



SECURITIES AND EXCHANGE COMMISSION

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SERVIAMUS MUTUAL BENEFIT ASSOCIATION, INC.

4th Floor, Diocesan Centrum Bldg., Lluch Street, Iligan City, Lanao del Norte
Tel #: (063) 223-2493, 228-4354 Email: serviamus_mba@yahoo.com

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Serviamus Mutual Benefit Association, Inc. is responsible for the preparation and fair presentation of its financial statements for the years ended December 31, 2022 and 2021, in accordance with Philippine Financial Reporting Standards (PFRSs), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

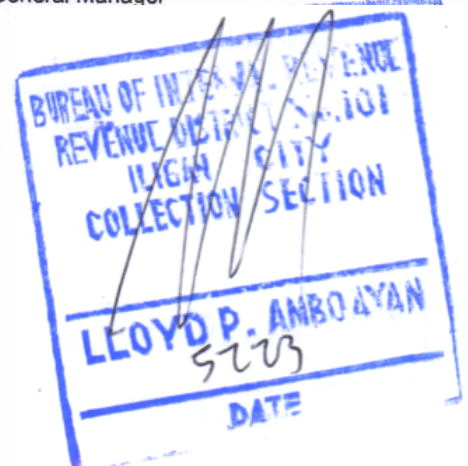
Quilab & Garsuta, CPAs, the independent auditors appointed by the Board of Trustees for the periods December 31, 2022 and 2021, have audited the financial statements of the Association in accordance with Philippine Standards on Auditing (PSAs), and in their reports to the Board of Trustees, have expressed their opinions on the fairness of presentation upon completion of such audits.

April 28, 2023, in the City of Iligan, Philippines.

REV. FR. ENRIQUE R. LACOSTALES
Chairman/President

GLADYS VEM B. MACALISANG
General Manager

REV. FR. RODRIGO R. MAATA
Treasurer



Contact Information

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Cagayan de Oro City, Philippines, 9000
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quilabgarsuta.com

Accreditations, Expiry

BIR 16-007506-000-2022, 2022-2024
NEA 2020-12-00070, 2020-2023
7787-SEC Group B, 2020-2024
7787-BSP Group B, 2020-2024
7787-IC Group A, 2020-2024
PRC/BOA 7787, 2020-2023
EDA 119 AF, 2021-2023
MISEREOR

REPORT OF INDEPENDENT AUDITORS

The Board of Trustees and Members
Serviamus Mutual Benefit Association, Inc.
4th Floor, Diocesan Centrum Building
Lluch Street, Iligan City

Report on the Financial Statements

Opinion

We have audited the financial statements of Serviamus Mutual Benefit Association, Inc., which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of profit or loss, statements of changes in fund balances and statements of cash flows for the years then ended and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes (collectively referred to as 'financial statements').

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

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Association in accordance with the *Code of Ethics for Professional Accountants in the Philippines* (Code of Ethics), together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

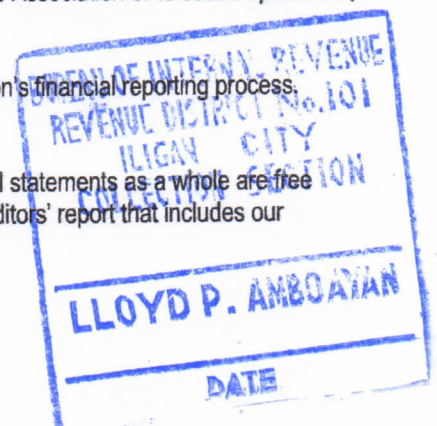
The management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our



opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

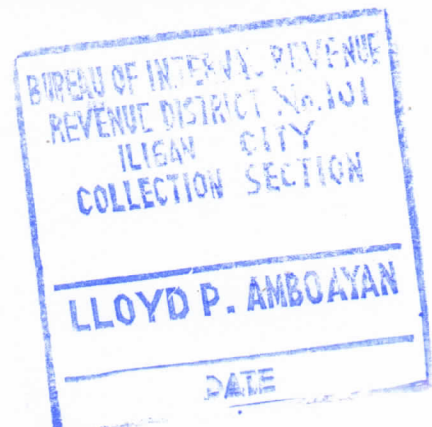
As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audits. We also:

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, license and fees in Note 23 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.



QUILAB & GARSUTA, CPAs

By:



RICO P. QUILAB
Partner

CPA Cert. No. 46034

TIN No. 129-040-841

PRC/BOA Cert. No. 7787, 2020-2023

BIR No. 16-007506-001-2022, 2022-2024

46034-SEC Group B, 2020-2024

46034-BSP Group B, 2020-2024

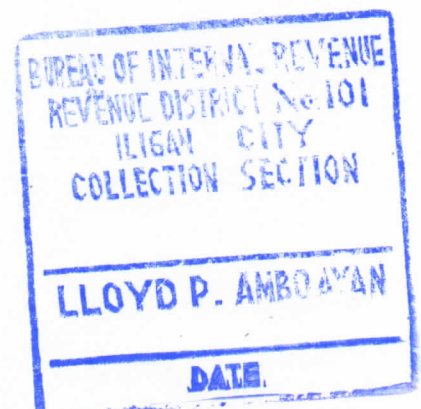
46034-IC Group A, 2020-2024

PTR No. 5474075 A

January 3, 2023

Cagayan de Oro City

April 28, 2023
Cagayan de Oro City, Philippines



STATEMENTS OF FINANCIAL POSITION

Serviamus Mutual Benefit Association, Inc.

December 31,

2022

2021

ASSETS

Current Assets

| | | |
|---|-------------|------------|
| Cash and cash equivalents (Note 4) | ₱18,382,296 | 41,456,529 |
| Investments in financial instruments – at amortized cost (Note 5) | 21,143,000 | 20,988,941 |
| Trade and other receivables (Note 6) | 2,245,477 | 2,244,545 |
| Prepayments and other assets (Note 7) | 129,938 | 79,997 |
| Total Current Assets | 41,900,711 | 64,770,012 |

Non-Current Assets

| | | |
|---|------------|------------|
| Furniture, fixtures and office equipment (Note 8) | 516,856 | 477,779 |
| Investments in financial instruments – at amortized cost (Note 5) | 60,294,565 | 20,781,586 |
| Total Non-Current Assets | 60,811,421 | 21,259,365 |

₱102,712,132 ₱86,029,377

LIABILITIES AND FUND BALANCES

Current Liabilities

| | | |
|--|------------|------------|
| Trade and other payables (Note 9) | ₱2,887,830 | ₱1,650,289 |
| Insurance contract liabilities (Note 10) | 600,634 | 726,859 |
| Total Current Liabilities | 3,488,464 | 2,377,148 |

Non-Current Liabilities

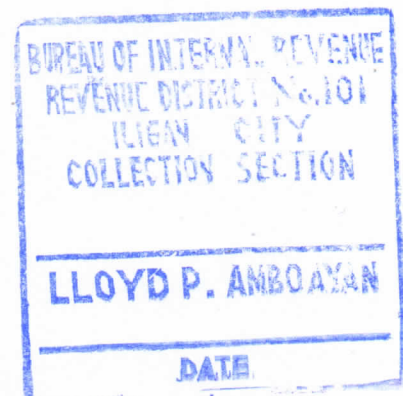
| | | |
|--|------------|------------|
| Aggregate reserves for life policies (Note 11) | 61,349,864 | 51,252,936 |
| Total Liabilities | 64,838,328 | 53,630,084 |

Fund Balances

| | | |
|-------------------------|------------|------------|
| Guaranty Fund (Note 12) | 13,509,035 | 11,939,937 |
| Special Funds (Note 13) | 8,687,162 | 7,802,575 |
| General Fund (Note 13) | 15,677,607 | 12,656,781 |
| Total Fund Balances | 37,873,804 | 32,399,293 |

₱102,712,132 ₱86,029,377

See Notes to Financial Statements.

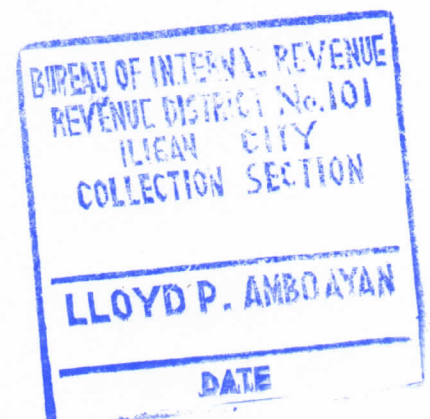


STATEMENTS OF PROFIT OR LOSS

Serviamus Mutual Benefit Association, Inc.

| Years Ended December 31, | 2022 | 2021 |
|---|-------------------|-------------------|
| REVENUE | | |
| Members' gross premium contributions (Note 14) | P31,381,960 | P27,831,000 |
| Less contributions to Guaranty Fund (Note 12) | 1,569,098 | 1,391,550 |
| Net members' premium contributions | 29,812,862 | 26,439,450 |
| Membership fees (Note 14) | 818,200 | 617,700 |
| Interest on bank deposits and financial instruments (Notes 4 and 5) | 1,744,695 | 834,841 |
| Other income | — | 41,718 |
| Total Revenue | 32,375,757 | 27,933,709 |
| BENEFITS AND OPERATING EXPENSES | | |
| Benefits and claims paid to members (Notes 10 and 14) | 10,647,531 | 12,666,778 |
| Increase in aggregate reserves for life policies (Note 11) | 10,096,928 | 8,296,925 |
| Collection cost (Note 17) | 941,244 | 842,106 |
| Total Members' Benefits and Expenses | 21,685,703 | 21,805,809 |
| Compensation and employees' benefits (Note 15) | 2,975,834 | 1,770,480 |
| General and administrative (Note 16) | 2,530,721 | 1,266,752 |
| Depreciation (Note 8) | 227,126 | 90,556 |
| Total Benefits and Operating Expenses | 27,419,384 | 24,933,597 |
| NET SURPLUS FOR THE YEAR | P4,956,373 | P3,000,112 |

See Notes to Financial Statements.

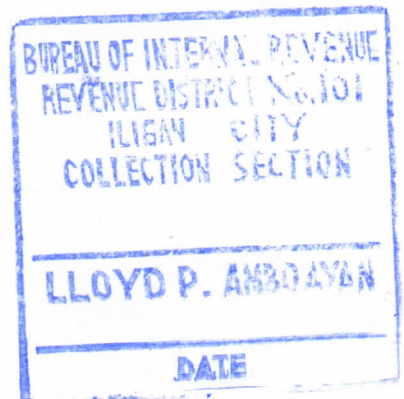


STATEMENTS OF CHANGES IN FUND BALANCES

Serviamus Mutual Benefit Association, Inc.

| December 31, | 2022 | 2021 |
|---|--------------------|--------------------|
| GUARANTY FUND | | |
| Opening balances | ₱11,939,937 | ₱10,548,387 |
| 5% contributions during the year (Note 12) | 1,569,098 | 1,391,550 |
| Closing balances | 13,509,035 | 11,939,937 |
| APPROPRIATED SPECIAL FUNDS (Note 13) | | |
| Opening balances | 7,802,575 | 3,436,305 |
| Additional appropriations from General Fund during the year | 1,935,547 | 4,863,270 |
| Transfer to General Fund representing accomplished appropriations | - | (400,000) |
| Disbursements of special funds during the year | (1,050,960) | (97,000) |
| Closing balances | 8,687,162 | 7,802,575 |
| GENERAL FUND (Note 13) | | |
| Opening balances | 12,656,781 | 14,119,939 |
| Net surplus for the year | 4,956,373 | 3,000,112 |
| Return of accomplished Appropriated Special Funds | - | 400,000 |
| Additional appropriations for Special Funds | (1,935,547) | (4,863,270) |
| Closing balances | 15,677,607 | 12,656,781 |
| | ₱37,873,804 | ₱32,399,293 |

See Notes to Financial Statements.

