

**NATIONAL CONFEDERATION OF COOPERATIVES MUTUAL BENEFITS
ASSOCIATION (NATCCO MBA), INC.**
227 J. P. Rizal Street, Bayanihan
Project 4, Quezon City

FINANCIAL REPORTS
December 31, 2021 and 2020

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of **NATIONAL CONFEDERATION OF COOPERATIVES MUTUAL BENEFITS ASSOCIATION (NATCCO MBAI), INC.** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2021, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management 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 Company'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 Company or to ease operations, or has no realistic alternative but to do so.

The Board of Directors or Trustees reviews and approves the financial statements including the schedules attached therein, and submits the same to the stock holders or members.

Banaria, Banaria and Company, the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.



MINERVA G. TEJADA
President



ZORAHAYDA A. CAFIRMA
Treasurer, Board Officer

Signed this 6th day of April, 2022

INDEPENDENT AUDITORS' REPORT

The Members and the Board of Trustees
**NATIONAL CONFEDERATION OF COOPERATIVES
MUTUAL BENEFITS ASSOCIATION (NATCCO MBA), INC.**
227 J. P. Rizal Street, Bayanihan
Project 4, Quezon City

**Opinion**

We have audited the financial statements of **NATIONAL CONFEDERATION OF COOPERATIVES MUTUAL BENEFITS ASSOCIATION (NATCCO MBA), INC.** ("the Association"), which comprise the statements of financial position as at December 31, 2021 and 2020, the statements of comprehensive income, statements of changes in fund balance and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Association in accordance with the Philippine Ethics Standards Board for Accountants (PESBA Code) together with the ethical requirements in the Philippines, the Code of Ethics for Professional Accountants in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Schedule of Philippine Financial Reporting Standards and Interpretation but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Philippine Financial Reporting 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits.

Report on Legal and Other Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 31 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BANARIA, BANARIA AND COMPANY, CPAs

By:


GRACIA SEVERA A. BANARIA-ESPIRITU
Partner

CPA Certificate No. 27621

Tax Identification No. 131-938-548

PTR No. 2564458-D, January 26, 2022, Quezon City

CTC No. 07579974, January 26, 2022, Quezon City

BOA Accreditation No. 0030, valid until August 20, 2024 (Firm)

BIR Accreditation No. 07-000408-003-2020, valid until July 10, 2023 (Firm)

BIR Accreditation No. 07-000412-003-2020, valid until July 16, 2023 (Partner)

IC Accreditation No. 27621-IC, valid until October 27, 2024 (Partner)

IC Accreditation No. F-2019-003-R, valid until July 17, 2022 (Firm)



April 6, 2022

**NATIONAL CONFEDERATION OF COOPERATIVES
MUTUAL BENEFITS ASSOCIATION (NATCCO MBA), INC.
STATEMENTS OF FINANCIAL POSITION
For the Years Ended December 31, 2021 and 2020
(Centavo Omitted)**

	Note		2021		2020
<u>A S S E T S</u>					
CURRENT ASSETS					
Cash	7	P	36,542,985	P	31,572,942
Trade and other receivables	8		36,556		2,224,826
Financial asset at fair value through profit or loss	9		5,713,854		5,653,946
Other funds and deposits	10		678,518		677,851
Other current assets	11		760,587		311,315
Total			43,732,500		40,440,880
NON-CURRENT ASSETS					
Property and equipment, net	12		1,705,662		1,439,104
Membership certificate loans	13		17,526,602		15,295,631
Financial assets at amortized costs - long term	14		18,972,675		16,821,975
Other non-current asset	15		-		7,333
Total			38,204,939		33,564,043
TOTAL ASSETS		P	81,937,439	P	74,004,923
<u>LIABILITIES AND FUND BALANCE</u>					
CURRENT LIABILITIES					
Liability on individual equity value	16	P	37,205,783	P	30,418,477
Members contribution received in advance	17		2,803,832		12,930,665
Claims payable on basic contingent benefit	18		2,339,455		2,548,971
Optional benefit reserves	19		4,217,557		2,036,783
Claims payable on optional benefit	20		1,760,179		1,334,868
Basic contingent benefit reserve	21		6,023,984		706,484
Other payables	22		3,926,388		5,470,212
Total			58,277,178		55,446,459
NON-CURRENT LIABILITY					
Post-employment benefits liability	23		431,574		766,215
TOTAL LIABILITIES			58,708,752		56,212,674
TOTAL FUND BALANCE (Exhibit C)			23,228,687		17,792,249
TOTAL LIABILITIES AND FUND BALANCE		P	81,937,439	P	74,004,923



EXHIBIT A

**NATIONAL CONFEDERATION OF COOPERATIVES
MUTUAL BENEFITS ASSOCIATION (NATCCO MBA), INC.
STATEMENTS OF COMPREHENSIVE REVENUE
For the Years Ended December 31, 2021 and 2020
(Centavo Omitted)**

	Note		2021		2020
PREMIUMS AND CONTRIBUTIONS	24	P	52,984,665	P	39,401,845
Premiums ceded to reinsurers-micro			(1,565,799)		(1,779,802)
Total			51,418,866		37,622,043
OTHER REVENUE	27		1,156,939		415,396
GROSS REVENUE			52,575,805		38,037,439
EXPENSES	25				
Benefit expenses			(19,442,845)		16,851,433
Other benefit expenses			(19,992,819)		7,983,217
Total			(39,435,664)		(24,834,650)
NET SURPLUS BEFORE OPERATING EXPENSES			13,140,141		13,202,789
OPERATING EXPENSES	26		(8,558,809)		(9,316,048)
NET SURPLUS AFTER OPERATING EXPENSES			4,581,332		3,886,741
OTHER COMPREHENSIVE SURPLUS					
Beginning balance	23		305,878		42,559
Remeasurement of post-employment benefit costs			(147,071)		263,319
Ending balance			158,807		305,878
NET COMPREHENSIVE SURPLUS		P	4,740,139	P	4,192,619



EXHIBIT B

**NATIONAL CONFEDERATION OF COOPERATIVES
MUTUAL BENEFITS ASSOCIATION (NATCCO MBA), INC.
STATEMENTS OF CHANGES IN FUND BALANCE
For the Years Ended December 31, 2021 and 2020
(Centavo Omitted)**

	Note	2 0 2 1	2 0 2 0
ASSIGNED FUNDS	28		
<i>Guaranty Fund</i>			
Balance - beginning	P	18,100,563	P 16,130,471
Transfer from free and unassigned funds		2,649,233	1,970,092
Balance - end		20,749,796	18,100,563
<i>Member's Benefits</i>			
Balance - beginning		1,231,586	1,231,586
Add: Allocation from free and unassigned funds		-	-
Balance - end		1,231,586	1,231,586
<i>Product Development</i>			
Balance - beginning		-	96,972
Allocation from free and unassigned funds		-	(96,972)
Balance - end		-	-
FREE AND UNASSIGNED FUNDS			
Balance - beginning		(1,845,778)	(2,087,269)
Prior period adjustments	29	1,002,177	(1,675,158)
Adjusted beginning balance		(843,601)	(3,762,427)
Transfer to assigned funds		(2,649,233)	(1,970,092)
Excess of receipts over expenses (Exhibit B)		4,581,332	3,886,741
Balance - end		1,088,498	(1,845,778)
OTHER COMPREHENSIVE INCOME			
Beginning balance		305,878	42,559
Remeasurement of post-employment benefit costs	23	(147,071)	263,319
Total		158,807	305,878
TOTAL FUND BALANCE (To Exhibit A)		P 23,228,687	P 17,792,249

EXHIBIT C

**NATIONAL CONFEDERATION OF COOPERATIVES
MUTUAL BENEFITS ASSOCIATION (NATCCO MBA), INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020
(Centavo Omitted)**

