



Simbag sa Emerhensya asin Dagdag Paseguro
Mutual Benefit Association, Inc. (SEDP MBA)
2nd Floor SEDCen Bldg. Block 7, Landco Business Park,
Legazpi City, Philippines
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STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Simbag sa Emerhensya Asin Dagdag Paseguro Mutual Benefit Association (SEDP MBA), Inc. is responsible for the preparation and fair presentation of its financial statements for the years ended December 31, 2025 and 2024, 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, 2025 and 2024, 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 and members, have expressed their opinion on the fairness of presentation upon completion of such audits.

April 27, 2026, Legazpi City, Albay, Philippines.


TERESITA Q. GALANG, CPA, DBA
Chairperson, Board of Trustees


ELIAS GONZALO
General Manager


ROCHELLE B. APOON
Treasurer



**QUILAB &
GARSUTA**

Certified Public Accountants

Contact Information

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Current Accreditations

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

REPORT OF INDEPENDENT AUDITORS

The Board of Trustees and Members of
**Simbag sa Emerhensya Asin Dagdag Paseguro
Mutual Benefit Association (SEDP MBA), Inc.**
2/F SEDCen Building, Block 7, Landco Business Park
Capantawan, Legazpi City

Report on the Financial Statements

Opinion

We have audited the financial statements of Simbag sa Emerhensya Asin Dagdag Paseguro Mutual Benefit Association (SEDP MBA), Inc., which comprise the statements of financial position as at December 31, 2025 and 2024, the statements of profit or loss and other comprehensive income, 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 material accounting policy information and other explanatory notes, collectively referred to as 'financial statements.'

In our opinion, the accompanying financial statements present fairly, in all materials respects, the financial position of Simbag sa Emerhensya Asin Dagdag Paseguro Mutual Benefit Association (SEDP MBA), Inc. as of December 31, 2025 and 2024 and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS Accounting Standards).

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 audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS Accounting Standards, 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, licenses and fees in Note 26 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:



ANA MARIAE MICHELLE D. QUILAB-ARRABACA

Partner

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

BIR 16-007506-003-2026, 2025-2027

IC-EA-2025-0040-R Group A, 2025-2027

CDA CEA No. 1883-SP, 2024-2029

121076-SEC Group B, 2020-2025

170-BSP Group B, 2025-2029

PTR No. 6497884 A

January 4, 2026

Cagayan de Oro City

April 27, 2026

Cagayan de Oro City, Philippines

STATEMENTS OF FINANCIAL POSITION

Simbag sa Emerhensya Asin Dagdag Paseguro Mutual Benefit Association (SEDP MBA), Inc.

December 31,

2025

2024

ASSETS

Current Assets

Cash and cash equivalents (Note 5)	P209,773,161	P198,143,202
Investments in debt and equity securities (Note 6)	20,340,451	–
Trade and other receivables (Note 7)	3,749,868	3,479,786
Other assets (Note 8)	46,452	41,910
Total Current Assets	233,909,932	201,664,898

Non-Current Assets

Investments in debt and equity securities (Note 6)	315,866,769	289,866,670
Furniture, fixtures and office equipment – net (Note 9)	726,897	605,319
Total Non-Current Assets	316,593,666	290,471,989

P550,503,598 P492,136,887

LIABILITIES AND FUND BALANCES

Current Liabilities

Trade and other payables (Note 10)	P12,754,857	P13,418,124
Insurance contract liabilities (Note 11)	2,575,744	1,772,741
Total Current Liabilities	15,330,601	15,190,865

Non-Current Liabilities

Aggregate reserves for unexpired risks (Note 12)	291,543,340	262,265,969
Retirement benefit obligation – net (Note 13)	533,281	2,173,065
Total Non-Current Liabilities	292,076,621	264,439,034
Total Liabilities	307,407,222	279,629,899

Fund Balances

Guaranty Fund (Note 14)	56,404,026	50,929,091
Special Funds (Note 15)	91,950,121	82,465,401
General Fund (Note 16)	87,353,950	74,769,756
Revaluation reserve on investments at FVTOCI (Note 6)	5,162,609	4,038,395
Remeasurement gain on defined benefit plan (Note 13)	2,225,670	304,345
Total Fund Balances	243,096,376	212,506,988

P550,503,598 P492,136,887

See Note to Financial Statements

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Simbag sa Emerhensya Asin Dagdag Paseguro Mutual Benefit Association (SEDP MBA), Inc.

<i>Years Ended December 31,</i>	2025	2024
REVENUE		
Gross members' premium contributions <i>(Note 17)</i>	₱109,498,690	₱101,660,988
Less contributions to Guaranty Fund <i>(Note 14)</i>	5,474,935	5,083,049
Net members' premium contributions	104,023,755	96,577,939
Interest and investment income <i>(Notes 5 and 6)</i>	19,741,703	16,999,951
Membership fees <i>(Note 17)</i>	1,960,944	2,215,726
Other income	227,267	23,140
Total Revenue	125,953,669	115,816,756
BENEFITS AND OPERATING EXPENSES		
Benefits and claims paid to members <i>(Notes 11 and 17)</i>	47,559,765	50,093,986
Increase in aggregate reserves for unexpired risks <i>(Note 12)</i>	29,277,371	25,155,312
Collection costs <i>(Notes 10)</i>	8,909,333	8,139,600
Membership enrollment and marketing expenses	1,595,356	1,113,906
Members' other benefits	1,208,197	1,309,950
Research and development	40,000	91,879
Total Members' Benefits and Expenses	88,590,022	85,904,633
Compensation and employees' benefits <i>(Note 18)</i>	4,887,705	5,679,363
General and administrative expenses <i>(Note 19)</i>	3,351,109	2,907,571
Depreciation <i>(Note 9)</i>	280,046	241,450
Total Benefits and Operating Expenses	97,108,882	94,733,017
NET SUPLUS FOR THE YEAR	28,844,787	21,083,739
OTHER COMPREHENSIVE INCOME		
<i>Item that may not be subsequently reclassified to profit or loss:</i>		
Changes in value of investments at FVTOCI <i>(Note 6)</i>	1,124,214	832,564
Changes in value of defined benefit plan <i>(Note 13)</i>	1,921,325	79,475
Net	3,045,539	912,039
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	₱31,890,326	₱21,995,778

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN FUND BALANCES

Simbag sa Emerhensya Asin Dagdag Paseguro Mutual Benefit Association (SEDP MBA), Inc.

December 31,	2025	2024
GUARANTY FUND (Note 14)		
Opening balances	₱50,929,091	₱45,846,042
Contributions from members during the year	5,474,935	5,083,049
Closing balances	56,404,026	50,929,091
APPROPRIATED SPECIAL FUNDS (Note 15)		
Opening balances	82,465,401	57,113,006
Additional funding during the year	16,260,593	35,438,275
Disbursements during the year	(6,775,873)	(10,085,880)
Closing balances	91,950,121	82,465,401
GENERAL FUND (Note 16)		
Opening balances	74,769,756	89,124,292
Net surplus for the year	28,844,787	21,083,739
Appropriations to Special Funds	(16,260,593)	(35,438,275)
Closing balances	87,353,950	74,769,756
REVALUATION RESERVE ON INVESTMENTS AT FVTOCI		
Opening balances	4,038,395	3,205,831
Changes in value of investments in equity securities at FVTOCI (Note 6)	1,124,214	832,564
Closing balances	5,162,609	4,038,395
REMEASUREMENT GAIN ON DEFINED BENEFIT PLAN (Note 13)		
Opening balances	304,345	224,870
Actuarial and remeasurement gain	1,921,325	79,475
Closing balances	2,225,670	304,345
	₱243,096,376	₱212,506,988

See Notes to Financial Statements

STATEMENTS OF CASH FLOWS

Simbag sa Emerhensya Asin Dagdag Paseguro Mutual Benefit Association (SEDP MBA), Inc.