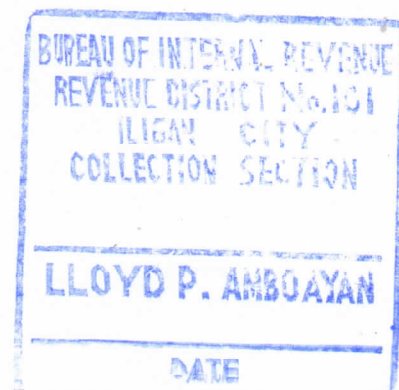


STATEMENTS OF CASH FLOWS

Serviamus Mutual Benefit Association, Inc.

| <i>Years Ended December 31,</i> | 2022 | 2021 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net surplus for the year | ₱4,956,373 | ₱3,000,112 |
| Add (deduct) adjustments for: | | |
| Depreciation (Note 8) | 227,126 | 90,556 |
| Increase in aggregate reserves for life policies (Note 11) | 10,096,928 | 8,296,925 |
| Interest income from bank deposits (Note 4) | (346,853) | (58,701) |
| Interest income earned from financial instruments (Note 5) | (1,397,843) | (776,140) |
| Operating income before changes in working capital | 13,535,731 | 10,552,752 |
| Add (deduct) changes in working capital excluding cash | | |
| Decrease (increase) in: | | |
| Trade and other receivables (Note 6) | (932) | 127,643 |
| Prepayments and other current assets (Note 7) | (49,941) | (16,016) |
| Increase (decrease) in: | | |
| Insurance contract liabilities (Note 10) | (126,225) | 174,610 |
| Trade and other payables (Note 9) | 1,237,541 | (394,123) |
| Net Cash Provided from Operating Activities | 14,596,174 | 10,444,866 |
| CASH FLOWS FOR INVESTING ACTIVITIES | | |
| Increase in investment in financial instruments (Note 5) | (39,667,038) | (10,890,667) |
| Interest income earned from investments in financial instruments (Note 5) | 1,397,843 | 776,140 |
| Interest income from bank deposits (Note 4) | 346,853 | 58,701 |
| Appropriations to special funds | (1,935,547) | (4,863,270) |
| Transfer back to general fund the appropriation used | - | 400,000 |
| Increase in special funds (Note 13) | 884,587 | 4,366,270 |
| Additions to furniture, fixtures and office equipment (Note 8) | (266,203) | (465,831) |
| Net Cash Used for Investing Activities | (39,239,505) | (10,618,657) |
| CASH FLOW FROM FINANCING ACTIVITY | | |
| Increase in guaranty fund (Note 12) | 1,569,098 | 1,391,550 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (23,074,233) | 1,217,759 |
| OPENING CASH AND CASH EQUIVALENTS | 41,456,529 | 40,238,770 |
| CLOSING CASH AND CASH EQUIVALENTS (Note 4) | ₱18,382,296 | ₱41,456,529 |

See Notes to Financial Statements.



NOTES TO FINANCIAL STATEMENTS

Serviamus Mutual Benefit Association, Inc.

As at and for the Years Ended December 31, 2022 and 2021

Note 1

Organization and Tax Exemption

The Serviamus Mutual Benefit Association, Inc. (Association) was registered with the Securities and Exchange Commission (SEC) on May 20, 2013 (with company registration number CN2013309403) and subsequently obtained its secondary license from the Insurance Commission (IC) on January 27, 2014. It is operating under IC License No. 2019-08-R from January 1, 2019 to December 31, 2021 and a renewal of license under IC License No. 2022-15R from January 1, 2022 to December 31, 2024. It maintains office at the 4th Floor, Diocesan Centrum Building, Lluch Street, Iligan City, Lanao del Norte.

The Association was organized for the primary purpose of providing life insurance and other allied services to its members and beneficiaries. It was organized to: (1) extend financial assistance to its members, their spouses, children and parents in the form of death and sickness benefits, provident savings and loan redemption assistance, and (2) ensure continued access to benefits/resources by actively involving the members in the management of the Association that would include implementation of policies and procedures geared towards sustainability and improved services, and (3) to ensure compliance with administrative and regulatory insurances, rulings and development, and technical service operations.

The Association has 29,109 members at the end of 2022; it has 24,700 members at the end of 2021.

In accordance with Section 30 (C) of the National Internal Revenue Code, as amended, the Association is exempted from the payment of taxes from income derived by it.

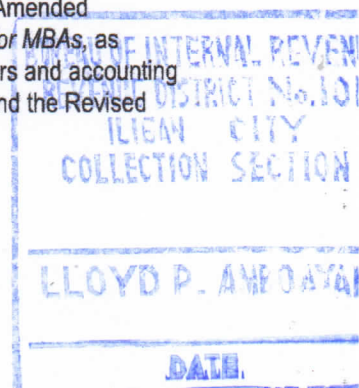
Note 2

Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

Statement of Compliance

The financial statements of the Association have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs) and Philippine Interpretations-IFRIC. PFRSs include statements named PFRSs and Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been adopted by the Financial and Sustainability Reporting Standards Council (FSRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy (BOA) and adopted by the Securities and Exchange Commission (SEC). Because the Association is a supervised entity by the Insurance Commission (IC), it also abides by the regulations of the Commission particularly those that are set forth under Section 189 of The Amended Insurance Code and with IC Circular Letter No. 2014-41 *Standard Chart of Accounts (SCA) for MBAs*, as amended by IC CL No. 2021-04, dated January 20, 2021, and all applicable IC Circular Letters and accounting requirements. These regulations and requirements are substantially compliant with PFRSs and the Revised SRC Rule 68 (2019).



New and Amended PFRS Standards that are Effective for Current Year

The following Standards were developed and issued by the International Accounting Standards Board (IASB), an independent, private-sector body that develops and approves International Financial Reporting Standards (IFRSs). The IASB was formed in 2001 to replace the International Accounting Standards Committee (IASC). These standards were reviewed by the FSRSC which was established under the Implementing Rules and Regulations of the Philippine Accountancy Act of 2004 to assist the Board of Accountancy (BOA) in carrying out its power and function to promulgate accounting standards in the Philippines. The FSRSC's main function is to establish generally accepted accounting principles in the Philippines through its review and adoption of the Standards issued by the IASB. The FSRSC formed the PIC in August 2006 to assist the FSRSC in establishing and improving financial reporting standards in the Philippines. The role of the PIC is principally to issue implementation guidance on PFRSs which are then forwarded to the FSRSC and BOA/PRC for approval before issuance to the public as final guidance.

The Securities and Exchange Commission (SEC) has the authority to prescribe the financial reporting framework to be used by corporations in the Philippines. These general financial reporting requirements are set out in Rule 68 of the Securities Regulation Code (SRC).

The following new and amended IFRS Standards have been reviewed and/or adopted in the Philippines by the FSRSC for the BOA/PRC.

In the current year, the Association has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) and adopted by the FSRSC (as Philippine Financial Reporting Standards) that are mandatorily effective for an accounting period that begins on or after January 1, 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

The Association has not adopted early any standard, interpretation or amendment that has been issued but is not yet effective.

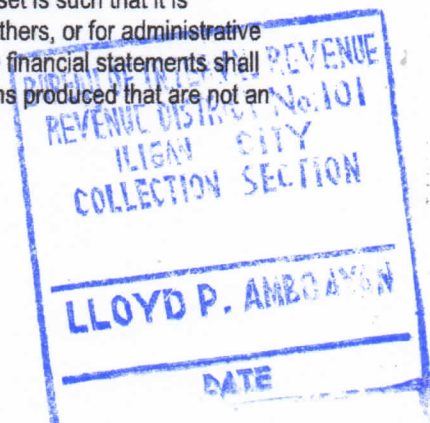
Amendments to PFRS 3 Reference to the Conceptual Framework

The Association has adopted the amendments to PFRS 3 *Business Combinations* for the first time in the current year. The amendments updated PFRS 3 so that it refers to the 2018 *Conceptual Framework* instead of the 1989 Framework. They also add to PFRS 3 a requirement that, for obligations within the scope of PAS/IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, an acquirer applies PAS/IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 *Levies*, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The foregoing amendments were adopted by the FSRSC on August 19, 2020 and becomes effective beginning January 1, 2022.

Amendments to PAS/IAS 16 Property, Plant and Equipment— Proceeds before Intended Use

The Association has adopted the amendments to PAS/IAS 16 *Property, Plant and Equipment* for the first time in the current year. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e., proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with PAS/IAS 2 *Inventories*.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. PAS/IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes. If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an



output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The foregoing amendments were adopted by FSRSC on August 19, 2020 and becomes effective beginning January 1, 2022.

Amendments to PAS/IAS 37 Onerous Contracts—Cost of Fulfilling a Contract

The Association has adopted the amendments to PAS/IAS 37 for the first time in the current year. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labor or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The foregoing amendments were adopted by FSRSC on August 19, 2020 and becomes effective beginning January 1, 2022.

Annual Improvements to PFRS Accounting Standards 2018-2020 Cycle

The Association has adopted the amendments included in the *Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle* for the first time in the current year. The Annual Improvements include amendments to four standards.

◦ PFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in PFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to PFRS Accounting Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in PFRS 1:D16(a).

◦ PFRS 9 Financial Instruments

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

◦ PFRS 16 Leases

The amendment removes the illustration of the reimbursement of leasehold improvements.

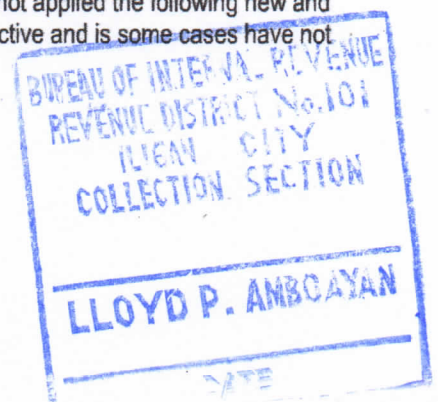
◦ PAS/IAS 41 Agriculture

The amendment removes the requirement in PAS/IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in PAS/IAS 41 with the requirements of PFRS 13 *Fair Value Measurement* to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pre-tax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

These following amendments were adopted by FSRSC on August 19, 2020 and becomes effective beginning January 1, 2022.

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

At the date of authorization of these financial statements, the Association has not applied the following new and revised IFRS Accounting Standards that have been issued but are not yet effective and is some cases have not yet been adopted by the FSRSC.



- PFRS 17 *Insurance Contracts* (including the June 2020 and December 2021 amendments to IFRS 17)
- Amendments to PFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Amendments to IAS 1 *Classification of Liabilities as Current or Non-current*
- Amendments to IAS 1 and IFRS Practice Statement 2 *Disclosure of Accounting Policies Amendments to IAS 8 Definition of Accounting Estimates*
- Amendments to PAS/IAS 8 *Definition of Accounting Estimates*
- Amendments to PAS/IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The management of the Association does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Association in future periods.

