PagASA ng Pinoy Mutual Benefit Association, Inc.

(A Nonstock, Not-for-Profit Association)

Financial Statements
December 31, 2022 and 2021

and

Independent Auditors' Report

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
PagASA ng Pinoy Mutual Benefit Association, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PagASA ng Pinoy Mutual Benefit Association, Inc. (the "Association") (a nonstock, not-for-profit association), which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2022 and 2021, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 22 to the financial statements, is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of PagASA ng Pinoy Mutual Benefit Association, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Bernalette L. Ramos

Bernalette L. Ramos
Partner
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BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
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Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-081-2021, February 1, 2021, valid until January 31, 2024
PTR No. 9564685, January 3, 2023, Makati City

May 4, 2023

PAGASA NG PINOY MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Not-for-Profit Association)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2022	2021
ASSETS		
Cash and cash equivalents (Notes 5 and 21)	**₱638,242,762**	₱422,894,012
Financial assets (Notes 6 and 21)		
Short-term investments	**10,790,467**	72,945,146
Loans and receivables	**4,257,702**	10,615,179
Held-to-maturity investments	**12,234,667**	81,910,870
Financial assets at fair value through profit or loss (FVPL)	**12,251,036**	5,614,161
Property and equipment (Note 7)	**3,468,437**	4,158,906
Intangible Asset (Note 8)	**472,875**	-
Other assets (Note 9)	**67,689**	709,411
Total Assets	**681,785,635**	598,847,685
LIABILITIES AND FUND BALANCE		
Liabilities		
Insurance contract liabilities (Note 10)	**383,680,295**	374,208,822
Retirement savings fund (Note 12)	**182,838,856**	152,974,245
Accounts payable and accrued expenses (Notes 11 and 19)	**25,150,244**	8,407,386
Total Liabilities	**591,669,395**	535,590,453
Fund Balance		
Appropriated fund balance (Note 21)	–	49,005,785
Unappropriated fund balance	**90,166,241**	14,251,447
Total Fund Balance	**90,116,241**	63,257,232
	₱681,785,636	₱598,847,685

See accompanying Notes to Financial Statements.

PAGASA NG PINOY MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Not-for-Profit Association)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2022	2021
REVENUE		
Premiums on insurance contracts (Note 13)	**₱288,600,987**	₱233,611,656
Membership fees	**15,448,764**	13,913,805
	304,049,751	247,525,461
BENEFITS, CLAIMS AND EXPENSES		
Gross insurance contract benefits and claims paid (Note 17)	**165,578,591**	126,917,831
Increase in insurance contract liabilities (Note 10)	**9,471,473**	37,235,031
Commission fees (Note 16)	**33,191,719**	28,400,216
	208,241,783	192,553,078
	95,807,968	54,972,383
OTHER INCOME		
Interest income (Note 14)	**4,137,001**	2,997,728
Other income (Note 15)	**(3,825,553)**	303,460
	311,448	3,301,188
OPERATING EXPENSE		
General and administrative expenses (Note 18)	**66,261,735**	46,989,125
Interest expense (Notes 11 and 12)	**2,347,301**	1,681,121
	68,609,036	48,670,246
INCOME BEFORE TAX	**27,510,380**	9,603,325
PROVISION FOR FINAL TAX (Note 20)	**651,372**	524,358
TOTAL COMPREHENSIVE INCOME*	**₱26,859,008**	₱9,078,967

*The Association has no other comprehensive income items in 2022 and 2021.

See accompanying Notes to Financial Statements.

PAGASA NG PINOY MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Not-for-Profit Association)

STATEMENTS OF CHANGES IN FUND BALANCE

	Appropriated Fund Balance (Note 21)	Unappropriated Fund Balance	Total
At January 1, 2022	**₱49,005,785**	**₱14,251,447**	**₱63,257,232**
Transfer to Unappropriated fund balance	**(49,005,785)**	**49,005,785**	**–**
Excess of revenue over expenses	**–**	**26,859,008**	**26,859,008**
At December 31, 2022	**₱–**	**₱41,110,455**	**₱90,116,240**
At January 1, 2021	₱49,005,785	₱5,172,480	₱54,178,265
Excess of revenue over expenses	–	9,078,967	9,078,967
At December 31, 2021	₱49,005,785	₱14,251,447	₱63,257,232

See accompanying Notes to Financial Statements.

PAGASA NG PINOY MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Not-for-Profit Association)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱27,510,380**	₱9,603,325
Adjustments for:		
Interest income (Note 14)	**(4,137,001)**	(2,997,728)
Interest expense (Notes 11 and 12)	**2,347,301**	1,681,121
Depreciation and amortization (Notes 7,8 and 18)	**975,066**	1,253,298
Provision for probable losses (Note 18)	**13,326,459**	2,276,744
Loss (gain) on fair value of investment (Notes 6 and 15)	**3,863,125**	(208,841)
Cash generated from operations before changes in working capital	**43,885,330**	11,607,919
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Loans and receivables	**5,371,107**	13,400,165
Other assets	**641,721**	(313,424)
Increase (decrease) in:		
Insurance contract liabilities	**9,471,473**	37,235,031
Accounts payable and accrued expenses	**3,145,974**	(15,426,548)
Retirement savings fund	**27,787,736**	18,720,771
Net cash generated from operations	**90,303,341**	65,223,914
Interest received	**4,444,574**	2,548,907
Final taxes paid	**(651,372)**	(524,358)
Net cash flows provided by operating activities	**94,096,543**	67,248,463
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Financial assets at FVPL (Note 6)	**(14,500,000)**	(1,000,000)
Property and equipment and intangible assets (Notes 7 and 8)	**(757,472)**	(191,314)
Held-to-maturity investments (Note 6)	–	(81,560,253)
Proceeds from sale/maturities of:		
Held-to-maturity investments (Note 6)	**70,355,000**	–
Short-term investments (Note 6)	**62,154,679**	57,275,805
Financial assets at FVPL (Note 6)	**4,000,000**	–
Net cash flows provided by (used in) investing activities	**121,252,207**	(25,475,762)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**215,348,750**	41,772,701
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**422,894,012**	381,121,311
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱638,242,762**	₱422,894,012

See accompanying Notes to Financial Statements.

1. Corporate Information

PagASA ng Pinoy Mutual Benefit Association, Inc. (the Association) was registered with the Securities and Exchange Commission (SEC) as a nonstock, not-for-profit association on December 28, 2012. It was granted a license by the Insurance Commission (IC) on May 22, 2013 to engage as a mutual benefit association that extends benefits and services for the welfare and financial security of its members and their families in the form of death benefits, sickness benefits, retirement savings and loan redemption assistance and ensuring continued access to benefits and resources until December 31, 2024. The Association actively involves the members in the direct management of the Association including the implementation of policies and procedures geared towards sustainability and improved services.

As a nonstock, not-for-profit mutual benefit association, the Association qualifies for tax exemption with respect to income and value-added taxes as provided under the National Internal Revenue Code of 1997, as amended by Republic Act 8424 known as the Comprehensive Tax Reform Program by the Bureau of Internal Revenue.

The registered office address of the Association is Unit 8G, 8th Floor, Jenkinsen Tower, 80 Timog Avenue, Sacred Heart, Quezon City.

The accompanying financial statements of the Association were approved and authorized for issue by the Board of Trustees (BOT) on May 4, 2023.

2. Basis of Preparation and Statement of Compliance, Statement of Compliance and Changes in Accounting Policies and Disclosures

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL), which have been measured at fair value. The financial statements are presented in Philippine Peso (₱), which is the Association's functional and presentation currency. All amounts are rounded to the nearest peso, unless otherwise indicated.

Statement of Compliance
The financial statements of the Association have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective in 2022. The Association has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Unless otherwise indicated, adoption of these new standards did not have an impact on the financial statements of the Association.

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2'gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately.