	<u>Note</u>	<u>2 0 2 1</u>	<u>2 0 2 0</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before adjustments to reserve (Exhibit B)	P	4,581,332	P 3,886,741
Adjustments for non-cash transactions:			
Depreciation	12	225,843	233,013
Amortization	15	7,333	8,000
Prior period adjustments	29	1,002,177	(1,675,158)
Allocation of assigned fund	28	(2,649,233)	(1,970,092)
Remeasurement of post employment liability	23	(147,071)	263,319
Assigned fund balance	28	-	(195,716)
Operating income before working capital changes		3,020,381	550,107
Decrease (increase) in:			
Trade and other receivables	8	2,188,270	(1,674,053)
Additional financial assets through profit or loss	9	(59,908)	(250,201)
Other funds and deposits	10	(667)	(2,490)
Other current assets	11	(449,272)	201,215
Increase (decrease) in:			
Liability on individual equity	16	6,787,306	4,079,604
Members contribution received in advance	17	(10,126,833)	(932,851)
Additional post-employment benefits liability	23	(334,641)	(96,436)
Claims payable on basic contingent benefit	18	(209,516)	849,073
Optional benefit reserves	19	2,180,774	(850,027)
Claims payable on optional benefit	20	425,311	439,452
Basic contingent benefit reserve	21	5,317,500	(487,675)
Other payables	22	(1,543,824)	4,945,302
Net cash provided by operating activities		<u>7,194,881</u>	<u>6,771,020</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Additional membership certificate loans	13	(2,230,971)	(4,832,945)
Decrease in financial assets at amortized cost - short term	14	-	2,429,700
Additional financial assets at amortized cost - long term	14	(2,150,700)	(4,487,393)
Acquisition of property and equipment	12	(492,400)	(1,181,579)
Net cash used in investing activities		<u>(4,874,071)</u>	<u>(8,072,217)</u>
CASH FLOWS FROM FINANCING ACTIVITY			
Utilization of assigned funds		<u>2,649,233</u>	<u>1,970,092</u>
Net cash provided by financing activity		<u>2,649,233</u>	<u>1,970,092</u>
NET INCREASE IN CASH		4,970,043	668,895
CASH, BEGINNING		<u>31,572,942</u>	<u>30,904,047</u>
CASH, END	P	<u><u>36,542,985</u></u>	<u><u>P 31,572,942</u></u>

EXHIBIT D

**NATIONAL CONFEDERATION OF COOPERATIVES
MUTUAL BENEFITS ASSOCIATION (NATCCO MBA), INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020
(All Amounts in Philippine Peso)**

Note 1 - CORPORATE INFORMATION

1.1 In General

National Confederation of Cooperatives Mutual Benefits Association (NATCCO MBA), Inc. (“the Association”) was organized under the laws of the Philippines and duly registered with the Securities and Exchange Commission on April 24, 2009 under Registration No. CN200905690. Its members are active members of any cooperative affiliated with the National Confederation of Cooperatives (NATCCO). It is a regulated entity under the Insurance Commission.

The Association has objectives to extend financial assistance to its members, spouse, and children in the form of benefits, sickness benefits, provident savings and loan redemption assistance; to ensure continued access to benefits or resources by actively involving the members in the management of the association that will include implementation of policies and procedures geared towards sustainability and improved services; to do and perform any other acts and things and to have and exercise any other power and functions as may be necessary, convenient, legal and appropriate to accomplish the purpose for which the mutual benefits association is established or organized.

As amended on May 31, 2017, by majority vote of Board of Trustees and by the vote of at least two-thirds (2/3) of the members adopted the amended Articles of Incorporation dated September 8, 2017 to change the Association from Non-Stock Mutual Benefits Association to Non-Stock, Non-Profit Mutual Benefits Association.

The Association has a total of 66,327 and 64,294 active members as of December 31, 2021 and 2020, respectively.

The Association’s registered office, which is also its principal place of business, is located at 227 J. P. Rizal Street, Bayanihan, Project 4, Quezon City.

1.2 Tax Exemption

The Association is not subject to income tax under Section 30 (c) of the National Internal Revenue Code with respect to income received from its not-for-profit activities such as donations, gifts or charitable contributions. However, income from any of its properties, real and personal, or from any of its activities conducted for profit shall be subject to income tax.

The application for tax exemption of the Association was received by the Bureau of Internal Revenue (BIR) dated May 27, 2014, while other documents required were received on August 17, 2015 and was still awaiting for BIR’s approval and issuance of the certificate of tax exemption.

1.3 Approval of the Financial Statements

The financial statements of the Association for the year ended December 31, 2021 (including the comparative for the year ended December 31, 2020) were approved and authorized for issue by the Board of Trustees on _____.

Note 2 - STATUS OF OPERATIONS

The accompanying financial statements have been prepared on a going concern basis, which contemplate the realization of assets and settlement of liabilities in the normal course of business.

Note 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of Preparation of Financial Statements

Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Association have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). PFRSs are adopted by the Financial Reporting Standards Council (FRSC), formerly the Accounting Standards Council, from the pronouncements issued by the International Accounting Standards Board (IASB). PFRSs consist of:

- a. Philippine Financial Reporting Standards (PFRS) - corresponding to International Financial Reporting Standards;
- b. Philippine Accounting Standards (PASs) - corresponding to International Accounting Standards; and
- c. Interpretations to existing standards - representing interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), of the IASB which are adopted by the FRSC.

Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial assets. The measurement bases are more fully described in the accounting policies that follow.

Presentation of Financial Statements

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

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

All values are rounded to the nearest one Peso (P1), except when otherwise indicated.

3.2 Functional Currency and Foreign Currency Transactions

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

Functional and Presentation Currency

Items included in the financial statements of the Association are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The financial statements are presented in Philippine Peso, which is also the Association’s functional currency.

Transactions and Balance

The accounting records of the Association are maintained in Philippine Peso. Foreign currency transactions during the period are translated into the functional currency at exchange rates, which approximate those prevailing on transaction dates.

3.3 Adoption of New Interpretation, Revisions and Amendments to PFRS

Changes in Accounting Policies

Except for the following standards and amended PFRS which were adopted as of January 1, 2021, the accounting policies and methods of computation adopted in the preparation of the financial statements are consistent with those followed in the previous financial year.

- (i) the reporting period in which the entity first applies the interpretation.

Effective 2021

- (i) IFRS 17, *Insurance Contracts*. Establishes the principles for the recognition, measurement, presentation and disclosure of Insurance contracts within the scope of the Standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. An entity shall apply IFRS 17 *Insurance Contracts* to: a) Insurance contracts, including reinsurance contracts, it issues; b) reinsurance contracts it holds; c) and Investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts. Some contracts meet the definition of an insurance contract but have as their primary purpose the provision of services for a fixed fee.

Effective 2022

- (i) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds before Intended Use*. Amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.
- (ii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets, Onerous Contract – Cost of Fulfilling a Contracts*. The changes specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling contract).

- (iii) PFRS 1 (Amendments), *First-time Adoption of Philippine Financial Reporting Standards, Subsidiary as a first-time adopter*. The amendment permits a subsidiary that applies paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to PFRSs.
- (iv) PFRS 9 (Amendments), *Financial Instruments, Fees in the '10 percent' test for derecognition of financial liabilities*. The amendment clarifies which fees an entity includes when it applies the '10 percent' test in paragraph B3.3.6 of PFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

Effective 2023

- (i) PAS 1 (Amendments), *Presentation of Financial Statements, Classification of Liabilities as Current or Non-current*. The amendments affect only the presentation of liabilities in the statement of financial position not the amount or timing of recognition of any asset, liability, income or expenses, or the information that entities disclose about those items. Clarify that the classification of liabilities as current or non-current (a) should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve (12) months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of liability, (b) is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, and (c) settlement refers to the transfer to the counterparty of cash, equity instruments and other assets or services.
- (ii) PFRS 17 (Amendments), *Insurance Contracts*. The main changes resulting from Amendments to PFRS 17 are:
 - Deferral of the date of initial application of PFRS 17 by two years to annual periods beginning on or after January 1, 2023 and change the fixed expiry date for the temporary exemption in PFRS 4 Insurance Contracts from applying PFRS 9 Financial Instruments, so that entities would be required to apply PFRS 9 for annual periods beginning on or after January 1, 2023.
 - Additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk.
 - Recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognized in a business acquired in a business combination.
 - Clarification of the application of PFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level.
 - Clarification of the application of contractual service margin (CSM) attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements.
 - Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives.

- Amendments to require an entity that at initial recognition recognizes losses on onerous insurance contracts issued to also recognize a gain on reinsurance contracts held.
- Simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts.
- Additional transition relief for business combinations and additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach.
- Several small amendments regarding minor application issues.

Such issued contracts are in the scope of the standard, unless an entity chooses to apply to them PFRS 15 Revenue from Contracts with Customers and provided the following conditions are met: (a) the entity does not reflect an assessment of the risk associated with an individual customer in setting the price of the contract with that customer; (b) the contract compensates the customer by providing a service, rather than by making cash payments to the customer; and (c) the insurance risk transferred by the contract arises primarily from the customer's use of services rather than from uncertainty over the cost of those services.