IFRS 17 Insurance Contracts

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

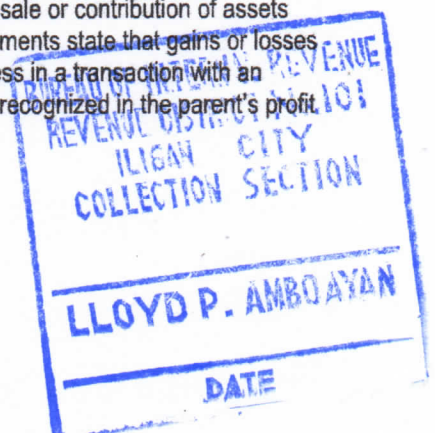
In June 2020, the IASB issued Amendments to IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 was published. The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January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

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

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application. The FSRSC adopted the amendments on December 15, 2021 and amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures—Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit



or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Association anticipate that the application of these amendments may have an impact on the Association's consolidated financial statements in future periods should such transactions arise. The FSRSC has not yet adopted the foregoing amendments.

Amendments to IAS 1 Presentation of Financial Statements—Classification of Liabilities as Current or

The amendments to PAS/IAS 1 published in January 2020 affect only the presentation of liabilities as current or noncurrent in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted. The IASB is currently considering further amendments to the requirements in IAS 1 on classification of liabilities as current or non-current, including deferring the application of the January 2020 amendments. The FSRSC adopted the amendments on August 19, 2020 and becomes effective beginning January 1, 2023.

Amendments to IAS 1 Presentation of Financial Statements and

IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies

The amendments change the requirements in PAS/IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in PAS/IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

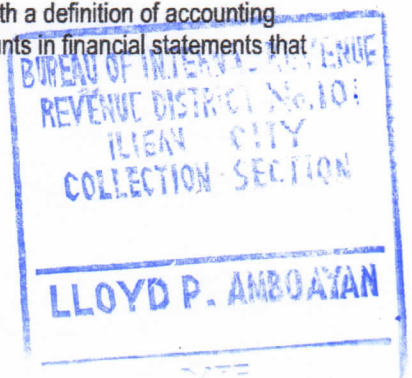
The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

The amendments to PAS/IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements. The FSRSC adopted the amendments on April 14, 2021 and becomes effective beginning January 1, 2023.

Amendments to IAS 8 Accounting Policies, Changes

in Accounting Estimates and Errors—Definition of Accounting Estimates

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that



are subject to measurement uncertainty”.

The definition of a change in accounting estimates was deleted. However, the IASB retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error.
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

The IASB added two examples (Examples 4-5) to the Guidance on implementing PAS/IAS 8, which accompanies the Standard. The IASB has deleted one example (Example 3) as it could cause confusion in light of the amendments.

The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted. The FSRSC adopted the amendments on April 14, 2021 and becomes effective beginning January 1, 2023.

Amendments to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

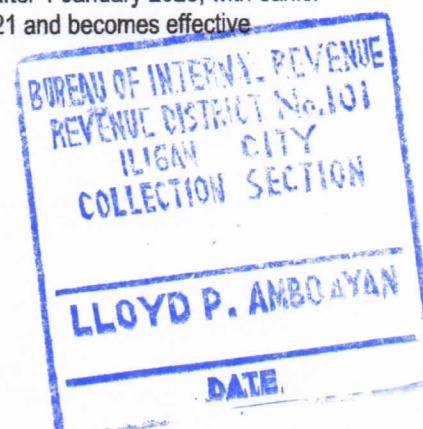
Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying PFRS 16 at the commencement date of a lease.

Following the amendments to PAS/IAS 12, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in PAS/IAS 12.

The IASB also adds an illustrative example to PAS/IAS 12 that explains how the amendments are applied. The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognizes:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with: (a) Right-of-use assets and lease liabilities, and (b) decommissioning, restoration and similar liabilities and the corresponding amounts recognized as part of the cost of the related asset.
- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. The FSRSC adopted the amendments on April 14, 2021 and becomes effective beginning January 1, 2023.



The directors of the Association anticipate that the application of these amendments may have an impact on the Association's consolidated financial statements in future periods should such transactions arise.

Basis of Preparation

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

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

The financial statements are presented in Philippine peso, which is the Association's functional and presentation currency, and all values are recorded to the nearest peso except when otherwise indicated.

The preparation of the financial statements made use of estimates, assumptions and judgments by management based on management's best knowledge of current and historical facts as at statement of financial position date. These estimates and judgments affect the reported amounts of assets and liabilities and contingent liabilities as at statement of financial position date, as well as affecting the reported income and expenses for the year. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Significant Accounting Policies

The principal accounting policies adopted are set out below.

Going Concern

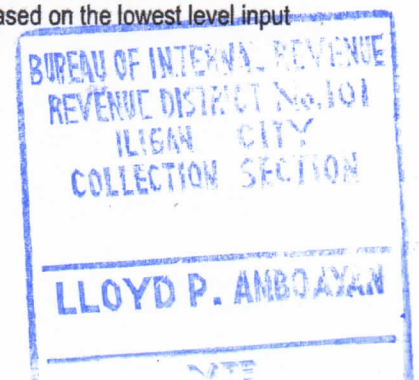
The Board of Trustees has, at the time of approving the financial statements, a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial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

Fair Value Measurement

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

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

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



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

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

Financial Instruments

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

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

Financial Assets

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

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

Classification of Financial Assets

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

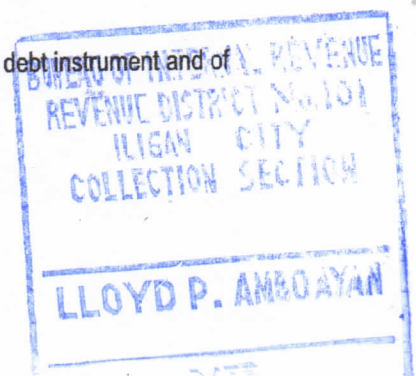
Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI): (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and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

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

Despite the foregoing, the Association may make the following irrevocable election/designation at initial recognition of a financial asset: (a) the Association may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met [see (iii) below]; and (b) the Association may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch [see (iv) below].

(i) Amortized Cost and Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of



allocating interest income over the relevant period.

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

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

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

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

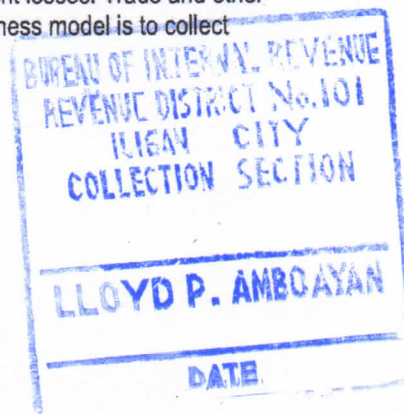
The Association's financial assets at amortized costs includes cash and cash equivalents and trade and other receivables.

Cash and Cash Equivalents

Cash and cash equivalents are carried in the financial statements at cost. Cash comprise unrestricted cash on hand, deposits held at call with banks, and time deposits with banks that can be pre-terminated anytime without significant risk of change in value. Cash equivalents (including those invested in a trust fund) represent short-term, highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and Other Receivables

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



Investments in Debt Securities at Amortized Costs

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

(ii) Debt Instruments Classified as at FVTOCI

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

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

(iii) Equity Instruments Designated as at FVTOCI

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

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss in accordance with PFRS 9 unless the dividends clearly represent a recovery of part of the cost of the investment.

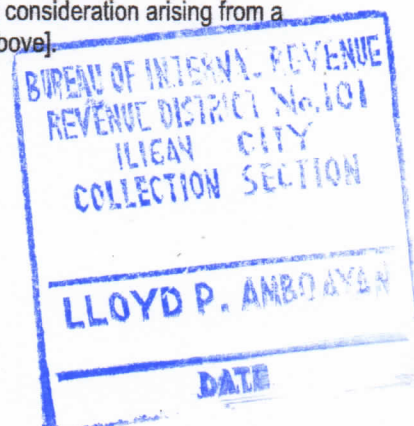
The Association designated all investments in equity instruments that are not held for trading as at FVTOCI on initial recognition (See Note 5).

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

(iv) Financial Assets at FVTPL

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

- Investments in equity instruments are classified as at FVTPL, unless the Association designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition [see (iii) above].



- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria [see (i) and (ii) above] are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Association has not designated any debt instruments as at FVTPL.

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

Impairment of Financial Assets

The Association recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Association always recognizes lifetime ECL (expected credit losses) for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Association's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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

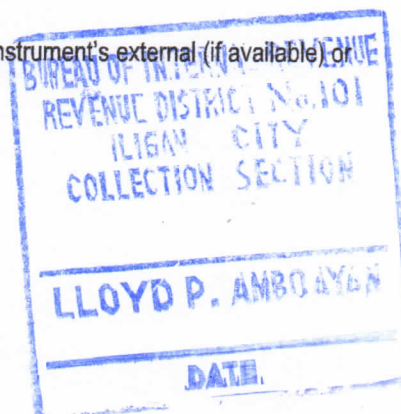
Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible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

(i) Significant Increase in Credit Risk

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

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

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;



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

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

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

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

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

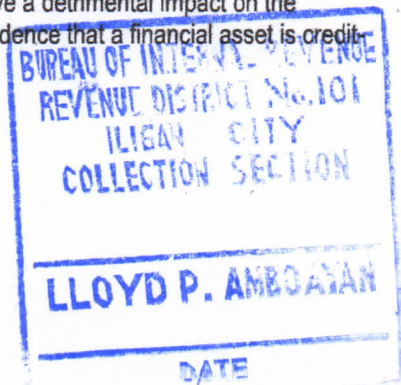
(ii) Definition of Default

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

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

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-



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

(iv) Write-Off Policy

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

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

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

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

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

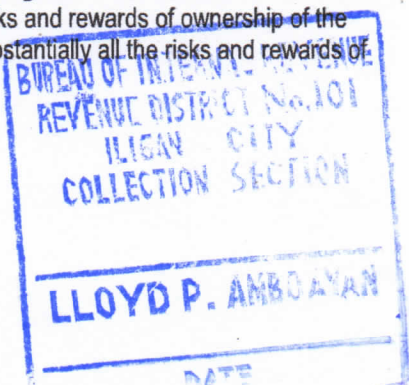
For a financial guarantee contract, as the Association is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Association expects to receive from the holder, the debtor or any other party.

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

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

Derecognition of Financial Assets

The Association derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Association neither transfers nor retains substantially all the risks and rewards of



ownership and continues to control the transferred asset, the Association recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Association retains substantially all the risks and rewards of ownership of a transferred financial asset, the Association continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

Financial Liabilities and Equity

Classification as Debt or Equity

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

Equity Instruments

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

Financial Liabilities

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

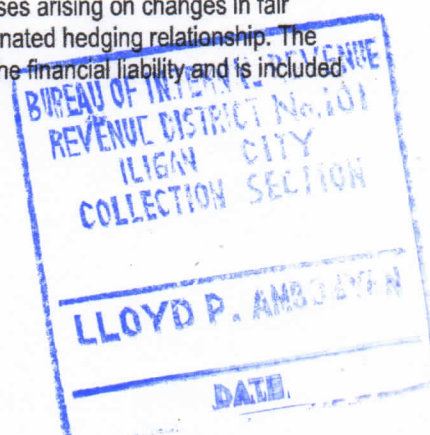
Financial Liabilities at FVTPL

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

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

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

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other services and other income' line item (Note 7) in profit or loss.