  At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

- Amendments to PAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*
  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

- *Annual Improvements to PFRSs* 2018-2020 Cycle
  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
    The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to PFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

  - Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*
    The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

<u>New standards and interpretations that have been issued but are not yet effective</u>
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements.

The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2023
- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*
- Amendments to PAS 8, *Definition of Accounting Estimates*
- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

Effective beginning on or after January 1, 2024
- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*

Effective beginning on or after January 1, 2025
- PFRS 17, *Insurance Contracts*
  The Association will assess the application of PFRS 17, including any consequential effects, risk adjustments and key changes to the accounting for insurance contracts. The Association, however, expects the adoption of the standard to have material impact on its financial statements.

Deferred effectivity
- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Accounting Standard Effective but not yet Adopted

- Amendments to PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4.
  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  Qualifying for temporary exemption from PFRS 9
  The Association applies the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4 *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*. The temporary exemption permits the Association to continue applying PAS 39 rather than PFRS 9 for annual periods beginning before 1 January 2022.

  The assessment for whether a reporting entity's activities are predominantly connected with insurance is based on the liabilities connected with insurance in proportion to the entity's total liabilities. An entity may elect the temporary exemption if, and only if:

  – The carrying amount of its liabilities arising from contracts within the scope of PFRS 4 is significant compared to the total carrying amount of all its liabilities; and
  – The percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all of its liabilities is:

    - Greater than 90 percent; or

- Less than or equal to 90 percent but greater than 80 percent, and the insurer does not engage in a significant activity unconnected with insurance.

Applying the requirements, the Association performed the predominance assessment using the statement of financial position as of December 31, 2011 and concluded that it qualified for the temporary exemption from PFRS 9. As of December 31, 2021 the Association's percentage of contractual liabilities is calculated 98% of the total carrying amount of its total liabilities. Since December 31, 2021, there has been no change in the activities of the Association that requires reassessment of the use of the temporary exemption.

Fair value disclosures
The table below presents an analysis of the fair value of classes of financial assets of the Association as of December 31, 2022, and 2021 as well as the corresponding change in fair value for the years then ended. The financial assets are divided into two categories:

- Assets for which their contractual cash flows represent solely payments of principal and interest (SPPI), excluding any financial assets that are held for trading or that are managed and whose performance is evaluated on a fair value basis; and
- All financial assets other than those specified in SPPI above (i.e. those for which contractual cash flows do not represent SPPI, assets that are held for trading and assets that are managed and whose performance is evaluated on a fair value basis).

	2022			
	SPPI financial assets		**Other financial assets**	
	Fair value	**Fair value change**	**Fair value**	**Fair value change**
Cash and cash equivalents	**₱638,242,762**	**₱–**	**₱–**	**₱–**
Short-term investments	**10,790,467**	–	–	–
Loans and receivables	**4,257,702**	–	–	–
Held-to-maturity investments	**12,234,667**	–	–	–
Financial assets at fair value through profit or loss (FVPL)	–	–	**12,251,036**	**(3,863,125)**
	₱665,525,598	**₱–**	**₱12,251,036**	**(₱3,863,125)**

	2021			
	SPPI financial assets		Other financial assets	
	Fair value	Fair value change	Fair value	Fair value change
Cash and cash equivalents	₱422,894,012	₱–	₱–	₱–
Short-term investments	72,945,146	–	–	–
Loans and receivables	10,615,179	–	–	–
Held-to-maturity investments	81,910,870	–	–	–
Financial assets at FVPL	–	–	5,614,161	208,841
	₱588,365,207	₱–	₱5,614,161	₱208,841

Credit risk disclosures
The following table shows the carrying amounts of the SPPI assets in accordance with PAS 39 categories by credit risk rating grades reported to key management personnel. The carrying amounts are measured in accordance with PAS 39. For assets measured at amortized cost, the carrying amount shown is before any allowance for impairment loss.

The Association evaluates and measures its credit risk by considering the degree of safety, from very high risk of default to highest degree, regarding timely servicing of financial obligation of its financial assets.

			2022			
			Credit Rating			
	Total	**AAA**	**AA/A**	**BBB**	**BB/B**	**Unrated**
Cash and cash equivalents*	**₱638,198,262**	**₱638,198,262**	**₱–**	**₱–**	**₱–**	**₱–**
Short-term investments	**10,790,467**	**10,790,467**	**–**	**–**	**–**	**–**
Loans and receivables	**4,257,702**	**–**	**4,257,702**	**–**	**–**	**–**
Held-to-maturity investments	**12,234,667**	**12,234,667**	**–**	**–**	**–**	**–**
	₱665,481,098	**₱661,223,396**	**₱4,257,702**	**₱–**	**₱–**	**₱–**

**Excludes cash on hand*

			2021			
			Credit Rating			
	Total	AAA	AA/A	BBB	BB/B	Unrated
Cash and cash equivalents*	₱422,804,012	₱422,804,012	₱–	₱–	₱–	₱–
Short-term investments	72,945,146	72,945,146	–	–	–	–
Loans and receivables	10,615,179	–	10,615,179	–	–	–
Held-to-maturity investments	81,910,870	81,910,870	–	–	–	–
	₱588,320,207	₱577,705,028	₱10,615,179	₱–	₱–	₱–

**Excludes cash on hand*

Financial assets that passed the SPPI test have low credit risk as of December 31, 2022 and 2021.

3. Summary of Significant Accounting Policies

<u>Cash and Cash Equivalents</u>
Cash includes cash on hand and in banks and is stated at face amount. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less and that are subject to an insignificant risk of changes in value.

<u>Short-term Investments</u>
Short-term investments are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three months but less than one year from dates of placement. These earn interests at the respective short-term investment rates.

<u>Financial Instruments</u>

Date of recognition
Financial instruments are recognized in the statement of financial position when the Association becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Initial recognition of financial instruments
Financial instruments are initially recognized at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Association classifies its financial assets in the following categories: held-to-maturity (HTM) investments, FVPL investments, short-term investments and loans and receivables. The Association classifies its financial liabilities into other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every end of the reporting period.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Association. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value hierarchy
The Association uses the following hierarchy for determining and disclosing the fair value of financial assets 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 which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted. They are not entered into with the intention of immediate or\short-term resale and are not classified as financial assets held for trading, nor designated as AFS or at FVPL. This accounting policy relates to the statement of financial position captions: "Cash", "Short-term investments" and "Loans and Receivables."

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The amortization is included as part of interest income in profit or loss. The losses arising from impairment of such loans and receivables are charged to current operations.

HTM investments
HTM investments are non-derivative financial assets that comprise fixed or determinable income securities of which the Association has the positive intention and ability to hold until maturity. Investments intended to be held for an undefined period are not included in this classification. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortized cost, using the effective interest rate (EIR) method. The cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the EIR method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the EIR, transaction costs and all other premiums and discounts. Gains and losses are recognized in the profit or loss when the investments are derecognized or impaired, as well as through the amortization process. These investments represent debt securities where the Association has the positive intent and financial capability to hold to maturity.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Association having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy applies primarily to the Association's "Accounts payable and accrued expenses", "Retirement savings fund" and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as insurance contract liabilities and income tax payable).

Offsetting of Financial Assets and Financial Liabilities
Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements and the related assets and liabilities due presented gross in the statement of financial position.

Impairment of Financial Assets
An assessment is made at each reporting date as to whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of income.

Assets carried at amortized cost
If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account.

The amount of the loss shall be recognized in the statement of income.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset have expired;
- the Association retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Association has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Association has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risk and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Association's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the carrying amount of the asset and the maximum amount of consideration that the Association could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled 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 Association's statement of income.

<u>Property and Equipment</u>
Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The initial cost of property and equipment comprises its purchase price, including taxes and directly attributable cost to bring the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed using the straight-line method over the estimated useful lives (EUL) of the assets as follows:

	Years
Building improvements	20
Computer and office equipment	5
Transportation equipment	5
Office furniture and fixtures	5

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made with respect to these assets.

The useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, an impairment loss is recognized in the statement of revenue and expenses.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any.

Amortization is computed using the straight-line method over the estimated useful lives (EUL) of five (5) years.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income in the expense category consistent with the function of the intangible assets.

Impairment of Nonfinancial Assets

The Association assesses at each end of the reporting period whether there is an indication that property and equipment and intangible assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Association makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at each end of the reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Fund Balance
Fund balance represents accumulated net income of the Association.

Revenue Recognition
Revenue is recognized when the significant risks and rewards of ownership have been transferred or the services have been rendered to the customer, the amount of revenue can be measured reliably, and it is probable that the economic benefits will flow to the Association. The Association assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Association concluded that it is acting as principal in all of its arrangements. Revenue is measured at the fair value of the consideration received, or receivable.

Membership fee
Membership fee pertains to the initial amount received to qualify as member of the Association in which the member is given the privilege to avail the products and services of the Association. It is recognized as earned when collected.

Other income
Income from other sources is recognized when earned. This includes income from activities other than normal business operations such as penalties and other bank credits.

Premiums on insurance contracts

Basic Life Insurance Plan (BLIP)
Premiums on Basic Life Insurance Plan (BLIP) are recognized as earned when collected and on the issue date which coincides with the effective date of the insurance policies. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

An equity value equal to fifty percent (50%) of total gross contributions paid for BLIP is recognized as liability when premiums are recognized. Annual 1% interest is also credited thereon when a member reaches one (1) year.

Credit Life Insurance Plan (CLIP) and Hospital Care Assistance (HCA)
Premiums on Credit Life Insurance Plan (CLIP) and Hospital Care Assistance (HCA) are recognized on the issue date which coincides with the effective date of the insurance policies, and are recognized as revenue over the period of the contracts.

Interest income
Interest income pertains to the interest earned on the Association's bank accounts during the specific period. The amount of interest may have been paid in cash, or it may have been accrued as having been earned but not yet collected.

Insurance Contract Liabilities

Basic Life Insurance Plan (BLIP)
Basic life insurance contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserve for insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing in each operation.

Credit Life Insurance Plan (CLIP)
Credit Life Insurance Plan (CLIP) liabilities pertain to the proportion of written premiums, gross of commissions payable, attributable to subsequent periods that have not yet expired. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts. The portion of the premiums written that relate to the unexpired periods of the policies at the reporting date are accounted for as provision for unearned premiums and presented as part of "Insurance contract liabilities" in statement of financial position. The change in the provision for unearned premiums is taken to profit or loss in the order that revenue is recognized over the period of risk.

Retirement Savings Fund
Retirement savings fund represents contributions of members of the Association to the provident fund of ₱130 every 6 months and earn interest at 1% per annum. This is recognized as liability when collected.

Claim Costs
Liabilities for unpaid claim costs and loss adjustment expenses relating to insurance contracts are accrued when insured events occur. The liabilities for unpaid claims, including those for incurred but not reported losses, are based on the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense in the period when the estimates are changed or payments are made.

Expense Recognition
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity.

Benefits and claims
Life insurance claims reflect the cost of all claims arising during the year, including claims handling costs. Death claims and surrenders are recorded on the basis of notifications received. Benefits recorded are then accrued as liabilities.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general and administrative expenses directly attributable to the claims function.

Commission fees
Commission fees consist of admission fees and commission fees charged to the Association by PagASA Philippines Finance Corp. (PPFC) and PagASA ng Masang Pinoy Microfinance Inc. (PMPMI) in exchange for collecting contributions from members by its collecting institutions.

Admission fees and commission fees from BLIP are recognized as expense when services are rendered.

For CLIP, commissions are recognized as expense over the period of the contracts.

General and administrative expenses
These consist of costs of administering the business. These are recognized as expenses as incurred.

Provisions
Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingent Liabilities and Contingent Assets
Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires the Association to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments
Product classification
The Association has determined that the insurance policies it issues have significant insurance risk and therefore meet the definition of an insurance contract and should be accounted for as such.

Classification of HTM investments
The Association classifies non-derivative financial assets with fixed or determinable payments and fixed maturities as HTM investments. This classification requires significant judgment. In making this judgment, the Association evaluates its intention and ability to hold such investments to maturity. If the Association fails to keep these investments to maturity other than in certain specific circumstances, the Association will be required to reclassify the entire portfolio as AFS financial assets and to measure these at fair value. The Association has outstanding HTM investments amounting to₱12,234,667 and ₱81,910,870 as of December 31, 2022 and 2021, respectively (see Note 6).

Classification of FVPL investments
The Association classifies its single premium variable unit-linked insurance contracts covering its key officers as FVPL investments. In making this judgment, the Association evaluates whether the insurance contract meets the definition of an FVPL investment which could either be a financial asset classified as held for trading or a financial asset which is designated at initial recognition by the Association as fair value through profit or loss. The Association has outstanding FVPL investments amounting to ₱12,251,036 and ₱5,614,161 as of December 31, 2022 and 2021, respectively (see Note 6).

Estimates
Impairment of nonfinancial assets
The Association assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Association considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Association recognizes an impairment loss whenever the carrying amount of the asset exceeds its recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

The related balances of the Association's nonfinancial assets for "Property and equipment" amounted to ₱3,941,312 and ₱4,158,906 as of December 31, 2022 and 2021, respectively.

Provision for insurance contract liabilities
The estimation of ultimate liability arising from claims made under life insurance contracts is the Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Association will ultimately pay for such claims. Previous experience and trends are fundamentally considered in determining the liability. In determining the provision for reserves, estimates are made as to the expected number of deaths, illness or injury for each of the years in which the Association is exposed to risk. The estimated number of deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Refer to Note 10 for the key assumptions used in the estimation of provision for reserves.

5. Cash and Cash Equivalents

This account consists of:

	2022	2021
Cash on hand	**₱44,500**	₱45,000
Cash in banks	**408,554,628**	277,295,297
Cash equivalents (Note 6)	**229,643,634**	145,553,715
	₱638,242,762	₱422,894,012

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents represent short-term investments that are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Association. Cash equivalents earn interest at annual rates ranging from 1.00% to 3.00% and 0.06% to 1.25% in 2022 and 2021, respectively.

The deposit accounts, including cash equivalents of the Association, earned interest amounting to ₱3,347,094 and ₱2,172,768 in 2022 and 2021, respectively (see Note 14).

6. **Financial Assets**

The Association's financial assets are summarized by measurement categories as follow:

	2022	2021
Financial assets at FVPL	**₱12,251,036**	₱5,614,161
Held-to-maturity investments	**12,234,667**	81,910,870
Short-term investments	**10,790,467**	72,945,146
Loans and receivables	**4,257,702**	10,615,179
	₱39,533,872	₱171,085,356

The assets included in each of the categories above are detailed below:

a) *Short term investments*
The short-term investments of the Association pertain to the time deposits with terms of more than three (3) months but less than one (1) year. As of December 31, 2022 and 2021, the carrying value of the short-term investments amounted to ₱10,790,467 and ₱72,945,146, respectively.

The rollforward analysis of this account follows:

	2022	2021
Beginning balance	**₱72,945,146**	₱130,220,951
Transfer to cash equivalents	**(62,154,679)**	–
Termination	–	(57,275,805)
Ending balance	**₱10,790,467**	₱72,945,146

Short-term investments earn annual interest at rates ranging from 0.25% to 0.75% and 0.25% to 1.13% in 2022 and 2021, respectively. In 2022, the tenure of some short-term investments is reduced to 90 days and less, which was resulted in a transfer of short-term investments into cash equivalents.

Interest income earned from these investments amounted to ₱67,666 and ₱364,582 in 2022 and 2021, respectively (see Note 14).

