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Hi MERALCO EMPLOYEES MUTUAL AID AND BENEFITS ASSOCIATION, INC. (MEMABA, INC.),

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Submission Date/Time: **Apr 26, 2024 09:34 AM**

Company TIN: **001-045-095**

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- The submission is without prejudice to the right of the BIR to require additional document, if any, for completion and verification purposes;
- The hard copies of the documents submitted through this facility shall be submitted when required by the BIR in the event of audit/investigation and/or for any other legal purpose.

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Díaz Murillo  
Dalupan and Company



WE ARE AN INDEPENDENT MEMBER OF  
THE GLOBAL ADVISORY  
AND ACCOUNTING NETWORK

REPUBLIC OF THE PHILIPPINES)  
CITY OF MAKATI CITY) S.S.

### CERTIFICATION

I, Alexes B. Abella, of legal age, Filipino citizen, resident of Makati City and an accredited External Auditor of the Insurance Commission, after having been duly sworn to in accordance with law do hereby depose and say:

1. I am the signing partner of Diaz Murillo Dalupan and Company for the financial statements of **MERALCO Employees Mutual Aid and Benefit Association, Inc.** (the Association) for the year ending **December 31, 2023**;
2. Our audit was conducted in accordance with the Philippine Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether financial statements are free from material misstatements;
3. In compliance with Circular Letter 03-2024 issued by the Insurance Commission, there are no reportable cases enumerated in Section 8.1 thereof that the Association committed during the year requiring urgent action;
4. This certification is executed to attest to the truth of the foregoing and for whatever legal purpose and intent it may serve.

IN WITNESS WHEREOF, I have hereunto set my hand this 11th of April 2024, at Manila, Philippines.

Alexes B. Abella

Affiant

24 APR 2024

SUBSCRIBED AND SWORN to before me in the City of MAKATI CITY this \_\_\_\_\_ day of \_\_\_\_\_, 2024. This affiant exhibited to me his Community Tax Certificate No. \_\_\_\_\_ issued on \_\_\_\_\_.

Doc. No. 44  
Page No. 10  
Book No. 322  
Series of 2024

ATTY. RAYMOND A. RAMOS  
COMMISSION NO. M-77  
NOTARY PUBLIC FOR MAKATI CITY  
UNTIL DECEMBER 31, 2024  
2364 ANGONO STREET  
BARANGAY POBLACION 1210, MAKATI CITY  
SC Roll No. 62179/04-26-2013  
IBP NO. 274750/12-26-2023/Pasig City  
PTR NO. MKT 10074525/01-02-2024/Makati City  
MCLE Compliance No. VII-0020180/04-14-2024

#### Global Reach, Global Quality

Head Office : 7th Floor, Don Jacinto Building, De la Rosa corner Salcedo Sts., Legaspi Village, Makati City 1229 Philippines • Phone: +63(2) 8894 5892 / 8844 9421 / Fax: +63(2) 8818 1872  
Cebu Office : Unit 504 Cebu Holdings Building, Cebu Business Park, Mabolo, Cebu City 6000 Philippines • Phone: +63(32) 415 8108 - 10 / Fax: +63(32) 232 8029  
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Website : [www.dmdcpa.com.ph](http://www.dmdcpa.com.ph)



Diaz Murillo  
Dalupan and Company



WE ARE AN INDEPENDENT MEMBER OF  
THE GLOBAL ADVISORY  
AND ACCOUNTING NETWORK


REPUBLIC OF THE PHILIPPINES)  
CITY OF MAKATI CITY ) S.S.

### CERTIFICATION

I hereby attest that I have examined all the documents, schedules and other related records relative to the audit of the financial statements of **MERALCO Employees Mutual Aid and Benefit Association, Inc.** as of and for the period ended 31 December 2023.

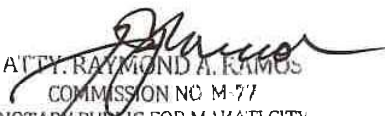
I declare that the report/s submitted to the Insurance Commission per IC Circular Letter No. 03-2024, are true and accurate to the best of my knowledge.

Sincerely,

  
ALEXES B. ABELLA  
External Auditor

SUBSCRIBED AND SWORN to before me in the City of MAKATI CITY this 24 APR 2024 day of \_\_\_\_\_, 2024. This affiant exhibited to me his Community Tax Certificate No. \_\_\_\_\_ issued on \_\_\_\_\_.

Doc. No. 43  
Page No. 10  
Book No. 322  
Series of 2024

  
ATTY. RAYMOND A. RAMOS  
COMMISSION NO. M-77  
NOTARY PUBLIC FOR MAKATI CITY  
UNTIL DECEMBER 31, 2024  
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**MERALCO EMPLOYEES MUTUAL AID AND BENEFITS ASSOCIATION, INC.**


Employee Services Center, Meralco Compound, Ortigas Avenue, Pasig City  
Telephone Numbers: 1622-6993, 6994, 3930 and 3936  
Email Address : memaba.staff@meralco.com.ph  
Website : www.memaba.com.ph

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR ANNUAL INCOME TAX RETURN**


The Management of **MERALCO Employees Mutual Aid and Benefit Association, Inc.** is responsible for all information and representations in the Annual Income Tax Return for the year ended December 31, 2023. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other returns filed for the reporting period, including, but not limited to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2023 and the accompanying Annual Income Tax Return are in accordance with the books and records of **MERALCO Employees Mutual Aid and Benefit Association, Inc.** are complete and correct in all material respects. Management likewise affirms that:

- (a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- (b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Foundation's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;
- (c) **MERALCO Employees Mutual Aid and Benefit Association, Inc.** has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

  
**MARVIN G. GONSALVES**  
Chairman

  
**EFREN V. OLPINDO**  
President

  
**WINSTON A. DELOS REYES**  
Treasurer





Díaz Murillo  
Dalupan and Company



WE ARE AN INDEPENDENT MEMBER OF  
THE GLOBAL ADVISORY  
AND ACCOUNTING NETWORK

**Statement Required by Section 8-A, Revenue Regulations No. V-1 and as Added by RR No. V-20**

The Board of Trustees and Members  
**MERALCO EMPLOYEES MUTUAL AID AND BENEFIT ASSOCIATION, INC.**  
*(A Non-stock, Non-profit Organization)*  
G/F Employee Services Center  
MERALCO Compound, Ortigas Avenue  
Pasig City, Philippines

None of the partners of the firm have any financial interest in the Association or any family relationships with principal members and key management personnel.

The supplementary information on taxes and licenses is presented in Note 19 to the financial statements.