<i>Years Ended December 31,</i>	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Net surplus for the year	₱28,844,787	₱21,083,739
Add (deduct) adjustments for:		
Increase in aggregate reserves for unexpired risks <i>(Note 12)</i>	29,277,371	25,155,312
Provision for retirement benefits <i>(Note 13)</i>	299,814	1,160,050
Depreciation <i>(Note 9)</i>	280,046	241,450
Interest and investments income <i>(Notes 5 and 6)</i>	(19,741,703)	(16,999,951)
Operating surplus before changes in working capital	38,960,315	30,640,600
Add (deduct) changes in working capital, excluding cash:		
Decrease (increase) in:		
Trade and other receivables <i>(Note 7)</i>	(270,082)	(2,262,038)
Other current assets <i>(Note 8)</i>	(4,542)	155,769
Increase (decrease) in:		
Trade and other payables <i>(Note 10)</i>	(663,267)	4,003,838
Insurance contract liabilities <i>(Note 11)</i>	803,003	470,227
Net Cash Provided from Operating Activities	38,825,427	33,008,396
CASH FLOWS FOR INVESTING ACTIVITIES		
Interest and investment income <i>(Notes 5 and 6)</i>	19,741,703	16,999,951
Decrease (increase) in investments in debt and equity securities <i>(Note 6)</i>	(45,216,336)	(5,224,561)
Additions to furniture, fixtures and office equipment <i>(Note 9)</i>	(401,624)	(391,747)
Net Cash (Used for) Provided from Investing Activities	(25,876,257)	11,383,643
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in Guaranty Fund <i>(Note 14)</i>	5,474,935	5,083,049
Increase in retirement benefit obligation <i>(Note 13)</i>	425,043	2,555,503
Decrease in special funds <i>(Note 15)</i>	(6,775,873)	(10,085,880)
Retirement payments <i>(Note 13)</i>	(443,316)	(1,105,655)
Net Cash Used for Financing Activities	(1,319,211)	(3,552,983)
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,629,959	40,839,056
OPENING CASH AND CASH EQUIVALENTS	198,143,202	157,304,146
CLOSING CASH AND CASH EQUIVALENTS <i>(Note 5)</i>	₱209,773,161	₱198,143,202

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

Simbag sa Emerhensya Asin Dagdag Paseguro Mutual Benefit Association (SEDP MBA), Inc.
As of and the Years Ended December 31, 2025 and 2024

Note 1

Organization and Tax Exemption

The Simbag sa Emerhensya Asin Dagdag Paseguro Mutual Benefit Association (SEDP MBA), Inc. (referred to in the following sections as 'Association') was organized by the members of Simbag sa Emerhensya Asin Dagdag Paseguro, Inc. 'to extend financial assistance to its members, spouse, siblings, children and parents in the form of death benefits, sickness benefits, provident savings and loan redemption assistance; to ensure continued access to benefits/resources by actively involving the members in the management of the Association that will include the implementation of policies and procedures geared towards sustainability and improved services.'

The Association was registered with the Securities and Exchange Commission (SEC) on February 17, 2009 and obtained its secondary license from the Insurance Commission (IC) on August 27, 2009. It is operating under IC License No.2025-20-5 from January 1, 2025 to December 31, 2027. It is governed by its Board of Trustees, which receives no compensation. It devotes all its income for the purposes enumerated in its Articles of Incorporation.

The Association currently holds office at the 2nd Floor, SEDGen Building, Block 7, Landco Business Park, Capantawan, Legazpi City, Albay, a building owned and managed by SEDP Multi-Purpose Cooperative. The Association is free of charge but it shares on the costs of monthly utilities.

As at December 31, 2025, the Association has a total membership of 99,143.

Tax Exemptions

The Association is a holder of Certificate of Tax Exemption No. S30 No. 032 – 22– RR–10-RDO067 which entitles it with tax exemption for three (3) years from August 23, 2022 to August 23, 2025. The renewal of its tax exemption is presently on-going.

The Association, being an association for the exclusive benefit of its members by providing for the payment of life and other benefits, is exempt from the payment of taxes from income derived by it, in accordance with Section 30 (C) of the National Internal Revenue Code, as amended. It has proven by actual operation that its primary purpose falls under Section 30 (C) of the National Internal Revenue Code (NIRC) of 1997, as amended. It is however subject to income taxes on income derived from any of its properties, real or personal, bank deposits, gains from investments, and rental income from real and personal properties. The Association has been reporting income from interest on its bank deposits and investments at net of the applicable withholding taxes.

Note 2

Statement of Compliance with PFRS Accounting Standards

Statement of Compliance

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

PFRS Accounting Standards include statements named PFRSs and Philippine Accounting Standards (PAS),

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

Because the Association is a supervised entity by the Insurance Commission (IC), it also abides by the regulations of the Commission particularly those that are set forth under Section 189 of The Amended Insurance Code and with IC Circular Letter No. 2021-04 *Amendment of the Standard Chart of Accounts (SCA) for Mutual Benefits Associations (MBAs)*, and all applicable IC Circular Letters and accounting requirements. These regulations and requirements are substantially compliant with PFRS Accounting Standards and the Revised SRC Rule 68 (2019).

Adoption of New and Amended PFRS Accounting Standards that are Effective for the Current Year

In the current year, the Association has applied the following amendment to PFRS Accounting Standards issued by the IASB and adopted by the Financial and Sustainability Reporting Standards Council (FSRSC) which is mandatorily effective for an accounting period that begins on or after 1 January 2025.

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

The Association has adopted the amendments to PAS 21 for the first time in the current year. The amendments were adopted by the FSRSC on October 10, 2023. These amendments so far are the only ones adopted and implemented beginning January 1, 2025. The amendments specify how to assess whether a currency is exchangeable, and how to determine the exchange rate when it is not.

The adoption of the amendments has not had any material impact on the disclosures or on the amounts reported in these financial statements.

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 PFRS Accounting Standards that have been issued but are not yet effective (and, in 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 IFRS 9 and IFRS 7 *Amendments to the Classification and Measurement of Financial Instruments*
- Annual Improvements to IFRS Accounting Standards – Volume 11 *Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 7 Financial Instruments: Disclosures and its accompanying Guidance on implementing IFRS 7, IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, and IAS 7 Statement of Cash Flows*
- Amendments to IFRS 9 and IFRS 7 *Contracts Referencing Nature-dependent Electricity*
- IFRS 18 *Presentation and Disclosures in Financial Statements*
- IFRS 19 *Subsidiaries without Public Accountability: Disclosures*
- IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*

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, except if indicated below.

PFRS 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 to IFRS 17 on December 15, 2021 (and identified the standard as PFRS 17) 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. On February 14, 2025, the FSRSC approved the amendment to PFRS 17 that further defers the date of initial application by an additional two (2) years, to annual periods beginning on or after January 1, 2027. This will provide more time for the insurance industry to fully prepare and assess the impact of adopting the said standard. The Insurance Commission (IC), however, issued Circular Letter No. 2024-19, dated October 17, 2024, mandating all MBAs to adopt PFRS 17 starting January 1, 2030 to ensure regulatory stability and smooth implementation. MBAs are not precluded from implementing PFRS 17 in their audited financial statements before January 1, 2030.

The Association has determined that its existing products extended to its members has significant insurance risk and therefore meets the definition of an insurance contract. Presently, these are accounted for under PFRS 4, which will be superseded by PFRS 17 beginning January 1, 2030.

The Association is working closely with its actuaries and the mutual benefit industry association it belongs to for guidance and understanding in the implementation of the provision of PFRS 17.

Amendments to PFRS 9 and PFRS 7—Amendments to the Classification and Measurement of Financial Instruments
Amendments to the Classification and Measurement of Financial Instruments adopted by the FSRSC on July 12, 2024 to become effective beginning January 1, 2026. The amendments in *Amendments to the Classification and Measurement of Financial Instruments (Amendments to PFRS 9 and PFRS 7)* are the following:

Derecognition of a financial liability settled through electronic transfer

The amendments permit the Association to deem a financial liability (or part of a financial liability) that is settled using an electronic payment system to be discharged (and derecognized) before the settlement date if specified criteria are met. If the Association elects to apply this accounting policy, it must do so for all settlements made through the same electronic payment system.