The Association assigned a guaranty fund of ₱49,005,785 as of December 31,2021 as security for the benefit of policyholders and creditors of the Association in accordance with the provisions of the Insurance Code. (see Note 21). The guaranty fund is presented as "Appropriated fund balance" in the statements of financial position. Such is deposited with the IC and presented under "Cash equivalents in 2022 (see Note 6) and "Short-term investments" in 2021.

b) *Held-to-maturity investments*

The rollforward analysis of this account follows:

	2022	2021
Beginning balance	**₱81,910,870**	₱–
Additions	**–**	81,560,253
Disposals/maturities	**(70,355,000)**	–
Amortization of discount	**678,797**	350,617
Ending balance	**₱12,234,666**	₱81,910,870

On February 1, 2021, the Association acquired zero-coupon HTM investment from Eastwest Bank with a face amount of ₱5,355,000 at a discounted price of ₱5,299,409. This investment has a one year tenure and matured last January 26, 2022.

On March 31, 2021, the Association acquired fixed-interest HTM investment from Rizal Commercial Banking Corp. with a face value of ₱12,000,000. The investment has 3.20% gross annual interest rate. This investment has 2.5 years tenure and will mature on September 30, 2023.

On December 1, 2021, the Association acquired zero-coupon HTM investment from Banco De Oro with a face amount of ₱65,000,000 at a discounted price of ₱64,260,844. This investment has a 364-day tenure and matured last November 16, 2022.

Interest income from these investments, which includes amortization of discount, amounted to ₱678,797 and ₱409,284 in 2022 and 2021, respectively (see Note 14).

The carrying value of HTM investments as of December 31, 2022 and 2021 amounted to ₱12,234,666 and ₱81,910,870, respectively.

c) *Loans and receivables*

This account consists of:

	2022	2021
Advances to employees	**₱1,702,913**	₱2,288,993
Due from related parties (Note 19)	**1,690,775**	7,354,206
Accrued interest income (Note 14)	**72,060**	379,633
Other receivables	**791,954**	592,347
	₱4,257,702	₱10,615,179

Advances to employees represent advances for the business expenses of the Association. These are on 1- to 30-day terms and are non-interest-bearing. The Association had directly written-off advances to employees amounting to ₱245,239 in 2021, which was recognized in "Provision for probable losses" under General and administrative expenses (see Note 18).

Due from related parties include receivables from PPFC and PMPMI which pertain to premium collections from the Association's members for the basic life insurance products, credit life insurance product, retirement savings fund, benefit claims and expense reimbursements. These are on 1- to 30-day terms and are non-interest-bearing.

Accrued interest income represents interest earned by the Association from its deposit accounts and short-term investments.

Advances to employees represent advances for the business expenses of the Association. These are on 1- to 30-day terms and are non-interest-bearing. The Association had directly written-off advances to employees amounting to ₱245,239 in 2021 which was recognized in "Provision for probable losses" under General and administrative expenses (see Note 18).

Other receivables consist of the motorcycle loan, employee salary loan and laptop loan of officers and employees. These are non-interest bearing except for salary loan which earns interest of 6% semi-annually, with payment terms up to 24 months. Interest income on other receivables amounted to ₱43,445 and ₱51,094 in 2022 and 2021, respectively (Note 14).

As of December 31, 2022 and 2021, there was no allowance for impairment loss recognized on loans and receivables.

d) Financial assets at FVPL

Insular Life
On May 25, 2017, the Association purchased single-premium variable unit-linked insurance contracts from Insular Life Assurance Co. Inc. (Insular Life) covering its key officers with the Association as the designated beneficiary under the contract. The premium paid amounted to ₱5,000,000. On May 21, 2021, the Association paid additional premiums amounting to ₱1,000,000. However, on March 04, 2022, the Association made partial termination of the cash surrender value of the insurance amounting to ₱4,000,000.

On March 1, 2022, May 1, 2022 and July 1, 2022, the Association made and purchased installment premium variable unit-linked insurance contracts from Insular Life covering its key officers with the Association as the designated beneficiary under the contract amounting to ₱4,500,000.

However, on March 4, 2022, the Association made partial termination of the cash surrender value of the insurance amounting to ₱4,000,000.

The cash surrender value of the insurance contract amounted to ₱2,978,102 and ₱5,614,161 as of December 31, 2022 and 2021, respectively. The Association has recorded fair value investment gain (loss) of (₱3,136,058) and ₱208,841 in 2022 and 2021, respectively (see Note 15). The fair value changes are brought about by changes in the Net Asset Value per unit (NAVPU) of the variable unit –linked insurance contracts purchased by the Association with Insular Life.

BPIIMI

On December 12, 2022, the Association has made an investment in mutual fund account being managed by BPI Investment Management, Inc. (BPIIMI) totaling to ₱10,000,000. The fair value of the investment with BPIIMI as of December 31, 2022 is ₱9,272,934. The Association has recorded fair value investment loss of ₱727,066 in 2022 (see Note 15).

The rollforward of the financial assets at FVPL follows:

	2022	2021
Beginning balance	**₱5,614,161**	₱4,405,320
Addition	**14,500,000**	1,000,000
Termination	**(4,000,000)**	–
Gain (loss) on fair value of investment (Note 15)	**(3,863,125)**	208,841
Ending balance	**₱12,251,036**	₱5,614,161

7. Property and Equipment - net

The rollforward analysis of this account follows:

2022

	Computer and Office Equipment	Office Furniture and Fixtures	Transportation Equipment	Building Improvements	Total
Cost					
At January 1	**₱2,774,309**	**₱934,778**	**₱1,291,000**	**₱4,953,049**	**₱9,953,136**
Additions	**161,622**	**10,850**	**–**	**–**	**172,472**
At December 31	**2,935,931**	**945,628**	**1,291,000**	**4,953,049**	**10,125,608**
Accumulated Depreciation					
At January 1	**2,222,506**	**918,642**	**1,242,808**	**1,410,274**	**5,794,230**
Depreciation (Note 17)	**540,111**	**26,986**	**48,192**	**247,652**	**862,941**
At December 31	**2,762,617**	**945,628**	**1,291,000**	**1,657,926**	**6,657,171**
Net Book Value	**₱173,314**	**₱–**	**₱–**	**₱3,295,123**	**₱ 3,468,437**

2021

	Computer and Office Equipment	Office Furniture and Fixtures	Transportation Equipment	Building Improvements	Total
Cost					
At January 1	₱2,597,685	₱920,088	₱1,291,000	₱4,953,049	₱9,761,822
Additions	176,624	14,690	–	–	191,314
At December 31	2,774,309	934,778	1,291,000	4,953,049	9,953,136
Accumulated Depreciation					
At January 1	1,660,224	733,478	984,608	1,162,622	4,540,932
Depreciation (Note 17)	562,282	185,164	258,200	247,652	1,253,298
At December 31	2,222,506	918,642	1,242,808	1,410,274	5,794,230
Net Book Value	₱551,803	₱16,136	₱48,192	₱3,542,775	₱4,158,906

As of December 31, 2022 and 2021, fully depreciated property and equipment items are still in use and reported at cost and its related accumulated depreciation until such asset is dispositioned. Also, no property and equipment items are under pledge or used as collateral to secure obligations of the Association.

8. **Intangible assets - net**

Movements of this account follow:

	2022	2021
Cost		
At January 1	**₱27,720**	₱27,720
Reclass from Other asset (Note 9)	**585,000**	–
At December 31	**612,720**	27,720
Accumulated Amortization		
At January 1	**27,720**	27,720
Amortization	**112,125**	–
At December 31	**139,845**	27,720
Net Book Value	**₱472,875**	₱–

The Association's accounting system, MYOB with a cost of P27,720, is already fully amortized as of December 31, 2022 and 2021. However, the Association continues to use the said accounting system.