**Díaz Murillo Dalupan and Company**  
Tax Identification No. 003-294-822  
BOA/PRC No. 0234, effective until June 23, 2026  
BIR Accreditation No. 08-001911-000-2022, effective until March 25, 2025



Alexis B. Abella

Partner  
CPA Certificate No. 96749  
Tax Identification No. 201-766-994  
PTR No. 10081051, January 6, 2024, Makati City  
BIR Accreditation No. 08-001911-010-2022, effective until March 15, 2025

April 11, 2024

**Global Reach, Global Quality**

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Website : [www.dmdcpa.com.ph](http://www.dmdcpa.com.ph)

***Meralco Employees Mutual Aid  
and Benefit Association, Inc.***

*Financial Statements  
December 31, 2023 and 2022*

*and*

*Independent Auditors' Report*

## **Independent Auditors' Report**

The Board of Trustees and Members  
**MERALCO EMPLOYEES MUTUAL AID AND BENEFIT ASSOCIATION, INC.**  
*(A Non-stock, Non-profit Organization)*  
G/F Employee Services Center  
MERALCO Compound, Ortigas Avenue  
Pasig City, Philippines

## **Report on the Audit of the Financial Statements**

### *Opinion*

We have audited the financial statements of **MERALCO Employees Mutual Aid and Benefit Association, Inc.**, which comprise the statements of financial position as at December 31, 2023 and 2022, and 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 material accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of MERALCO Employees Mutual Aid and Benefit Association, Inc. as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards (PFRS).

### *Basis for Opinion*

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, 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.

### **Global Reach, Global Quality**

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### *Auditors' Responsibilities for the Audits 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 PSA 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 PSA, 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 audits.

## **Report on the Supplementary Information Required under Revenue Regulation No. 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 19 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of MERALCO Employees Mutual Aid and Benefit Association, Inc. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### **Diaz Murillo Dalupan and Company**

Tax Identification No. 003-294-822

BOA/PRC No. 0234, effective until June 23, 2026

BIR Accreditation No. 08-001911-000-2022, effective until March 25, 2025



Alexis B. Abella

Partner

CPA Certificate No. 96749

Tax Identification No. 201-766-994

PTR No. 10081051, January 6, 2024, Makati City

BIR Accreditation No. 08-001911-010-2022, effective until March 15, 2025

April 11, 2024

**MERALCO EMPLOYEES MUTUAL AID AND BENEFIT ASSOCIATION, INC.***(A Non-Stock, Non-Profit Organization)***Statements of Financial Position**

	<b>December 31</b>	
	<b>2023</b>	<b>2022</b>
<b>ASSETS</b>		
Cash - note 4	<b>₱31,598,900</b>	₱65,364,269
Loans and receivables (net) - note 5	<b>388,210,935</b>	334,747,120
Debt instruments at amortized cost - note 6	<b>21,076,219</b>	21,122,349
Property and equipment (net) - note 7	<b>44,620</b>	115,465
Other asset - note 14	<b>1,715,000</b>	1,715,000
<b>TOTAL ASSETS</b>	<b>₱442,645,674</b>	₱423,064,203
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable and other liabilities - note 8	<b>₱12,524,274</b>	₱14,191,873
Basic contingent benefit reserve - note 9	<b>211,108,057</b>	196,470,321
Liability on individual equity value - note 10	<b>120,108,452</b>	114,949,383
Retirement benefits obligation - note 15	<b>2,901,758</b>	-
	<b>346,642,541</b>	325,611,577
<b>Fund Balance</b>		
Assigned fund balance - note 11	<b>26,699,908</b>	26,699,908
Free and unassigned fund balance - note 11	<b>72,066,920</b>	70,752,718
Remeasurement loss on retirement benefit obligation - note 15	<b>(2,763,695)</b>	-
	<b>96,003,133</b>	97,452,626
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>₱442,645,674</b>	₱423,064,203

*(The accompanying notes are an integral part of these financial statements.)*

**MERALCO EMPLOYEES MUTUAL AID AND BENEFIT ASSOCIATION, INC.***(A Non-Stock, Non-Profit Organization)***Statements of Comprehensive Income**

	<b>Years Ended December 31</b>	
	<b>2023</b>	<b>2022</b>
<b>REVENUES</b>		
Interest income on loans receivable - note 5	<b>₱21,393,863</b>	<b>₱17,970,610</b>
Members' contributions - note 10	<b>17,149,936</b>	<b>17,218,551</b>
Investment and other income - note 12	<b>1,047,605</b>	<b>1,167,969</b>
	<b>39,591,404</b>	<b>36,357,130</b>
<b>BENEFITS AND EXPENSES</b>		
Increase in reserve for basic contingent benefit - note 9	<b>14,637,736</b>	<b>2,569,861</b>
Benefits/claims expense	<b>11,402,541</b>	<b>11,137,566</b>
Increase in liability on individual equity value - note 10	<b>5,159,069</b>	<b>5,236,240</b>
Salaries, wages and benefits - note 15	<b>4,083,580</b>	<b>3,656,633</b>
Meetings and conferences, and annual general assembly	<b>1,570,048</b>	<b>919,803</b>
Technical and professional fees	<b>625,186</b>	<b>748,809</b>
Provision for estimated credit losses - note 5	<b>142,047</b>	<b>7,408</b>
Retirement benefits expense - note 15	<b>138,063</b>	<b>-</b>
Taxes, licenses and fees	<b>118,142</b>	<b>103,868</b>
Representation	<b>118,103</b>	<b>68,919</b>
Office supplies	<b>100,248</b>	<b>153,031</b>
Depreciation - note 7	<b>86,835</b>	<b>122,809</b>
Travel expenses	<b>8,096</b>	<b>536,397</b>
Miscellaneous	<b>87,508</b>	<b>104,965</b>
	<b>38,277,202</b>	<b>25,366,309</b>
<b>EXCESS OF REVENUES OVER COST AND EXPENSES</b>	<b>1,314,202</b>	<b>10,990,821</b>
<b>OTHER COMPREHENSIVE LOSS</b>		
<i>Item that will not be reclassified subsequently to profit or loss:</i>		
Remeasurement loss on retirement benefits - note 15	<b>(2,763,695)</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>(₱1,449,493)</b>	<b>₱10,990,821</b>
<i>(The accompanying notes are an integral part of these financial statements.)</i>		