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

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

Financial Liabilities Measured Subsequently at Amortized Cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

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

Derecognition of Financial Liabilities

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

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

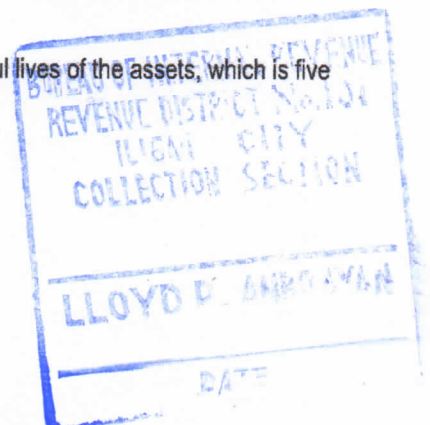
Prepayments

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

Furniture, Fixtures and Office Equipment

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

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



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

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The carrying values of Association's furniture, fixtures and office equipment are reviewed for impairment when changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of Association's furniture, fixtures and office equipment is the greater of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction.

Impairment of Non-Financial Assets

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

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

Actuarial Policies

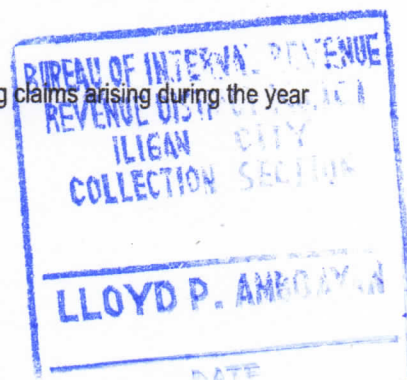
Actuarial liabilities (reserves for life policy and members' equity) are computed by the Consulting Actuary of the Association using actuarial practices generally accepted in the Philippines. Actuarial liabilities and other policy liabilities represent the estimated amounts which, together with estimated future premiums and net investment income, will provide for outstanding claims, estimated future benefits, and expenses on in-force policies.

In calculating actuarial liabilities, assumptions must be made about the timing and amount of many events, including death, investment, inflation, policy termination, expenses, taxes, premiums and commissions. The Association uses best estimate assumptions for expected future experience. Uncertainty is inherent in the process, as no one can accurately predict the future. Some assumptions relate to events that are anticipated to occur many years in the future and are likely to require subsequent revision.

Additional provisions are included in the actuarial liabilities to provide for possible adverse deviations from the best estimates. If the assumption is more susceptible to change or if the actuary is less certain about the underlying best estimate assumption, a correspondingly larger provision is included in the actuarial liabilities. In determining these provisions, the Association ensures: (a) when taken one at a time, the provision is reasonable with respect to the underlying best estimate assumption, and the extent of uncertainty present in making that assumption, and (b) in total, the cumulative effect of all provisions is reasonable with respect to the total actuarial liabilities. With the passage of time and resulting reduction in estimation risk, the provisions are released into income. The best estimate assumptions and margins for adverse deviations are reviewed annually and revisions are made where deemed necessary and prudent.

Recording of Claims from Policyholders

Claims incurred comprise settlement and handling costs of paid and outstanding claims arising during the year



and adjustments to prior year claim provisions. Outstanding claims comprise claims incurred up to, but not paid, at the end of the year, whether reported or not.

Revenue and Cost Recognition

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

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

PFRS 4 defines an insurance contract as a 'contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.' PFRS 4 temporarily exempts the Association from some requirements of other PFRSs until the efficacy of PFRS 17, beginning January 1, 2023. (Per IC Circular Letter No. 218-69, dated December 28, 2018. This Circular was further amended by Circular Letter No. 2020-62, dated May 18, 2020, further extending the implementation of IFRS 17 to January 1, 2025.) However, the Standard: (a) prohibits provisions for possible claims under contracts that are not in existence at the reporting date; (b) requires a test for the adequacy of recognized insurance liabilities and an impairment test for reinsurance assets, and (c) requires an insurer to keep insurance liabilities in its balance sheet until they are discharged or cancelled, or expire, and prohibits offsetting insurance liabilities against related reinsurance assets and income or expense from reinsurance contracts against the expense or income from the related insurance contract.

The Association recognizes revenue as follows:

(1) Premium Contributions

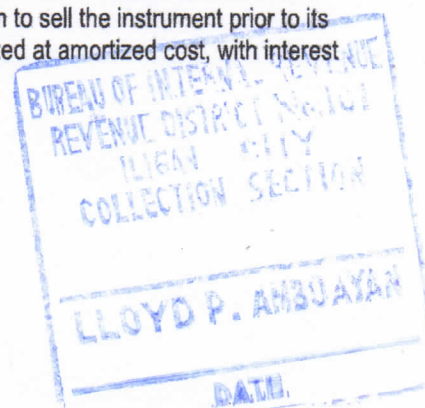
This represents considerations given by the member in exchange for the promises of the MBA to pay a stipulated sum in the event of a loss covered under the basic benefits indicated in the Internal Rules and Regulations (IRR) of the MBA and/or membership certificates. Under the provisions of PFRS 4, the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

- 50% goes to the reserve for members' equity, intended for members' entitlements of equity value after three (3) full years of continuous membership in the Association, representing 50% of the total membership dues collected less claims paid;
- 30% goes to cover basic benefits of members
- 5% goes to guarantee fund, and
- the remaining 15% goes to general operations, to cover administrative costs.

The Association collects its premiums through Serviamus Foundation, Inc., an affiliate.

(2) Investments Income

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



(3) Non-Insurance Revenues

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

For each contract with a customer, the Association:

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

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

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

(4) Cost and Expenses

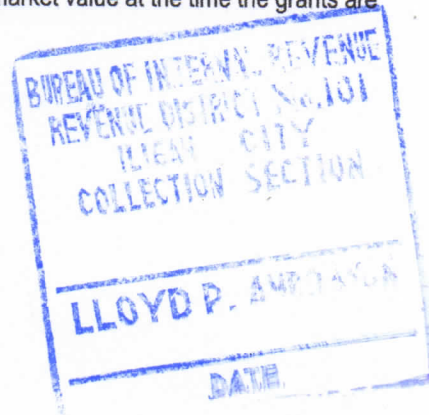
Costs and expenses are recognized in the statement of profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen which can be measured reliably. Costs and expenses are recognized in the statement of profit or loss : i) on the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

Insurance-related costs are accounted as follows:

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

(5) Grants, Donations and Other Income

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



Compensation and Employees Benefits Expense

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

- Short-Term Employee Benefits

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

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

- Post-Employment Benefit Plans

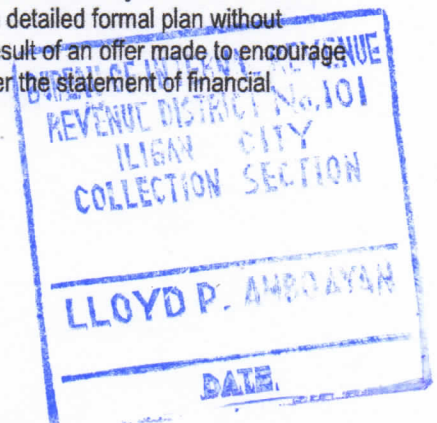
Post-employment benefit plans that are provided to employees only cover their retirement benefits, which are paid in lump sum payments at the time of their retirements. The retirement benefits are provided to employees through a defined benefit plan. A defined benefit plan is a retirement plan that defines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

The Association has not yet computed its retirement benefit obligations at the end of the reporting periods as it considers its retirement liability to be still immaterial considering that the operations of the Association is just less than five years old and just three years under operating status. The Association's work force is considered young.

The Board of Trustees is cognizant of the need to provide post-employment benefits to its employees; however, the cost-benefit estimate favors postponement of any action at this time on the issue of the immateriality of the amount involved.

- Termination Benefits

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



Leases – The Association as Lessee

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

The Association's leases substantially involve low-value assets and the use of its office space, leases that are generally having terms of one year or less.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Association uses its incremental borrowing rate. The Association has no borrowings, but it is investing funds. It uses the average rates that its investments in financial instruments are getting as the discounted rate justifying that it becomes the opportunity cost when such investible funds are used to the leases.

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

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

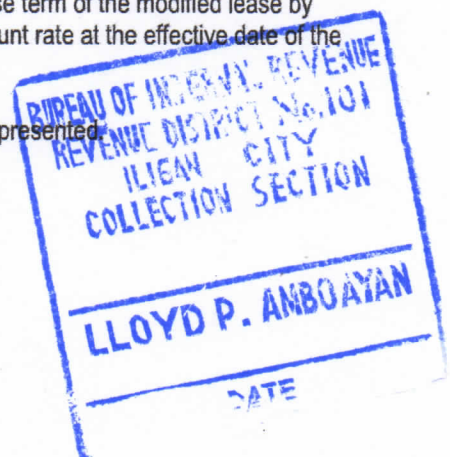
The lease liability is presented as a separate line in the statement of financial position.

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

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

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

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



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

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

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

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

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

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

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

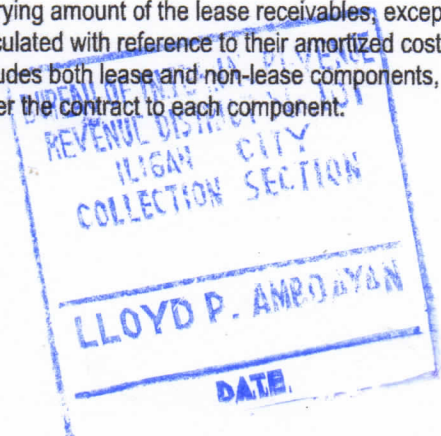
Leases – The Association as Lessor

Leases for which the Association is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Association is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Association's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Association's net investment outstanding in respect of the leases. Subsequent to initial recognition, the Association regularly reviews the estimated unguaranteed residual value and applies the impairment requirements of PFRS 9, recognizing an allowance for expected credit losses on the lease receivables.

Finance lease income is calculated with reference to the gross carrying amount of the lease receivables, except for credit-impaired financial assets for which interest income is calculated with reference to their amortized cost (i.e., after a deduction of the loss allowance). When a contract includes both lease and non-lease components, the Association applies PFRS 15 to allocate the consideration under the contract to each component.



The Association is not a lessor of properties.