For 2022, the Association reclassed to "Intangible asset" amounting to ₱585,000 for its newly designed system primarily used for the overall recording of various transactions and generation of operational reports (Note 9). Amortization on the system amounted to Php112,125 as of December 31, 2022.

9. **Other Assets**

This account consists of:

	2022	2021
Security deposits on rental	**₱53,499**	₱53,499
Prepaid insurance	**14,190**	70,912
System deposit	–	585,000
	₱67,689	₱709,411

In 2018, the Association signed an agreement for the development of a new system which will be used for the overall recording of various transactions and generation of reports. The total contract price amounted to ₱500,000 to be paid on installment basis. In 2021, the Association paid ₱85,000 for the additional features for members module. The said system has been fully operational in 2022 and thus transferred to "Intangible asset" account (see Note 8).

10. **Insurance Contract Liabilities**

This account consists of:

	2022	2021
Return of equity value	**₱333,703,101**	₱332,410,811
Basic life insurance plan	**17,590,783**	15,866,083
Claims payable	**14,113,733**	11,549,620
Unearned premium on hospital care assistance	**12,538,836**	9,317,245
Unearned premium on credit life insurance plan	**5,733,842**	5,065,063
	₱383,680,295	₱374,208,822

The liabilities included in each of the categories above are detailed below:

a) *Return of Equity Value*

Members' equity value represents the total amount of obligations set-up by the Association pertaining to the 50% equity value, as required by the Insurance Code. A member who withdraws membership from the Association shall be entitled to 50% of the life insurance contribution less any benefits already paid. Annual 1% interest is also credited thereon when a member reaches one (1) year. Reserve liabilities are set up for any future claims.

The details of the return of equity value are as follow:

	2022	2021
Cumulative gross premium collection (Note 13)	**₱1,221,775,194**	₱1,031,377,046
Members' equity interest at 50%	**610,887,597**	515,688,523
Equity value withdrawal	**(299,649,224)**	(202,225,818)
Interest credited at 1% per annum	**22,464,728**	18,948,106
Reserves for members' equity, with interest	**₱333,703,101**	₱332,410,811

The rollforward of Return of Equity Value follows:

	2022	2021
Balance at beginning of year	**₱332,410,811**	₱306,809,363
Arising (reversal) during the year		
Members' equity interest at 50%	**95,199,074**	79,672,182
Equity value withdrawal	**(97,423,406)**	(60,975,976)
Interest credited at 1% per annum	**3,516,622**	6,905,242
Balance at end of year	**₱333,703,101**	₱332,410,811

b) *BLIP reserve*

BLIP is a contract between the policy owner and the Association, where the Association agrees to pay a sum of money upon the occurrence of the insured's death. In return, the policy owner agrees to pay a stipulated amount at regular intervals. Benefits are given upon the death, accident or disability of a member or a dependent who paid a certain premium for a particular period of time.

Basic life insurance reserve pertains to total actuarial reserve set-up by the Association to the basic life benefit that is in force as at the end of the accounting period computed on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing in each life operation.

The rollforward of BLIP reserve follows:

	2022	2021
Balance at beginning of year	**₱15,866,083**	₱11,381,875
Arising during the year	**1,724,700**	4,484,208
Balance at end of year	**₱17,590,783**	₱15,866,083

c) Claims payable

This account consists of claims payable on:

	2022	2021
Claims incurred but not yet reported	**₱9,029,133**	₱8,869,120
Claims in course of settlement	**5,084,600**	2,680,500
	₱14,113,733	₱11,549,620

The rollforward of claims payable follows:

	2022	2021
Balance at beginning of year	**₱11,549,620**	₱8,486,791
Claims incurred	**50,458,691**	48,461,121
Claims paid	**(47,894,578)**	(45,398,292)
Balance at end of year	**₱14,113,733**	₱11,549,620

Claims incurred but not yet reported pertain to deaths which occurred before December 31 but were reported after December 31, 2022 and 2021.

Claims in course of settlement refer to those claims which occurred before reporting date but have not yet been processed, settled or paid as of reporting date. These are claims that are already reported and under processing and validation of documentary requirements.

d) CLIP reserve

Credit life insurance reserves pertain to the proportion of written premiums attributable to subsequent periods or to risks that have not yet expired. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts. The change in the credit life insurance reserves is taken to profit or loss in the order that revenue is recognized over the period of risk. The increase in credit life insurance reserves in the profit or loss amounted to ₱668,778 and of ₱1,384,407 in 2022 and 2021, respectively.

	2022	2021
Balance at beginning of year	**₱5,065,063**	₱3,680,655
Premiums written during the year (Note 13)	**39,937,539**	33,325,668
Claims paid	**(13,445,176)**	(15,891,754)
Premiums earned during the year	**(25,823,584)**	(16,049,506)
Balance at end of year	**₱5,733,842**	₱5,065,063

e) *Hospital Care Assistance (HCA) reserve*

The Hospitalization Care Assistance (HCA) program entitles a member for hospitalization coverage of maximum of ₱5,000 for six (6) months for a premium of ₱100 HCA premium deposit pertains to unexpired portion of hospitalization premium paid by members who availed for hospitalization insurance coverage.

Unearned hospitalization care premiums pertain to the proportion of written premiums related to subsequent periods that have not expired as of December 31, 2022 and 2021. HCA premiums are amortized over the period of 6-months covering the contract period for this product. The unearned premium on HCA amounted to ₱12,538,836 and ₱9,317,245 in 2022 and 2021, respectively.

	2022	2021
Balance at beginning of year	**₱9,317,245**	₱6,615,107
Premiums written during the year (Note 13)	**58,265,300**	40,941,622
Claims paid	**(6,795,674)**	(4,651,809)
Premiums earned during the year	**(48,248,035)**	(33,587,675)
Balance at end of year	**₱12,538,836**	₱9,317,245

11. **Accounts Payable and Accrued Expenses**

This account consists of:

	2022	2021
Accounts payable	**₱19,887,323**	₱7,662,435
Due to related parties (Note 19)	**4,815,655**	184,951
Accrued expenses	**447,266**	560,000
	₱25,150,244	₱8,407,386

The liabilities included in each of the categories above are detailed below:

a) *Accounts payable*

The accounts payable of the Association consist of:

	2022	2021
Accrued Provision for probable losses	**₱15,349,708**	₱4,054,754
Guarantee bond	**2,974,866**	2,345,733
Salary fund deposit	**555,916**	520,329
Withholding taxes payable	**567,954**	491,862
Mandatory contributions payable	**180,191**	39,041
Loans payable	**74,626**	26,654
Other payables	**184,062**	184,062
	₱19,887,323	₱7,662,435

Guarantee bond refers to the liabilities of the Association for the cash deposits or savings of employees. Generally, the amount of ₱500 is deducted monthly from the employees' compensation. Salary fund deposit pertain to the amount equivalent to five (5) working days deducted upon the employee's first salary, which serves as a bond of the employee for the training fee paid by the Association. Guarantee bond and salary fund deposit of an employee are accumulated in the course of his or her employment and can be withdrawn only upon his or her resignation. The Association provides 8% interest per annum on the guarantee bond and salary fund deposit.

Interest expense from guarantee bond and salary fund deposit amounted to ₱270,426 and ₱276,982 in 2022 and 2021, respectively.

Withholding taxes payable represents documentary taxes from insurance policies, withheld from employees' compensation and withheld taxes from commission fees and purchases from suppliers which are subsequently remitted within one month after the reporting date.

Mandatory contributions payable refers to amounts due to Social Security System (SSS), PhilHealth and Pag-ibig fund, which were remitted the following month.

On March 26, 2021, the Association paid a total tax deficiency amounting to ₱8,359,415 for the taxable year 2019, of which ₱5,510,242 came from previously recognized provisions while the ₱2,849,172 additional was recognized under 'Taxes and licenses' (see Note 22).