Classification of financial assets

- Contractual terms that are consistent with a basic lending arrangement.
The amendments provide guidance on how the Association should assess whether contractual cash flows of a financial asset are consistent with a basic lending arrangement. This is intended to assist the Association to apply the requirements for assessing contractual cash flow characteristics to financial assets with features linked to environmental, social and governance (ESG) concerns.
- Assets with non-recourse features.
The amendments enhance the description of the term 'non-recourse', in particular to specify that a financial asset has non-recourse features if the Association's ultimate right to receive cash flows is contractually limited to the cash flows generated by specified assets.
- Contractually linked instruments.
The amendments clarify the characteristics of contractually linked instruments that distinguish them from other transactions. Specifically, the amendments highlight that in such instruments a prioritization of payments to the holders of financial assets using multiple contractually linked instruments (tranches) is established through a waterfall payment structure, resulting in concentrations of credit risk and a disproportionate allocation of losses between the holders of different tranches. The amendments also note that not all transactions with multiple debt instruments meet the criteria of transactions with multiple contractually linked instruments. In addition, the amendments clarify that the reference to instruments in the underlying pool can include financial instruments that are not within the scope of the classification requirements.

Disclosures

- Investments in equity instruments designated at FVTOCI.
The requirements in PFRS 7 are amended to require the Association to disclose the fair value gain or loss presented in other comprehensive income during the period, showing separately the fair value gain or loss that relates to investments derecognized in the period and the fair value gain or loss that relates to investments held at the end of the period.
- Contractual terms that could change the timing or amount of contractual cash flows.
The amendments require the Association to disclose the contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event that does not relate directly to changes in a basic lending risks and costs. The requirements apply to each class of financial asset measured at amortized cost or FVTOCI and each class of financial liability measured at amortized cost.

The amendments are effective for annual reporting periods beginning on or after 1 January 2026 with earlier application permitted. If the Association elects to apply these amendments for an earlier period, it is required to either: (1) apply all the amendments at the same time and disclose that fact or (2) apply only the amendments to the classification of financial assets for that earlier period and disclose that fact.

The amendments are required to be applied retrospectively, in accordance with PAS 8, with specific exceptions.

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

Annual Improvements to PFRS Accounting Standards – Volume 11

Amendments to PFRS 1 First-time Adoption of International Financial Reporting Standards, PFRS 7 *Financial Instruments: Disclosures and its accompanying Guidance on implementing PFRS 7*, PFRS 9 *Financial Instruments*, PFRS 10 *Consolidated Financial Statements*, and PAS 7 *Statement of Cash Flows*. The IASB issued amendments to five IFRS Accounting Standards as part of its annual improvements process and these amendments were adopted by the FSRSC on August 22, 2024 to become effective beginning January 1, 2026.

These amendments are the following:

PFRS 1 First-time Adoption of International Financial Reporting Standards—Hedge accounting by a first-time adopter

For consistency with the requirements in PFRS 9, PFRS 1:B5-B6 were amended to refer to the 'qualifying criteria' for hedge accounting (instead of the 'conditions') and to add cross-references to PFRS 9:6.4.1 to improve the understandability of PFRS 1.

PFRS 7 Financial Instruments: Disclosures—Gain or loss on derecognition

The amendments remove an obsolete cross-reference in PFRS 7:B38 to a paragraph that had been deleted when PFRS 13 was issued and align the wording of this paragraph with the terms used in PFRS 13.

Guidance on implementing PFRS 7—Disclosure of deferred difference between fair value and transaction price

The amendments update PFRS 7:IG14 to make the wording of that paragraph consistent with PFRS 7:28 and improve the internal consistency of the wording in the example in PFRS 7:IG14.

Guidance on implementing PFRS 7—Introduction and credit risk disclosures

The amendments add a statement to PFRS 7:IG1 clarifying that the guidance does not necessarily illustrate all the requirements in the referenced paragraphs of PFRS 7. The amendments also simplify the explanation of the aspects of the requirements that are not illustrated in PFRS 7:IG20B.

PFRS 9 Financial Instruments—Derecognition of lease liabilities

The amendments add a cross-reference to PFRS 9:3.3.3 in PFRS 9.2.1(b)(ii) to clarify that, when a lessee has determined that a lease liability has been extinguished in accordance with PFRS 9, the lessee is required to apply PFRS 9:3.3.3 and therefore recognize any resulting gain or loss in profit or loss.

PFRS 9 Financial Instruments—Transaction price

The amendments replace 'their transaction price (as defined in PFRS 15)' in PFRS 9.5.1.3 with 'the amount determined by applying PFRS 15' to address inconsistency between PFRS 9.5.1.3 and the requirements of PFRS 15 which may require a receivable to be measured at an amount that differs from the amount of the transaction price recognized as revenue. Additionally, the reference to 'transaction price' (as defined in PFRS 15) is deleted from Appendix A of PFRS 9.

PFRS 10 Consolidated Financial Statements—Determination of a 'de facto agent'

The amendments address concerns that the requirements in PFRS 10:B73-B74 might, in some situations, be contradictory. PFRS 10:B73 refers to 'de facto agents' as parties acting on the investor's behalf and states that the determination of whether other parties are acting as de facto agents requires judgement. However, the second sentence of PFRS 10:B74 includes more conclusive language and states that a party is a de facto agent when those that direct the activities of the investor have the ability to direct that party to act on the investor's behalf. The amendments update PFRS 10:B74 to use less conclusive language and to clarify that the relationship described in PFRS 10:B74 is just one example of a circumstance in which judgement is required to determine whether a party is acting as a de facto agent.

PAS 7 Statement of Cash Flows—Cost method

The amendment replaces the term 'cost method' with 'at cost' in PAS 7:37 in line with the removal of the definition of 'cost method' from the PFRS Accounting Standards.

The amendments are effective for annual reporting periods beginning on or after 1 January 2026, with early application permitted. The Association is required to apply the amendments to PFRS 9:2.1(b)(ii) to lease liabilities that are extinguished on or after the beginning of the annual reporting period in which the Association first applies that amendment. No specific transition provisions are provided in respect of the other amendments.

Amendments to PFRS 9 and PFRS 7—Contracts Referencing Nature-dependent Electricity

Amendments to PFRS 9 and PFRS 7, *Contracts Referencing Nature-dependent Electricity* were adopted by the

FSRSC on February 14, 2025 to become effective beginning January 1, 2026.

Amendments to PFRS 9 *Financial Instruments*

The following requirements of PFRS 9 are affected by the amendments:

- The own-use requirements in PFRS 9 are amended to include the factors the Association is required to consider when applying PFRS 9:2.4 to contracts to buy and take delivery of renewable electricity for which the source of production of the electricity is nature-dependent; and
- The hedge accounting requirements in PFRS 9 are amended to permit the Association using a contract for nature-dependent renewable electricity with specified characteristics as a hedging instrument: (1) to designate a variable volume of forecast electricity transactions as the hedged item if specified criteria are met; and (2) to measure the hedged item using the same volume assumptions as those used for the hedging instrument.

Amendments to PFRS 7 *Financial Instruments: Disclosures* and PFRS 19 *Subsidiaries without Public Accountability: Disclosures*

PFRS 7 and PFRS 19 were amended to introduce disclosure requirements about contracts for nature-dependent electricity with specified characteristics.

The amendments are effective for annual periods beginning on or after 1 January 2026, with earlier application permitted. The amendments to the own use exemption are required to be applied retrospectively in accordance with PAS 8 using the facts and circumstances at the date of initial application. The amendments to the hedge accounting requirements are to be applied prospectively to new hedging relationships designated on or after the date of initial application.

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

PFRS 18 *Presentation and Disclosures in Financial Statements*

PFRS 18 includes requirements for all entities applying PFRS for the presentation and disclosure of information in financial statements, which were issued on April 9, 2024, adopted by FSRSC on May 10, 2024, to become effective beginning the annual periods January 1, 2027.

PFRS 18 replaces PAS 1, carrying forward many of the requirements in PAS 1 unchanged and complementing them with new requirements. In addition, some paragraphs from PAS 1 have been moved to PAS 8 and PFRS 7. Furthermore, the PASB has made minor amendments to PAS 7 and PAS 33 *Earnings per Share*.