Provisions and Contingent Liabilities

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

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

Events After Reporting Date

Post year-end events that provide additional information about the Association's position at the reporting date (adjusting events), are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

Note 3

Significant Critical Accounting Judgment and Key Sources of Estimation Uncertainty

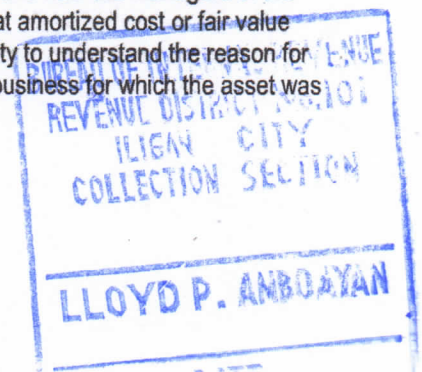
In applying the Association's accounting policies, which are described in Note 2, *Summary of Significant Accounting Policies*, the management of the Association are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognized and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical Judgements in Applying the Association's Accounting Policies

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

Business Model Assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Association determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Association monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was



held. Monitoring is part of the Association's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

Significant Increase in Credit Risk

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

Key Sources of Estimation Uncertainty

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

Calculation of Loss Allowance

When measuring ECL the Association uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Fair Value Measurements and Valuation Processes

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

Estimating Useful Lives of Property and Equipment

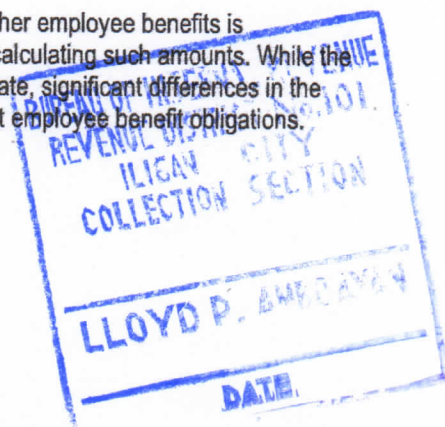
The Association reviews annually the estimated useful lives of its property and equipment based on expected asset utilization. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of these properties would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

Impairment of Non-Financial Assets

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

Retirement Benefits

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



Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.

Note 4

Cash and Cash Equivalents

This account is composed of the following:

| <u>December 31,</u> | <u>2022</u> | <u>2021</u> |
|------------------------------|--------------------|-------------|
| Cash in banks – unrestricted | ₱18,377,296 | ₱41,451,529 |
| Petty cash fund | 5,000 | 5,000 |
| Cash in banks – restricted | - | - |
| | ₱18,382,296 | ₱41,456,529 |

Cash in banks earn interest rates at the prevailing market rates and are generally placed with big commercial banks. Interest income earned from the deposits amounted to ₱346,853 in 2022 and ₱58,701 in 2021.

Note 5

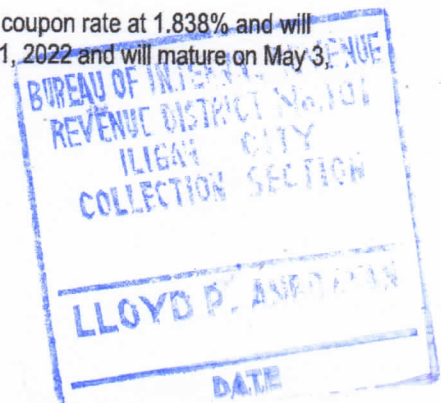
Investments in Financial Instruments – At Amortized Cost

This account consists of investments in the following banking institutions:

| <u>December 31,</u> | <u>2022</u> | <u>2021</u> |
|--|--------------------|-------------|
| Banco de Oro (BDO) | ₱40,379,027 | ₱15,098,260 |
| China Banking Corporation (CBC) | 15,468,599 | 10,952,082 |
| Security Bank (SBC) | 20,493,149 | 10,692,350 |
| Metropolitan Bank and Trust Company (MBTC) | 5,096,790 | 5,027,835 |
| Total | 81,437,565 | 41,770,527 |
| Less presented under current portion | 21,143,000 | 20,988,941 |
| Presented under non-current portion | ₱60,294,565 | ₱20,781,586 |

These investments are debt securities with the following features:

- a) A three (3)-year treasury bonds amounting ₱10,080,000 was placed at BDO on March 9, 2021 and will mature on March 9, 2024 with a coupon rate of 2.375%. Another money placement at BDO on August 11, 2021 was a treasury bill amounting ₱5,059,000 and will mature on August 10, 2022 with a yield interest rate of 1.61%.
- b) The treasury bills purchased through CBC represents Government securities held by the Bureau of the Treasury under the Registry of Scripless Securities (RoSS) System from May 14, 2021 to May 11, 2022 with a yield rate at 1.80%.
- c) The retail treasury bonds purchased on March 9, 2021 through SBC have coupon rate at 2.375% and will mature on March 9, 2024.
- d) The treasury bills purchased on May 5, 2021 through MBTC has coupon rate at 1.838% and will mature on May 5, 2022. During 2022, this was renewed on May 11, 2022 and will mature on May 3, 2023 with a coupon rate of 1.931%.



Roll-Forward Analysis of the Investments

| <u>December 31, 2022</u> | <u>Carrying Value</u> | <u>Premium (Discount)</u> | <u>Face Value</u> |
|--|-----------------------|---------------------------|-------------------|
| <u>Current</u> | | | |
| Banco de Oro (BDO) - PIBD03231252 | ₱8,050,000 | (₱13,608) | ₱8,036,392 |
| Metropolitan Bank and Trust Company (MBTC) | 5,052,889 | 43,901 | 5,096,790 |
| | 13,102,889 | 30,293 | 13,133,182 |
| <u>Non-Current</u> | | | |
| Banco de Oro (BDO) - PIID0324C115 | 10,080,000 | 19,087 | 10,099,087 |
| Banco de Oro (BDO) - PIID0527C159 | 5,000,000 | - | 5,000,000 |
| Banco de Oro (BDO) - PIID0524J762 | 17,400,000 | (156,452) | 17,243,548 |
| Security Bank - PIID0324C115 | 10,701,587 | (25,343) | 10,676,244 |
| Security Bank - PIID0525H130 | 10,000,000 | (183,095) | 9,816,905 |
| China Bank - CHBK3311AJHZ801 | 15,535,000 | (66,401) | 15,468,599 |
| | 68,716,587 | (412,204) | 68,304,383 |
| | ₱81,819,476 | (₱381,911) | ₱81,437,565 |
| <u>December 31, 2021</u> | | | |
| <u>Current</u> | | | |
| Banco de Oro (BDO) | ₱5,009,024 | ₱49,976 | ₱5,059,000 |
| China Banking Corporation (CBC) 3cY | 10,952,082 | 71,918 | 11,024,000 |
| Metropolitan Bank and Trust Company (MBTC) | 5,027,835 | 32,165 | 5,060,000 |
| | 20,988,941 | 154,059 | 21,143,000 |
| <u>Non-Current</u> | | | |
| Banco de Oro (BDO) | 10,089,236 | (9,236) | 10,080,000 |
| Security Bank (SBC) | 10,692,350 | (35,350) | 10,657,000 |
| | 20,781,586 | (44,586) | 20,737,000 |
| | ₱41,770,527 | ₱109,473 | ₱41,880,000 |

Restrictions on Investments in Debt Securities

The Association assigns investments to the Insurance Commission (IC) to guaranty the benefits and security of its policyholders and creditors, in accordance with the provisions of The Amended Insurance Code (R.A. No. 10607).

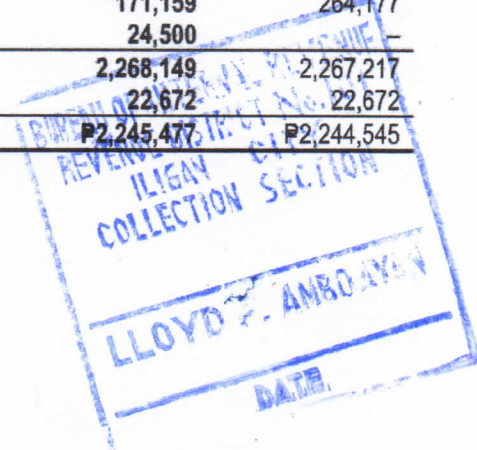
The Association assigned Government securities held by the Bureau of the Treasury under the Registry of Scripless Securities (RoSS) System at carrying value at ₱15,468,599 with face value of ₱15,535,000. The difference between the Guaranty Fund of ₱13,509,035, amounting ₱1,959,564 represent portion of the contributions during the year not yet invested in financial instruments. (See Note 12.) Interest income earned from investments amounted ₱1,397,843 in 2022 and ₱776,140 in 2021.

Note 6

Trade and Other Receivables

This account consists of the following:

| <u>December 31,</u> | <u>2022</u> | <u>2021</u> |
|---|-------------|-------------|
| Receivables from agents | ₱2,072,490 | ₱2,003,040 |
| Accrued interest receivable | 171,159 | 264,177 |
| Advances to officers and employees | 24,500 | - |
| Total | 2,268,149 | 2,267,217 |
| Less allowance for expected credit losses (ECL) | 22,672 | 22,672 |
| Net | ₱2,245,477 | ₱2,244,545 |



By Age of the Accounts

| <u>December 31, 2022</u> | <u>Current</u> | <u>Past Due</u> | <u>Total</u> |
|------------------------------|----------------|-----------------|--------------|
| Receivables from agents | ₱2,072,490 | ₱- | ₱2,072,490 |
| Accrued interest receivable | 171,159 | - | 171,159 |
| Accounts receivable - others | 24,500 | - | 24,500 |
| | ₱2,268,149 | ₱- | 2,268,149 |
| <u>December 31, 2021</u> | | | |
| Receivables from agents | ₱2,003,040 | ₱- | ₱2,003,040 |
| Accrued interest receivable | 264,177 | - | 264,177 |
| | ₱2,267,217 | ₱- | ₱2,267,217 |

The following are the nature of the accounts:

- (1) The receivable from agent consists principally of receivables from Serviamus Foundation, Inc. whose Main Office and branches serve as the collecting agents of the Association.
- (2) Members' contributions due and uncollected represents net premiums due and uncollected at the end of the accounting period on all optional policies which are classified as in force on the Association's valuation records. These are net premiums that are due and uncollected within the grace period.

Management considers the accounts receivable were not impaired at the end of the year.

Allowance for ECL

The recorded ECL pertains to members' contributions due and uncollected and accounts receivable – others. The receivables are provided with 12-month ECL at 1% of principal for current 30 days and 34% for past due less than one year. Accounts past due for over 1 year have been provided with lifetime ECL at 100%.

Roll-Forward Analyses of the Allowance for ECL

| <u>December 31,</u> | <u>2022</u> | <u>2021</u> |
|---|-------------|-------------|
| Opening balances | ₱22,672 | ₱44,389 |
| Additional provisions during the year | - | - |
| Net adjustment to recognize recovery of allowance for ECL | - | (21,717) |
| Closing balances | ₱22,672 | ₱22,672 |

The recovery of allowance for ECL was recognized as part of the other income.

Note 7

Details of Prepayments and Other Current Assets

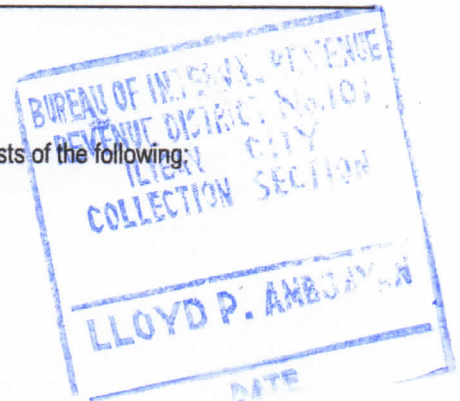
| <u>December 31,</u> | <u>2022</u> | <u>2021</u> |
|---------------------------------|-------------|-------------|
| Inventory of office supplies | ₱93,039 | ₱73,047 |
| Prepayment for insurance policy | 36,899 | 6,950 |
| | ₱129,938 | ₱79,997 |

Management believes that these assets were not impaired at the end of the year.