On May 11, 2022, the Association paid a total of ₱4,568,154 of tax deficiencies for the taxable year 2020. of which ₱2,031,505 came from previously recognized provisions while the ₱2,536,349 additional was recognized under 'Taxes and licenses' (see Note 22).

During the year, the Association accrued and recognized additional provision for probable losses amounting to ₱13,326,459 under "Provision for probable losses" in the "General and administrative expenses" (see Note 18).

b) *Accrued expenses*

The accrued expenses of the Association pertain to the expenses already incurred but unpaid. This consists of accrual for professional fee and staff bonuses.

c) *Due to related parties*

Due to related parties pertain to payables to PPFC and PMPMI for commission fee, claims payment and other expenses paid by PPFC and PMPMI on behalf of the Association. Payables are on 1- to 30-day terms and are noninterest-bearing.

12. Retirement Savings Fund

The retirement savings fund represents contributions of members of the Association to the provident fund. It is being administered by the Association and is intended for the retirement of its members and it can be availed of at the age of 65. The contributions of ₱130 per 6 months are invested and the interest of 1% thereon is credited to the retirement savings fund. If a member decides to retire prior to age of 65, the member shall be entitled to an equity value equivalent to 100% of the member's total contributions less a surcharge of 20%.

Rollforward of retirement savings fund follows:

	2022	2021
Balance at beginning of year	**₱152,974,245**	₱132,849,335
Additions/contributions	**65,014,142**	53,097,297
Withdrawals	**(35,149,531)**	(32,972,387)
Balance at end of year	**₱182,838,856**	₱152,974,245

Interest expense on retirement savings fund amounted to ₱2,076,875 and ₱1,404,139 in 2022 and 2021, respectively.

13. **Premiums on insurance contracts**

The gross premiums on insurance contracts consist of the following:

	2022	2021
Basic Life Insurance Plan (BLIP)	**₱190,398,148**	₱159,344,366
Credit Life Insurance Plan (CLIP)	**39,937,539**	33,325,668
Hospitalization care assistance premium	**58,265,300**	40,941,622
	₱288,600,987	₱233,611,656

Under the Association's basic life insurance program, members and its qualified dependents are entitled to receive a certain amount of benefit upon death or permanent disability duly approved by the Association after meeting certain conditions as stated in the certificate of membership issued to members.

Under the credit life insurance program, the beneficiary and its qualified dependents are entitled to the outstanding loan balance if the member-borrower dies before repaying the debt in full. Coverage of the program is for a period of six (6) months. In 2022 and 2021, the Association has collected premiums amounting to ₱39,937,539 and ₱33,325,668 from its members. Unexpired portion of the premiums amounted to ₱5,733,842 and ₱5,065,063 in 2022 and 2021, respectively (see Note 10).

Under the hospitalization care assistance program, for a premium of ₱100, a member is qualified to receive a hospital allowance of ₱300 per day upon hospital confinement of at least 2 days up to a maximum benefit of ₱5,000. Coverage of the program is for a period of six (6) months. In 2022 and 2021, the Association has collected premiums amounting to ₱58,265,300 and ₱40,941,622 from its members. Unexpired portion of the premiums amounted to ₱12,538,836 and ₱9,317,245 in 2022 and 2021, respectively (see Note 10).

14. **Interest Income**

This account consists of interest income earned from:

	2022	2021
Cash and cash equivalents (Note 5)	**₱3,347,094**	₱2,172,768
Held-to-maturity investments (Note 6)	**678,797**	409,284
Short-term investments (Note 6)	**67,666**	364,582
Loans and receivables (Note 6)	**43,445**	51,094
	₱4,137,001	₱2,997,728

15. **Other Income (Charges) - net**

This account consists of income earned from:

	2022	2021
Fair value gain (loss) on unit-linked insurance contract (Note 6)	**(₱3,863,125)**	₱208,841
Miscellaneous income	**37,572**	94,619
	(₱3,825,553)	₱303,460

Miscellaneous income pertains to employee charges of employees from mobile penalties and sale of scrap materials, documents and empty ink cartridges.

16. Commission fees

Commission fees amounted to ₱33,191,719 and ₱28,400,216 in 2022 and 2021, respectively. In accordance with the contract service agreements with collecting institutions such as PPFC and PMPMI, the Association is charged commission fees for these institutions' services rendered in collecting the contribution of members in different locations. This account consists of commission fees from:

	2022	2021
Basic life insurance plan	**₱12,085,239**	₱7,967,218
Admission fees	**11,586,573**	10,435,354
Credit life insurance plan	**9,519,907**	9,997,644
	₱33,191,719	₱28,400,216

17. Gross insurance contract benefits and claims paid

The Association paid insurance benefits and claims amounting to ₱165,578,591 and ₱126,917,831 in 2022 and 2021 respectively.

	2022	2021
Basic life insurance plan	**₱145,337,741**	₱106,374,268
Admission fees	**13,445,176**	15,891,754
Hospitalization care assistance premium	**6,795,674**	4,651,809
	₱165,578,591	₱126,917,831

18. General and administrative expenses

This account consists of:

	2022	2021
Provision for probable losses (Notes 6 and 11)	**₱13,326,459**	₱2,031,505
Transaction costs	**14,398,524**	15,452,843
Salaries, wages and allowances	**12,365,575**	10,970,248
Taxes and licenses	**5,478,160**	2,855,642
Travel and transportation	**5,050,102**	4,160,257
Printing, stationery and supplies	**3,232,282**	2,111,981
Documentary stamp tax	**2,615,921**	2,085,204
Training and seminars	**2,041,723**	8,200
Annual general assembly	**1,557,191**	214,188
Representation and entertainment	**1,064,416**	1,443,355
Depreciation and amortization (Note 7 and 8)	**975,066**	1,253,298
SSS, PhilHealth, and Pag-ibig contributions	**939,027**	790,360
Communication	**801,932**	587,565
Professional fees	**587,300**	1,305,639
Insurance expense	**147,015**	293,285
Repairs and maintenance	**58,759**	122,943
Others (Note 6)	**1,622,283**	1,302,612
	₱66,261,735	₱46,989,125

Transaction costs pertain to reimbursement of utilities expense, office supplies, communication expenses, photocopying expenses, transportation expenses, and miscellaneous expenses incurred by PPFC and PMPMI on behalf of the Association.

In 2022, the Association held its annual general assembly in primary location areas while via online teleconference only in 2021 thru representative branch group leaders. The Association incurred expenses for the transportation reimbursements and snack allowances of the representative group leaders.

19. Related Party Transactions

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Due to and from related parties are on 1- to 30-day terms and will be settled through payment or collection of cash.

The significant transactions of the Association with related parties in the normal course of business are as follow:

2022

Category	**Amount/ Volume**	**Outstanding Balance**	**Terms**	**Conditions**
Due from related parties				
Affiliates				
(1) Pagasa Philippines Finance Corporation			**On demand,**	**Unsecured;**
Collection of premiums	**(₱5,426,169)**	**₱1,656,907**	**non-interest bearing**	**no impairment**
(2) PagASA ng Masang Pinoy Microfinance, Inc.			**On demand,**	**Unsecured;**
Collection of premiums	**(237,262)**	**33,868**	**non-interest bearing**	**no impairment**
	(₱5,663,431)	**₱1,690,775**		
Due to related parties				
(1) Pagasa Philippines Finance Corporation			**On demand,**	**Unsecured**
Payment of claims and expenses	**(₱4,492,278)**	**₱4,492,278**	**non-interest bearing**	
(2) PagASA ng Masang Pinoy Microfinance, Inc.			**On demand,**	**Unsecured**
Payment of claims and expenses	**(138,426)**	**323,377**	**non-interest bearing**	
	(₱4,630,704)	**₱4,815,655**		

2021

Category	Amount/ Volume	Outstanding Balance	Terms	Conditions
Due from related parties				
Affiliates				
(1) PagASA Philippines Lending Co, Inc.			On demand,	Unsecured;
Collection of premiums	₱14,317,725	₱7,083,076	non-interest bearing	no impairment
(2) PagASA ng Masang Pinoy Foundation, Inc.			On demand,	Unsecured;
Collection of premiums	(260,036)	271,130	non-interest bearing	no impairment
	₱14,057,689	₱7,354,206		
Due to related parties				
(1) PagASA Philippines Lending Co, Inc.			On demand,	
Payment of claims and expenses	(₱10,688,912)	₱–	non-interest bearing	Unsecured
(2) PagASA ng Masang Pinoy Foundation, Inc.			On demand,	
Payment of claims and expenses	49,517	184,951	non-interest bearing	Unsecured
	(₱10,639,395)	₱184,951		

The Association, in addition to its regular conduct of business with PPFC and PMPMI, incurs transaction costs which arise from expenses incurred by PPFC and PMPMI on behalf of the Association (see Note 17).