**MERALCO EMPLOYEES MUTUAL AID AND BENEFIT ASSOCIATION, INC.**

*(A Non-Stock, Non-Profit Organization)*

**Statements of Changes in Fund Balance**

	<u>Assigned Fund - note 11</u>		<u>Remeasurement</u>		
	<u>Guaranty</u>	<u>Members'</u>	<u>Free and</u>	<u>Unassigned</u>	<u>Loss on</u>
	<u>Fund</u>	<u>Benefits</u>	<u>Total</u>	<u>Fund Benefits Obligation</u>	<u>Retirement</u>
				<u>- note 11</u>	<u>- note 15</u>
					<u>Total</u>
Balance, January 1, 2022	P21,000,000	P5,699,908	P26,699,908	P59,761,897	P- P86,461,805
Total comprehensive income					
Excess of revenue over expenses for the year	-	-	-	10,990,821	-
Balance at December 31, 2022	21,000,000	5,699,908	26,699,908	70,752,718	10,990,821
Total comprehensive income (loss)					
Excess of revenue over expenses for the year	-	-	-	1,314,202	-
Remeasurement loss on retirement benefits	-	-	-	-	(2,763,695)
<b>Balance at December 31, 2023</b>	<b>P21,000,000</b>	<b>P5,699,908</b>	<b>P26,699,908</b>	<b>P72,066,920</b>	<b>(P2,763,695) P96,003,133</b>

*(The accompanying notes are an integral part of these financial statements.)*

**MERALCO EMPLOYEES MUTUAL AID AND BENEFIT ASSOCIATION, INC.**  
*(A Non-Stock, Non-Profit Organization)*  
**Statements of Cash Flows**

	<b>Years Ended December 31</b>	
	<b>2023</b>	<b>2022</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess of revenues over expenses	<b>₱1,314,202</b>	<b>₱10,990,821</b>
Adjustments for:		
Interest income - notes 4, 5 and 6	<b>(22,238,042)</b>	<b>(18,889,460)</b>
Dividend income - note 14	<b>(197,225)</b>	<b>(188,650)</b>
Increase in reserve for basic contingent benefit - note 9	<b>14,637,736</b>	<b>2,569,861</b>
Depreciation - note 7	<b>86,835</b>	<b>122,809</b>
Retirement benefits expense - note 15	<b>138,063</b>	<b>-</b>
Provision for ECL - note 5	<b>142,047</b>	<b>7,408</b>
Premium amortization (net) - note 6	<b>46,130</b>	<b>(60,521)</b>
Deficiency of revenues over expenses before working capital changes	<b>(6,070,254)</b>	<b>(5,447,732)</b>
Increase in loans and other receivables	<b>(53,605,862)</b>	<b>(32,756,456)</b>
Increase (decrease) in accounts payable and other liabilities	<b>(1,667,599)</b>	<b>2,196,625</b>
Cash used in operations	<b>(61,343,715)</b>	<b>(36,007,563)</b>
Interest received	<b>22,238,042</b>	<b>18,889,460</b>
Net cash used in operating activities	<b>(39,105,673)</b>	<b>(17,118,103)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Dividend received - note 14	<b>197,225</b>	<b>188,650</b>
Proceeds from debt instruments at amortized cost - note 6	<b>-</b>	<b>20,000,000</b>
Acquisition of property and equipment - note 7	<b>(15,990)</b>	<b>-</b>
Net cash provided by investing activities	<b>181,235</b>	<b>20,188,650</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Additional members' contribution - note 10	<b>8,574,968</b>	<b>8,609,276</b>
Refund of members' contribution - note 10	<b>(3,415,899)</b>	<b>(3,373,036)</b>
Net cash provided by financing activities	<b>5,159,069</b>	<b>5,236,240</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(33,765,369)</b>	<b>8,306,787</b>
At beginning of year	<b>65,364,269</b>	<b>57,057,482</b>
At end of year - note 4	<b>₱31,598,900</b>	<b>₱65,364,269</b>

*(The accompanying notes are an integral part of these financial statements.)*

**MERALCO EMPLOYEES MUTUAL AID AND BENEFIT ASSOCIATION, INC.**

*(A Non-stock, Non-profit Organization)*

**Notes to Financial Statements**

As at and for the Years Ended December 31, 2023 and 2022

**1. ASSOCIATION INFORMATION**

**MERALCO Employees Mutual Aid and Benefit Association, Inc.** (the “Association”) is a non-stock, non-profit organization established by the employees of Manila Electric Company (MERALCO) and its affiliated companies. The Association was registered with the Philippine Securities and Exchange Commission (SEC) on September 17, 1969 to carry out the following objectives:

- a. To provide assistance for death, sickness or other mutual benefits and to render mutual aid and assistance to its members and their families who sustained serious physical injuries or suffered personal damages due to natural calamities;
- b. To foster the interest and promote the mutual concern of the members by protecting and giving financial assistance to one another;
- c. To encourage and foster growth and the general welfare of the members and/or their beneficiaries; and
- d. In general, to carry on any other lawful business whatsoever in connection with any or all of the foregoing purposes and which are calculated directly or indirectly to promote the interest of the Association and its members.

The Insurance Commission (IC) granted the Association a license to transact business as a mutual benefit association (MBA) in September 1977 pursuant to the provisions of Insurance Code, as amended. The license was renewed on November 10, 2021, which is effective from January 1, 2022 until December 31, 2024.

The Association’s registered office address and principal place of business is located at G/F Employee Services Center, MERALCO Center, Ortigas Avenue, Pasig City, Philippines.

The accompanying financial statements were authorized for issue by the Board of Trustees (BOT) on April 11, 2024.

## 2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

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

### Statement of Compliance

The financial statements of the Association have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS) and Interpretations issued by the former Standing Interpretations Committee (SIC), the Philippine Interpretations Committee (PIC) and the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by SEC.

### Basis of Preparation

The financial statements have been prepared on a historical cost basis except when otherwise indicated. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services and fair value of the consideration received in exchange for incurring a liability.

The financial statements are presented in Philippine peso (₱), the Association's functional currency. All amounts are rounded to the nearest peso except when otherwise indicated.

The Association presents its statements of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date and more than 12 months after the reporting date is presented in Note 18.

### *Standard chart of accounts (SCA)*

IC released Circular No. 2014-41 containing the SCA for all new and existing mutual benefit associations doing business in the Philippines. This circular is in line with the requirements of Securities Regulation Code (SRC) Rule 68, Section 189 of the Amended Insurance Code, and the current accounting standards in the Philippines. On January 20, 2021, the IC released Circular No. 2021-04 amending certain provisions of Circular No. 2014-41. The amendments include new accounts and changes in account codes of certain existing accounts. The amendments in the SCA have no significant impact to the Association.

The Association is in compliance with the SCA.

New accounting interpretations, revisions and amendments to PFRS

The accounting policies adopted are consistent with those of the previous financial years except for the following new and amended PFRS that are mandatorily effective for annual periods beginning on or after January 1, 2023.