Deferred Effectivity

Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the PASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3.4 Cash and Cash Equivalents

Cash and cash equivalents include petty cash fund, cash in banks, and special savings deposit with original maturities of three months or less from date of placements and that are subject to insignificant risk of changes in value. Cash and cash equivalents are initially and subsequently measured at fair value which is usually its face value. The Association recognized cash and cash equivalent as current asset when the cash or a cash equivalent is not restricted from being exchanged or used to settle liability for at least twelve (12) months after the end of the reporting period.

3.5 Financial Instruments

Date of Recognition

The Association recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument.

Initial Recognition of Financial Instruments

All financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instrument includes transaction costs.

The Association classifies its financial assets into the following categories: financial assets at fair value through other comprehensive income, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The Association classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market.

Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting period at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of financial reporting framework applicable to the Association.

As of December 31, 2021 and 2020, the Association's financial instruments are of the nature of trade and other receivables, financial assets at amortized cost, financial asset at fair value through other comprehensive income, financial asset at fair value through profit or loss, membership certificate loans, liability on individual equity, member's contribution received in advance and other payables.

Determination of Fair Value

The fair value of financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other valuation models.

Financial Assets

As of December 31, 2021 and 2020, the Association's financial assets are of the nature of trade and other receivables, membership certificate loans, financial assets at amortized cost, financial asset at fair value through profit or loss, financial asset at fair value through other comprehensive income, and financial asset.

Trade and Other Receivables

Trade and other receivables are recognized initially at its transaction cost and subsequently measured at cost less provision for impairment. A provision for impairment of account receivables is established when there is objective evidence that the Association will not be able to collect all amounts due according to the original terms of the receivables. Other receivables include advances to officers and employees.

Membership Certificate Loans

Membership certificate loans are recognized initially at its transaction price. They are subsequently measured at amortized cost less provision for impairment. A provision for impairment of policy loans is established when there is objective evidence that the Association will not be able to collect all amounts due according to the original terms of the receivables.

All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value, plus transaction costs.

Interest income, interest expense and impairment losses, relating to financial assets are presented as separate items in the statements of comprehensive income, unless indicated otherwise.

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

A more detailed description of the four categories of financial assets is as follows:

(a) Financial Assets at Fair Value through Profit or Loss

This category include financial assets that are either classified as held for trading or are designated by the entity to be carried at fair value through profit or loss upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term or if so designated by management. Derivatives are also categorized as “held for trading” unless they are designated as hedges. Assets in this category are classified as current if they are either held for trading or are expected to be realized within twelve (12) months from the end of each reporting period. Financial assets at fair value through profit or loss are initially recognized at fair value. Any related transaction costs are recognized in the profit or loss.

Financial assets at fair value through profit or loss are subsequently measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term.

The Association’s investment amounted to P5,713,854 and P5,653,946 as of December 31, 2021 and 2020, respectively (Note 9).

(b) Held-to-Maturity Financial assets

Held-to-Maturity Financial assets are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Association’s management has the positive intention and ability to hold to maturity where the Association would sell other than an insignificant amount of these financial assets, the entire category would be tainted and reclassified as AFS financial assets.

Bond investments are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR).

The amortization is included in ‘Interest income’ in the statements of comprehensive income. Gains and losses are recognized in income when the financial assets are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statements of comprehensive income under ‘Provision for impairment and credit losses’. The effects of translation of foreign currency-denominated financial assets are recognized in the statements of comprehensive income.

The Association classified its investment in bonds and other debt securities as held-to-maturity financial assets. In addition, the Association opted to use the title “Financial Assets at Amortized Costs” in compliance with the Standard Chart of Accounts issued by the Insurance Commission for uniformity of financial reporting amongst the mutual benefits associations.

The Association’s investment amounted to P18,100,000 and P16,100,000 as of December 31, 2021 and 2020, respectively (Note 14).

(c) Available-for-sale Financial Assets

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets under the Financial Assets account in the statements of financial position unless management intends to dispose of the investment within twelve (12) months from the reporting period.

All available-for-sale financial assets are initially and subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognized in other comprehensive income is reclassified from revaluation reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income.

Reversal of impairment loss is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance Costs or Finance Income in the statements of comprehensive income.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange-quoted market bid prices at the close of business on the reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

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

Derecognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

As of the reporting period, the Association has no available-for-sale-financial asset.

Impairment of Financial Assets

The Association assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

If there is objective evidence that an impairment loss on loans receivable or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statements of comprehensive income.

If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, the Association may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodologies and assumption used for estimating future cash flows are reviewed regularly by the group to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decrease and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statements of comprehensive income.

(b) Resources carried at fair value with changes charged to capital funds. In the case of investments classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from capital funds and recognized in the statement of comprehensive income. Impairment losses recognized in the statement of comprehensive income on equity instruments are not reversed from capital funds and recognized in the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increase and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statements of comprehensive income.

(c) Resources carried at cost. The Association assesses at each reporting date whether there is objective evidence that any of the unquoted equity securities and derivative assets linked to and required to be settled in such unquoted equity instruments, which are carried at cost and for which objective evidence of impairment exist. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

Financial Liabilities

Financial liabilities are recognized when the Association becomes a party to the contractual agreements of the instrument. All interest related charges are recognized as expense in the statements of comprehensive income under the caption finance costs.

Financial liabilities include liability on individual equity value, member's contribution received in advance, and trade and other payable, which are measured at nominal value.

Liability on Individual Equity

Liability on individual equity value represents the total amount of obligations set-up by the Association on membership certificates pertaining to the 50% equity value, as required under the Insurance Code, and any incremental amount declared by Association.

It is measured initially at transaction price and subsequently measured at cost less subsequent payments and impairment, if any.

Members' Contribution Received in Advance

Member's contribution received in advance represents member contributions received but not yet due/earned as of the end of the accounting period and which is expected to become due within one year. It is measured initially at transaction price and subsequently measured at cost less amount due or earned.

Trade and Other Payables

Trade payables and other payables, if any, represent accounts payables and are recognized initially at the transaction price and subsequently measured at cost less subsequent payments. Other payables include accruals such as utility expenses. Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts if any due to employees. It is necessary to estimate the amount or timing of accruals, however, the uncertainty is generally much less than for provisions

3.6 Derecognition of Financial Assets and Liabilities

Financial Assets

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

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

Where the Association has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Association’s continuing involvement in the asset.

Financial Liabilities

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

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

3.7 Other Current Assets

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

Other current assets include prepaid reinsurance premium and prepaid taxes that are initially recorded at transaction cost and subsequently measured at cost less impairment loss, if any.

Prepayments are expenses paid in cash and recorded as assets before they are used or consumed, as the service or benefits will be received in the future. Prepayments expire and are recognized as expense either with the passage of time or through use or consumption. Prepayments and other non-financial assets are included in current assets, except when the related goods or services are expected to be received or rendered more than twelve (12) months after the reporting period, which are then classified as non-current assets.

3.8 Property and Equipment

The Association shall recognize the cost of an item of property and equipment as an asset if and only if:

- a) It is probable that future economic benefit associated with the item will flow to the entity; and
- b) the cost of the item can be measured reliably

The Association's property and equipment are initially carried at acquisition cost and subsequently at cost less accumulated depreciation and amortization and impairment in value.

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

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

	<u>Estimated Useful Life</u>
Office furniture and fixtures	3 - 5 years
Office equipment	3 - 10 years
IT equipment	4 - 10 years

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

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

An item of Association's property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statements of comprehensive income in the period the item is derecognized.

3.9 Other Non-current Assets

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

Other non-current assets include web development cost that is initially recorded at transaction cost and subsequently measured at amortized cost less impairment loss, if any.

3.10 Impairment of Non-financial Assets

Association's property and equipment and intangible assets are subject to impairment testing. Intangible assets with an indefinite useful life, those not yet available for use or goodwill are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

3.11 Fund Balance

Guaranty fund balance is initially and subsequently measured using the nominal value of contributions by members.

Free and unassigned funds include all current and prior period results as disclosed in the statements of comprehensive income.

3.12 Revenue and Cost Recognition

Income is recognized to the extent that it is probable that the economic benefits will flow to the Association and the revenue can be reliably measured. The following specific recognition criteria must also be met before income is recognized. The current specific revenue recognition policies of the Association are as follows:

- a) *Insurance premium* – Income from insurance premiums are recognized when it is received or becomes receivable.
- b) *Interest income on bank deposits and held-to-maturity financial assets* – Interest income on bank deposits and held-to-maturity financial assets are recognized using the accrual method (taking into account the effective yield on the asset).
- c) *Donations and contributions* – Donations and contributions are recognized by the Association when received from donor.
- d) *Miscellaneous income* – Miscellaneous income such as membership fees, surcharges and penalties are recognized when received.