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

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

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

PFRS 19 *Subsidiaries without Public Accountability: Disclosures*

PFRS 19 permits an eligible subsidiary (defined as a subsidiary that does not have public accountability and has an ultimate or intermediate parent that produces consolidated financial statements available for public use

that comply with PFRS Accounting Standards) to provide reduced disclosures when applying PFRS Accounting Standards in its financial statements.

The new standard is effective for reporting periods beginning on or after 1 January 2027 with earlier application permitted.

The Board of Trustees of the Association do not anticipate that PFRS 19 will be applied for purposes of the financial statements of the Association.

Adoption of PFRS on Sustainability Disclosures and Issuance of Reporting Guidelines for Companies

The SEC issued Memorandum Circular No. 16, Series of 2025, titled 'Adoption of Philippines Financial Reporting Standards (PFRS) on Sustainability Disclosures and Issuance of Reporting Guidelines for Publicly Listed Entities and Largely Non-listed Entities' on December 23, 2025. PFRS S1 and S2 have been adopted by the Professional Regulatory Board of Accountancy on March 12, 2024, under its Resolution No. 11, Series of 2024 and formally adopted by the SEC during its Commission En Banc meeting on December 4, 2025.

PFRS S1 sets out the general requirements for the disclosure of sustainability related financial information, while PFRS S2 focuses on climate related disclosures.

The SEC issued the Sustainability Reporting Guidelines, together with a PFRS Adoption Roadmap, to guide covered companies in phased implementation. These standards are aligned with IFRS S1 and S2 issued by the International Sustainability Standards Board and were approved for local application through the Philippine standard setting process. The Guidelines aim to enhance transparency, comparability, and decision usefulness of sustainability disclosures and support long term value creation to attract investments.

All publicly listed companies (PLCs) and large non-listed entities (LNLs) are required to submit a Sustainability Report as an attachment to their annual reports to the SEC. LNLs not reporting under Section 17.2 of the Revised SRC are required to submit a Sustainability Report together with their audited financial statements beginning on or after January 1, 2026. Beginning 2026, covered companies are required to start adopting PFRS S1 and PFRS S2 with limited extensions of transition standard reliefs, under a tiered approach.

The Association, not being a PLC or LNL, has determined that it is not required to comply with the submission of the Sustainability Report.

Note 3

Summary of Material Accounting Policy Information

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

Going Concern

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

Basis of Preparation

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

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

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

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

Fair Value Measurement

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

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

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

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

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

Financial instruments

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

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

Financial Assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of Financial Assets

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

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

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

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

(i) Amortized Cost and Effective Interest Method

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

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

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

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below).

For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

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

The Association's financial assets at amortized costs includes cash and cash equivalents, trade and other receivables and investments in debt and equity securities.

– 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 and Equity Securities

The investments are non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Association has the positive intention and ability to hold on to maturity. The investments consist substantially of government debt securities.

(ii) Debt Instruments Classified as at FVTOCI

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

The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these financial assets were to be measured at amortized cost. All other changes in the carrying amount of these financial assets are recognized in other comprehensive income

and accumulated under the heading of investments revaluation reserve. When these financial assets are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

(iii) Equity Instruments Designated as at FVTOCI

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

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

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

The Association designated all investments in equity instruments that are not held for trading as at FVTOCI on initial recognition (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 in the Association's material accounting policy information.

Impairment of Financial Assets

The Association recognizes a loss allowance for expected credit losses on investments in debt instruments that

are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

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

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

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

(i) Significant Increase in Credit Risk

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

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

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

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

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

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

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

(ii) Definition of Default

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

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

(iii) Credit-impaired financial assets

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

(iv) Write-Off Policy

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

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

The measurement of expected credit losses is a function of the probability of default, loss given default

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

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

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

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

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

Derecognition of Financial Assets

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

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

Financial Liabilities and Equity

Classification as Debt or Equity

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

Equity Instruments

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

Financial Liabilities

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

Financial Liabilities at FVTPL

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

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

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

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

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

Gains or losses on financial 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.

Furniture, Fixtures and Office Equipment

Furniture, fixtures and office equipment are stated at cost less accumulated depreciation. Such a 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.

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.

Depreciation is computed on the straight-line method over the estimated useful lives of the assets as follows:

- (1) IT equipment, 5 years; and
- (2) Furniture, fixtures and office equipment, 5 years.

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 the 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 the 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.

Prepaid Expenses

A prepaid expense is an expenditure paid for in one accounting period, but for which the underlying asset will not be consumed until a future period. Expenditures are recorded as prepaid expenses in order to match their recognition more closely as expenses with the periods in which they are actually consumed.

Impairment of Non-Financial Assets

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

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

and some are tested at cash-generating unit level. An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting the market conditions less cost to sell, and value in use, based on an internal evaluation of discounted cash flow. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the previously recognized impairment loss.

Actuarial Policies

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

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

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

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

Recording of Claims from Policyholders

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

Revenue and Cost Recognition

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

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

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

The Association recognizes revenue as follows:

(1) Premium Contributions

This represents considerations given by the member in exchange for the promises of the MBA to pay a stipulated sum in the event of a loss covered under the basic benefits indicated in the Internal Rules and Regulations (IRR) of the MBA and/or membership certificates. Revenue from insurance products is recognized under PFRS 4 Insurance Contracts, which 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 PFRS Accounting Standards until the efficacy of PFRS 17, beginning January 1, 2025.

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 the 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 upon payment of the first contribution to the Association, representing 50% of the total membership dues collected;
- 35% goes to cover basic benefits of members;
- 5% goes to Guarantee Fund, and the remaining
- 10% goes to general operations, to cover administrative costs.

The Association collects its premiums/contributions of members through SEDP-Simbag sa Pag-Asenso, Inc., an affiliate, with a certain commission (collection cost).

(2) Investments Income

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

(3) Non-Insurance Revenues

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

For each contract with a customer, the Association:

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

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

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

(4) Cost and Expenses

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

Insurance-related costs are accounted as follows:

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

(5) Grants and Donations

Grants and donations 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 employment 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 the Trade and Other Payables account in the statement of financial position at undiscounted amount that the Association expects to pay as a result of the unused entitlement.

- Post-Employment Benefit Plans

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

The Association has less than ten (10) regular employees and opted to accrue its retirement benefit obligation using the provisions of the *R.A. 7641, An Act Amending Article 287 of Presidential Decree No. 442, as Amended, Otherwise Known as the Labor Code of the Philippines, by Providing for Retirement Pay to Qualified Private Sector Employees in the Absence of any Retirement Plan in the Establishment*. Accrual approach is applied by calculating the expected liability as at reporting date using the employees' current compensation and number of years in service. Under this simplified method, the Corporation ignores estimated future salary increases, future service of current employees and possible in-service mortality of current employees between reporting date and date the employees are expected to retire. The Association considers its retirement benefit obligations at this time as immaterial when considered its overall liabilities.

- 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 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 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 and the corresponding lease liability are presented separately in the statement of financial position as required under IC Circular Letter No. 2019-70, dated December 2, 2019.

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

Leases – The Association as Lessor

The Association is not a lessor of properties.

Related Party Relationships and Transactions

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

Contingencies

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

Provisions

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

Events After Reporting Date

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

Note 4

Significant Critical Accounting Judgment and Key Sources of Estimation Uncertainty

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

Going concern

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

Critical Judgements in Applying the Association's Accounting Policies

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

Business Model Assessment

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

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

Significant Increase in Credit Risk

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

Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and

liabilities within the next financial year, are discussed below.

Calculation of Loss Allowance

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

Fair Value Measurements and Valuation Processes

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

Estimating Useful Lives of Furniture, Fixtures and Office Equipment

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

Impairment of Non-Financial Assets

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

Retirement Benefits

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

Provisions and Contingencies

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

Note 5

Cash and Cash Equivalents

This account is composed of the following:

<i>December 31,</i>	2025	2024
Cash in banks	₱25,599,225	₱42,205,387
Cash equivalents	184,143,936	155,903,895
Revolving fund	30,000	33,920
	₱209,773,161	₱198,143,202

Cash in banks and cash equivalents earn interest at the prevailing market rates. The effective interest rate on cash in banks and cash equivalents ranges from 0.0625% to 5.875%, maturing in 30 days to 360 days.

