090,758	P 2,994,284
Multiply by	50%	50%
	<u>P 1,545,379</u>	<u>P 1,497,142</u>

The movements of this account are as follows:

	<u>2025</u>	<u>2024</u>
Balance at beginning of year	P 1,497,142	P 1,474,836
Additional reserves (see Note 19)	48,237	22,306
Balance at end of year	<u>P 1,545,379</u>	<u>P 1,497,142</u>

17. CLAIMS PAYABLE ON BASIC CONTINGENT BENEFIT

This represents benefit claims on membership certificates filed or reported to the Association but not yet paid as at December 31, 2025 and 2024.

The account is broken down as follows:

	<u>2025</u>		<u>2024</u>
Claims payable on basic contingent benefit - due and unpaid	P 330,000	P	1,650,000
Claims payable on basic contingent benefit incurred but not yet reported (IBNR)	<u>1,220,000</u>		<u>2,300,000</u>
	<u>P 1,550,000</u>	P	<u>3,950,000</u>

Claims payable on basic contingent benefit - due and unpaid pertain to the sum of the individual claims that are due and have already been approved for payment but have not actually been paid. This includes checks already issued to beneficiaries but not yet released as of the end of the accounting period.

Claims payable on basic contingent benefit - incurred but not yet reported (IBNR) pertains to the sum of the individual claims that have already occurred but on which notice has not yet been received by the Association. This estimate takes into account any policy reserve liability set up by the Association and any amount recoverable from reinsurers.

18. OTHER BENEFITS ON BASIC POLICIES

This account pertains to individual equity value of plans with zero basic benefit amounting to P39,855,737 and P38,249,397 as at December 31, 2025 and 2024, respectively.

19. EXPENSES AND OTHER INCOME

Expenses

This account consists of the following:

	<u>2025</u>	<u>2024</u>
Allocation for liability on individual equity value (see Note 15)	P 92,262,373	P 90,309,305
Salaries, wages and benefits (see Note 23)	26,442,846	24,630,861
Insurance claims	9,555,000	13,460,000
Transportation and travel	3,868,885	3,846,941
Impairment losses (see Note 7)	3,300,000	3,300,000
Meetings and conferences	3,014,249	2,944,578
Depreciation (see Notes 12 and 13)	2,164,298	2,053,293
Administrative expenses	1,519,260	1,465,140
Stationery and office supplies	1,367,331	1,636,995
Utilities	773,613	746,697
Marketing expense	714,737	836,279
Taxes and licenses (see Note 31)	615,615	611,175
Professional fees	570,922	652,886
Commission	336,428	430,890
Repairs and maintenance	291,546	241,683
Communication	268,630	264,860
Contractor's fees	60,000	1,767,536
Increase in reserve for basic contingent benefit (see Note 16)	48,237	22,306
Miscellaneous	3,268,146	4,425,679
	<u>P 150,442,116</u>	<u>P 153,647,104</u>

These expenses are classified in the statements of operations as follows:

	<u>2025</u>	<u>2024</u>
Allocation for liability on individual equity value (see Note 15)	P 92,262,373	P 90,309,305
Operating expenses	48,576,506	49,855,493
Benefit/claim expenses	9,555,000	13,460,000
Increase in reserve for basic contingent benefit (see Note 16)	48,237	22,306
	<u>P 150,442,116</u>	<u>P 153,647,104</u>

Allocation for liability on individual equity value represents 50% of the total member's contribution on the basic life insurance benefit for the current period.

Benefit/claim expenses pertain to all costs incurred that are directly related to the provision of insurance services to its members.

Increase in reserve for basic contingent benefit represents the net change in the reserve for the basic benefit for the current period.

Other Income

This account consists of the following:

	<u>2025</u>		<u>2024</u>
Rental income (see Note 25)	P 3,404,975	P	2,901,303
Gain on sale of investment property (see Note 13)	632,927		2,142,507
Income from delisted accounts	404,716		191,974
Others	<u>4,100,184</u>		<u>3,369,559</u>
	<u>P 8,542,802</u>	P	<u>8,605,343</u>

Income from delisted accounts pertains to recovery from unclaimed accounts of members withdrew from the Association.

20. MEMBERS' CONTRIBUTIONS

The Association collects monthly contributions from members ranging from P100 to P20,000 depending on the mode of payments and insurance cover which forms the revenues in the statements of operations.

The member's contributions were allocated as follows:

	<u>2025</u>		<u>2024</u>
Liability on individual equity value	P 92,262,373	P	90,309,305
Insurance fund	36,709,374		36,036,853
General fund	7,603,212		6,816,038
Guaranty fund	6,570,802		6,311,883
Member's benefit	3,285,401		3,155,941
Reserve for basic contingent benefit	<u>48,237</u>		<u>22,306</u>
	<u>P 146,479,399</u>	P	<u>142,652,326</u>

Members can only withdraw the contributed equity upon the termination of membership in the Association. A portion of members' equity is transferred to the general fund when members fail to remit their monthly loan contributions. Members whose equity is less than the members' outstanding loan balance are reclassified as non-members. The total withdrawals from the Association amounted to P150,049,115 in 2025 and P140,858,341 in 2024 (see Notes 15 and 21).