Costs and expenses are recognized in the statements of comprehensive income upon utilization of the service or at the date they are incurred. All finance costs are reported in profit or loss, except capitalized borrowing costs, if any, which are included as part of the cost of the related qualifying asset, on an accrual basis.

3.13 Employee Benefits

Employees' benefits are all forms of consideration given by the Association in exchange for service rendered by employees, including directors and management.

Short-term Benefits

The Association recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Association to its employees include compensation, social security contributions, short-term compensated absences, bonuses and other non-monetary benefits.

Retirement Benefits

The Association provided retirement benefits for all its regular employees in compliance with the Retirement Laws under Republic Act (R.A.) 7641, as amended. Post-employment benefit accrued balance amounted to P431,574 and P766,215 as at December 31, 2021 and 2020, respectively (Note 23).

The key actuarial valuation is as follows:

Present value of the Defined Benefits Obligation - present value of benefits pertaining to the period of service rendered prior to the valuation date determined using the method and assumptions stated herein.

Current Service Cost - present value of benefits pertaining to period of service rendered in the current accounting period determined using the method and assumptions stated herein.

3.14 Income Taxes

The Association is not subject to income tax under Section 30 (c) of the National Internal Revenue Code with respect to income received from its not-for-profit activities such as donations, gifts or charitable contributions. However, income from any of its properties, real and personal, or from any of its activities conducted for profit shall be subject to income tax.

3.15 Provisions

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

Provisions are measured at the estimated expenditure required to settle the present obligation based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values, where time value of money is material.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

3.16 Contingencies

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

3.17 Prior Period Adjustments

Prior period adjustments are omissions from and misstatements in the Association's financial statements for one or more periods arising from a failure to use, or misuse of, reliable information. These adjustments include correction of errors, change in estimates and other adjustments pertaining to prior accounting periods.

A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.

3.18 Related Party Disclosures

A related party is a person or entity that is related to the entity that is preparing its financial statements.

A person or a close member of that person's family is related to a reporting entity if that person: (1) has control or joint control of the reporting entity; (2) has significant influence over the reporting entity; or (3) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

An entity is related to a reporting entity if any of the following conditions applies: (1) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others); (2) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member); (3) both entities are joint ventures of the same third party; (4) one entity is a joint venture of a third entity and the other entity is an associate of the third entity; (5) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity; (6) the entity is controlled or jointly controlled by a person identified in (1); (7) a person identified in (1) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and (8) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

3.19 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:

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

The principal or the most advantageous market must be accessible to 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 non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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.

PFRS 13 requires that financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value, but for which fair value is required to be disclosed in accordance with other relevant PFRS to be categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels:

- (a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- (b) Level 2: inputs other than quoted prices included within level 1 that are observable for the asset (i.e., derived from price); and,
- (c) Level 3: inputs for the assets or liability that are not based on observable marked data (unobservable inputs).

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

Events after the End of the Reporting Period

Events after the end of the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue. Two (2) types of events can be identified:

- a) those that provide evidence of conditions that existed at the end of the reporting period (*adjusting events after the end of the reporting period*); and
- b) those that are indicative of conditions that arose after the reporting period (*non-adjusting events after the end of the reporting period*).

Post year-end events up to the date of the auditors' report that provide additional information about the Company'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 the financial statements when material.

Note 4 - SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

The Association makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the succeeding pages.

4.1 Critical Accounting Judgments

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

Going Concern Assessment

The 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.

Impairment Losses on Financial Assets (Receivables, and Held-to-maturity financial assets)

The Association reviews its receivables and held-to-maturity financial assets portfolios to assess impairment. In determining whether an impairment loss should be recorded in the statements of comprehensive income, the Association makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio.

The evidence may include observable data indicating that there has been an adverse change in the payment status of members, or national or local economic conditioned that correlate with defaults on assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Association carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates, volatility rates. However, the amount of changes in fair value would differ if the Association utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity.

4.2 Key Sources of Estimation Uncertainty

The Association makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that 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.

Allowance for Impairment of Receivables

Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Association evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Association's relationship with the customers, the customers' current credit status based on known market forces, average age of accounts, collection experience and historical loss experience.

Valuation of Financial Assets Other than Trade and Other Receivables

The Association carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgments. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. The amount of changes in fair value would differ if the Association utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit or loss and other comprehensive income.

Useful Life of Property and Equipment

The Association estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors and circumstances.

A reduction in the estimated useful lives of property and equipment would increase recorded operating expenses and decrease non-current assets.

The carrying values of property and equipment amounted to P1,705,662 and P1,439,104 as of December 31, 2021 and 2020, respectively (Note 12).

Impairment of Non-financial Assets

Assessing non-financial assets for impairment includes considering certain indicators of impairment such as significant changes in asset usage, significant decline in market value, obsolescence or physical damage of an asset. If such indicators are present, and where the carrying amount of the asset exceeds its estimated recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

There was no impairment loss recognized in 2021 and 2020.

Retirement and Other Benefits

Liability for the retirement benefits should be computed based on Republic Act (R.A.) No. 7641 and Republic Act (R.A.) No. 8558. The minimum retirement pay due for covered employees shall be equivalent to one-half month salary for every year of service, a fraction of at least six (6) months being considered as one whole year. One-half month salary include: (a) 15 days salary based on the latest salary rate; (b) cash equivalent of 5 days of service incentive leave (or vacation leave); (c) one-twelfth (1/12) of the 13th month pay; provided that retiree has 10 years of continuous service and at least sixty (60) years of age.

The estimated retirement benefit obligation amounted to P431,574 and P766,215 as of December 31, 2021 and 2020, respectively (Note 23).

Provisions and Contingents

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 3.15 and Note 3.16.

Revenue and Expense Recognition

The Association's revenue and expense recognition policies require the use of estimates and assumptions that may affect the reported amounts of revenues and expenses in the comprehensive income and receivables and payables in the statements of financial position. Differences between the amounts initially recognized and actual settlements are taken up in the accounts upon reconciliation. However, there is no assurance that such use of estimates may not result to material adjustments in future periods.

Note 5 - FAIR VALUE MEASUREMENTS

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

5.1 Fair Value Hierarchy

The following table summarizes the carrying amounts and the fair values by level of the fair value hierarchy of the Association's financial assets and liabilities that are carried at fair value or for which fair value is disclosed as of December 31, 2021 and 2020.

2021	Notes	Carrying Amount	Fair Value Hierarchy			Total
			Level 1	Level 2	Level 3	
<i>Assets and liabilities for which fair values are disclosed</i>						
<u>Financial Assets</u>						
Cash and cash equivalent*	7	36,502,985	36,502,985	-	-	36,502,985
Trade and other receivables	8	36,556	-	-	36,556	36,556
Financial asset at fair value through profit or loss	9	5,713,854	5,713,854	-	-	5,713,854
Other fund and deposits	10	678,518	678,518	-	-	678,518
Membership certificate loans	13	17,526,602	-	-	17,526,602	17,526,602
Financial assets at amortized cost - short term	14	-	-	-	-	-
Financial assets at amortized cost - long term	14	18,972,675	-	18,972,675	-	18,972,675
<u>Financial Liabilities</u>						
Liability on individual equity	16	37,205,783	-	-	37,205,783	37,205,783
Members contribution received in advance	17	2,803,832	-	-	2,803,832	2,803,832
Claims payable on basic contingent benefit	18	2,339,455	-	-	2,339,455	2,339,455
Optional benefit reserve	19	4,217,557	-	-	4,217,557	4,217,557
Claims payable on optional benefit	20	1,760,179	-	-	1,760,179	1,760,179
Basic contingent benefit reserve	21	6,023,984	-	-	6,023,984	6,023,984
Other payables **	22	3,874,760	-	-	3,874,760	3,874,760

2020	Notes	Carrying Amount	Fair Value Hierarchy			Total
			Level 1	Level 2	Level 3	
<i>Assets and liabilities for which fair values are disclosed</i>						
<u>Financial Assets</u>						
Cash and cash equivalent*	7	31,532,942	31,532,942	-	-	31,532,942
Trade and other receivables	8	2,224,826	-	-	2,224,826	2,224,826
Financial asset at fair value through profit or loss	9	5,653,946	5,653,946	-	-	5,653,946
Other fund and deposits	10	677,851	677,851	-	-	677,851
Membership certificate loans	13	15,295,631	-	-	15,295,631	15,295,631
Financial assets at amortized cost - short term	14	-	-	-	-	-
Financial assets at amortized cost - long term	14	16,821,975	-	16,821,975	-	16,821,975
<u>Financial Liabilities</u>						
Liability on individual equity	16	30,418,477	-	-	30,418,477	30,418,477
Members contribution received in advance	17	12,930,665	-	-	12,930,665	12,930,665
Claims payable on basic contingent benefit	18	2,548,971	-	-	2,548,971	2,548,971
Optional benefit reserve	19	2,036,783	-	-	2,036,783	2,036,783
Claims payable on optional benefit	20	1,334,868	-	-	1,334,868	1,334,868
Basic contingent benefit reserve	21	706,484	-	-	706,484	706,484
Other payables **	22	5,447,207	-	-	5,447,207	5,447,207

* The amount excludes petty cash fund amounting to P40,000 as of December 31, 2021 and 2020, respectively.