Note 8

Furniture, Fixtures and Office Equipment - Net

The furniture, fixtures and office equipment, which are stated at cost, consists of the following:



| <u>December 31,</u> | 2022 | 2021 |
|--|-------------------|-----------|
| Information Technology (IT) equipment | ₱1,143,092 | ₱926,889 |
| Furniture, fixtures and office equipment | 117,459 | 67,459 |
| Leasehold improvements | 29,212 | 29,212 |
| Total | 1,289,763 | 1,023,560 |
| Less accumulated depreciation | 772,907 | 545,781 |
| Net Book Value | ₱516,856 | ₱477,779 |

The accounting of the movements of the assets during 2022 and 2021 follow:

| <u>December 31, 2022</u> | <u>Opening Balances</u> | <u>Additions</u> | <u>Retirement</u> | <u>Closing Balances</u> |
|-----------------------------------|-------------------------|------------------|-------------------|-------------------------|
| <u>Cost</u> | | | | |
| IT equipment | ₱926,889 | ₱216,203 | ₱- | ₱1,143,092 |
| Furniture, fixtures and equipment | 67,459 | 50,000 | - | 117,459 |
| Leasehold improvements | 29,212 | - | - | 29,212 |
| Total | 1,023,560 | 266,203 | - | 1,289,763 |
| <u>Accumulated Depreciation</u> | | | | |
| IT equipment | 459,534 | 190,954 | - | 650,488 |
| Furniture, fixtures and equipment | 57,038 | 36,172 | - | 93,210 |
| Leasehold improvements | 29,209 | - | - | 29,209 |
| Total | 545,781 | 227,126 | - | 772,907 |
| Net Book Value | ₱477,779 | ₱39,077 | ₱- | ₱516,856 |
| <u>December 31, 2021</u> | | | | |
| <u>Cost</u> | | | | |
| IT equipment | ₱477,208 | ₱449,681 | ₱- | ₱926,889 |
| Furniture, fixtures and equipment | 51,309 | 16,150 | - | 67,459 |
| Leasehold improvements | 29,212 | - | - | 29,212 |
| Total | 557,729 | 465,831 | - | 1,023,560 |
| <u>Accumulated Depreciation</u> | | | | |
| IT equipment | 379,292 | 80,242 | - | 459,534 |
| Furniture, fixtures and equipment | 51,296 | 5,742 | - | 57,038 |
| Leasehold improvements | 24,637 | 4,572 | - | 29,209 |
| Total | 455,225 | 90,556 | - | 545,781 |
| Net Book Value | ₱102,504 | ₱375,275 | ₱- | ₱477,779 |

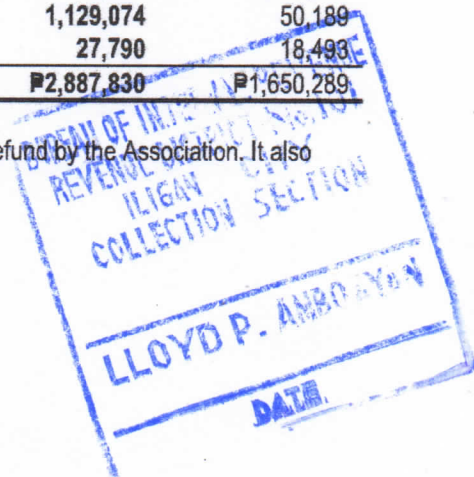
Note 9

Trade and Other Payables

This account consists of the following:

| <u>December 31,</u> | 2022 | 2021 |
|--|-------------------|------------|
| Accounts payable – agents | ₱1,428,137 | ₱1,278,778 |
| Retirement benefit obligation (See paragraph below.) | 302,829 | 302,829 |
| Accrued expenses | 1,129,074 | 50,189 |
| Unremitted contributions to Government Agencies | 27,790 | 18,493 |
| | ₱2,887,830 | ₱1,650,289 |

The accounts payable – agents represent expenses incurred by agents for refund by the Association. It also



includes the collection fee payable for the month of December 2022. The Association's agents include the Main Office and branches of Serviamus Foundation, Inc. Trade and other payables are normally settled within 30 days and are generally non-interest bearing.

Retirement Benefit Obligation

The Association's regular/permanent employees are provided with retirement benefits beginning 2016, based on the 67% of the gross salaries of the entitled employees plus one-twelfth (1/12) of the 13th month pay.

The policy defines the amount of retirement benefit an employee will receive at the time of retirement or separation from service. The legal obligation on the payment of the retirement benefits to the employees remains with the Association. The retirement plan is noncontributory and is presently unfunded.

The management of the Association recognizes the fact that the recorded retirement benefit liability is not based on actuarial valuations, it considers the anticipated effect of the matter to be presently immaterial.

The retirement benefit obligation has been computed as follows:

| <i>December 31</i> | 2022 | 2021 |
|------------------------|-----------------|-------------|
| Opening balances | ₱302,829 | ₱302,829 |
| Provision for the year | - | - |
| Closing balances | ₱302,829 | ₱302,829 |

Note 10

Insurance Contract Liabilities

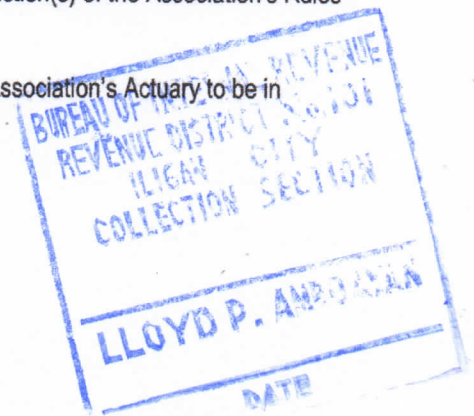
This consists of the following:

| <i>December 31,</i> | 2022 | 2021 |
|----------------------------------|-----------------|-------------|
| Claims incurred but not reported | ₱400,234 | ₱616,559 |
| Claims in course of settlement | 138,600 | 104,500 |
| Claims due and unpaid | 61,800 | 5,800 |
| Claims resisted/denied | - | - |
| | ₱600,634 | ₱726,859 |

Incurred but not reported claims is the sum of individual claims on membership certificates that have already occurred, but notice has not been received by the Association before reporting date. Incurred but not reported claims are claims reported beyond the reporting date whose date of claim happened three months before the reporting date. For 2022, claims reported in the months of November 2022, December 2022 and January 2023 whose date of death/claim is before November 1, 2022 are included in this category.

Claims in the course of settlement are claims reported and unpaid at the end of the year pending submission of documentary requirements. No decision has yet been made whether to deny or to pay the claim. Claims due and unpaid benefits represent claim benefits that have been processed and recognized by the Association as its liability. The aggregate liability includes checks payments that are still outstanding at the accounting office for various reasons like returned/staled checks, undelivered checks to addressees either because the addressees changed addresses or refused to accept payment, etc. Resisted or denied claims are claim benefit applications whose benefit payments are being contested/resisted by the Association due to infraction(s) of the Association's Rules and Regulations.

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



Total basic benefits and claims paid to members amounted ₱5,020,675 in 2022 and ₱7,068,169 in 2021.

Note 11

Aggregate Reserves for Life Policies

The recorded reserve liabilities consist of the following:

| <i>December 31,</i> | 2022 | 2021 |
|------------------------------|--------------------|--------------------|
| Reserves for members' equity | ₱61,013,814 | ₱50,932,986 |
| Reserves for life policies | 336,050 | 319,950 |
| | ₱61,349,864 | ₱51,252,936 |

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

In accordance with the provisions of the Insurance Code, every outstanding membership certificate must have, after three (3) full years of being continuously in force, an equity value to at least 50% of the total membership dues collected from the member less claims paid. The equity is payable to the members upon termination of their membership in the Association. In accordance with the same Code, the Association is required to put up a reserve liability not lower than the equity value of all in-force, active certificates as at the end of each calendar year; hence, the Association sets up the 50% of its gross premium collections as its reserves for members' equity.

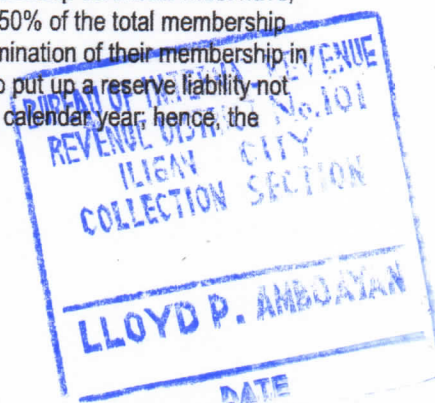
The reserve for life policies represents the amount which is considered adequate to cover future guaranteed benefits as they become payable under the provisions of the policies in force. The reserve is the aggregate value of future guaranteed benefits less the present value of future net premiums.

The amounts of aggregate reserves for members' equity and reserves for life policies for the periods reported have been computed and certified by the Consulting Actuary of the Association to be in accordance with commonly accepted actuarial standards and with the Guidelines and Standards of the Actuarial Society of the Philippines consistently applied and are fairly stated in accordance with sound actuarial principles.

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

| <i>December 31, 2021</i> | <i>Reserves for Members' Equity</i> | <i>Reserves for Life Policies</i> | <i>Total</i> |
|---------------------------------|---|---------------------------------------|--------------|
| Provisions during 2015 | ₱293,790 | ₱41,393 | ₱335,183 |
| Provisions during 2016 | 5,309,161 | 153,739 | 5,462,900 |
| Provisions during 2017 | 9,720,700 | 31,830 | 9,752,530 |
| Provisions during 2018 | 9,527,469 | 50,150 | 9,577,619 |
| Provisions during 2019 | 9,583,298 | 48,551 | 9,631,849 |
| Provisions during 2020 | 8,167,830 | 28,100 | 8,195,930 |
| Provisions during 2021 | 8,330,738 | (33,813) | 8,296,925 |
| Balance as of December 31, 2021 | 50,932,986 | 319,950 | 51,252,936 |
| Provisions during 2022 | 10,080,828 | 16,100 | 10,096,928 |
| Balance as of December 31, 2022 | ₱61,013,814 | ₱336,050 | ₱61,349,864 |

In accordance with the provisions of the Insurance Code, every outstanding membership certificate must have, after three (3) full years of being continuously in force, an equity value to at least 50% of the total membership dues collected from the member. The equity is payable to the members upon termination of their membership in the Association. In accordance with the same Code, the Association is required to put up a reserve liability not lower than the equity value of all in-force, active certificates as at the end of each calendar year; hence, the



Association sets up the 50% of its gross premium collections as its reserves for members' equity.

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

The amounts of aggregate reserves for members' equity, credit policies and reserves for life policies for the years reported have been computed and certified by the Consulting Actuary of the Association to be in accordance with commonly accepted actuarial standards and with the Guidelines and Standards of the Actuarial Society of the Philippines consistently applied and are fairly stated in accordance with sound actuarial principles.

Note 12
Guaranty Fund

This represents the amount required by the Insurance Commission (IC) to be established to guaranty the benefits and security of policyholders and creditors of the Association, in accordance with the provisions of The Amended Insurance Code (R.A. No. 10607). Every member of the Association is required to contribute equivalent to 5% of its weekly premium contribution as its contribution to the Guaranty Fund.

The Guaranty Fund is invested in Government debt securities held by the Bureau of the Treasury and is restricted in accordance with the policies set forth by the IC. (See Note 5.)