Total interest income earned from cash in banks and cash equivalents amounted to ₱8,151,047 in 2025 and ₱6,260,899 in 2024. The interest income are recorded net of the applicable withholding (final) taxes.

Note 6
Investments in Debt and Equity Securities

This account consists of the following investments and their purposes:

<i>December 31,</i>	2025	2024
Investments in debt securities at amortized cost	₱312,427,463	₱267,231,749
Investments in equity securities at FVTPL	549,018	528,396
Investments in equity securities at FVTOCI	23,230,739	22,106,525
Total investments	336,207,220	289,866,670
Less presented under current assets	20,340,451	–
Presented Under Non-Current Assets	₱315,866,769	₱289,866,670

The Association earned interest income from the investments amounting to ₱11,590,656 in 2025 and ₱10,739,052 in 2024. The interest income are recorded net of the applicable withholding (final) taxes.

Investment in Debt Securities Accounted at Amortized Cost

These investments were acquired through the following banks:

<i>December 31,</i>	2025	2024
<u>Treasury Bills</u>		
Metropolitan Bank and Trust Company (MBTC)	₱15,430,216	₱–
Bank of the Philippine Islands (BPI)	4,910,235	–
Sub-Total	20,340,451	–
<u>Retail Treasury Bonds</u>		
Metropolitan Bank and Trust Company (MBTC)*	80,843,808	60,879,514
Philippine National Bank (PNB)**	46,000,000	46,000,000
Banco de Oro (BDO)	16,889,515	16,809,504
Bank of the Philippine Islands (BPI)	10,000,000	10,000,000
Sub-Total	153,733,323	133,689,018
<u>Fixed Rate Treasury Notes (FXTN)</u>		
Metropolitan Bank and Trust Company (MBTC) - restricted	10,504,965	10,059,899
Bank of the Philippine Islands (BPI)	10,041,324	10,506,432
Sub-Total	20,546,289	20,566,331
<u>Corporate Bonds</u>		
Philippine National Bank (PNB)	40,250,000	38,000,000
Metropolitan Bank and Trust Company (MBTC)	30,000,000	30,000,000
Security Bank	10,000,000	–
Bank of the Philippine Islands (BPI)	5,000,000	10,000,000
Rizal Commercial & Banking Corporation (RCBC)	5,000,000	5,000,000
Banco de Oro (BDO)	–	2,490,000
Sub-Total	90,250,000	85,490,000

(Carried Forward.)

(Brought Forward.)

December 31,	2025	2024
<u>Perpetual Preferred Shares</u>		
Banco de Oro (BDO)	5,814,900	5,756,400
Philippine National Bank (PNB)	1,242,500	1,230,000
Sub-Total	7,057,400	6,986,400
<u>Long-Term Time Deposits</u>		
Camalig Bank	20,000,000	20,000,000
Agribank	500,000	500,000
Sub-Total	20,500,000	20,500,000
Total	P312,427,463	P267,231,749

*15m – restricted as at December 31, 2025 and 5m is tagged in April 2026 awaiting for IC’s confirmation; **26m – restricted

The following are the details of the investments:

– Treasury Bills

The treasury bills represent two (2) short-term, zero-coupon investments in quoted government debt securities which are issued at a discount on their face value. The treasury bills purchased through Metropolitan Bank and Trust Company (MBTC) with interest rate of 5.7% and will mature on April 8, 2026. The treasury bills purchased through Bank of the Philippine Islands (BPI) with interest rate of 3.988793% and will mature on June 17, 2026.

There were no treasury bills as at December 31, 2024.

The roll-forward analysis of these accounts is as follows:

December 31, 2025	Face Value	Discount	Carrying Amount
Metropolitan Bank & Trust Co. (MBTC)	P15,660,000	(P229,784)	P15,430,216
Bank of the Philippine Islands (BPI)	5,000,000	(89,765)	4,910,235
	P20,660,000	(P319,549)	P20,340,451

– Retail Treasury Bonds

These are investments in quoted government debt securities with the following features:

- a) The nine (9) retail treasury bonds purchased at cost for seven (7) RTBs and two (2) RTBs at premiums through MBTC have face value amounted to P80,610,000, will mature between 2026 and 2033 with coupon rates ranging from 4.625% and 6.625%, and with net premiums of P233,808 as at December 31, 2025;
- b) The two (2) retail treasury bonds purchased at cost through PNB have face value amounted to P46,000,000, have coupon rates at 4.625% and 5.75% that will mature on June 2, 2027 and March 7, 2028;
- c) The two (2) retail treasury bonds purchased through BDO have face value amounted to P17,000,000 and with net discounts of P110,485. have coupon rates at 3.50% and 6.15% that will mature on September 20, 2026 and June 2, 2027, respectively; and
- d) The retail treasury bonds purchased at cost through BPI amounted to P10,000,000, have coupon rate at 4.87% and 6.00% that will mature on March 4, 2027.

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

<i>December 31, 2025</i>	<i>Face Value</i>	<i>(Discount) Premiums</i>	<i>Carrying Amount</i>
Metropolitan Bank and Trust Co.(MBTC)	₱80,610,000	₱233,808	₱80,843,808
Philippine National Bank (PNB)	46,000,000	–	46,000,000
Banco de Oro (BDO)	17,000,000	(110,485)	16,889,515
Bank of the Philippine Islands (BPI)	10,000,000	–	10,000,000
	₱153,610,000	₱123,323	₱153,733,323

Of the total Retail Treasury Bonds, the investments in PNB, BPI and MBTC, totaling ₱51,504,965 in 2025 and ₱36,000,000 in 2024, are restricted investments as these are investments intended for funding the Guaranty Fund requirements by the Insurance Commission (IC) that need to be maintained by the Association (see Note 14). These investments have been supported with a Deed of Assignment with Special Power of Attorney. The effective interest rate on these deposits ranges from 3.6% to 5.972%, maturing in 3 years or 5 years from issuance.

An investment in MBTC amounting to ₱5m was tagged in April 2026 to be a restricted investment, awaiting for IC's confirmation.

– Fixed Rate Treasury Notes (FXTN)

These are medium to long-term negotiable and transferable debt instruments of the National Government issued by the Bureau of Treasury. Generally, these notes pay a higher rate of return than time deposits with a similar tenor and offer semi-annual interest income throughout the tenor if held until maturity. The FXTN purchased through Metrobank with a face value amounted to ₱10,500,000, will mature on May 19, 2029 with coupon rate at 6.50%, with net premiums of ₱4,965 as at December 31, 2025. The FXTN purchased through BPI has a face value amounted to ₱10,000,000 will mature on March 22, 2028 with coupon rate at 6% and with net premiums of ₱41,324 as at December 31, 2025.

– Corporate Bonds

These investments are debt securities issued by publicly held corporations to raise money for expansion or other business needs. The investments placed through PNB amounting to ₱40,250 million with interest rates ranging from 4.337% to 7.446% that will mature in between October 2027 to December 2028. The investments placed through MBTC amounting to ₱30 million with interest rates at 3.60% and 6.133% that will mature on September 4, 2026 and November 13, 2034. The investment placed in BPI amounting ₱5 million at 5.957% that will mature on March 14, 2028. The investment placed in RCBC amounting to ₱5 million at interest rate of 5.972% that will mature on December 15, 2026.

– Perpetual Preferred Shares

Preferred shares have no maturity date and pays a fixed dividend upon issue, usually declared and paid quarterly, as long as it remains outstanding. Shareholders of perpetuals do not have voting rights and the issuers of perpetual preferred stock can typically redeem the shares.

The preferred shares purchased through PNB and BDO have an optional redemption after 5 years of investment. Dividend interest rates of 4.8124% and 6.322% payable quarterly.

– LTNCDs

Long-Term Negotiable Certificate of Deposits (LTNCDs) are offered by banks to investors looking for a relatively safe investment, but with higher interest rates than regular savings accounts or short-term time deposits. LTNCDs can be sold in the secondary market, even before maturity date. The interest coupons of LTNCDs are paid quarterly with rates ranging from 3.75% to 3.875%, maturing in 5 years to 7 years from issuance.