Compensation of Key Management Personnel
Compensation of key management personnel pertains to short-term employee benefits of the General Manager and Financial Controller included in the “Salaries, wages and allowances” account. In 2022 and 2021, short-term employee benefits amounted to ₱2.16 million and ₱2.17 million, respectively

20. Provision for Income Tax

As a nonstock, not-for-profit organization, the Association’s provision for income tax consists of final tax from interest income on cash and cash equivalents, short-term investments, HTM investments, and loans and receivables amounting to ₱651,372 and ₱524,358 in 2022 and 2021, respectively.

21. Management of Insurance and Financial Risks

Governance Framework
The Association has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risk. It also supports the effective implementation of policies at the overall association and individual business unit levels.

The policies define the Association’s identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals and specify reporting requirements.

Regulatory Framework
Regulators are interested in protecting the rights of the members and maintain close vigil to ensure that the Association is satisfactorily managing affairs for the member’s benefit. At the same time, the regulators are also interested in ensuring that the Association maintains appropriate solvency position to meet liabilities arising from claims and that the risk levels are at acceptable levels.

The operations of the Association are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., margin of solvency to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise, minimum guaranty fund, risk-based capital requirements).

Margin of solvency (MOS)
The Association is required to maintain at all times an MOS for life insurance business of ₱500,000 or ₱2.00 per thousand of the total amount of its insurance in force as of the preceding calendar year on all policies, except term insurance, whichever is higher.

The MOS shall be the excess of the value of its admitted assets (as defined under the IC Code), exclusive of its paid-up capital, over the amount of its liabilities, unearned premiums and reinsurance reserves. As of December 31, 2022 and 2021, the Association’s MOS based on its calculations amounted to ₱74.66 million and ₱53.34 million, respectively. The final amount of the MOS 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.

On November 10, 2022, IC has verified 2021 Annual Statement submitted by the Association. The surplus available for MOS for the Association follows:

	2022 (Estimate)	2021 (Actual)
Admitted assets	**₱666,325,854**	₱588,954,826
Admitted liabilities	**591,669,395**	535,610,000
Net worth	**₱74,656,459**	₱53,344,826

As of December 31, 2022 and 2021, the non-admitted assets for 2022 and 2021 of the Association's life operations, as defined under the Code, which are included in the accompanying statements of financial position follows:

	2022 (Estimate)	2021 (Actual)
Financial assets at FVPL	**₱12,251,036**	₱5,614,161
Loans and receivable	**2,494,867**	2,953,155
Property and equipment	**646,189**	616,132
Other assets	**67,689**	709,410
	₱15,459,781	₱9,892,859

If an insurance company failed to meet the minimum required MOS, the IC is authorized to suspend or revoke all certificates of authority granted to such companies, its officers and agents, and no new business shall be done by and for such Association until its authority is restored by the IC.

Guaranty Fund
As a mutual benefit association, the IC also requires the Association to possess a guaranty fund of ₱5,000,000. This minimum amount shall be maintained at all times and it must be increased by an amount equivalent to 5% of the Association's gross premium collections until the guaranty fund reaches 12.5% of the minimum paid up capital for domestic life insurance companies.

As of December 31, 2022 and 2021, the Association has a total of ₱49,005,785, representing guaranty fund. Such is deposited with the IC and presented under "Cash equivalents in 2022 (see Note 6) and "Short-term investments" in 2021.

On March 14, 2023, the Association purchased a the Association acquired zero-coupon HTM investment from Banco De Oro with a face amount of ₱80,000,000 at a discounted price of ₱76,586,422. This investment has a 364-day tenure and will mature on March 13, 2024.

This investment have been surrendered and deposited with the IC, a guaranty fund in accordance with the provisions of the Insurance Code, as security for the benefit of policyholders and creditors of the Association.

Risk-based capital requirements (RBC)
On December 8, 2006, the IC issued IMC NO. 11-2006 adopting the 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 RBC ratio of 100.00% and not fail the trend test. Failure to meet the minimum 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, members' 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:

	2022 (Estimate)	2021 (Actual)
Member's equity	**₱74,656,959**	**₱53,344,826**
RBC requirement	**22,169,509**	**23,814,655**
RBC ratio	**337%**	224%

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.

Insurance Risk
The principal risk the Association faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated and subsequent development of long term claims. Therefore, the objective of the Association is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines.

Underwriting risk
Underwriting risk represents the exposure to loss resulting from actual policy experience adversely deviating from assumptions made in the product pricing. Underwriting risks are brought about by a combination of the following:

- *Mortality risk* - risk of loss arising due to policyholder death experience being different than expected.
- *Morbidity risk* - risk of loss arising due to policyholder health experience being different than expected.
- *Investment return risk* - risk of loss arising from actual returns being different than expected.
- *Expense risk* - risk of loss arising from expense experience being different than expected.
- *Policyholder decision risk* - risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

These risks do not vary significantly in relation to the location of the risk insured by the Association. Undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Association's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Association has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. The Association further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Association.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

Mortality and morbidity rates
Assumptions are based on standard industry and national tables, according to the type of contract written, reflecting recent historical experience and which are adjusted where appropriate to reflect the Association's own experiences. An appropriate but not excessive prudent allowance is made for expected future improvements.

An increase in rates will lead to a larger number of claims and claims could occur sooner than anticipated, which will increase the expenditure and decrease the Associations of the Association.

Investment return
The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments.

An increase in investment return would lead to a reduction in expenditure and an increase in the Associations of the Association.

Expenses
Operating expenses assumptions reflect the projected costs of maintaining and servicing in force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation adjustments if appropriate. An increase in the level of expenses would result in an increase in expenditure thereby reducing the Associations of the Association.

Lapse and surrender rates
Lapses relate to the termination of policies due to nonpayment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on Association's experience and vary by product type, policy duration and sales trends.

An increase in lapse rates early in the life of the policy would tend to reduce the Associations of the Association, but later increases are broadly neutral in effect.

Discount rate
Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on current industry risk rates, adjusted for the Association's own risk exposure.

A decrease in the discount rate will increase the value of the liability.

Financial instruments
The Association's principal financial instruments are cash, short-term investments, receivables, HTM investments, accounts payable and accrued expenses. The main purpose of these financial instruments is to finance its operations.

As of December 31, 2022, the Association's FVPL and HTM investments had carrying value of ₱12,251,036 and ₱12,234,667, respectively, and fair value of ₱12,251,036 and ₱12,234,667, respectively. As of December 31, 2021, the Association's FVPL and HTM investments had carrying value of ₱5,614,161 and ₱81,910,870, respectively, and fair value of ₱5,614,161 and ₱82,589,667, respectively. The fair value measurement was classified under Level 1 of the fair value hierarchy

Due to the short-term nature of transactions, the carrying amounts of cash, short-term investments, receivables, accounts payable and accrued expenses approximate their fair values.