Membership fees are recorded as revenues and are shown as Membership fees in the statements of operations. Membership fees amounted to P977,600 and P872,200 in 2025 and 2024, respectively.

As at December 31, 2025, and 2024, the Association has a total of 142,323 and 137,094 members, respectively.

21. FUND BALANCE

Assigned Fund Balance

This account consists of the following:

	<u>2025</u>	<u>2024</u>
Guaranty fund	P 47,000,000	P 42,000,000
Funds assigned for incremental benefit for individual equity value	<u>57,853,746</u>	<u>19,918,754</u>
	<u>P 104,853,746</u>	<u>P 61,918,754</u>

Guaranty Fund

Guaranty fund is a restricted and set aside fund in compliance with the Insurance Memorandum Circular (MC) No. 2-2006 required to mutual benefit associations. All existing mutual benefit associations must have a Guaranty fund of P12,500,000. As at December 31, 2025 and 2024, the Association complied with the aforementioned memorandum circular.

The Association shall deposit with the Insurance Commission the amount of Guaranty Fund required in cash or in government securities with a total value equal to such amount. The Association's Guaranty fund were deposited under Investment Services Division as retail treasury bonds amounting to P47,000,000 and P42,000,000 in 2025 and 2024, respectively.

Movement of this account follows:

	<u>2025</u>	<u>2024</u>
Balance at beginning of the year	P 42,000,000	P 38,000,000
Additions for the year	<u>5,000,000</u>	<u>4,000,000</u>
Balance at end of year	<u>P 47,000,000</u>	<u>P 42,000,000</u>

Funds Assigned for Incremental Benefit for Individual Equity Value

This account refers to portion of the net surplus set aside by the Association as additional benefits to its members computed proportionately on their Individual Equity Value. This assigned fund is withdrawable upon the termination of membership from the Association.

Movement of this account follows:

	<u>2025</u>	<u>2024</u>
Balance at beginning of the year	P 9,258,049	P 44,686,253
Appropriation during the year	80,561,619	-
Withdrawals during the year (see Note 20)	<u>(42,626,627)</u>	<u>(35,158,204)</u>
Balance at end of year	<u>P 47,463,041</u>	<u>P 9,528,049</u>

Based on IC verification of the 2024 Annual Statement, the Association has an excess of Free and Unassigned Balance with the total amount of P80,561,619. On February 10, 2026, the Board of Trustees approved the distribution of the excess with the total of P80,561,619 to members through assigned fund for on incremental benefits of individual equity value.

Free and Unassigned Fund Balance

Free and unassigned fund balance of a mutual benefit association shall only maintain not more than 20% of its total liabilities as verified by the Insurance Commission. Any surplus beyond the 20% limit must be returned to members through cash dividends, equity value enhancements and benefits in kind or services. Alternatively, it may be allocated for capacity building, research or system upgrades, but only with prior IC approval.

As at December 31, 2025 and 2024, the Association exceeded with the amount that should be maintained pursuant to Insurance Commission (IC) Circular Letter (CL) No. 2015-46 and Section 408 of Republic Act No. 10607. The excess as computed by the Association is as follows:

	<u>2025</u>	<u>2024</u>
Total liabilities	P 727,163,692	P 742,358,012
Multiply by	20%	20%
Limit	<u>145,432,738</u>	<u>148,471,602</u>
Free and Unassigned Fund Balance, net of Non-admitted Assets	<u>317,223,464</u>	<u>310,485,296</u>
Excess	<u>P 171,790,726</u>	<u>P 162,013,694</u>

The computed excess is still for verification of IC for mandatory distribution of the Association to its members. In 2024, the verified excess by the IC amounted to P80,561,619, as mentioned above.

Accumulated Other Comprehensive Loss

This account pertains to loss on remeasurements of retirement benefit obligation. The movement of this account follows:

	<u>2025</u>	<u>2024</u>
Balance at beginning of year	(P 1,938,325)	(P 555,985)
Actuarial gain (loss) for the year <i>(see Note 23)</i>	<u>496,575</u>	<u>(1,382,340)</u>
Balance at end of year	<u>(P 1,441,750)</u>	<u>(P 1,938,325)</u>

22. RELATED PARTY TRANSACTIONS

The Association's related parties include the Association's employees, directors, officers, stockholders and related interest (DOSRI) and key management personnel.

The summary of the Association's transactions and outstanding balances with the related parties follows:

	2025		2024		Terms and Conditions
	Amount of Transactions	Outstanding Balance	Amount of Transactions	Outstanding Balance	
DOSRI					
Membership assistance and interest	<u>(P 2,906,600)</u>	<u>P 9,847,897</u>	<u>P 6,541,273</u>	<u>P 12,754,497</u>	Interest bearing ranging 5% to 16% payable in 3 year, unsecured, no impairment loss
Key Management Personnel					
Compensation	<u>P 10,195,881</u>	<u>P -</u>	<u>P 9,848,377</u>	<u>P -</u>	

Membership assistance and Receivables with Related Parties

In the ordinary course of business, the Association has membership assistance and other transactions with its members, including officers and employees of the Association (hereinafter referred to as related parties). Under the Association's policy, these membership assistance and other transactions are made substantially on the same terms as with other members.