*PAS 1 and PFRS Practice Statement 2 (Amendments) Disclosure of Accounting Policies.* The narrow-scope amendments PAS 1, *Presentation of Financial Statements* require entities to disclose material accounting policy information instead of significant accounting policies. The amendments also clarify the following: (1) accounting policy information may be material because of its nature, even if the related amounts are immaterial; (2) accounting policy is material if users of an entity's financial statements would need it to understand other material information in the statements; and (3) if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. Further, the amendments provide several paragraphs to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material. In addition, PFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of 'four-step materiality process' to accounting policy information in order to support the amendments to PAS 1. The amendments are applied prospectively. The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. Once the entity applies the amendments to PAS 1, it is also permitted to apply the amendments to PFRS Practice Statement 2. The amendments do not have a material impact on the financial statements of the Association.

*PAS 8 (Amendments) Definition of Accounting Estimates.* The amendments to PAS 8, *Accounting Policies, Changes* focus entirely on accounting estimates and clarify the following:

- The definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".
- Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
- A change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.
- A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

The amendments do not have a material impact on the financial statements of the Association.

*Insurance Contracts (PFRS 17).* The new standard will eventually replace PFRS 4, *Insurance Contracts*, that will set out the principles for the recognition, measurement, presentation and disclosure of insurance contracts within its scope. The new standard is effective for annual periods beginning on or after January 1, 2023.

This new standard requires a current measurement model where estimates are remeasured in each reporting period. Moreover, contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and,
- a contractual service margin (CSM) representing the unearned profit of the contract which is recognized as revenue over the coverage period.

PFRS 17 further allows a choice between recognizing changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for financial assets under PFRS 9.

In addition, the standard provides an optional, simplified premium allocation approach for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

The standard does not have a material impact on the financial statements of the Association.

#### New accounting standards, interpretations and amendments to existing standards effective subsequent to January 1, 2023

Standards issued but not yet effective up to the date of the Association's financial statements are listed below. This listing of standards and interpretations issued are those that the Association reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Association intends to adopt these standards when they become effective.

*PAS 1 (Amendments) Classification of Liabilities as Current or Noncurrent.* The narrow-scope amendments to PAS 1, *Presentation of Financial Statements* clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). The amendments also clarify what PAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. The amendments are effective for annual periods beginning on or after January 1, 2024, with earlier application permitted. The amendments do not have a material impact on the financial statements of the Association.

#### Financial Instruments

##### *Initial recognition of financial instruments*

The Association recognizes financial assets and financial liabilities in the statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

Financial assets and financial liabilities are recognized initially at fair value including transaction costs, except for those financial assets and liabilities at fair value through profit or loss (FVPL) where the transaction costs are charged to expense in the period incurred.

The Association classifies its financial assets as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) and FVPL.

The classification of debt instruments at amortized cost or at FVOCI depends on the financial asset's contractual cash flow characteristics and the Association's business model for managing the financial assets. The Association's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Association's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, debt instruments may be designated at FVPL on initial recognition if doing so eliminates or significantly reduces the measurement or recognition inconsistency and produce more relevant information.

Upon initial recognition, the Association may make an irrevocable election to present in other comprehensive income changes in the fair value of an equity instrument that is not held for trading.

The Association classifies its financial liabilities as subsequently measured at amortized cost using the effective interest method or at FVPL.

#### *Financial assets at amortized cost*

Financial assets are measured at amortized when both of the following conditions are met:

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

Financial assets at amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, financial assets at amortized cost are subsequently carried at amortized cost using the effective interest method less any allowance for estimated credit losses (ECL). Amortized cost is calculated, taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in statements of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

The Association's financial assets at amortized cost include cash, loans and receivables, debt instruments at amortized cost and other asset (see Notes 4, 5, 6 and 14).

Loans and receivables include loans and other receivables. Loans receivable are interest bearing loans granted to the members and paid through pension deduction for retired members and salary deduction for members working in MERALCO and affiliated companies.



Other receivables, on the other hand, include members' contributions due and uncollected and amortization of loans receivable deducted from members' payroll, which were not yet remitted by their employers to the Association.

#### *Financial liabilities at amortized cost*

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

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

As at December 31, 2023 and 2022, the Association's financial liabilities at amortized cost consist of accounts payable and other liabilities (excluding liabilities to government agencies) and liability on individual equity value (see Notes 8 and 10).

Accounts payable and other liabilities consist of payable to members, claims payable on basic contingent benefit and other payables. Payable to members pertains to the unclaimed benefits, outstanding payable related to loan overpayments, interest rebates and refund of equity value of terminated members. It included claims in the course of settlement and those which are incurred but not reported. Claims payable on basic contingent benefit represents benefit claims on membership certificates filed or reported to the Association but not yet paid as of end of the reporting period. Other liabilities include non-trade payables and accrued expenses.

Liability on individual equity value represents the equity value of the members equivalent to fifty percent (50%) of the total accumulated contributions of the members in the Association presented under the liability section of the statements of financial position. Under the Association's policies and guidelines, the account entitles the member to a benefit upon his death, or withdrawal from or termination of his membership in the Association.

#### Determination of Fair Value and Fair Value Hierarchy

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.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

For the purpose of fair value disclosures, the Association has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Fair value measurement disclosures of financial and non-financial assets are presented in Note 17 to the financial statements.

#### *“Day 1” difference*

When the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Association recognizes the difference between the transaction price and fair value (a “Day 1” difference) in the statements of comprehensive income unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statements of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Association determines the appropriate method of recognizing the “Day 1” difference amount.

#### Offsetting of Financial Instruments

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

## Derecognition of Financial Instruments

### *Financial assets*

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

- The rights to receive cash flows from the asset have expired;
- The Association retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to 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 substantially all risks and rewards of the asset, but has transferred 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. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Association could be required to repay.

### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability was discharged, cancelled or has expired.

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

## Impairment of financial assets

The Association recognizes allowance for ECLs for all debt instruments that are measured at amortized cost. ECLs are a probability-weighted estimate of credit losses over the expected life of the financial asset.

Credit losses are the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Association expects to receive, discounted at the original effective interest rate. The expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Association assesses at each end of the reporting period whether the credit risk on a financial asset has increased significantly since initial recognition. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is measured at an amount equal to the lifetime ECLs. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, a loss allowance is measured at an amount equal to 12-month ECLs. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within twelve (12) months after the reporting period.

When the credit risk on financial instruments for which lifetime ECLs have been recognized subsequently improves, and the requirement for recognizing lifetime ECLs is no longer met, the loss allowance is measured at an amount equal to 12-month ECL at the current reporting period, except for assets for which simplified approach was used.