Investment in Equity Securities Accounted at Fair Value through Profit or Loss (FVTPL)

This is an investment in the Mutual Security Fund managed by Union Bank of the Philippines' Trust and Investment Services Group. The Association earns dividends from these investments and when there is significant and apparently permanent decline in value of the investment, as indicated by prolonged losses of the investee (and other factors), the carrying amount of the investments are written down to fair value.

Investment in Equity Securities Accounted at Fair Value through Other Comprehensive Income (FVTOCI)

This consists of Unit Investment Trust Fund (UITF) investment in BPI's Bayanihan Balanced Fund, initially purchased at ₱18,000,000, and the fair value of the investment at the end of 2025 amounted ₱23,230,738. The increase in value of the investment during the year, amounting to ₱1,124,214, was recorded in the other comprehensive income for the year.

Analyses of Impairment in Fair Values of the Investments

The Association's management has determined from its monitoring of the investments that none of the invested funds are presently impaired.

Note 7

Trade and Other Receivables

This account consists of the following:

<u>December 31,</u>	2025	2024
Accrued interest income	₱2,476,894	₱1,829,051
Receivable from Micro Finance, Inc. (transfer of retirement liability)	1,060,213	1,449,848
Advances to officers and employees subject for liquidation	74,430	76,563
Reclassified from a non-moving bank account	-	162,915
Other receivables	241,825	64,903
Total	3,853,362	3,583,280
Less allowance for expected credit losses (ECL)	103,494	103,494
Net	₱3,749,868	₱3,479,786

Maturity of the Trade and Other Receivables

Management has determined that all receivables are current.

Allowance for Expected Credit Losses (ECL)

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%.

A reconciliation of the allowance for expected credit losses during the period is presented as follows:

<u>December 31,</u>	2025	2024
Opening balances	₱103,494	₱103,494
Provision for impairment losses for the year charged to operations	-	-
Closing balances	₱103,494	₱103,494

No ECL was provided in 2025 and 2024 as the existing allowance already covers the required ECL during the year.

Management believes the remaining receivables were not impaired at the end of 2025.

Note 8
Other Current Assets

This account consists of unused office supplies and other forms.

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

Note 9
Furniture, Fixtures and Office Equipment – At Cost

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

<i>December 31,</i>	2025	2024
IT equipment	₱2,299,885	₱1,904,651
Furniture, fixtures and office equipment	273,034	266,644
Total	2,572,919	2,171,295
Less accumulated depreciation	1,846,022	1,565,976
Net	₱726,897	₱605,319

The Association enjoys free use of the building facilities of the 2nd Floor, SEDCen Building, Block 7 Landco Business Park, Capantawan, Legazpi City. This building is owned and managed by SEDP Multi-Purpose Cooperative. The Association shares on the costs of monthly utilities.

Reconciliation of the Movements of the Accounts

<i>December 31, 2025</i>	<i>Opening Balances</i>	<i>Additions</i>	<i>Retirement</i>	<i>Closing Balances</i>
<u>Cost</u>				
IT equipment	₱1,904,651	₱395,234	₱-	₱2,299,885
Furniture, fixtures and office eqpmnt	266,644	6,390		273,034
Total	2,171,295	401,624		2,572,919
<u>Less accumulated depreciation</u>				
IT equipment	1,355,102	245,585		1,600,687
Furniture, fixtures and office eqpmnt	210,874	34,461		245,335
Total	1,565,976	280,046		1,846,022
Net Book Value	₱605,319	₱121,578	₱-	₱726,897
<i>December 31, 2024</i>				
<u>Cost</u>				
IT equipment	₱1,517,494	₱387,157	₱-	₱1,904,651
Furniture, fixtures and office eqpmnt	262,054	4,590		266,644
Total	1,779,548	391,747		2,171,295
<u>Less accumulated depreciation</u>				
IT equipment	1,144,759	210,343		1,355,102
Furniture, fixtures and office eqpmnt	179,767	31,107		210,874
Total	1,324,526	241,450		1,565,976
Net Book Value	₱455,022	₱150,297	₱-	₱605,319

Note 10
Details of Trade and Other Payables

<i>December 31,</i>	2025	2024
Accrued expenses and other payables	₱9,913,054	₱9,756,741
Payable to collecting partners for claims paid to members	2,307,012	2,939,681
Accounts payable – Dakila	293,700	191,375
Accounts payable for surrendered membership	122,345	75,790
Unremitted contributions to Government Agencies	106,280	86,132
Savings fund of employees	12,466	368,405
	₱12,754,857	₱13,418,124

Accrued expenses represent the accrued collection costs subsequently paid in January 2026. Total collection costs paid to SEDP – Simbag sa Pag-aseño, Inc. amounted to ₱8,909,333 in 2025 and ₱8,139,600 in 2024.

Note 11
Insurance Contract Liabilities

This consists of the following:

<i>December 31,</i>	2025	2024
Claims incurred but not reported for life policies	₱2,142,744	₱1,525,061
Claims incurred but not reported for credit life policies	433,000	247,680
Claims in the course of settlement	-	-
Claims due and unpaid	-	-
Claims resisted/denied	-	-
	₱2,575,744	₱1,772,741

Incurred but not reported claims are claims reported beyond the reporting date whose date of claim happened three months before the reporting date. For 2025, claims reported in the months of November 2025, December 2025 and January 2026 whose date of death/claim is before November 1, 2025, 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. The amounts recorded as insurance contract liabilities were certified by the Association's Actuary to be in accordance with sound actuarial principles. Claims due and unpaid benefits represent claim benefits that have been processed and that the Association recognizes liability on the claims by the member or its beneficiaries.

Total basic benefits and claims paid to members amounted to ₱33,505,229 in 2025 and ₱32,181,189 in 2024.

Note 12
Aggregate Reserves for Unexpired Risks

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.

This following consist of the details of the reserves:
(Please see table next page.)

<i>December 31,</i>	2025	2024
Aggregates reserves for members' equity	₱285,149,253	₱257,123,408
Aggregates reserves for credit policies	5,312,495	4,657,757
Aggregates reserves for life policies	1,081,592	484,804
	₱291,543,340	₱262,265,969

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

<i>December 31, 2025</i>	<i>Reserves for Members' Equity</i>	<i>Reserves for Credit Policies</i>	<i>Reserves for Life Policies</i>	Total
Provisions during 2014	₱65,986,915	₱2,351,536	₱1,206,266	₱69,544,717
Provisions during 2015	13,243,621	(615,593)	(812,754)	11,815,274
Provisions during 2016	14,554,323	171,844	(225,963)	14,500,204
Provisions during 2017	14,722,450	219,929	91,466	15,033,845
Provisions during 2018	18,854,769	351,194	368,829	19,574,792
Provisions during 2019	23,337,784	212,229	99,035	23,649,048
Provisions during 2020	26,520,484	(297,510)	454,172	26,677,146
Provisions during 2021	23,013,530	620,848	(482,353)	23,152,025
Provisions during 2022	9,113,250	60,684	(143,563)	9,030,371
Provisions during 2023	23,077,292	802,001	253,942	24,133,235
Provisions during 2024	24,698,990	780,595	(324,273)	25,155,312
Balance as of December 31, 2024	257,123,408	4,657,757	484,804	262,265,969
Provisions during 2025	28,025,845	654,738	596,788	29,277,371
Balance as of December 31, 2025	₱285,149,253	₱5,312,495	₱1,081,592	₱291,543,340

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 credit life insurance represents the amount which is considered adequate to cover future guaranteed benefits on a debtor pursuant to or in connection with his/her specific loans and other credit transactions with the members of the Association.

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 amount of aggregate reserves for members' equity, reserves for credit policies, and reserves for life policies for the years ended December 31, 2025 and 2024, have been computed and certified by the Consulting Actuary of the Association to be in accordance with commonly accepted actuarial standards consistently applied and that the legal policy reserves and other actuarial items are fairly stated in accordance with sound actuarial principles.

Note 13 **Retirement Benefit Obligation**

The Association's employees are provided with retirement benefits through a defined benefit plan. The plan

defines the amount of pension benefit an employee will receive at retirement age. The legal obligation to pay the pension benefits remain with the Association. The Association's defined benefit pension plan covers all regular full-time employees.