The movement of these membership assistance to related parties is presented below:

	2025	2024
Balance at beginning of year	P 12,754,497	P 6,213,224
Releases for the year	2,337,837	13,653,100
Collections for the year	<u>(5,244,437)</u>	<u>(7,111,827)</u>
Balance at end of year	<u>P 9,847,897</u>	<u>P 12,754,497</u>

Key Management Personnel Compensation

The compensation of key management is composed of short-term benefits amounting to P10,195,881 in 2025 and P9,848,377 in 2024. Key management includes general manager and higher positions.

23. SALARIES, WAGES, AND BENEFITS

Salaries and Employee Benefit Expense

Expenses recognized for salaries and employee benefits are presented below:

	<u>2025</u>	<u>2024</u>
Salaries and wages	P 18,159,074	P 16,895,395
Employee’s welfare and benefits	5,440,605	5,396,068
Social security costs	1,702,968	1,474,911
Retirement costs	838,599	564,487
Allowance and honorarium	301,600	300,000
	<u>P 26,442,846</u>	<u>P 24,630,861</u>

Retirement Benefit Obligation

a. Characteristics of the Retirement Benefit Obligation

The Association has a tax-qualified, non-contributory retirement plan as at December 31, 2025 and 2024.

The normal retirement age is 60 with a minimum of 5 years of credited service. The plan also provides for early retirement at age 50 with a minimum of 10 years of credited service and late retirement after age 60, both subject to the approval of the Association’s Board of Trustees.

The normal retirement benefit is an amount equivalent to final salary for every year of credited service in accordance with the following schedule:

<u>Years of Service</u>	<u>Percentage</u>
0-4	0%
5-9	50%
10-14	100%
15-19	150%
20-24	200%
25-over	250%

On November 24, 2022, the Board of Trustees approved the termination of the abovementioned retirement plan and set up a new retirement plan based on the provisions of Republic Act No. 7641, *The Retirement Pay Law*. The shift to the new retirement plan will take effect on January 1, 2022. The earned retirement benefits/separation pay of all existing qualified and non-qualified employees were computed based on the old package and distributed/paid to employees in December 2022.

All employees were re-hired on January 1, 2022, and future normal retirement benefits will be an amount equivalent to the final salary for every year of credited service in accordance with the following schedule:

- a. One-half (1/2) month’s salary for every year of service, a fraction of at least six (6) months being considered as one year.

- b. The term one-half (1/2) month's salary shall mean fifteen (15) days plus one-twelfth (1/12) of the 13th month's pay and cash equivalent of not more than five (5) days of service incentive leaves.

The normal retirement age is 60 with a minimum of 5 years of credited service. The plan also provides for early retirement at age 50 with a minimum of 10 years of credited service. No employment shall continue beyond normal retirement.

The new retirement plan (2022 PFMBAI Employee Retirement Plan) is a non-contributory but not tax-qualified retirement plan.

Benefits are paid in a lump sum upon retirement or separation in accordance with the terms of the Plan.

In accordance with the provisions of the Bureau of Internal Revenue Regulations No. 1-68 for formal, tax-qualified retirement plans, it is required, among others, that the Retirement Fund be administered by a trust (trusteed); that forfeitures arising for any reason shall not be applied to increase the benefits under the Plan but shall instead be retained in the Retirement Fund and be used as soon as possible to reduce the Association's future contributions; and that the corpus or income of the Retirement Fund must at no time be used for, or diverted to, any purpose other than for the exclusive benefit of the Plan members (non-diversion of funds).

The Retirement Plan Trustee, as appointed by the Association in the Trust Agreement executed between the Association and the duly appointed Retirement Plan Trustee, is responsible for the general administration of the Retirement Plan and the management of the Retirement Fund. The Retirement Plan Trustee may seek the advice of counsel and appoint an investment manager or managers to manage the Retirement Fund, an independent accountant to audit the Fund and an actuary to value the Retirement Fund.

As the administrator of the Retirement Plan, the Retirement Plan Trustee (rather than the Association) is responsible for the ultimate control, disposition, or management of the money received or contributed.

There are no unusual or significant risks to which the Plan exposes the Association. However, in the event a benefit claim arises under the Retirement Plan and the Retirement Fund is not sufficient to pay the benefit, the unfunded portion of the claim shall immediately be due and payable from the Association to the Retirement Fund.

b. *Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented in 2025 and 2024 are based on the actuarial valuation report obtained from an independent actuary on February 17, 2025 and February 23, 2024.