The following is the accounting of the Guaranty Fund:

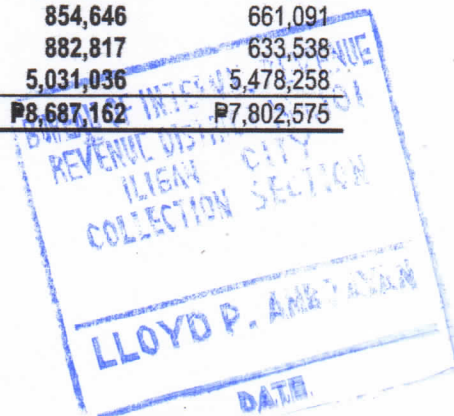
| <i>December 31,</i> | 2022 | 2021 |
|---|--------------------|-------------|
| Opening balances | ₱11,939,937 | ₱10,548,387 |
| Members' contributions representing 5% of total premiums received | 1,569,098 | 1,391,550 |
| Closing balances | ₱13,509,035 | ₱11,939,937 |

Note 13
Special Funds

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

In accordance with the recommendations of the Insurance Commission dated July 7, 2017 and August 9, 2017, the Association's Board of Trustees approved allocations of the following special funds from the General Fund, updated by the approval of additional appropriations in 2022:

| <i>December 31,</i> | 2022 | 2021 |
|---|-------------------|------------|
| Members' and Employees' Capacity Building Fund | ₱768,322 | ₱629,704 |
| Upgrading and Improving of Systems and Equipment Fund | 1,150,341 | 399,984 |
| Research and Development Fund | 854,646 | 661,091 |
| Continuing Member Education Fund | 882,817 | 633,538 |
| Providing Benefits in Kind and Other Relevant Services Fund | 5,031,036 | 5,478,258 |
| | ₱8,687,162 | ₱7,802,575 |



Reconciliation of the Accounts

| December 31, 2022 | Beg. Balance | Net Surplus Allctns | Disbursements | End Balance |
|-----------------------------------|--------------|---------------------|---------------|-------------|
| Members' & Empl.' Capacity Bldg. | ₱629,704 | ₱387,109 | (₱248,491) | ₱768,322 |
| Upgrdng/Imprvng Sys./Equip Fund | 399,984 | 967,774 | (217,417) | 1,150,341 |
| Research and Development Fund | 661,091 | 193,555 | - | 854,646 |
| Continuing Member Education | 633,538 | 387,109 | (137,830) | 882,817 |
| Benefits in Kind/Other Relev Svcs | 5,478,258 | 137,830 | (585,052) | 5,031,036 |
| | ₱7,802,575 | ₱2,073,377 | (₱1,188,790) | ₱8,687,162 |

December 31, 2021

| | | | | |
|-----------------------------------|------------|------------|------------|------------|
| Members' & Empl.' Capacity Bldg. | ₱629,704 | ₱- | ₱- | ₱629,704 |
| Upgrdng/Imprvng Sys./Equip Fund | 799,984 | - | (400,000) | 399,984 |
| Research and Development Fund | 661,091 | - | - | 661,091 |
| Continuing Member Education | 730,538 | - | (97,000) | 633,538 |
| Benefits in Kind/Other Relev Svcs | 614,988 | 4,863,270 | - | 5,478,258 |
| | ₱3,436,305 | ₱4,863,270 | (₱497,000) | ₱7,802,575 |

Available Savings for Future Allocations (Excess on 20% Limitation on Total Liabilities)

| December 31, | 2022 | 2021 |
|--|-------------|-------------|
| Unadjusted free and unassigned fund balances | ₱12,656,781 | ₱14,119,939 |
| Appropriations to special funds during the year (See table above.) | (1,935,547) | (4,863,270) |
| Return of accomplished Appropriated Special Funds | - | 400,000 |
| Net surplus for the year | 4,956,373 | 3,000,112 |
| Adjusted free and unassigned fund balances | 15,677,607 | 12,656,781 |
| 20% limitation on total liabilities | 12,967,666 | 10,726,017 |
| Total excess on 20% limitation for savings allocations | ₱2,709,941 | ₱1,930,764 |

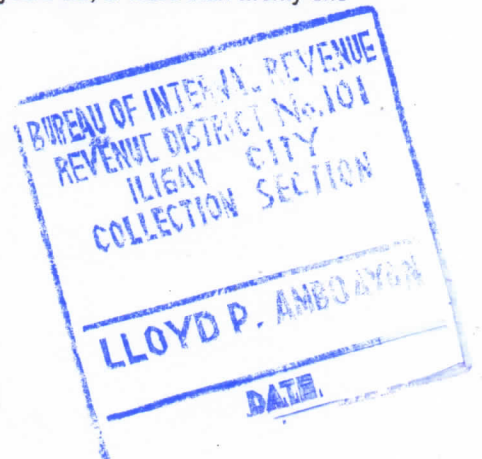
Management will determine some basis for allocation and will request permission from the IC accordingly.

Note 14

Members' Premium Contribution

The Association's members are charged thirty pesos (₱30.00) per week, during their active membership in the Association. In accordance with its Rules and Regulations approved by the Insurance Commission (IC), the Association allocates the contributions as follows:

- (a) 50% is allocated as reserve for members' equity intended for the members' entitlements of equity value;
- (b) 30% is intended to cover basic benefits such as payments for death or permanent disability claims of a member or its legal spouse or common law partner (at least five years living together as a couple) below sixty-five (65) years old; or two (2) singles, biological and/or legally adopted children who are two weeks old but not more than twenty-one (21) years old single; or biological children over twenty-one (21) years old who are disabled and incapacitated to work. If single without children, the members' legal dependents include one (1) of the member's biological parents who are not more than 60 years old. If a member's parents are both deceased upon membership, the member can declare one (1) younger sibling who are single and not more than twenty-one (21) years old, or more than twenty-one (21) years old if disabled and incapacitated to work.
- (c) 5% is intended as additional guaranty fund, and
- (d) 15% is intended to cover administrative costs and expenses.



The members are also charged with one-time membership fee of ₱100, which is non-refundable and does not form part of the members' accumulated and refundable contributions. The amount is treated as income to finance part of the requirements for general and administrative expenses not covered by the 15% allocation from gross premium contributions.

All members are entitled to refund of contributions, depending on the lengths of their membership in the Association at the time of termination. 50% of all contributions made to life insurance, regardless of the length of membership plus interest at a rate to be determined by the Board of Trustees, form part of the equity value.

The members withdrawal of equity value, presented in the statement of profit or loss as part of benefits paid to members, amounted to ₱5,626,856 in 2022 and ₱5,598,609 in 2021.

Note 15
Details of Compensation and Employees' Benefits

| <i>Years Ended December 31,</i> | 2022 | 2021 |
|-----------------------------------|-------------------|-------------------|
| Short-term employee benefits | ₱2,975,834 | ₱1,770,480 |
| Post-employment benefits (Note 9) | - | - |
| | ₱2,975,834 | ₱1,770,480 |

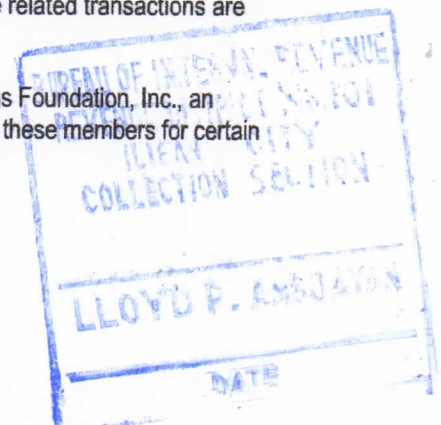
Note 16
Details of General and Administrative Expenses

| <i>Years Ended December 31,</i> | 2022 | 2021 |
|--------------------------------------|-------------------|-------------------|
| Meetings and conferences | ₱587,734 | ₱274,271 |
| Social and Community Service Expense | 447,223 | - |
| Technical and professional fees | 432,491 | 138,800 |
| Taxes and licenses (Note 23) | 392,928 | 311,853 |
| General assembly expenses | 179,616 | 119,620 |
| Office supplies | 125,681 | 114,874 |
| Utilities | 105,270 | 99,785 |
| Bank and other charges | 102,838 | 89,837 |
| Travel | 59,881 | 20,351 |
| Rent | 48,510 | 48,510 |
| Dues and subscription | 25,000 | 25,000 |
| Insurance | 12,199 | 11,699 |
| Miscellaneous | 11,350 | 12,152 |
| | ₱2,530,721 | ₱1,266,752 |

Note 17
Related Party Transactions

The Association's related parties include its Board of Trustees, members of various committees, its officers and employees, who are also members of the Association, and its affiliate which is also its collecting agent. None of the transactions with related parties incorporate special terms and conditions and no guarantee is given or received. These transactions are made substantially on the same terms and conditions as with other members of comparable risks. Outstanding balances are usually settled in cash. Among these related transactions are the following:

- (a) The Association accepts insurance business from the borrowers of Serviamus Foundation, Inc., an affiliate, and authorizes the Foundation to collect premium contributions from these members for certain



commissions. Total collection costs incurred amounted ₱941,244 in 2022 and ₱842,106 in 2021.

- (b) The Chairman of the Board of Trustees of the Association is also the Chairman of the Board of Trustees of Serviamus Foundation, Inc.
- (c) The key management supervising the operations of the Association is still under the employ of Serviamus Foundation, Inc.

Note 18
Fair Value Measurements

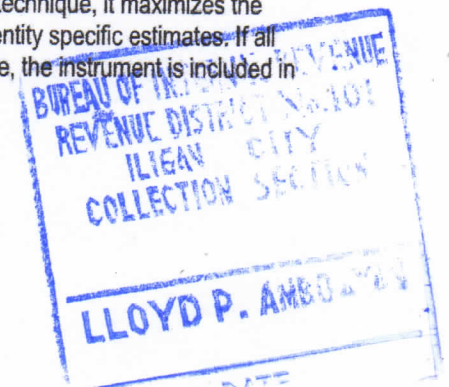
Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table in the following page summarizes the fair value hierarchy of financial assets and financial liabilities which are not measured at fair values in the statements of financial position but for which fair value is disclosed.

| <i>December 31, 2022</i> | <i>Level 1</i> | <i>Level 2</i> | <i>Level 3</i> | <i>Total</i> |
|--|----------------|----------------|----------------|--------------|
| <i>Financial assets</i> | | | | |
| Cash and cash equivalents (Note 4) | ₱18,382,296 | ₱- | ₱- | ₱18,382,296 |
| Investments in fin. instruments (Note 5) | - | - | 2,245,477 | 2,245,477 |
| Trade and other receivables (Note 6) | - | - | 81,437,565 | 81,437,565 |
| | ₱18,382,296 | ₱- | ₱83,683,042 | ₱102,065,338 |
| <i>Financial liabilities</i> | | | | |
| Trade and other payables (Note 9) | ₱- | ₱- | ₱2,887,830 | ₱2,887,830 |
| Insurance contract liabilities (Note 10) | - | - | 600,634 | 600,634 |
| Aggregate reserves for risks (Note 11) | - | - | 61,349,864 | 61,349,864 |
| | ₱- | ₱- | ₱64,838,328 | ₱64,838,328 |
| <i>December 31, 2021</i> | | | | |
| <i>Financial assets</i> | | | | |
| Cash and cash equivalents (Note 4) | ₱41,456,529 | ₱- | ₱- | ₱41,456,529 |
| Investments in fin. instruments (Note 5) | - | - | 41,770,527 | 41,770,527 |
| Trade and other receivables (Note 6) | - | - | 2,244,545 | 2,244,545 |
| | ₱41,456,529 | ₱- | ₱44,015,072 | ₱85,471,601 |
| <i>Financial liabilities</i> | | | | |
| Trade and other payables (Note 9) | ₱- | ₱- | ₱1,650,289 | ₱1,650,289 |
| Insurance contract liabilities (Note 10) | - | - | 726,859 | 726,859 |
| Aggregate reserves for risks (Note 11) | - | - | 51,252,936 | 51,252,936 |
| | ₱- | ₱- | ₱53,630,084 | ₱53,630,084 |

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments equal their fair values.