The amounts recognized in the statement of financial position at the end of 2025 and 2024 are as follows:

Retirement Benefit Obligation Recognized in the Statement of Financial Position

<u>December 31,</u>	2025	2024
Present value of retirement benefit obligation	₱2,239,217	₱2,469,997
Less fair value of retirement plan asset	(1,705,936)	(296,932)
(Retirement Plan Asset) Retirement Benefit Obligation	₱533,281	₱2,173,065

Components of Retirement Expense in the Statement of Profit or Loss and Other Comprehensive Income

<u>Years Ended December 31,</u>	2025	2024
Current service cost	₱124,938	₱1,086,401
Interest cost on benefit obligation	174,876	68,375
	299,814	1,154,776
Interest income on plan assets	-	-
Total charged to profit or loss	₱299,814	₱1,154,776

Components of Retirement Benefit Costs Recognized in Other Comprehensive Income

<u>Years Ended December 31,</u>	2025	2024
Opening balances	₱304,345	₱224,870
Actuarial gain – plan assets	1,468,407	79,475
Actuarial gain on defined benefit obligation	452,918	-
Closing balances	₱2,225,670	₱304,345

Changes in the Present Value of the Retirement Benefit Obligation

<u>December 31,</u>	2025	2024
Opening balances	₱2,469,997	₱965,754
Current service costs	124,938	1,086,401
Interest cost	174,876	68,375
Benefits paid during the year	(443,316)	(1,105,655)
Transfer of retirement liability from MFI to MBA	365,640	1,449,848
Actuarial loss - changes in financial assumptions	107,659	-
Actuarial gain (loss) - experience	(560,577)	5,274
	₱2,239,217	₱2,469,997

Movements in the Fair Value of Retirement Plan Assets

<u>December 31,</u>	2025	2024
Opening balances	₱296,932	₱1,323,112
Interest income	18,273	-
Contributions	-	-
Benefits paid	(443,316)	(857,750)
Transfer of liability from MFI to MBA	365,640	-
Repurchase	-	(247,905)
Re-measurement gain on return on plan assets	1,468,407	79,475
Closing balances	₱1,705,936	₱296,932

Principal Assumptions Used to Determine Pension Obligation

<u>December 31,</u>	2025	2024
Discount rate	6.08%	7.08%
Salary increase rate	3.00%	3.00%
Average expected working lives of employees	14.7	18.1

Actual return on plan assets pertain to interests, dividends and other income together with realized and unrealized gain or losses derived from the plan assets less any costs of managing the plan and tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the DBO.

Note 14
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 Insurance Code, deposited in a local depository bank. (See Note 6.) The Fund is increased by the 5% contributions from members.

The Guaranty Fund is funded by investments in debt securities, (See Note 6.) which are assigned to the Insurance Commission (IC).

Accounting of Guaranty Fund

<u>December 31,</u>	2025	2024
Opening balances	₱50,929,091	₱45,846,042
Members contribution during the year	5,474,935	5,083,049
Closing balances	₱56,404,026	₱50,929,091

Note 15
Special Funds

In accordance with the recommendations of the Insurance Commission, the Association's Board of Trustees approved appropriations of the following special funds from the General Fund:

<u>December 31,</u>	2025	2024
Members' Benefits Fund	₱47,660,450	₱42,178,908
Members' Education Fund	15,861,892	13,922,802
Capacity Building Fund	14,873,414	13,622,354
Research and Development Fund	7,746,212	7,258,394
Acquisition of Systems and Equipment	5,808,153	5,482,943
	₱91,950,121	₱82,465,401

The appropriated special funds are funded by the cash and cash equivalents of the Association.

The disbursements of special funds are considered as benefits paid to members. In 2025, The Board of Trustees approved to implement the release of 0.07% on members' equity value to their respective savings account amounted to ₱4,208,872.

The movements of the appropriated funds during 2025 and 2024, as follows:
(Please see table next page.)

<i>December 31, 2025</i>	<i>Opening Balances</i>	<i>Allocations of Net Surplus</i>	<i>Disbursements</i>	<i>Closing Balances</i>
Members' Benefits Fund (70%)	₱42,178,908	₱11,382,415	(₱5,900,873)	₱47,660,450
Members' Education Fund (10%)	13,922,802	2,439,090	(500,000)	15,861,892
Capacity Building Fund (3%)	13,622,354	1,626,060	(375,000)	14,873,414
Research and Dev't. (2%)	7,258,394	487,818		7,746,212
Acquisition of Sys & Equip (15%)	5,482,943	325,210		5,808,153
	₱82,465,401	₱16,260,593	(₱6,775,873)	₱91,950,121
<i>December 31, 2024</i>				
Members' Benefits Fund (70%)	₱26,957,265	₱24,806,793	(₱9,585,150)	₱42,178,908
Members' Education Fund (10%)	10,378,975	3,543,827		13,922,802
Capacity Building Fund (3%)	10,078,527	3,543,827		13,622,354
Research and Dev't. (2%)	5,987,210	1,771,914	(500,730)	7,258,394
Acquisition of Sys & Equip (15%)	3,711,029	1,771,914		5,482,943
	₱57,113,006	₱35,438,275	(₱10,085,880)	₱82,465,401

Note 16
General Fund

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

The Association's General Fund already breached the 20% threshold of its total liabilities at the end of 2025, amounting to ₱25,872,506. The Association's management, however, has not yet assigned the excess surplus but will propose to IC the establishment of special funds to absorb the excess portion of the Fund.

Note 17
Members' Premium Contributions

The Association's members are charged twenty pesos (₱20.00) 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) 35% is intended to cover basic benefits such as payments for death or permanent disability claims of a member or its legal spouse below sixty-six (66) years old; or four (4) single, biological and/or legally adopted children who are two weeks old but not more than twenty-one (21) years old single, disabled and incapacitated to work. If single without children, the members' legal dependents include the member's biological parents not more than 65 years. If a member's parents are both deceased upon membership, the member can declare two (2) eldest siblings, at least two (2) weeks old but not more than twenty-one (21) years old;
- c) 5% is intended as additional guaranty fund; and
- d) 10% is intended to cover administrative costs and expenses.

Every outstanding membership certificate must have 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.

Every year, a number of members withdrew their equity from the Association. During 2025 and 2024, the total value of equity withdrawn amounted to ₱14,054,536 and ₱17,912,798, respectively. The withdrawal of equity is treated as part of the benefits paid to members.

Gross premiums on credit life insurance plan are income from loans on member which are deducted upfront in the payment of the loan. The amount of contribution is based on the principal amount and term of loans.

Membership Fees

The members are also charged with one-time membership fee of ₱150, 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 10% allocation from gross premium contributions. Gross premiums on credit life insurance are income from loans on member's which are included in the monthly payments of the loans. The amount of contribution is based on the principal amount and term of loans.

Total membership fees collected amounted to ₱1,960,944 in 2025 and ₱2,215,726 in 2024.

Note 18

Details of Compensation and Employees' Benefits

<i>Years Ended December 31,</i>	2025	2024
Short-term employees' benefits	₱4,587,891	₱4,524,587
Post-employment benefits (Note 13)	299,814	1,154,776
	₱4,887,705	₱5,679,363

The 2025 total compensation and employees' benefits was adjusted for the set-up of the actuarially-computed retirement benefit obligation. (See Note 13.)