The amounts of retirement asset recognized in the statements of financial condition are as follows:

	<u>2025</u>	<u>2024</u>
Present value of the obligation	P 2,513,901	P 2,014,665
Fair value of plan assets	(<u>6,981,403</u>)	(<u>6,527,217</u>)
Retirement asset	(4,467,502)	(4,512,552)
Effect of the asset ceiling	<u>1,395,306</u>	<u>1,411,599</u>
	<u>(P 3,072,196)</u>	<u>(P 3,100,953)</u>

The movements in the present value of the retirement benefit obligation recognized in the books are as follows:

	<u>2025</u>	<u>2024</u>
Balance at beginning of year	P 2,014,665	P 955,481
Current service cost	715,226	506,656
Interest cost	123,373	57,831
Actuarial loss (gain)	(<u>339,363</u>)	<u>494,697</u>
Balance at end of year	<u>P 2,513,901</u>	<u>P 2,014,665</u>

The movements in the fair value of plan assets are presented below:

	<u>2025</u>	<u>2024</u>
Balance at beginning of year	P 6,527,217	P 4,774,056
Contributions	-	1,500,000
Actual return	<u>454,186</u>	<u>253,161</u>
Balance at end of year	<u>P 6,981,403</u>	<u>P 6,527,217</u>
Actual return	P 454,186	P 253,161
Expected return	(<u>399,710</u>)	(<u>334,345</u>)
Gain (loss) on assets	<u>P 54,476</u>	<u>(P 81,184)</u>

The fair value of plan assets at the end of the reporting period is composed of cash and cash equivalents amounting to P6,981,403 and P6,527,217 as at December 31, 2025 and 2024, respectively.

The fair values of the above equity and debt securities are determined based on the quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

Plan assets do not compromise any of the Association's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the retirement benefit obligation are as follows:

	<u>2025</u>	<u>2024</u>
<i>Reported in profit or loss:</i>		
Current service costs	P 715,226	P 506,656
Interest expense	<u>123,373</u>	<u>57,831</u>
	<u>P 838,599</u>	<u>P 564,487</u>
<i>Reported in other comprehensive income</i>		
Actuarial gain (loss)	<u>P 496,575</u>	<u>(P 1,382,340)</u>

Current service and interest cost is allocated and presented as part of operating expenses in the statements of operations.

In determining the amounts of the retirement benefit obligation, the following significant actuarial assumptions were used:

	<u>2025</u>	<u>2024</u>
Discount rates	6.30%	6.12%
Expected rate of salary increases	3.00%	3.00%

Assumptions regarding mortality are based on published statistics and mortality tables. The average age of the employees is 39.00 and 39.79 years in 2025 and 2024, respectively, while the average years of service are 3.58 and 2.93 in 2025 and 2024, respectively. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero-coupon government bonds with terms to maturity approximating to the terms of the retirement benefit obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

c. *Risks Associated with the Retirement Plan*

The plan exposes the Association to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

i. *Interest Risk*

The present value of the retirement benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of reference government bonds will increase the plan obligation.

ii. Longevity and Salary Risks

The present value of the retirement benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants during their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

d. Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described in the succeeding page.

Sensitivity Analysis

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the retirement benefit obligation at the actuarial valuation report date after first adjusting one of the current assumptions according to the applicable sensitivity increment or decrement, based on changes in the relevant assumption that were reasonably possible at the valuation date, while all other assumptions remained unchanged. The sensitivities were expressed as the corresponding change in the retirement benefit obligation.

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit obligation as at December 31:

	Impact on defined benefit obligation			
	Change in Assumption		Increase in Assumption	Decrease in Assumption
December 31, 2025				
Discount rate	1%	P	2,257,984	P 2,818,699
Salary increase rate	1%		2,798,909	2,270,157
Withdrawal rate	10%		2,496,581	2,531,264
December 31, 2024				
Discount rate	1%	P	1,803,089	P 2,268,216
Salary increase rate	1%		2,252,039	1,812,891
Withdrawal rate	10%		1,999,976	2,029,486

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the statements of financial condition.

24. TAX EXPENSE

The components of tax expense as reported in the statements of operations are presented below:

	<u>2025</u>	<u>2024</u>
Regular corporate income tax (RCIT) at 25%	P 1,009,476	P 1,260,953
Final tax at 20%	3,299,736	2,895,960
	<u>P 4,309,212</u>	<u>P 4,156,913</u>

As mentioned in Note 1, the Association is exempt from the payment of income tax under Section 30c of the National Internal Revenue Code. However, the Association's income from rental is subjected to regular income tax of 25% in both years.

As at report date, the Association is waiting for exemption certification from the BIR to avail the tax incentives. The said exemption entitles the Association to full deductibility of donation and entitlement to a 50% additional deduction. The donation also exempts the Association from paying donors tax pursuant to R.A. 8525.

Under the Corporate Recovery and Tax Incentives for Enterprises ("CREATE") Act, the RCIT of domestic corporations are taxed at 25% or 20% depending on the amount of total assets and total amount of taxable income. The Association's taxable income is subject to 25% RCIT under this provision in both years.

25. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Association:

Operating Lease - Association as Lessor

The Association is a lessor on various offices with terms ranging from one to ten years, with renewal options, and includes annual escalation rates of 10%. The future minimum lease payments receivable under these leases as at December 31 are as follows:

	<u>2025</u>	<u>2024</u>
Within one year	P 2,491,686	P 723,877
After one year but not more than five years	1,515,589	143,155
	<u>P 4,007,275</u>	<u>P 867,032</u>

Rental income recognized from these leases amounted to P3,404,975 in 2025 and P2,901,303 in 2024 and presented as part of Others under Revenues account in the statements of operations (see Note 19).