**The amount excludes statutory and other payables amounting to P51,628 and P23,005, respectively.

5.2 Fair Value Information

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

Cash, trade and other receivables, financial assets at amortized cost, and financial asset at fair value through profit or loss - Carrying amounts approximate fair values due to the relatively short-term maturities of these instruments. In relation to advances from stockholders, the carrying amount approximate its fair value even though it has no specific term of payment.

Membership certificate loans, liability on individual equity value, members contribution received in advance, and other payables - Carrying amount were certified to us by the actuary of the Association.

The description of the accounting policies for each category of financial instruments is disclosed in Notes 3.5. A description of the Association's risk management objectives and policies for financial instruments is provided in Note 6.

Note 6 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Association's activities expose it to a variety of financial risks: credit risk and liquidity risk. The Association's overall risk management program seeks to minimize potential adverse effects on the financial performance of the Association. The policies for managing specific risks are summarized below.

6.1 Governance Framework

The Association has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, and operational risk. It also supports the effective implementation of policies.

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

6.2 Capital Management Framework

The Association's risk management function has developed and implemented certain minimum stress and scenario tests for identifying the risks to which the Association are exposed, quantifying their impact on the volatility of economic capital. The results of these tests, particularly, the anticipated impact on the realistic financial statement accounts, are reported to the Association's risk management function.

The risk management function then considers the aggregate impact of the overall capital requirement revealed by the stress testing to assess how much capital is needed to mitigate the risk of insolvency to a selected remote level.

The operation of the Association is also subject to the regulatory requirements of Insurance Commission and Securities and Exchange Commission. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions.

The Association, in compliance with the Sec. 405 of the Insurance Code of the Philippines (as amended by R.A. No. 10607, dated August 15, 2013), has constituted and established a guaranty fund which is deposited with the Insurance Commission as a primary requirement for license to operate of every mutual benefits association. Any accrual to such fund, be it interest earned or dividend additions on moneys or securities so deposited, may, be withdrawn by the Association if there is no pending benefit claim against it, including interest thereon or dividend additions.

Any increase in the guaranty fund must be in accordance with Sec. 410 of the Insurance Code of the Philippines (as amended by R.A. No. 10607, dated August 15, 2013) wherein ‘every mutual benefit association must accumulate and maintain, out of periodic dues collected from its members, sufficient reserves for the payment of claims or obligations’. Also, a reserve liability shall be established in accordance with actuarial procedures and shall be approved by the Commissioner.

During the year 2017, the Association, in compliance with the Sec. 408 of the Insurance Code of the Philippines (as amended by R.A. No. 10607) has allocated unassigned surplus (in excess of 20% of total liabilities per audited financial statement ending December 31, 2021).

The debt-to-equity ratio of the Association is computed as follows:

	<u>2 0 2 1</u>	<u>2 0 2 0</u>
Total liabilities	58,708,752	56,212,674
Total members' equity	<u>23,228,687</u>	<u>17,792,249</u>
Debt-to-equity ratio	<u><u>P2.53 : P1.00</u></u>	<u><u>P3.16 : P1.00</u></u>

6.3 Financial Risk

The Association is also exposed to financial risk through its financial assets and financial liabilities. The most important components of these financial risks are: credit risk and liquidity risk.

Credit Risk

Credit risk is the risk that counterparty fails to discharge an obligation to the Association. The Association is exposed to this risk for various financial instruments, for example by granting advances to affiliates.

The Association continuously monitors defaults of borrowers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The association's policy is to deal only with creditworthy counterparties.

The table below shows the maximum exposure to credit risk for the components of December 31, 2021 and 2020 statements of financial position. The maximum exposure is shown gross, without taking into account collateral and other credit enhancement.

	<u>2 0 2 1</u>	<u>2 0 2 0</u>
Cash in bank	36,502,985	31,532,942
Financial assets at amortized cost	18,972,676	16,821,975
Membership certificate loans	17,526,602	15,295,631
Financial asset at fair value through profit and loss	5,713,854	5,653,946
Retirement fund	678,518	677,851
Trade and other receivables	<u>36,556</u>	<u>2,224,826</u>
Total	<u><u>79,431,191</u></u>	<u><u>72,207,171</u></u>

The credit risk for cash in bank and cash equivalent are considered negligible, since the counterparties are reputable financial institution with high quality external credit ratings. Cash in banks is insured by the Philippines Deposit Insurance Corporation up to a maximum coverage of P500,000 for every depositor per banking institution.

None of the Association's financial assets are secured by collateral or other credit enhancements.

As at December 31, 2021 and 2020, the Association has no financial instruments with rights to offset in accordance with PAS 32. There are also no financial instruments that are subject to an enforceable master netting arrangement or similar agreements which require disclosure in the financial statements in accordance with amendments on PFRS 7.

Credit Quality per Class of Financial Assets

The table below shows the credit quality per class of financial assets as at December 31, 2021 and 2020.

2 0 2 1	Note	Neither past due nor impaired	Past due	Impaired
<u>Financial assets</u>				
Cash and cash equivalent*	7	36,502,985	-	-
Trade and other receivables	8	36,556	-	-
Financial asset at fair value through profit or loss	9	5,713,854	-	-
Other fund and deposits	10	678,518	-	-
Membership certificate loans	13	17,526,602	-	-
Financial assets at amortized cost - short term	14	-		
Financial assets at amortized cost - long term	14	18,972,675		
<u>Financial liability</u>				
Liability on individual equity	16	37,205,783	-	-
Members contribution received in advance	17	2,803,832	-	-
Claims payable on basic contingent benefit	18	2,339,455	-	-
Optional benefit reserve	19	4,217,557		
Claims payable on optional benefit	20	1,760,179		
Basic contingent benefit reserve	21	6,023,984		
Other payables **	22	3,874,760		
2 0 2 0	Note	Neither past due nor impaired	Past due	Impaired
<u>Financial assets</u>				
Cash and cash equivalent*	7	31,532,942	-	-
Trade and other receivables	8	2,224,826	-	-
Financial asset at fair value through profit or loss	9	5,653,946	-	-
Other fund and deposits	10	677,851	-	-
Membership certificate loans	13	15,295,631	-	-
Financial assets at amortized cost - short term	14	-	-	-
Financial assets at amortized cost - long term	14	16,821,975	-	-
<u>Financial liability</u>				
Liability on individual equity	16	30,418,477	-	-
Members contribution received in advance	17	12,930,665	-	-
Claims payable on basic contingent benefit	18	2,548,971	-	-
Optional benefit reserve	19	2,036,783	-	-
Claims payable on optional benefit	20	1,334,868	-	-
Basic contingent benefit reserve	21	706,484	-	-
Other payables **	22	5,447,207	-	-

*The amount excludes revolving fund amounting to P40,000 as of December 31, 2021 and 2020, respectively.

**The amount excludes statutory and other payables amounting to P51,628 and P23,005, respectively.

The Association's management considers that all the above financial assets that are not impaired or past due for each reporting date are of good credit quality.

Liquidity Risk

The Association's objective is to maintain a balance between continuity of funding and flexibility through the use of generated funds. Liquidity risk is the risk that the Association will be unable to meet its payment obligations when they fall due. The Association manages this risk through periodical monitoring of cash flows in consideration of future payment due dates and daily collection amounts. The Association also ensures that there are sufficient, available and approved working capital lines that it can draw from anytime.