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 which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The fair value of the HTM is determined by reference to quoted bid prices, at the close of business on the reporting date.

Financial Risks

The Association is exposed to financial risk through its financial assets, financial liabilities and insurance liabilities. In particular, the key financial risk that the Association is exposed to is that the proceeds from its financial assets may not be sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk.

These risks arise from open positions in interest rate, currency and debt securities products, all of which are exposed to general and specific market movements.

Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Association sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long term credit ratings to mitigate the Association’s exposure to credit risk.

The carrying amounts of the Association’s financial assets represent the maximum exposure to credit risk.

The credit risk is concentrated on the following:

	2022	2021
Related parties	**₱1,690,775**	₱7,354,206
Unrelated parties	**676,041,359**	586,580,162
	₱677,732,134	₱593,934,368

The table below provides information regarding the credit risk exposure of the Association by classifying assets according to the Association's credit ratings of counterparties as of December 31, 2022 and 2021.

2022

	Neither Past-Due nor Impaired			
	Investment Grade	**Non-investment Grade**	**Past Due and Impaired**	**Total**
Cash and cash equivalents*	**₱638,198,262**	**₱–**	**₱–**	**₱638,198,262**
Short-term investments	**10,790,467**	**–**	**–**	**10,790,467**
Loans and receivables	**4,257,702**	**–**	**–**	**4,257,702**
Held-to-maturity investments	**12,234,667**	**–**	**–**	**12,234,667**
Financial assets at FVPL	**12,251,036**	**–**	**–**	**12,251,036**
	₱677,732,134	**₱–**	**₱–**	**₱677,732,134**

**Excluded cash on hand*

2021

	Neither Past-Due nor Impaired			
	Investment Grade	Non-investment Grade	Past Due and Impaired	Total
Cash and cash equivalents	₱422,894,012	₱–	₱–	₱422,894,012
Short-term investments	72,945,146	–	–	72,945,146
Loans and receivables	10,615,179	–	–	10,615,179
Held-to-maturity investments	81,910,870	–	–	81,910,870
Financial assets at FVPL	5,614,161	–	–	5,614,161
	₱593,979,368	₱–	₱–	₱593,979,368

The Association uses a credit rating concept based on the borrowers and counterparties' overall credit worthiness, as follows:

Investment grade - Rating given to borrowers and counterparties who possess strong to very strong capacity to meet its obligations.

Non-investment grade - Rating given to borrowers and counterparties who possess above average capacity to meet its obligations.

The Association trades only with members who are also members of the related parties. The receivables represent mostly collections by the related parties on behalf of the Association pertaining to premiums for basic and credit life insurance that are unremitted to the Association. Receivables are generally on a 1-30 days term and are all current. All receivables are neither past due nor impaired.

The Association conducts periodic review of allowance for credit losses each financial year through examining the financial position of the related party and the market in which the related party operates.

Liquidity risk
This risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

The following policies and procedures are in place to mitigate the Association's exposure to liquidity risk:

a) The Association's liquidity risk policy sets out the assessment and determination of what constitutes liquidity risk for the Association. Compliance with the policy is monitored and exposures and breaches are reported to the management. The policy is regularly reviewed for pertinence and for changes in the risk environment.

b) Set guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance and investment contracts obligations. The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one (1) year and beyond one (1) year from reporting date:

	2022					
	Up to one year	**1-3 years**	**3-5 years**	**Over 5 years**	**No term**	**Total**
Financial Assets						
Cash and cash equivalents	**₱ 638,198,262**	**₱–**	**₱–**	**₱–**	**₱–**	**₱638,242,762**
Short-term investments	**10,790,467**	–	–	–	–	**10,790,467**
Loans and receivables	**4,257,702**					**4,257,702**
Held-to-maturity investments	**12,234,667**	–	–	–	–	**12,234,667**
Financial assets at FVPL	**12,251,036**	–	–	–	–	**12,251,036**
	₱ 677,732,134	–	–	–	–	**₱677,776,634**
Financial liabilities						
Accounts payable and accrued expenses	**₱ 8,793,703**	**₱–**	**₱–**	**₱–**	**₱–**	**₱25,150,244**

	2021					
	Up to one year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial Assets						
Cash and cash equivalents	₱422,894,012	₱–	₱–	₱–	₱–	₱422,894,012
Short-term investments	72,945,146	–	–	–	–	72,945,146
Loans and receivables	10,615,179					10,615,179
Held-to-maturity investments	81,910,870	–	–	–	–	81,910,870
Financial assets at FVPL	5,614,161	–	–	–	–	5,614,161
	₱593,979,368	–	–	–	–	₱593,979,368
Financial liabilities						
Accounts payable and accrued expenses	₱8,407,386	₱–	₱–	₱–	₱–	₱8,407,386

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk)

The following policies and procedures are in place to mitigate the Association's exposure to market risk:

a. The market risk policy sets out the assessment and determination of what constitutes market risk for the Association. Compliance with the policy is monitored and exposures and breaches are reported to the management. The policy is reviewed regularly for pertinence and for changes in the risk environment.

b. Set asset allocation and portfolio limit structure, to ensure that assets back specific member liabilities and that assets are held to deliver income and gains for members which are in line with expectations of the members.

Currency risk
The Association has no transactions carried out in foreign currencies, with respect to U.S. dollars, therefore, the Association's exposure to currency risk is minimal.

Interest rate risk
This interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Association to cash flow interest risk, whereas fixed interest rate instruments expose the Association to fair value interest risk.

The Association's interest risk policy requires it to manage interest rate risk by maintaining appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest-bearing financial assets and interest-bearing financial liabilities. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until the maturity.

The following table shows the information relating to the Association's interest-bearing financial instruments as of December 31, 2022 and 2021 presented by maturity profile.

2022

	Range of interest rate	Up to a year	Over one (1) year
Cash and cash equivalents	**1-3%**	**₱638,242,762**	**–**
Short-term investments	**0.75%**	**10,790,467**	**–**
Held to maturity investment	**3.50%**	**12,234,667**	**–**
Other receivables	**6%**	**485,400**	**–**
Total financial assets		**₱661,753,297**	**–**

2021

	Range of interest rate	Up to a year	Over one (1) year
Cash and cash equivalents	0.1% - 1%	₱422,894,012	₱–
Short-term investments	0.25%-1.13%	72,945,146	–
Held to maturity investment	3.50%	–	12,234,667
Other receivables	6%	372,318	–
Total financial assets		₱496,211,476	₱12,234,667

22. Supplementary Tax Information Required Under Revenue Regulations 15-2010

The Association reported and/or paid the following types of taxes in 2022:

Value added tax (VAT)
As a nonstock, not-for-profit and mutual benefit association, the Association was granted tax exemption with respect to value-added taxes as provided under the National Internal Revenue Code of 1997 as amended by Republic Act 8424 known as the Comprehensive Tax Reform Program by the Bureau of Internal Revenue (see Note 1).

a. Net Sales/Receipts and Output VAT declared in the Association's VAT returns follows:

   The Association is a non-VAT registered company engaged in the business of life insurance.

b. Details of Input VAT follow:

The Association did not claim any input VAT in 2022.

c. Information on the Association's importations

The Association has no importation transactions for 2022.

d. Taxes and Licenses

Details consist of the following:

Business permit and clearance	**₱2,818,728**
2020 deficiency tax	**2,536,649**
Registration fee	**500**
Others	**120,021**
	₱5,478,160

e. Documentary stamp taxes

The Association paid ₱2,615,921 in documentary stamp taxes on insurance contract policies for the year 2022.

f. Withholding Taxes

Details consist of the following:

Withholding taxes on compensation and benefits	**₱85,379**
Expanded withholding taxes	**3,319,234**
	₱3,404,613

g. Tax Assessments and Cases

As of December 31, 2022, the Association has no deficiency tax assessments from the BIR for the open taxable years 2022 and 2021.