Note 19

Details of General and Administrative Expenses

<i>Years Ended December 31,</i>	2025	2024
Meetings and seminars	₱1,505,800	₱618,411
Repairs and maintenance	399,702	573,997
Association dues	332,979	280,238
Supplies and materials	241,257	188,081
Professional fees	215,376	144,130
Transportation and travel	194,112	565,830
Taxes, licenses and fees (Note 26)	145,481	243,506
Communication	116,862	125,095
General assembly expenses	114,393	105,675
Insurance	47,382	40,283
Service Fee	35,772	
Representation	-	-
Miscellaneous expenses	1,993	22,325
	₱3,351,109	₱2,907,571

Note 20
Related Party Transactions

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

Among these related transactions are the following:

- (a) The Association accepts insurance business from the borrowers of SEDP-Simbag sa Pag-Asenso, Inc. and authorizes the institution to collect premium contributions from these members for certain commissions. (See Note 10.) Total collection costs incurred amounted to ₱8,909,333 in 2025 and ₱8,139,600 in 2024.
- (b) The Chairman of the Board of Trustees of the Association is also a member of the Board of Trustees of SEDP-Simbag sa Pag-Asenso, Inc.
- (c) The Association enjoys free use of the building facilities of the 2nd Floor, SEDCen Building, Block 7, Landco Business Park, Capantawan, Legazpi City. This building is managed by SEDP Multi-Purpose Cooperative. The Association shares on the costs of monthly utilities.
- (d) The key management compensation follows:

<i>Years Ended December 31,</i>	2025	2024
Short-term employee benefits	₱793,558	₱792,057
Post-employment benefits	39,390	37,809
	₱832,948	₱829,866

Note 21
Fair Value Measurement

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

The following table summarizes the fair value hierarchy of the Association's financial assets and liabilities which are not measured at fair value in the 2025 statement of financial position but for which fair value is disclosed.

<i>December 31, 2025</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	Total
<u>Financial assets</u>				
Cash and cash equivalents <i>(Note 5)</i>	₱209,773,161	₱-	₱-	₱209,773,161
Trade and other receivables <i>(Note 7)</i>			3,479,786	3,749,868
Inv. in debt & equity securities <i>(Note 6)</i>	336,207,220			336,207,220
	₱545,980,381	₱-	₱3,479,786	₱549,730,249
<u>Financial liabilities</u>				
Trade and other payables <i>(Note 10)</i>	₱-	₱-	₱12,754,857	₱12,754,857
Insurance contract liabilities <i>(Note 11)</i>			2,575,744	2,575,744
Aggregate reserves for risks <i>(Note 12)</i>			291,543,339	291,543,339
	₱-	₱-	₱306,873,940	₱306,873,940

<i>December 31, 2024</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 5)	P198,143,202	P-	P-	P198,143,202
Trade and other receivables (Note 7)			3,479,786	3,479,786
Inv. in debt & equity securities (Note 6)	289,866,670			289,866,670
	P488,009,872	P-	P3,479,786	P491,489,658
<i>Financial liabilities</i>				
Trade and other payables (Note 10)	P-	P-	P13,418,124	P13,418,124
Insurance contract liabilities (Note 11)			1,772,741	1,772,741
Aggregate reserves for risks (Note 12)			262,265,969	262,265,969
	P-	P-	P277,456,834	P277,456,834

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 counter-parties, 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, 2025 and 2024.

<i>December 31, 2025</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Other current assets (Note 8)			P46,452	P46,452
Furniture, fixt & office equip-net (Note 9)			726,897	726,897
			P773,349	P773,349
<i>December 31, 2024</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Other current assets (Note 8)			P41,910	P41,910
Furniture, fixt & office equip-net (Note 9)			605,319	605,319
			P647,229	P647,229

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

Note 22

Capital Management Objectives, Policies and Procedures

The Association maintains a certain level of capital to ensure sufficient solvency margins and to adequately

protect its members. The level of capital maintained is always aimed to be higher than the minimum capital requirements of the IC. The Association considers the entire equity in determining the capital.

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

Compliance with Capitalization Requirements

In accordance with the provisions of Chapter VII, Title 1, Section 405 of R.A. 10607, *The Amended Insurance Code*, a mutual benefit association incorporated after the effectivity of the Code shall constitute and establish a Guaranty Fund with initial amount of ₱5 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 ₱56,404,026 (See Note 14.) and having funded it with assigned investments in debt securities amounting to ₱51,504,965 (See Note 6.) and the deficiency of ₱4,899,061 should be covered by a ₱5 million investment in MBTC which is submitted to IC in 2026 and presently tagged as restricted investments.

Note 23

Risk Management Objectives and Policies

The Association is exposed to various risks in relation to financial instruments. The Association's principal financial instruments are its cash and cash equivalents (Note 5), investments in debt and equity securities (Note 6), trade and other receivables (Note 7), trade and other payables (Note 10), insurance contract liabilities (Note 11) and aggregate reserves for unexpired risks (Note 12). The main types of risks are insurance risk, credit and concentration risks, market risk and liquidity risk.

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.

The Association is not exposed to foreign currency risk since it has no foreign currency deposits. In 2020, the Association purchased financial instruments as part of its investment strategies. The Association is now exposed to investment risks beginning 2020.

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, receivables from agents and others 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 receivables from agents and others 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 following table:

<i>December 31, 2025</i>	<i>Neither Past Due Nor Impaired</i>	<i>Past Due But Not Impaired</i>	<i>Total</i>
Cash and cash equivalents (Note 5)	₱209,773,161	₱-	₱209,773,161
Trade and other receivables (Note 7)	3,749,868		3,749,868
Inv. in debt & equity securities (Note 6)	336,207,220		336,207,220
	₱549,730,249	₱-	₱549,730,249
	100.00%		100.00%
<i>December 31, 2024</i>			
Cash and cash equivalents (Note 5)	₱198,143,202	₱-	₱198,143,202
Trade and other receivables (Note 7)	3,479,786		3,479,786
Inv. in debt & equity securities (Note 6)	289,866,670		289,866,670
	₱491,489,658	₱-	₱491,489,658
	100%		100%

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

<i>December 31, 2025</i>	<i>High Grade</i>	<i>Standard Grade</i>	<i>Impaired</i>	<i>Total</i>
Cash and cash equivalents (Note 5)	₱209,773,161	₱-	₱-	₱209,773,161
Trade and other receivables (Note 7)	3,749,868			3,749,868
Inv. in debt & equity securities (Note 6)		336,207,220		336,207,220
	₱213,523,029	₱336,207,220	₱-	₱549,730,249
<i>December 31, 2024</i>				
Cash and cash equivalents (Note 5)	₱198,143,202	₱-	₱-	₱198,143,202
Trade and other receivables (Note 7)	3,479,786			3,479,786
Inv. in debt & equity securities (Note 6)		289,866,670		289,866,670
	₱201,622,988	₱289,866,670	₱-	₱491,489,658

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 like, whether local or foreign transactions. The Association has no exposure to price risks as its investments in quoted equity and debt securities are of fixed interest rates. The Association’s interest rate risk arises from its time deposits with banks. The Association invested in fixed rate deposits to mitigate the risks. The Association is not exposed to foreign currency risks as it has no assets nor liabilities denominated in foreign currency.

Liquidity Risks

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

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

The Association considers its expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade receivables. The Association’s existing cash resources and trade receivables significantly exceed the current cash outflow requirements. Cash flows from receivables from agents and others are all due contractually within six months.

Maturity Profile of the Association’s Financial Liabilities

<i>December 31, 2025</i>	<i>Due in One Year</i>	<i>Due Over One Year</i>	<i>Total</i>
Trade and other payables (Note 10)	₱12,754,857	₱–	₱12,754,857
Insurance contract liabilities (Note 11)	2,575,744		2,575,744
Aggregate reserves for unexpired risks (Note 12)		291,543,339	291,543,339
	₱15,330,601	₱291,543,339	₱306,873,940
	5.00%	95.00%	100.00%

Note 24

Commitments and Contingencies

In the normal course of its operations, the Association makes various commitments and incurs certain contingent liabilities which are not reflected in the accompanying financial statements. Management anticipates no material losses, if any, that may arise from these commitments and contingencies.

Note 25

Authorization of Financial Statements

The Association’s financial statements as of December 31, 2025, and for the period then ended, were authorized for issue by the Executive Committee of the Board of Trustees on April 27, 2026.

Note 26

Details of Taxes, Licenses and Fees

In accordance with the supplementary information required under Revenue Regulations No. 15-2010, the Association discloses the following:

<i>Years Ended December 31,</i>	2025	2024
License renewal and filing fees	₱129,130	₱214,060
BIR annual registration and other fees	9,066	500
Local taxes/fees (business permits, etc.)	5,215	4,946
SEC fees and other payments	2,070	–
ICD golden arrow award	–	24,000
	₱145,481	₱243,506

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