Others

In the normal course of business, the Association makes various commitments and incurs certain contingent liabilities that are not given recognition in the Association's financial statements. Management believes that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Association's financial statements.

26. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Association is exposed to a variety of financial risks in relation to financial instruments. The Association's financial assets and liabilities by category are summarized in Note 27. The main types of risks are market risk, credit risk and liquidity risk.

The Association's risk management is coordinated with the Board of Trustees and focuses on actively securing the Association's short- to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Association does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Association is exposed to are described below and in the succeeding pages:

Market Risk

The Association is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks which result from both its operating and investing activities.

a. Foreign Currency Sensitivity

The Association has no significant exposure to foreign currency risks as most transactions are denominated in Philippine peso, its functional currency.

b. Interest Rate Sensitivity

The Association's policy is to minimize interest rate cash flow risk exposures on long-term financing. The Association is exposed only to changes in market interest rates through its cash and cash equivalents, short-term investments and Financial assets at amortized cost as there are no existing bank borrowings. All other financial assets (such as membership assistance and other receivables) and financial liabilities (such as accounts payable and other liabilities) have fixed interest rates.

The table below illustrates the sensitivity of the Association's impact on profit or loss before tax and fund balance to a reasonably possible change in interest rates of +/-1.82% and +/-1.82% in 2025 and 2024, respectively. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at the end each reporting period that are sensitive to changes interest rates. All other variables are held constant.

	2025		2024	
	+1.82	-1.82	+1.82	-1.82
Impact on profit or loss	P 30,205,735	(P 30,205,735)	P 28,273,772	(P 28,273,772)
Impact on equity	22,654,301	(22,654,301)	21,205,329	(21,205,329)

c. *Other Price Risk Sensitivity*

The Association's market price risk arises from its investments carried at fair value through profit or loss. It manages its risk arising from changes in market price by monitoring the changes in the market price of investments. For these securities, average volatility of 23% has been observed in both years. If quoted price for these securities increased or decreased by that amount, profit before tax would have changed by P1,810,439 in 2025 and P1,220,208 in 2024.

These investments are considered long-term strategic investments. No specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity investments are utilized in the Association's favor.

Credit Risk

Credit risk is the risk that the counterparty fails to discharge an obligation to the Association. The Association is exposed to this risk for various financial instruments, for example by granting loans and receivables to borrowers, placing deposits and investments in bonds.

An analysis of the maximum exposure to credit risk, net of allowance for credit and impairment losses, to credit risk exposures before taking into account any collateral held or other credit enhancements for the components of the statements of financial condition is shown below:

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	P 201,999,866	P 213,263,849
Short-term financial assets	81,666,766	79,862,157
Membership assistance and other receivables - gross	213,794,147	261,696,158
Financial assets at amortized cost	77,512,551	57,937,570
Financial assets at FVTPL	341,212,324	315,009,246
Other current financial assets	1,002,620	1,848,067
Long-term financial assets	81,937,983	85,052,915
Financial assets at FVOCI	<u>103,133,470</u>	<u>97,625,000</u>
	<u>P 1,102,259,727</u>	<u>P 1,112,294,962</u>

The following tables show the credit quality of financial assets by class (gross of allowance) of the Association:

		2025					
		Neither Past Due nor Impaired			Past Due But Not Yet Impaired	Impaired	Total
		High Grade	Standard Grade	Substandard Grade			
Cash and cash equivalents	P	201,999,866	P -	P -	P -	P -	P 201,999,866
Short-term financial assets		81,666,766	-	-	-	-	81,666,766
Membership assistance and other receivables:							
Membership assistance		-	111,686,949	-	51,470,465	19,769,199	182,926,613
Accrued interest income		-	25,765,986	-	-	-	25,765,986
Accounts receivable		-	5,101,548	-	-	-	5,101,548
Financial assets at amortized cost		77,512,551	-	-	-	-	77,512,551
Financial assets at FVTPL		341,212,324	-	-	-	-	341,212,324
Other current financial assets		1,002,620	-	-	-	-	1,002,620
Long-term financial assets		81,937,983	-	-	-	-	81,937,983
Financial assets at FVOCI		103,133,470	-	-	-	-	103,133,470
	P	888,465,580	142,554,483	-	51,470,465	19,769,199	1,102,259,727
		2024					
		Neither Past Due nor Impaired			Past Due But Not Yet Impaired	Impaired	Total
		High Grade	Standard Grade	Substandard Grade			
Cash and cash equivalents	P	213,263,849	P -	P -	P -	P -	P 213,263,849
Short-term financial assets		79,862,157	-	-	-	-	79,862,157
Membership assistance and other receivables:							
Membership assistance		-	125,065,850	-	74,590,173	22,135,812	221,791,835
Accrued interest income		-	36,872,690	-	-	-	36,872,690
Accounts receivable		-	3,031,633	-	-	-	3,031,633
Financial assets at amortized cost		57,937,570	-	-	-	-	57,937,570
Financial assets at FVTPL		315,009,246	-	-	-	-	315,009,246
Other current financial assets		1,848,067	-	-	-	-	1,848,067
Long-term financial assets		85,052,915	-	-	-	-	85,052,915
Financial assets at FVOCI		97,625,000	-	-	-	-	97,625,000
	P	850,598,804	164,970,173	-	74,590,173	22,135,812	1,112,294,962

The succeeding tables show the aging analysis of past-due loans and other receivables but not yet impaired. Under PFRS Accounting Standards for MBAs, a financial asset is past due when the counterparty has failed to make a payment when contractually due.