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



Fair Value Measurement for Non-Financial Assets

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as of December 31, 2022, and 2021.

| <i>December 31, 2022</i> | Level 1 | Level 2 | Level 3 | Total |
|--|---------|---------|----------|----------|
| Furniture, fixtures and office eqpt (Note 8) | P- | P- | P516,856 | P516,856 |
| Prepayments/other current assets (Note 7) | - | - | 129,938 | 129,938 |
| | P- | P- | P646,794 | P646,794 |
| <hr/> | | | | |
| <i>December 31, 2021</i> | | | | |
| Furniture, fixtures and office eqpt (Note 8) | P- | P- | P477,779 | P477,779 |
| Prepayments/other current assets (Note 7) | - | - | 79,997 | 79,997 |
| | P- | P- | P557,776 | P557,776 |

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

Note 19

Capital Management Objectives, Policies and Procedures

The Association's capital management objectives are: (1) to ensure the Association's ability to continue as a going concern, and (2) to ensure sufficient solvency margins to adequately protect its members. To attain these objectives, the Association maintains a certain level of capital that is usually higher than the minimum requirements set by the Insurance Commission (IC).

To ensure compliance with IC-imposed capital requirements, it is the Association's policy to monitor its entire equity (fund balance section of its statement of financial position) on a quarterly basis as part of the Association's internal financial reporting process.

Compliance with Capitalization Requirements

In accordance with the provisions of Chapter VII, Title 1, Section 405 of R.A. 10607, *The Amended Insurance Code*, a mutual benefit association incorporated after the effectivity of the Code shall constitute and establish a Guaranty Fund with initial amount of P5 million, in cash or in government securities, to answer for any valid benefit claim of any of its members.

The Association has complied with this requirement by having established its Guaranty Fund of P13,509,035 (See Note 12.) and having funded it with investments in financial instruments of P15,468,599 carrying value (with face value of P15,535,000, See Note 5.) and the balance co-mingled with unrestricted bank deposits amounting P1,959,564. (See Note 4.) These funds are intended to be higher than the required level of Guaranty Fund to allow the Association adequate flexibility in dealing with certain contingencies.

Note 20

Risk Management Objectives and Policies

The Association is exposed to various risks in relation to financial instruments. The Association's principal financial instruments are its cash and cash equivalents (Note 4), trade and other receivables (Note 6),



investments in financial instruments (Note 5), trade and other payables (Note 9) and insurance contract liabilities (Note 10). The main types of risks are insurance risk, credit and concentration risks, market risk and liquidity risk. The Association is not exposed to foreign currency risk since it has no foreign currency deposits. The Association is exposed to investment risks beginning 2019.

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

Risk Management Structure

The Board of Trustees is mainly responsible for the overall risk management and for the approval of risk strategies and principles of the Association. The Board of Trustees also has the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Association's approach to risk issues in order to make relevant decisions.

Insurance Risk

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

Credit and Concentration Risks/Investment Risk

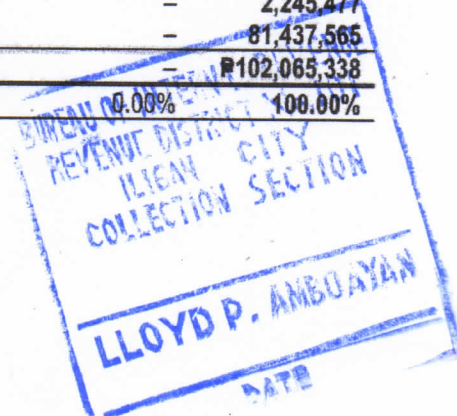
Credit risk refers to the risk that counterparty will default and/or not honor its financial or contractual obligations resulting in financial losses to the Association. The Association is exposed to credit risk from financial assets including its cash held in banks, trade and other receivables and investments in financial instruments.

The credit risk in respect of cash balances held with banks and time deposits with banks are managed via diversification of bank deposits and are only with major reputable financial institutions and are regularly monitored. Trade receivables consist of premiums receivable from active members and from the unremitted premium collections by the agent-affiliate. The Association does not hold any security on the trade and other receivables balance and the accounts are monitored on an ongoing basis with the result that the Association's exposure to impairment is not significant.

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

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

| <i>December 31, 2022</i> | <i>Neither Past Due Nor Impaired</i> | <i>Past Due But Not Impaired</i> | <i>Total</i> |
|---|--|--------------------------------------|--------------|
| Cash and cash equivalents (Note 4) | P18,382,296 | P- | P18,382,296 |
| Trade and other receivables (Note 6) | 2,245,477 | - | 2,245,477 |
| Investments in financial instruments (Note 5) | 81,437,565 | - | 81,437,565 |
| | P102,065,338 | - | P102,065,338 |
| | 100.00% | 0.00% | 100.00% |



| December 31, 2021 | Neither Past Due Nor Impaired | Past Due But Not Impaired | Total |
|---|----------------------------------|------------------------------|-------------|
| Cash and cash equivalents (Note 4) | P41,456,529 | P- | P41,456,529 |
| Trade and other receivables (Note 6) | 2,244,545 | - | 2,244,545 |
| Investments in financial instruments (Note 5) | 41,770,527 | - | 41,770,527 |
| | P85,471,601 | - | P85,471,601 |
| | 100.00% | 0.00% | 100.00% |

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

| December 31, 2022 | High Grade | Standard Grade | Impaired | Total |
|--|--------------|----------------|----------|--------------|
| Cash and cash equivalents (Note 4) | P18,382,296 | P- | P- | P18,382,296 |
| Trade and other receivables (Note 6) | 2,245,477 | - | - | 2,245,477 |
| Investments in fin. instruments (Note 5) | 81,437,565 | - | - | 81,437,565 |
| | P102,065,338 | P- | P- | P102,065,338 |

| December 31, 2021 | High Grade | Standard Grade | Impaired | Total |
|--|-------------|----------------|----------|-------------|
| Cash and cash equivalents (Note 4) | P41,456,529 | P- | P- | P41,456,529 |
| Trade and other receivables (Note 6) | 2,244,545 | - | - | 2,244,545 |
| Investments in fin. instruments (Note 5) | 41,770,527 | - | - | 41,770,527 |
| | P85,471,601 | P- | P- | P85,471,601 |

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

Market Risks

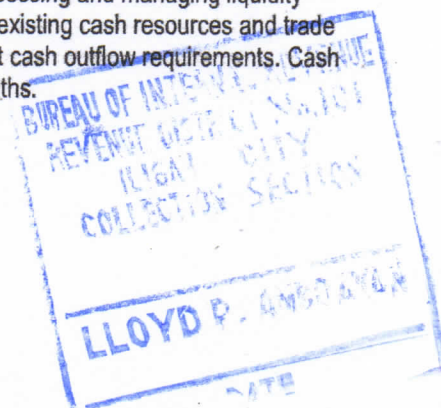
Market risk is the possibility that changes in equity prices or interest rates will adversely affect the value of the Association's assets, liabilities or expected future cash flows. The Association has no exposure arising from complex investments since it is not engaging in high risk investments, forward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

Liquidity Risks

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

The data used for analyzing these cash flows is consistent with that used in the contractual maturity analysis in the following table. Net cash requirements are compared to available cash position in order to determine headroom or any shortfalls. This analysis shows that available cash position is expected to be sufficient over the lookout period.

The Association considers its expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade receivables. The Association's existing cash resources and trade receivables (see tables in the preceding page) significantly exceed the current cash outflow requirements. Cash flows from trade and other receivables are all contractually due within six months.



Maturity Profile of the Association's Financial Liabilities

| <u>December 31, 2022</u> | <u>Due in One Year</u> | <u>Due Over One Year</u> | <u>Total</u> |
|--|------------------------|--------------------------|--------------------|
| Trade and other payables (Note 9) | P600,634 | P- | P600,634 |
| Insurance contract liabilities (Note 10) | 2,887,830 | - | 2,887,830 |
| Aggregate reserves for life policies (Note 11) | - | 61,349,864 | 61,349,864 |
| | P3,488,464 | P61,349,864 | P64,838,328 |
| | 5.38% | 94.62% | 100.00% |
| <hr/> | | | |
| <u>December 31, 2021</u> | | | |
| Trade and other payables (Note 9) | P1,650,289 | P- | P1,650,289 |
| Insurance contract liabilities (Note 10) | 726,859 | - | 726,859 |
| Aggregate reserves for life policies (Note 11) | - | 51,252,936 | 51,252,936 |
| | P2,377,148 | P51,252,936 | P53,630,084 |
| | 4.43% | 95.57% | 100.00% |

Note 21

COVID-19 Pandemic Situational Report, January 2023

The World Health Organization (WHO) said that COVID-19 remains a global emergency but the pandemic could near its end in 2023. WHO chief Tedros Adhanom Ghebreyesus said COVID remains a global health emergency, though the world is in a much better place than it was a year ago. The WHO has estimated that at least 90% of the world's population has some level of immunity to COVID due to vaccination or infection. The WHO chief has previously said the end of the pandemic is in sight.

'The trend of reported COVID-19 cases in the Philippines is decreasing. On 9–15 January 2023, 2,934 2.6 cases per 100,000 population were reported and this is 6.0% lower than cases reported on 2–8 January [3,125 cases (2.8 cases per 100,000 population)]. On 26 December 2022 - 1 January 2023, there were 3,458 cases; and on 19–25 December, there were 5,690 cases. Among the 17 regions, National Capital Region (947 cases), Region IV-A: CALABARZON (467 cases), and Region II: Cagayan Valley (240 cases) recorded the highest case counts on 9–15 January 2023.' Philippines Coronavirus Disease 2019 (COVID-19) Situation Report #119, 16 Jan 2023, Department of Health on 15 January 2023.

At the time of the release of this report, the COVID-19 Pandemic has begun to wane in the Philippines. The Philippine authorities projected, in December 2022, that the economy will surge to a 7.2% growth in 2022 before tapering off to an average of 5.7% percent growth in 2023 [Philippines Economic Update (PEU) by World Bank].

The Association has determined that the threat of resurgence of the COVID-19 Pandemic becomes manageable from the lessons learned during the last three years.

Note 22

Authorization of Financial Statements

The Association's financial statements as of December 31, 2022, and for the year then ended, were authorized for issue by its Executive Committee on April 28, 2023.



Note 23

Details of Taxes and Licenses

Years Ended December 31,

| | 2022 | 2021 |
|--|-----------------|-----------------|
| Insurance commission permit and other fees | P127,370 | P281,121 |
| SEC Documentary Stamps for FS/GIS/Mandatory Reports Notarial | 89,720 | 2,850 |
| Rimansi/MiMap technical assistance and services | 74,000 | - |
| BIR Fines and Penalty | 68,638 | - |
| Business permit | 22,949 | 21,561 |
| VAT on rental | 5,821 | 5,821 |
| Notarial Fees and certificates | 3,030 | - |
| BIR Annual Registration and compromise payment | 500 | 500 |
| Others | 900 | - |
| | P392,928 | P311,853 |