The Association recognizes impairment loss (reversals) in profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

#### *Significant increase in credit risk*

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

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

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

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

Despite the foregoing, the Association assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the end of reporting period. A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default;
- the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

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

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

#### *Definition of Default*

The Association considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Association, in full (without taking into account any collateral held by the Association).

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

#### *Credit-impaired Financial Assets*

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

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;

- the lenders of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower concessions that the lenders would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

#### *Write-off Policy*

The Association writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one (1) year past due, whichever occurs sooner.

Financial assets written off may still be subject to enforcement activities under the Association's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

#### Property and Equipment

Property and equipment are initially measured at cost which comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location necessary for it to be capable of operating in the manner intended by management.

Property and equipment are subsequently carried at cost less accumulated depreciation and any impairment in value.

Expenses that provide incremental future economic benefits to the Association are added to the carrying amount of an item of property and equipment. All other expenses are recognized in the statements of comprehensive income as incurred.

Depreciation of property and equipment commences once the property and equipment are available for use and are calculated on a straight-line basis over the estimated useful life as follows:

	Number of years
Office equipment	3 to 5
Furniture and fixtures	3 to 5
IT equipment	3 to 5

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

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged against current operations.

When property and equipment are retired or otherwise disposed of, their cost and related accumulated depreciation and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

#### Impairment of Non-financial Assets

At each reporting date, the Association reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When the asset does not generate cash flows that are independent from other assets, the Association estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income.

#### Basic Contingent Benefit Reserve

Basic contingent benefit reserve represents the total actuarial reserve set-up by the Association pertaining to the basic life 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 a certificate to meet the contractual obligation as it falls due. It is computed as the net present value of benefits less present value of future contributions, calculated using actuarial methods and assumptions as approved by the IC, subject to the liability adequacy test.

#### *Liability adequacy test*

At each reporting date, a liability adequacy test is performed for the membership in force. In performing this test, current best estimate of future cash flows and benefits/claims handling and administration expenses, as well as investment income from the asset backing such liabilities are used. Any deficiency is immediately charged against current operations.

Liabilities for future membership benefits/claims have been computed based on methods and assumptions that are in accordance with generally accepted actuarial principles. Changes in the balance of legal policy reserves at each reporting date are taken to profit or loss.



### Fund Balance

Fund balance represents the cumulative net income from current and prior periods. Fund balance represents the cumulative balance of net income or loss, prior period adjustments, effects of changes in accounting policy and other fund adjustments. Free and unassigned fund balance represents that portion which is free and can be declared for distribution to the members. Assigned fund balance represents that portion which is restricted and therefore not available for any experience refund declaration.

### Revenue Recognition

Revenue is recognized when control of the goods or services are transferred to customer at an amount that reflects the consideration to which the Association expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties.

The Association recognizes revenue from the following sources:

- a) *Members' contributions* – Revenue is recognized on accrual basis, when they become due from members. Contracts with members generally undertake to provide two performance obligations at a fixed price which are mainly to entitle the members for certain benefits of the Association (i.e. claims benefits, loan availment, nonfinancial benefits, dividends, etc.) and refund of equity value upon death, or withdrawal from or termination of membership by the member in the Association.
- b) *Interest on loans receivable* – Revenue is recognized using the effective interest method in accordance with the terms of the loan.
- c) *Interest in bank deposits and investments* – Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).
- d) *Dividends* – Revenue is recognized when the Association's right to receive payment is established.
- e) *Other income* – Revenue is recognized when earned.

Revenue is measured by reference to the fair value of consideration received. Interest income and dividends are presented net of related final taxes.

### Expense Recognition

Cost and expenses are recognized in the statements of comprehensive income when decrease in future economic benefits related to a decrease in an asset or an increase in liability has arisen that can be measured reliably.

Other costs and expenses are recognized in profit or loss upon utilization of service or when they are incurred.

*Benefit/claims expenses*

Members' benefits consist of funeral, fire victim aid, refund of equity value and other benefits given to members. Benefits/claims expense are recorded when incurred. These are recorded when notices of claims have been received or when the members are entitled to the benefits. Unpaid benefits/claims expenses, including those incurred but not reported (IBNR) claims are based on the estimated cost of all claims incurred but not settled at the reporting date. These costs pertain to estimates of the Association's obligations to the members where the Association has not yet received notification on. Delays can be experienced in the notification and settlement of benefits/claims, therefore the ultimate cost could be known with certainty at the reporting date.

Employee Benefits

*Short-term employee benefits*

The Association recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period that are expected to be settled wholly before twelve (12) months after the end of the reporting period. Short-term benefits given by the Association to its employees include salaries and wages, fringe benefits, 13th month pay, Social Security System (SSS), Philhealth and Home Development Mutual Fund (HDMF) contribution. The Association recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

*Retirement benefits obligation*

Pension benefits cover all regular full-time employees through a defined benefit plan. Defined benefit plan defines an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan asset, if any.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. The defined benefit cost comprises of the service cost, net interest on the defined benefit liability or asset and the remeasurement of net defined benefit liability or asset.

Service cost which includes current service cost, past service cost and gains or losses on non-routine settlements is recognized as expense in profit or loss. Past service cost is recognized when plan amendment or curtailment occurs. Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurement comprising actuarial gains and losses and return on plan asset are recognized immediately in other comprehensive income in the period in which they arise. Remeasurement is not reclassified to profit or loss in subsequent periods. Remeasurement recognized in other comprehensive income account "Remeasurement gains (losses) on retirement benefits" is not reclassified to another equity account in subsequent periods. The difference between the interest income component of net interest and the actual return on plan asset is recognized in other comprehensive income.

The Association's right to be reimbursed of some or all of the expenditures required to settle a defined benefits obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

#### Related Party Transactions and Relationships

Related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

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

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

#### Events after the Reporting Date

The Association identifies post-year events as events that occurred after the reporting date but before the date when the Association financial statements were authorized for issue. Post year-end events that provide additional information about the Association's position at the reporting date (adjusting events) are reflected in the Association financial statements. Post year-end events that are not adjusting events are disclosed in the Association financial statements when material.

### **3. MATERIAL ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of the financial statements in compliance with PFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements. The estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances at the end of the reporting period. Actual results could differ materially from such estimates.

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

## Material Accounting Judgments

### *Business model assessment*

Classification and measurement of financial assets depends on the results of the business model and solely for payments of principal and interest test. The Association determines the business model at a level that reflects how associations of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Association monitors financial assets measured at amortized cost that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Association's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

### *Distinction between debt and equity instrument*

The Association's members' contribution takes the legal form of equity, but the substance of these financial instruments takes the form of a liability since the Association does not have an unconditional right to avoid delivering cash or another financial asset to the Association's members upon their termination or withdrawal.