		2025					Total
		Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days	
Membership assistance and other receivables:							
Membership assistance	P	51,470,465	-	-	-	-	51,470,465
		2024					
		Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days	Total
Membership assistance and other receivables:							
Membership assistance	P	74,590,173	-	-	-	-	74,590,173

The Association's management considers the net amount of the above financial assets that are not impaired or past due for each reporting date are of good credit quality. The bases in grading the Association's financial assets are as follows:

1. *High Grade*

These are financial assets that have a high probability of collection. The counterparty has the apparent ability to satisfy its obligation and the security is readily enforceable.

2. *Standard Grade*

These are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay but with the experience of default.

3. *Substandard Grade*

These are receivables where the counterparty has the experience of default and probability of turning past due in the near future and/or are already past due.

Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Association's inability to meet its obligations when they fall due without incurring unacceptable losses or costs.

The Association's Management Committee is responsible for the overall management and oversight of the Association's liquidity profile, while the day-to-day management of liquidity is assumed by the Finance Department. A cash flow mismatch analysis is used to measure the Association's liquidity. A maturity ladder is constructed to determine the cumulative net excess or deficit of funds at appropriate time bands. Net cumulative outflow limits have been put in place to ensure that the Association's funding requirements are not strained.

The tables below summarize the maturity profile of the Association's financial instruments:

	2025				
	On Demand	Less than 3 Months	3 to 12 Months	Over 1 year	Total
Financial Assets:					
Cash and cash equivalents	P 160,849,872	P 41,239,994	P -	P -	P 202,089,866
Short-term financial assets	-	-	81,666,766	-	81,666,766
Membership assistance and other receivables-gross	81,024,173	25,370,063	51,470,465	55,929,446	213,794,147
Financial assets at amortized cost	-	-	77,512,551	-	77,512,551
Financial assets at FVTPL	341,212,324	-	-	-	341,212,324
Other current financial assets	1,002,620	-	-	-	1,002,620
Long-term financial assets	-	-	-	81,937,983	81,937,983
Financial assets at FVOCI	-	-	-	103,133,470	103,133,470
	<u>584,088,989</u>	<u>66,610,057</u>	<u>210,649,782</u>	<u>241,000,899</u>	<u>1,102,349,727</u>

	2025				Total
	On Demand	Less than 3 Months	3 to 12 Months	Over 1 year	
Financial liabilities:					
Accounts payable and other liabilities	16,592,209	-	-	-	16,592,209
Liability on individual equity value	666,514,473	-	-	-	666,514,473
Claims payable on basic contingent benefit	1,550,000	-	-	-	1,550,000
Basic contingent benefit reserve	1,545,379	-	-	-	1,545,379
Other benefits on basic policies	39,855,737	-	-	-	39,855,737
	<u>726,057,798</u>	-	-	-	<u>726,057,798</u>
Cumulative gap	<u>(P 141,968,809)</u>	<u>P 66,610,057</u>	<u>P 210,649,782</u>	<u>P 241,000,899</u>	<u>P 376,291,929</u>
	2024				Total
	On Demand	Less than 3 Months	3 to 12 Months	Over 1 year	
Financial Assets:					
Cash and cash equivalents	P 164,351,595	P 49,002,254	P -	P -	P 213,353,849
Short-term financial assets	-	-	79,862,157	-	79,862,157
Membership assistance and other receivables-gross	118,567,259	31,474,059	48,264,362	63,390,478	261,696,158
Financial assets at amortized cost	-	-	57,937,570	-	57,937,570
Financial assets at FVTPL	315,009,246	-	-	-	315,009,246
Other current financial assets	1,848,067	-	-	-	1,848,067
Long-term financial assets	-	-	-	85,052,915	85,052,915
Financial assets at FVOCI	-	-	-	97,625,000	97,625,000
	<u>599,776,167</u>	<u>80,476,313</u>	<u>186,064,089</u>	<u>246,068,393</u>	<u>1,112,384,962</u>
Financial liabilities:					
Accounts payable and other liabilities	15,548,928	-	-	-	15,548,928
Liability on individual equity value	681,674,588	-	-	-	681,674,588
Claims payable on basic contingent benefit	3,950,000	-	-	-	3,950,000
Basic contingent benefit reserve	1,497,142	-	-	-	1,497,142
Other benefits on basic policies	38,249,397	-	-	-	38,249,397
	<u>740,920,055</u>	-	-	-	<u>740,920,055</u>
Cumulative gap	<u>(P 141,143,888)</u>	<u>P 80,476,313</u>	<u>P 186,064,089</u>	<u>P 246,068,393</u>	<u>P 371,464,907</u>

To ensure that the Association maintains a prudent and management level of cumulative negative gap, the Association maintains a pool of highly liquid assets in the form of short-term investments. Further, the Association has pending credit lines with the banks in the event of funding its operations.

27. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS

a. Fair Value of Financial Instruments

The following tables set forth the carrying values and estimated fair values of financial assets and liabilities, by category and by class, recognized as at December 31:

	2025		2024	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
<i>Financial Assets</i>				
Cash and cash equivalents	P 202,089,866	P 202,089,866	P 213,353,849	P 213,353,849
Short-term financial assets	81,666,766	81,666,766	79,862,157	79,862,157
Long-term financial assets	81,937,983	81,937,983	261,696,158	239,560,346
Financial assets at amortized cost	77,512,551	77,512,551	57,937,570	57,937,570
Membership assistance and other receivables	213,794,147	194,024,948	315,009,246	315,009,246
Financial assets at FVOCI	103,133,470	103,133,470	1,848,067	1,848,067
Financial assets at FVTPL	341,212,324	341,212,324	85,052,915	85,052,915
Other current financial assets	1,002,620	1,002,620	97,625,000	97,625,000
	<u>P 1,102,349,727</u>	<u>P 1,082,580,528</u>	<u>P 1,112,384,962</u>	<u>P 1,090,249,150</u>
<i>Financial Liabilities:</i>				
Accounts payable and other liabilities	P 16,592,209	P 16,592,209	P 15,548,928	P 15,548,928
Liability on individual equity value	666,514,473	666,514,473	681,674,588	681,674,588
Claims payable on basic contingent benefit	1,550,000	1,550,000	3,950,000	3,950,000
Basic contingent benefit reserve	1,545,379	1,545,379	1,497,142	1,497,142
Other benefits on basic policies	39,855,737	39,855,737	38,249,397	38,249,397
	<u>P 726,057,798</u>	<u>P 726,057,798</u>	<u>P 740,920,055</u>	<u>P 740,920,055</u>

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

i. *Cash and cash equivalents, short-term and other current financial assets*

The carrying amounts approximate fair values given the nature of the instruments.

ii. *Financial assets at FVTPL and FVOCI*

For publicly traded equity securities, fair values are determined based on quoted prices in active markets.

For unquoted debt and equity securities, fair value are not directly observable due to the lack of active markets and the absence of sufficient observable market data. In such cases, management estimates fair value using appropriate valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Where valuation techniques are not practicable and the range of reasonable fair value estimates is significant, cost is used as an estimate of fair value, as management has determined that cost represents the best estimate of fair value at the reporting date. These instruments are assessed for impairment indicators at each reporting period.

iii. *Financial assets at amortized cost, Loans and other receivables and Long-term financial assets*

Financial assets at amortized cost, and loans and other receivables and long-term financial assets are net of impairment losses. The estimated fair value of these financial assets represents the discounted amount of estimated future cash flows expected to be received. Long-term interest-bearing loans are periodically repriced at interest rates equivalent to the current market rates to determine fair value.

iv. *Accounts payable and other liabilities, Liability on individual equity value, Basic contingent benefit reserve, Claims payable on basic contingent reserve and Other benefits on basic policies*

These liabilities are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. The fair value of these short-term liabilities approximates their carrying values.

b. Fair Value Hierarchy

The Association uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

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

The table below shows the fair value hierarchy of the Association's classes of financial assets and financial liabilities measured at fair value in the statements of financial condition on a recurring basis as of December 31, 2025 and 2024:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2025				
Financial assets at FVTPL	P 47,253,225	P 293,959,099	P -	P 341,212,324
Financial assets at FVOCI	<u>-</u>	<u>-</u>	<u>103,133,470</u>	<u>103,133,470</u>
	<u>P 47,253,225</u>	<u>P 293,959,099</u>	<u>P 103,133,470</u>	<u>P 444,345,794</u>
December 31, 2024				
Financial assets at FVTPL	P 46,555,059	P 268,454,187	P -	P 315,009,246
Financial assets at FVOCI	<u>-</u>	<u>-</u>	<u>97,625,000</u>	<u>97,625,000</u>
	<u>P 46,555,059</u>	<u>P 268,454,187</u>	<u>P 97,625,000</u>	<u>P 412,634,246</u>

There have been no significant transfers among Levels 1, 2 and 3 in the reporting periods.

The Association has no financial liabilities measured at fair value as at December 31, 2025 and 2024.

Fair Value Measurement for Non-financial Assets

There were no non-financial assets measured at fair value as at December 31, 2025 and 2024.

28. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Association's capital management objectives are to ensure the Association's ability to continue as a going concern and to provide an adequate return to members by pricing products and services commensurately with the level of risk.

The Association sets the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities. The Association manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Association may adjust the amount of dividends paid to members or sell assets to reduce debt.