The table below summarizes the maturity profile of the Association's financial obligations as of December 31, 2021 and 2020 based on contractual undiscounted payment:

	2 0 2 1		2 0 2 0	
	Due within one (1) year	Due after one (1) year	Due within one (1) year	Due after one (1) year
Liability on individual equity value	37,205,783	-	30,418,477	-
Basic contingent benefit reserve	6,023,984	-	706,484	-
Optional benefit reserves	4,217,557	-	2,036,783	-
Members contribution received in advance	2,803,832	-	12,930,665	-
Claims payable on basic contingent benefit	2,339,455	-	2,548,971	-
Other payables **	3,874,760	-	5,447,207	-
Claims payable on optional benefit	1,760,179	-	1,334,868	-
Total	58,225,550	-	55,423,455	-

** Other payables as at December 31, 2021 and 2020 exclude statutory obligations amounting to P51,628 and P23,005, respectively.

Note 7 - CASH

The account consists of the following:

	2 0 2 1	2 0 2 0
Cash in bank	36,502,985	31,532,942
Petty cash fund	40,000	40,000
Total	36,542,985	31,572,942

Cash in bank consists of current and savings accounts on different banks, earning interest at prevailing bank deposit rates.

Total interest income earned for years ended 2021 and 2020 amounted to P22,082 and P47,404.21 which are included in the other income account (Note 27).

Petty cash fund is used to defray small expenditures of the Company on its day-to-day operations when issuance of check is inappropriate and not advisable. This is kept under imprest fund system of recording.

None of the foregoing assets was restricted and none was used to secure any liability of the Association.

Note 8 - TRADE AND OTHER RECEIVABLES

The account consists of the following:

	<u>2021</u>	<u>2020</u>
Advances to officers and employees	21,556	10,078
Accounts receivable - others	<u>15,000</u>	<u>2,214,748</u>
Total	<u><u>36,556</u></u>	<u><u>2,224,826</u></u>

Advances to officers and employees refer to duly approved cash advances for official business to officers and employees, subject to liquidation in accordance with the Association's policy.

Accounts receivable – others pertains to overpayment of claims amounting to P15,000 during the year 2021 and member's contributions and premiums deposited to NATCCO from the Association's cooperative amounting to P2,191,225.73 and understatement in withholding tax amounting to P23,522.51 on compensation for the year 2019 which is a receivable to the Company's employees.

No allowance was set-up during the year for the management believes that receivables are all collectible.

The above receivables were unsecured, non-interest bearing and expected to be collected within one (1) year from the end of the reporting date. Also, there was no indication which warrants the impairment of the foregoing assets. Hence, no impairment loss was recognized during the year. Furthermore, none of the foregoing receivables were used to secure any liability of the Association.

Note 9 - FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

The account represents investment in Unit Investment Trust Funds – BPI Bayanihan Fund (UITF-BBF) amounting to P5,713,854 and P5,653,946 as of the years ended December 31, 2021 and 2020, respectively, which was acquired on December 21, 2018 and was recognized at fair value at the end of the reporting date.

None of the above investments were used as collateral to secure any Company's liabilities. Also, there was no objective evidence that warrants the impairment of the above investment, thus no impairment loss was recognized.

Note 10 - OTHER FUNDS AND DEPOSITS

The account represents time deposit with other financial institution with terms of 30 to 90 days and earns interest of 0.625% per annum amounting to P678,518 and P677,851 for the years ended December 31, 2021 and 2020, respectively.

Total interest income earned on time deposits for year ended December 31, 2021 and 2020 amounting to P2,750 and P2,490 which are included in the other income account (Note 27).

The above time deposits were restricted for retirement purposes only.

Note 11 - OTHER CURRENT ASSETS

Prepaid reinsurance premium amounting to P760,587 and P311,315 as of December 31, 2021 and 2020 that is unamortized portion of reinsurance premium paid with Paramount Life, Climbs Life and General Insurance Cooperative, and Philam Life Insurance.

Note 12 - PROPERTY AND EQUIPMENT, NET

A reconciliation of the carrying amounts at the beginning and end of years 2020 and 2021, and the gross carrying amounts and accumulated depreciation of property and equipment are shown below:

<u>Cost</u>	<u>2 0 1 9</u>	<u>Additions</u>	<u>2 0 2 0</u>	<u>Additions</u>	<u>2 0 2 1</u>
Office furniture and fixtures equipment	803,065	71,800	874,865	10,500	885,365
IT equipment	627,401	1,109,779	1,737,180	481,900	2,219,080
Total	1,430,466	1,181,579	2,612,045	492,400	3,104,445
<u>Accumulated depreciation</u>	<u>2 0 1 9</u>	<u>Depreciation</u>	<u>2 0 2 0</u>	<u>Depreciation</u>	<u>2 0 2 1</u>
Office furnitures and fixtures equipment	595,007	108,328	703,335	106,355	809,690
IT equipment	344,920	124,685	469,605	119,488	589,093
Total	939,927	233,013	1,172,940	225,843	1,398,783
Carrying value	490,539		1,439,104		1,705,662

During the year 2021, the addition to IT equipment and office furniture and fixtures pertains to purchase of Epson L3110 printer and full payment for system revision and modification. It also includes installation of Basic Micro Insurance System & Cloud-based client license for 19 Cooperatives.

For the year 2020, the Association acquired MS office activation, Micro - insurance system and office furniture and fixtures equipment and (2) Acer laptop for marketing officer to be used for the Association's operation.

There was no objective evidence that warrant the impairment of the above properties and equipment, thus no impairment loss was recognized. Furthermore, none of these was used as collateral to secure any of the Association's liabilities.

Note 13 - MEMBERSHIP CERTIFICATE LOANS

This represents automatic contributions loan applied by the Association, as provided for in the membership certificate, to cover contribution(s) due on the certificate but still unpaid within the grace period.

Total membership certificate loans as of December 31, 2021 and 2020 amounted to P17,526,602 and P15,295,631, respectively.

Note 14 - FINANCIAL ASSETS AT AMORTIZED COSTS

<u>Transaction date</u>	<u>Maturity date</u>	<u>Face value</u>	<u>Premium (Discount)</u>	<u>Carrying value</u>
05/04/2017	05/04/2027	2,000,000	150,700	2,150,700
08/12/2020	08/12/2025	4,500,000	(12,607)	4,487,393
04/12/2018	04/12/2025	<u>11,600,000</u>	<u>734,582</u>	<u>12,334,582</u>
		<u>18,100,000</u>	<u>872,675</u>	<u>18,972,675</u>

Financial assets at amortized costs – investment in bonds – government securities represents guaranty deposits assigned and transferred to Insurance Commission to serve as security for the benefit of the members and the creditors of the Association.

During the year 2021, the Association acquired additional investment in bonds amounting to P2,000,000. The face value of investment amounted to P18,100,000 and P16,100,000 as of December 31, 2021 and 2020, respectively.

Total value of investments at amortized cost amounted to P18,972,675 and P16,821,975 as of December 31, 2021 and 2020, respectively.

The investment has a term of one (1) year to five (5) years and earning interest at 3.75% to 4.30% annually. Total interest earned for years ended 2021 and 2020 amounted to P1,067,200 and P70,300, respectively, which is included in the other income account (Note 27).

None of the above investments were used as collateral to secure any Company's liabilities. Also, there was no objective evidence that warrants the impairment of the above investment, thus no impairment loss was recognized.

Note 15 - OTHER NON-CURRENT ASSETS

The account represents web development cost that is amortized for over five (5) useful years.

Amortization of the asset amounted to P7,333 and P8,000 for the years ended December 31, 2021 and 2020, respectively (Note 22).

During the year 2021, the web development was fully amortized and the carrying value as of December 31, 2020 amounted to P7,333.

Note 16 - LIABILITY ON INDIVIDUAL EQUITY VALUE

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 members. 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. Liability on individual equity value of the Association as at December 31, 2021 and 2020 amounted to P37,205,783 and P30,418,477, respectively.

Increase in individual equity value amounted to P6,787,306 and P4,079,604 for the years ended December 31, 2021 and 2020, respectively.

Note 17 - MEMBERS CONTRIBUTION RECEIVED IN ADVANCE

The account represents members contribution received but not yet due/earned amounted to P2,803,832 and P12,930,665 as of December 31, 2021 and 2020, respectively.

The account is expected to be applied to within the next reporting date.