### *Significant increase in credit risk*

ECLs are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. The standard does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Association takes into account qualitative and quantitative reasonable and supportable forward-looking information. Management assessed that there has been no significant increase in credit risk on the Association's financial assets for the years ended December 31, 2023 and 2022.

## Material Accounting Estimates and Assumptions

### *Impairment of financial assets*

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Association uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Association's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

As at December 31, 2023 and 2022, loans and receivables (net of allowance for ECL of ₱959,462 in 2023 and ₱817,415 in 2022) amounted to ₱388,210,935 and ₱334,747,120, respectively (see Note 5).

No allowance for ECL is recognized for debt instruments at amortized cost, which are held by reputable banking and quasi-banking institutions. Carrying amount of the investment amounted to ₱21,076,219 and ₱21,122,349 as at December 31, 2023 and 2022, respectively (see Note 6).

*Estimation of basic contingent benefit reserve*

The determination of the Association's basic contingent benefit reserve is dependent on the selection of certain assumptions used by actuaries in calculating such amount. These estimates are based on standard mortality tables as required by the Insurance Code. Actual future experience could differ from the assumptions used to make the reserve estimates.

The carrying value of basic contingent benefit reserve amounted to ₱211,108,057 and ₱196,470,321 as at December 31, 2023 and 2022, respectively (see Note 9).

*Retirement Benefits*

The determination of the Association's retirement benefits obligation and cost of pension and other benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 15, include, among others, discount and salary increase rates. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The estimated retirement benefits obligation amounted to ₱2,901,758 and nil as at December 31, 2023 and 2022, respectively (see Note 15).

#### 4. CASH

This account consists of:

	2023	2022
Cash on hand	<b>₱5,000</b>	<b>₱5,000</b>
Cash in banks	<b>31,593,900</b>	65,359,269
	<b>₱31,598,900</b>	<b>₱65,364,269</b>

Cash in banks generally earn interest based on daily bank deposit rates. Interest income earned in 2023 and 2022 amounted to ₱96,804 and ₱258,718, respectively, is presented under "Investment and other income" in the statements of comprehensive income (see Note 12).

In 2023, the Association invested on various government treasury bills with term of 86 to 90 days which matured at end of year. Interest earned amounted to ₱352,505 in 2023 (see Note 12).

There is no restriction on the Association's cash and these are available for general use.

## 5. LOANS AND RECEIVABLES (NET)

This account consists of:

	2023	2022
Loans receivable	<b>₱383,784,693</b>	₱327,785,955
Other receivables		
Members' contribution due and uncollected	<b>503,704</b>	473,377
Unremitted members' contributions, dues and fees	<b>136,200</b>	363,375
Accrued interest receivable	<b>58,800</b>	58,800
Others	<b>4,687,000</b>	6,883,028
	<b>389,170,397</b>	335,564,535
Less: Allowance for ECLs – loans receivable	<b>959,462</b>	817,415
	<b>₱388,210,935</b>	₱334,747,120

Loans receivable include Educational Loan, Hospitalization Loan, Fire Loan, Funeral Loan, Supplemental Loan, Calamity Loan and Medicine Loan.

Loans receivable bear 3.5% to 7.0% annual interest rate and have maximum term of one to three years depending on the type of loan. Borrowers are required to have a co-maker for their loan, except Meralco retiree pensioners and MERALCO employees who will avail the educational loan. The co-maker serves as the borrower's collateral or security in paying the loan.

Members' contribution due and uncollected pertains to the membership contributions that are already due but not yet collected or deducted from the members' salaries.

Others pertain to loans receivable from deceased and withdrawn members which are subject for settlement. Others also pertain to monthly amortizations of loans receivable deducted from the members' payroll but are not yet remitted by MERALCO and its affiliated companies to the Association as at December 31, 2023. These receivables are subsequently collected in the following month.

Based on Management's assessment, the other receivables as at December 31, 2023 and 2022 were fully performing and highly collectible.

A reconciliation of the allowance for ECL as at December 31 is shown below.

	2023	2022
Balance at beginning of year	<b>₱817,415</b>	₱810,007
Add: Provision for the year	<b>142,047</b>	7,408
Balance at end of year	<b>₱959,462</b>	₱817,415

Interest income on loans receivable amounted to ₱21,393,863 and ₱17,970,610 in 2023 and 2022, respectively, as presented in the statements of comprehensive income.

## 6. DEBT INSTRUMENTS AT AMORTIZED COST

This account consists of Philippine government securities amounting to ₱21,076,219 and ₱21,122,349 as of December 31, 2023 and 2022, respectively.

Government securities have terms of five years and bear fixed interest rate of 2.39% in 2023 and 2022. The effective interest rates is 2.50% in 2023 and 2022.

Government bonds are part of the Association's compliance to guaranty fund requirement of IC in accordance with the provision under Section 405 (formerly Section 392) of the Insurance Code of the Philippines, as amended under Republic Act (R.A.) No. 10607, "An Act Strengthening the Insurance Industry", as security for the benefit of members and creditors of the Association. These bonds are deposited with the Bureau of Treasury under the Registry of Scripless Securities System (RoSS).

The movements of debt instruments at amortized cost are as follow:

	2023	2022
<b>Cost</b>		
Balance at beginning of year	<b>₱21,000,000</b>	₱41,000,000
Maturities	-	(20,000,000)
Balance at end of year	<b>21,000,000</b>	21,000,000
<b>Premium (Discount)</b>		
Balance at beginning of year	<b>122,349</b>	61,828
Amortization – net	<b>(46,130)</b>	60,521
Balance at end of year	<b>76,219</b>	122,349
<b>Carrying amount at December 31</b>	<b>₱21,076,219</b>	₱21,122,349

Interest income for the years ended December 31, 2023 and 2022 amounted to ₱394,870 and ₱660,132, respectively, and is included under "Investment and other income" in the statements of comprehensive income (see Note 12).