The Association monitors capital on the basis of the carrying amount of equity as presented on the face of the statements of financial condition. Capital for the reporting periods under review is summarized as follows:

	<u>2025</u>	<u>2024</u>
Total liabilities	P 727,163,691s	P 742,358,012
Total fund balance	<u>469,674,821</u>	<u>449,443,134</u>
Debt-to-fund ratio	<u>1.55:1.00</u>	<u>1.65:1.00</u>

On December 8, 2006, the IC issued IMC No. 11-2006 adopting the Risk-Based Capital (RBC) framework for the mutual benefit associations to establish the required amounts of capital to be maintained by entities in relation to their investment and insurance risks. Every mutual benefit association is annually required to maintain a minimum Risk-Based Capital (RBC) ratio of 100.00% and not fail the trend test. Failure to meet the minimum Risk-Based Capital (RBC) ratio shall subject the insurance entity to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as member's equity divided by the RBC requirement whereas, the member's equity is defined as admitted assets minus all liabilities inclusive of actuarial reserves and other policy obligations.

The following table shows how the RBC ratio was determined by the Association based on its calculation:

	<u>2025</u>	<u>2024</u>
Asset default risk	P 123,966,782	P 73,208,624
Interest rate risk	-	14,996,841
Insurance pricing risk	3,590,784	3,369,239
General business risk	3,601,895	3,557,345
	<u>131,159,461</u>	<u>95,132,049</u>
 Aggregate RBC requirement	 <u>127,620,671</u>	 <u>91,827,136</u>
 Admitted Assets	 1,147,799,152	 1,112,823,737
Total Liabilities	<u>727,163,691</u>	<u>742,358,012</u>
 Members' Equity	 <u>420,635,461</u>	 <u>370,465,725</u>
 RBC ratio	 <u>329.60%</u>	 <u>403.45%</u>

The final amount of the RBC ratio can be determined only after the accounts of the Association have been examined by the IC specifically as to admitted and non-admitted assets as defined under the same Code.

The RBC ratio was based on the Association's calculation. The verified RBC ratio in 2025 by IC for its 2024 Annual Statement's verification was 314.00%.

29. NON-ADMITTED ASSETS

The amounts of non-admitted assets as defined in Section 197 of the Insurance Code which are included in the accompanying statements of financial condition follows:

	<u>2025</u>	<u>2024</u>
Membership assistance and other receivable	P 47,632,143	P 71,917,323
Property and equipment	569,029	1,194,862
Prepayments	338,188	416,204
Financial assets at fair value through other comprehensive income	500,000	500,000
Other current financial assets	-	1,848,067
Retirement asset	-	3,100,953
	<u>P 49,039,360</u>	<u>P 78,977,409</u>

The non-admitted assets above are estimated amounts and still subject to examination by the IC. In 2024 Annual Statement verification by the IC, the total non-admitted asset amounts to P160,173,299.

30. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Reconciliation of Liabilities Arising from Financing Activities

Presented below is the reconciliation of liability on individual equity value arising from financing activity related to liability on individual equity value (see Note 15).

	<u>2025</u>	<u>2024</u>
Balance at beginning of year	P 681,674,588	P 697,065,420
Cash flows from financing activities:		
Collections of equity participation for the year (see Note 19)	92,262,373	90,309,305
Withdrawals from equity participation for the year (see Note 15)	(107,422,488)	(105,700,137)
Balance at end of year	<u>P 666,514,473</u>	<u>P 681,674,588</u>

31. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below and on the succeeding page is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS Accounting Standards for MBAs.

Requirements under Revenue Regulations (RR) 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR 15-2010 are as follows:

a. Output Value-Added Tax (VAT)

The Association has no output VAT for the year 2025.

b. Input VAT

Input VAT arising from various purchases was directly charged by the Association as cost and expense.

c. Taxes on Importation

The Association has no tax on importation since it does not have any transactions which are subject to importation tax.

d. Excise Tax

The Association does not have excise tax in any of the year presented since it does not have any transactions which are subject to excise tax.

e. Documentary Stamps Tax

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

f. *Taxes and Licenses*

The details of taxes and licenses account are broken down as follows:

Real property tax	P	152,894
Municipal license and permits		151,192
Supervision fees		116,150
Percentage taxes		34,261
Annual statement filing fee		20,200
Vehicle registration		2,510
Annual registration		1,635
Others		<u>136,773</u>
	P	<u>615,615</u>

g. *Withholding Taxes*

The details of total withholding taxes for the year ended December 31, 2025 are shown below:

Compensation	P	1,097,780
Expanded		<u>174,332</u>
	P	<u>1,272,112</u>

h. *Deficiency Tax Assessment and Tax Case*

As at December 31, 2025, the Association neither has any deficiency tax assessment with the BIR or does it has tax case outstanding or pending in courts or bodies outside the BIR in any of the open years.

Requirements under Revenue Regulations (RR) 34-2020

On December 18, 2020, the BIR issued RR 34-2020 which prescribes the guidelines and procedures for the submission of BIR Form No. 1709, *Transfer Pricing Documentation (TPD)* and other supporting documents. As at December 31, 2025, the Association is not covered by the requirements and procedures for related party transactions provided under this RR.