Note 18 - CLAIMS PAYABLE ON BASIC CONTINGENT BENEFIT

This account represents the sum of the individual claims on membership certificate amounting to P2,339,455 and P2,548,971 as of December 31, 2021 and 2020, respectively, that have already occurred but on which notice has not yet received by the Association. This estimate takes into account any policy reserve liability set up by the Association and any amount recoverable from the reinsurers. During the year, claims benefit payables have already been settled.

Note 19 - OPTIONAL BENEFIT RESERVES

Optional benefit reserve represents the total actuarial reserve amounting to P4,217,557 and P2,036,783 as of December 31, 2021 and 2020, respectively, set-up by the Association pertaining to the policies under optional benefit that is in force as at the end of the accounting period. It refers to the amount of liability which the Association establishes for an optional policy to meet the contractual obligation as it falls due.

Note 20 - CLAIM PAYABLE ON OPTIONAL BENEFIT

This account represents the sum of the individual claims on optional policies that have already occurred but on which notice has not yet been received by the Association amounting to P1,760,179 and P1,334,868 as of December 31, 2021 and 2020, respectively. This estimate takes into account any policy reserve liability set-up by the Association and any reinsurers.

Note 21 - BASIC CONTINGENT BENEFIT RESERVE

This represents the total actuarial reserve amounting to P6,023,984 and P706,484 as of December 31, 2021 and 2020, respectively, set-up by the Association pertaining to the basic life benefit that is in force at the end of the accounting period. It refers to the amount of liability which the Association establishes for a certificate to meet the contractual obligation as it fails due.

Note 22 - OTHER PAYABLES

The account consists of the following:

	<u>2 0 2 1</u>	<u>2 0 2 0</u>
Accrued expenses	668,548	992,519
SSS, Pag-ibig, Philhealth contribution and loan payable	245,079	48,356
Withholding tax payable (Note 31)	51,628	23,005
Accounts payable - others	<u>2,961,133</u>	<u>4,406,332</u>
Total	<u><u>3,926,388</u></u>	<u><u>5,470,212</u></u>

Accrued expenses represent unpaid other benefits of Association's employee during the year.

Other accounts payable pertains to unidentified deposits, advance payment, due from brother's management system, employee's dues, insurance and commission payable.

Note 23 - POST - EMPLOYMENT BENEFIT LIABILITY

The Board of Trustees duly approved the adoption of Republic Act (R.A.) No. 7641, the provision on providing retirement benefits to its employees. The Association's net defined benefit liability amounted to P431,574 and P766,215 as at December 31, 2021 and 2020, respectively.

The Association have a plan asset which is restricted from withdrawal to support its post-employment benefit liability (Note 10).

Actuarial valuations were performed to determine the retirement expenses and liability to be recognized in the financial statement of NATCCO MBAI for the period ending December 31, 2021 in accordance with the Philippine Accounting Standards No. 19 (PAS 19R) and to determine appropriate amounts for funding.

The Projected Unit Credit (PUC) method of valuation was used.

The discount rate used during the year was 5.05% p.a. which was based on approximated zero-coupon yield of government bonds with remaining period to maturity approximating the estimated average duration of benefit payment. The average duration is estimated to be 18 years.

To approximate the zero-coupon yield for a given period to maturity, the BVAL reference rate as published by the PDS Group with the same period to maturity, was simply adopted. This approximation method is based on the principle that zero-coupon bond yields could be higher or lower than the coupon-paying bond yields depending on interest rate outlook and Investors' liquidity requirements as shown by a study of actual market transactions and thus, such rates should be close on the average. All other popular methods produce result consistently lower or high than the coupon-paying yield given a normal yield curve. The salary increase rate was assumed at 5.00% per annum taking into consideration the prevailing inflation rate and Association policy.

The movement in the net liability recognized in the financial position, are presented as follows:

	<u>2 0 2 1</u>	<u>2 0 2 0</u>
Net defined benefit liability, beginning	766,215	862,651
Add: Post-employment benefit cost	196,806	324,201
Less: Contribution paid	-	(157,318)
Remeasurement of net defined benefit liability (asset)	147,071	(263,319)
Retirement fund	<u>(678,518)</u>	<u>-</u>
Net defined benefit liability, end	<u><u>431,574</u></u>	<u><u>766,215</u></u>

The changes in present value of defined benefit obligation are presented as follows:

	<u>2 0 2 1</u>	<u>2 0 2 0</u>
Present value of defined benefit liability, beginning	766,215	862,651
Contribution paid	-	(157,318)
Remeasurement of net defined benefit liability (asset)	147,071	(263,319)
Current service cost	168,916	187,636
Past service cost	-	93,001
Net interest in the net defined benefit liability	27,890	43,564
Retirement fund	<u>(678,518)</u>	<u>-</u>
Present value of defined benefit liability, end	<u><u>431,574</u></u>	<u><u>766,215</u></u>

Note 24 - PREMIUMS AND CONTRIBUTIONS

The account consists of the following:

	<u>2 0 2 1</u>	<u>2 0 2 0</u>
Members contribution	36,705,796	26,607,610
Premiums	16,278,869	12,794,235
Premiums ceded to reinsurers-micro	<u>(1,565,799)</u>	<u>(1,779,802)</u>
Total	<u><u>51,418,866</u></u>	<u><u>37,622,043</u></u>

Members' contributions represent considerations given by the member in exchange for the promises of the Association to pay stipulated sum in the event of a loss covered under the basic benefits indicated in the Internal Rules and Regulations (IRR) of the Association and/or membership certificates.

Premiums represent considerations given by the insured in exchange for the promises of the Association to pay; stipulated sum in the event of a loss covered under the optional insurance contract of the Association.

Note 25 - EXPENSES

A. Benefit Expense is computed as follows:

	<u>2 0 2 1</u>	<u>2 0 2 0</u>
Net Benefits/Claims Expenses – Basic Benefits	12,239,384	11,829,074
Net Benefits/Claims Expenses – Optional - Micro	6,827,461	4,698,359
Benefits/Claims expenses – basic benefits (burial)	<u>376,000</u>	<u>324,000</u>
Total	<u><u>19,442,845</u></u>	<u><u>16,851,433</u></u>

B. Other Benefit Expense is computed as follows:

	<u>2 0 2 1</u>	<u>2 0 2 0</u>
Membership enrollment and marketing expense	8,054,321	5,217,106
Increase/(Decrease) in Reserve for Basic Contingent Benefit	5,317,500	(487,675)
Increase/(Decrease) on Liability on Individual Equity Value	4,419,172	4,103,814
Increase/(Decrease) in Reserve for Optional Benefit	2,180,774	(850,028)
Other expenses for members - training	<u>21,052</u>	<u>-</u>
Total	<u><u>19,992,819</u></u>	<u><u>7,983,217</u></u>

Benefits/claims expense represents the aggregate losses and claims, including refund of equity value, if any, against the Association arising from the certificates and insurance contracts issued to members. This can be further classified into basic and optional premium.

Note 26 - OPERATING EXPENSES

The account consists of the following:

	<u>2021</u>	<u>2020</u>
Salaries, wages and benefits	3,564,887	3,247,549
Meetings and conferences	1,541,916	1,747,163
Employee welfare and benefits	704,060	656,188
Professional and technical development	422,414	319,454
Travel expenses	348,322	528,842
Utilities expense	308,288	381,056
Technical and professional fees	296,729	396,455
SSS/EC/Pag-ibig/Philhealth contributions	229,506	188,292
Depreciation expense (Note 12)	225,843	233,013
Post-employment benefit costs (Note 23)	196,806	481,519
Annual general assembly	117,827	50,740
Social and community service	115,100	618,995
Rent/lease expense	89,250	-
Representation	68,838	158,265
Office supplies	62,570	71,103
Dues and subscription	57,454	61,160
Investment management fees	48,000	8,075
Insurance expense	40,528	18,394
Bank and other charges	29,860	7,749
Repairs and maintenance	26,260	1,506
Taxes, licenses and fees (Note 31)	12,725	70,556
Amortization (Note 15)	7,333	8,000
Miscellaneous expense	44,293	61,974
	<u>8,558,809</u>	<u>9,316,048</u>
Total	<u>8,558,809</u>	<u>9,316,048</u>

Salaries, wages and benefits refer to payment to the Association's employee in exchange for the services rendered.

Meetings and conferences refer to expenses incurred during meeting with the board (regular meeting, special meeting, and committee meeting).

Social and community services pertains to the financial assistance for cooperative members affected by calamities.

Employee welfare and benefits refers to allowance of management and staff which are communication and other allowances given during official business.

Insurance expense represents premium paid on insurance coverage of office building, furniture, fixtures and equipment, IT equipment, vehicles and others. It also includes premium charges on the surety/fidelity bond of the accountable officers and staff.