## 7. PROPERTY AND EQUIPMENT (NET)

The reconciliation of property and equipment is as follows:

December 31, 2023	Office equipment	Furniture and fixtures	IT equipment	Total
<b>Cost</b>				
Balance at beginning of year	₱1,755,528	₱70,120	₱1,777,070	₱3,602,718
Additions	15,990	-	-	15,990
<b>Balance at end of year</b>	<b>1,771,518</b>	<b>70,120</b>	<b>1,777,070</b>	<b>3,618,708</b>
<b>Accumulated depreciation</b>				
Balance at beginning of year	1,649,016	70,120	1,768,117	3,487,253
Depreciation	77,882	-	8,953	86,835
<b>Balance at end of year</b>	<b>1,726,898</b>	<b>70,120</b>	<b>1,777,070</b>	<b>3,574,088</b>
<b>Carrying amount at December 31, 2023</b>	<b>₱44,620</b>	<b>₱-</b>	<b>₱-</b>	<b>₱44,620</b>



December 31, 2022	Office Equipment	Furniture and fixtures	IT equipment	Total
<u>Cost</u>				
Balance at beginning and end of year	₱1,755,528	₱70,120	₱1,777,070	₱3,602,718
<u>Accumulated depreciation</u>				
Balance at beginning of year	1,565,155	70,120	1,729,169	3,364,444
Depreciation	83,861	-	38,948	122,809
Balance at end of year	1,649,016	70,120	1,768,117	3,487,253
Carrying amount at December 31, 2022	₱106,512	₱-	₱8,953	₱115,465

As at December 31, 2023 and 2022, the total cost of fully depreciated property and equipment that are still being used by the Association amounted to ₱3,193,269 and ₱3,096,580, respectively.

The Association's property and equipment as at December 31, 2023 and 2022 are not held as collateral for its liabilities and are free from any encumbrances. The Association did not enter into any contractual commitment for the acquisition of property and equipment.

Management believes that there is no indication of impairment on its property and equipment.

## 8. ACCOUNTS PAYABLE AND OTHER LIABILITIES

This account consists of:

	2023	2022
Claims payable on basic contingent benefit	₱6,505,648	₱5,827,359
Payable to members	4,954,128	7,833,183
Accrued expenses	772,320	297,920
Members' contribution received in advance	224,554	133,097
SSS, Philhealth and Pag-ibig payables	37,153	34,052
Withholding taxes payable	30,471	66,262
	<b>₱12,524,274</b>	<b>₱14,191,873</b>

Claims payable on basic contingent benefit pertains to the benefits not yet claimed by withdrawn members and members' beneficiaries including those benefits IBNR as at December 31, 2023 and 2022.

Payable to members include outstanding payable related to loan overpayments, refund of equity value of terminated members and staled checks.

Accrued expenses consist mainly of accrual for professional and technical fees.

## 9. BASIC CONTINGENT BENEFIT RESERVE

Under the Insurance Code, an MBA doing business in the Philippines shall establish a reserve liability in accordance with actuarial procedures and shall be approved by the IC. The Association's latest actuarial valuation is as at December 31, 2023.

The table below shows the summary of valuation results based on actuarial valuation report under existing benefit guidelines:

	2023	2022
Number of members (A)	9,787	9,757
Estimated annual contributions (B)	₱1,800	₱1,440
Total estimated annual contributions (A x B)	17,616,600	14,050,080
Present value of benefits	388,012,486	390,439,277
Present value of future contributions	193,179,389	193,968,956
Reserves	₱211,108,057	₱196,470,321

The reserves were computed as the present value of future benefits less the present value of future net annual contributions. The net annual contribution used is 80% of the gross annual contribution.

The valuation method interest rate used was 4.25% per annum for 2023 and 2022. The mortality rates used were based on the 1958 Commissioners Reserve Ordinary (1958 CSO) for members and on 150% of the 1958 CSO for dependents. No withdrawals were assumed.

The basic contingent benefit reserve was certified by the Association's independent actuary who is accredited by the IC and who also issued an unqualified opinion on the account.

The movement in basic contingent benefit reserve is as follows:

	2023	2022
Beginning balance	₱196,470,321	₱193,900,460
Additions	14,637,736	2,569,861
Ending balance	₱211,108,057	₱196,470,321

On May 10, 2021, the IC approved the Association's increase in basic benefits and contributions, and the maximum loanable amount for hospitalization and supplemental loans.

On December 27, 2023, the IC approved the increase in maximum loanable amount for medicine and calamity loans.

## 10. LIABILITY ON INDIVIDUAL EQUITY VALUE

This account pertains to the equity value of the members, which represents the withdrawal benefit they will receive upon death or withdrawal or termination of membership.

The following table summarizes the movements of the members' contributions as at December 31:

	2023	2022
Balance at beginning of year	₱114,949,383	₱109,713,143
Contributions during the year	8,574,968	8,609,276
Refunds during the year	(3,394,541)	(3,253,066)
Others	(21,358)	(119,970)
Balance at end of year	₱120,108,452	₱114,949,383

## 11. FUND BALANCE

Section 408 of R. A. No. 10607, “An Act Strengthening the Insurance Industry” further amending Presidential Decree no. 612, otherwise known as “The Insurance Code”, which was approved on August 15, 2013, provides that an MBA shall only maintain free and unassigned fund balance of not more than twenty percent (20%) of its total liabilities as verified by the Commissioner. Excess amount shall be returned to the members by way of dividends, enhancing the equity value or providing benefits in kind and other relevant services.

Under Insurance Memorandum Circular No. 2-2006, all existing MBAs should maintain a guaranty fund of at least ₱12,500,000. The guaranty fund maintained by the Association is in compliance with IC which amounted to ₱21,000,000 as at December 31, 2023 and 2022.

In September 2023, IC approved the disposition of unclaimed non-financial benefits, and conversion of Funds Assigned for Other Members' Benefits amounting to ₱5,699,908 into Funds Assigned for Incremental Benefit of Individual Equity Value. Both are subject to ratification by members in a general/special membership meeting.

## 12. INVESTMENT AND OTHER INCOME

Details of investment and other income for the years ended December 31 are as follow:

	2023	2022
Interest income on investments – notes 4 and 6	<b>₱747,375</b>	₱660,132
Dividend income – note 14	<b>197,225</b>	188,650
Interest income on bank deposits – notes 4 and 14	<b>96,804</b>	258,718
Miscellaneous	<b>6,201</b>	60,469
	<b>₱1,047,605</b>	<b>₱1,167,969</b>

Miscellaneous consists of revenue from cancelled obligations and petty income transactions.

## 13. INCOME TAXES

The Association was granted by the Bureau of Internal Revenue (BIR) on August 31, 2001, an exemption from the payment on income received by it and therefore need not file income tax returns concerning such income. However, income derived by the Association from any of its properties and interest on money market placements and royalties derived from within the Philippines shall be reported for taxation.