Miscellaneous represents various expenses incurred by the Association incidental to their function and which are not classified on the above listed expenses such as cost incurred in notary, supervision fee, and expenses incurred in submission of annual statements to Insurance Commission.

Note 27 - OTHER INCOME

The account consists of the following:

	<u>2 0 2 1</u>	<u>2 0 2 0</u>
Interest income - investments (Note 14)	1,067,200	70,300
Interest income - bank deposits (Note 7)	22,082	47,404
Interest income - time deposit (Note 10)	2,750	2,490
Donations and contributions received	5,000	45,000
Others	<u>59,907</u>	<u>250,202</u>
 Total	 <u>1,156,939</u>	 <u>415,396</u>

Donations and contributions received represents amount received from Climbs Life and General Insurance Coop.

Others refer to increase in market value in Unit Investment Trust Funds – BPI Bayanihan Fund (UITF-BBF).

Note 28 - ASSIGNED FUNDS

Guaranty Funds

The Association, in compliance with the Sec. 405 of the Insurance Code of the Philippines (as amended by R.A. No. 10607, dated August 15, 2013), has constituted and established a guaranty fund which is deposited with the Insurance Commission as a primary requirement for license to operate of every mutual benefits association. Any accrual to such fund, be it interest earned or dividend additions on moneys or securities so deposited, may, be withdrawn by the Association if there is no pending benefit claim against it, including interest thereon or dividend additions.

Any increase in the guaranty fund must be in accordance with Sec. 410 of the Insurance Code of the Philippines (as amended by R.A. No. 10607, dated August 15, 2013) wherein ‘every mutual benefit association must accumulate and maintain, out of periodic dues collected from its members, sufficient reserves for the payment of claims or obligations’. Also, a reserve liability shall be established in accordance with actuarial procedures and shall be approved by the Commissioner.

Net contribution from members, set up by the Association amounted to P2,649,233 and P1,970,092 for the years ended December 31, 2021 and 2020, respectively.

Allocation of Free and Unassigned Funds

During the year 2021, the Association, in compliance with the Sec. 408 of the Insurance Code of the Philippines (as amended by R.A. No. 10607) has allocated unassigned surplus (in excess of 20% of total liabilities per audited financial statement ending December 31, 2021) to the following accounts:

	2021		2020	
	<u>Beginning</u>	<u>Utilization</u>	<u>Beginning</u>	<u>Utilization</u>
Members' benefit	1,231,586	-	1,231,586	-

Note 29 - PRIOR PERIOD ADJUSTMENTS

Prior period adjustments are omissions from, and misstatements in, the Association's financial statements for one or more periods arising from a failure to use, or misuse of, reliable information. These adjustments pertain to the following adjustments:

	<u>2021</u>	<u>2020</u>
Adjustment of actuarial item	678,518	-
Net premiums due and uncollected (CLIP)	314,601	-
Membership contributions received in advance	21,437	(2,070,389)
IT equipment	-	204,574
Retirement actuarial valuation	-	143,318
Allocation fund assigned for office/services upgrading	-	98,744
Allocation fund assigned for product development	-	96,972
Withholding taxes payable	(12,379)	-
Unremitted member's contribution, dues and fees	-	(130,299)
Membership certificate loans	-	(18,078)
Total	<u>1,002,177</u>	<u>(1,675,158)</u>

Prior period adjustments are adjustments of changes in the 2020 and 2019 beginning balances of member's contribution received in advance, net premiums due and uncollected (CLIP), unremitted member's contribution and member's certificate loan, actuarial valuation of retirement and adjustment for IT equipment.

Membership contributions received in advance and adjustment of other actuarial items represents adjustment made for certified actuarial reports.

Withholding taxes payable represents adjustment to correct the beginning balance.

Membership enrollment and marketing expenses represent additional expense for previous year.

Note 30 - INCOME TAX

The Association is not subject to income tax under Section 30 (c) of the National Internal Revenue Code with respect to income received from its not-for-profit activities such as donations, gifts or charitable contributions. However, income from any of its properties, real and personal, or from any of its activities conducted for profit shall be subject to income tax.

Interest earnings on deposits of members with Association, as well as the shares of its members from the net income of the Association shall be exempt from income tax under Republic Act (R.A.) No. 8367 or the Revised Non-stock Savings and Loan Association Act of 1997.

The application for tax exemption of the Association was received by the Bureau of Internal Revenue (BIR) dated May 27, 2014, while other documents required were received on August 17, 2015 and was still awaiting for BIR's approval and issuance of the certificate of tax exemption.

Note 31 - SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE (BIR)

Presented below is the supplementary information, which is required by the BIR under its existing revenue regulations to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

31.1 Requirements under Revenue Regulations No. 15-2010

In compliance with BIR Revenue Regulations No. 15-2010 (amending certain provision of Sec. 2 of RR No. 21-2002), which requires addition to the disclosures mandated under the Philippine Financial Reporting Standards, and such other standards and convention, the notes to the financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year particularly on the following which is applicable to the Association:

Value-added Tax

The Association is not a VAT-registered entity.

Taxes on Importation

The Association has no importation transaction during the year.

Excise Tax

The Association has no transaction in 2021 which is subject to excise tax.

Documentary Stamp Tax

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

Taxes and Licenses

The details of taxes and licenses account are as follows:

Local

Business permit, clearance and registration	2,600
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National

License	<u>10,125</u>
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Total	<u><u>12,725</u></u>
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Withholding Taxes

The total withholding taxes for the year ended December 31, 2021 are shown below.

	<u>Paid</u>	<u>Accrued</u>
Compensation	200,276	16,517
Expanded	<u>42,546</u>	<u>35,111</u>
Total	<u><u>242,822</u></u>	<u><u>51,628</u></u>

Deficiency Tax Assessments and Tax Cases

As of December 31, 2021, the Association does not have any final deficiency tax assessment from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

31.2 Requirements under Revenue Regulations No. 19-2011

Revenue Regulations No. 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and/or services, itemized deductions and other significant tax information, to be disclosed in the notes to the financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR, hence, may not be the same as the amounts of revenues reflected in the 2021 statements of comprehensive income, which is based on PFRS.

Taxable Revenue

The Association no had taxable revenue for the year ended December 31, 2021.

Deductible Cost of Services

The Association has no deductible costs of services under regular tax regime for December 31, 2021.

Taxable Other Income

The Association has no taxable other income in 2021 which are subject to regular tax rate.

Itemized Deductions

The Association has no itemized deductions under the regular tax regime for the year ended December 31, 2021.

31.3 Requirements under Revenue Regulations No. 34-2020

The association is not covered by the requirements and procedure for related party transactions provided under RR No. 34-2020.

Note 32 - RELATED PARTY TRANSACTIONS

Under Insurance Commission's Circular Letter No. 2017-29 (1.6), "Related Party Transactions are transactions or dealings with related parties of the Covered Institutions (IC), including its trust department, regardless of whether or not a price is charged. These shall include, but not limited to the following:

- 1.6.1 On and off-balance sheet credit exposures and claims and write-offs;
- 1.6.2 Investments and/or subscriptions for debt/equity issuances;
- 1.6.3 Consulting, professional, agency and other service arrangements/contracts;
- 1.6.4 Purchases and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks and license agreements);
- 1.6.5 Construction arrangements/contracts;
- 1.6.6 Lease arrangements/contracts;
- 1.6.7 Trading and derivative transactions;
- 1.6.8 Borrowings, commitments, fund transfers and guarantees;
- 1.6.9 Sale, purchase or supply of any goods or materials; and
- 1.6.10 Establishment of joint venture entities

RPTs shall be interpreted broadly to include not only transactions that are entered into with related parties but also outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party."

As of the years ended December 31, 2021 and 2020, the Association has no transaction that was mentioned above.

Key Management Personnel

The gross remuneration of the key management personnel of the Association which pertains to short-term benefits amounted to P852,000 and P798,000 or the years ended December 31, 2021 and 2020, respectively.

Note 33 - EVENTS AFTER THE REPORTING PERIOD

An entity shall adjust the amounts recognized in its financial statements to reflect adjusting events after the reporting period.

An entity shall not adjust the amounts recognized in its financial statements to reflect non-adjusting events after the reporting period. If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions of users taken on the basis of financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

- a) the nature of the event; and
- b) an estimate of its financial effect or a statement that such an estimate cannot be made.

The Association has evaluated subsequent events through _____ which is the date of the financial statements were available to be issued.