On July 22, 2013, the BIR issued Revenue Memorandum Order (RMO) no. 20-2013 prescribing the policies and guidelines in the issuance of tax exemption rulings for non-stock, non-profit corporations and associations under Section 30 of the National Internal Revenue Code (NIRC) of 1997, as amended. Under the RMO, corporations and associations qualified under Section 30 of NIRC shall be issued Tax Exemptions/Revalidation after the submission of required documents to BIR. Pursuant thereto, the Association submitted the required documents to the BIR on October 23, 2013. On July 26, 2016, RMO no.44-2016 was issued by the BIR amending RMO no. 20-2013. For all legal intents and purposes therefore, the Association has complied with the legal requirements for Tax Exemption/Revalidation.

On July 24, 2019, BIR issued RMO 38-2019 clarifying the nature, character and tax treatment of corporations under Section 30 of the NIRC of 1997, as amended, and to devolve to the Revenue Regions the issuance of Certificate of Tax Exemptions to said corporations. The Association is currently preparing documents for the issuance of tax exemption certificate from BIR.

#### **14. RELATED PARTY TRANSACTIONS**

The Association's related party transactions are as follow:

- a) Transactions with the BOT who are considered the key management personnel of the Association. Total loans granted to key management personnel of the Association amounted to ₱660,000 and ₱970,000 in 2023 and 2022, respectively. The outstanding balance of the loans amounted to ₱553,042 and ₱582,490 as at December 31, 2023 and 2022, respectively, and is included in "Loans receivable" under "Loans and receivables" in the statements of financial position (see Note 5). Loans are paid through salary deductions.
- b) The Association is a member of MERALCO Savings and Loans Association (MESALA) and invested capital contribution amounting to ₱1,715,000, which is included in "Other assets" in the statements of financial position. This investment earned dividend income amounting to ₱197,225 in 2023 and ₱188,650 in 2022 and are included under "Investment and other income" account in the statements of comprehensive income (see note 12).

The Association also has a savings deposit in MESALA amounting to ₱1,409,726 and ₱1,128,599 as at December 31, 2023 and 2022, respectively and is not restricted for withdrawal. Interest income earned in 2023 and 2022 amounted to ₱83,902 and ₱239,752, respectively, and is presented under "Investment and other income" (see Note 12).

- c) The Association occupies the office space owned by MERALCO, an affiliate, free of rental charges.

##### *Per diem, allowances and other benefits*

The Association's BOT does not receive any compensation or remuneration for their services, except for reasonable allowances and per diem. There were no key management personnel per diem, allowances and other benefits received in 2023 and 2022.

#### **15. EMPLOYEE BENEFITS**

##### *Short term benefits*

The Association's short-term employee benefits amounting to ₱4,083,580 and ₱3,656,633 in 2023 and 2022, respectively, consist of salaries and wages, social security costs and allowances.

##### *Retirement benefits*

The Association maintains an unfunded noncontributory defined retirement benefits plan covering all regular employees. The computation of retirement benefit costs is based on R. A. No. 7641, Retirement Law. The Association's actuarial valuation is as at December 31, 2023.

The movements in retirement benefits obligation recognized in the statements of financial position are as follow:

	2023	2022
Balance at beginning of year	₱-	₱-
Retirement benefits expense		
Current service cost	138,063	-
Remeasurement gain on retirement benefits		
Changes in demographic assumptions	2,763,695	-
Balance at end of year	₱2,901,758	₱-

The following actuarial assumptions were used to determine the retirement benefits obligation:

	2023	2022
Discount rate	6.21%	-
Salary increase rate	6.00%	-

The weighted average duration of the defined benefit obligation is 17 years.

#### Risk Arising from the Retirement Plan

The defined benefit plan is unfunded by ₱2,901,758 as at December 31, 2023. While there is no minimum required funding, the amount without fund may expose the Association to cash flow risk for 10 years when a significant number of employees are expected to retire.

#### *Maturity Profile of Undiscounted Benefit Payments*

The maturity analysis of the Association's undiscounted benefit payments as at December 31, 2023 is as follows:

	1 year and less	More than 1 to 5years	More than 5 to 10 years	More than 10 to 15 years	More than 15 to 20 years	More than 20 years
Normal retirement	₱-	₱-	₱4,362,486	₱-	₱1,544,967	₱8,016,357

#### Discount Rate Sensitivity

The following illustrates the sensitivity of the Association's retirement benefits obligation to a reasonably possible change in each key assumption, with all other variables held constant. A +/-1% increase or decrease is used when reporting this risk internally to key management personnel and represents management's assessment of the reasonably possible change in discount rate and salary increase. The impact on the Association's retirement benefits obligation as at December 31, 2023 which affects the Association's cash flow is as follows:

	Increase (decrease)	Present value of obligation	Increase (decrease) on retirement benefits obligation
Discount rate	+1%	₱2,552,668	(₱349,090)
	-1%	3,313,176	411,418
Salary increase	+1%	3,309,226	407,468
	-1%	2,548,008	(353,750)

Regulatory Framework in which the Retirement Obligation Operates

In accordance with the provisions of the Labor Code, the Association is required to pay eligible employees at least the minimum regulatory benefit upon retirement, subject to age and service requirements.

Responsibilities of Trustees

Since the Association does not have a formal, trustee retirement plan, there are no trustees yet.

**16. FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Association is exposed to a variety of financial risks which result from both its operating and investing activities. The Association's risk management policies focus on actively securing the Association's short-term to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Association's principal financial instruments comprise of cash and accounts payable and other liabilities (excluding liabilities to government agencies). These financial instruments are used mainly for working capital management purposes. The Association has other financial assets such as loans and receivables, debt instruments at amortized cost and other assets.

*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, like granting loans and receivables to members and placing deposits and investment in bonds.

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

*Credit risk exposure*

The Association's maximum exposure to credit risk without taking into account any collateral held or other credit enhancements arises from the carrying amount of financial assets recognized in the statements of financial position.

The table below shows the maximum exposure to credit risk of the Association as at December 31.

		December 31, 2023			
		Basis of ECL	Gross carrying amount	Loss allowance	Net carrying amount
Cash*	(a)		₱30,009,814	₱-	₱30,009,814
Loans and receivables (net)	(b)	Lifetime ECL	389,170,397	959,462	388,210,935
Debt instruments at amortized cost	(a)		21,076,219	-	21,076,219
Other asset	(a)		1,715,000	-	1,715,000
			₱441,971,430	₱959,462	₱441,011,968

*\*Excluding cash on hand amounting to ₱5,000 and cash in banks amounting to ₱1,584,086 which are secured by Philippine Deposit Insurance Corporation (PDIC)*

		December 31, 2022			
		Basis of ECL	Gross carrying amount	Loss allowance	Net carrying amount
Cash*	(a)		₱63,360,339	₱-	₱63,360,339
Loans and receivables (net)	(b)	Lifetime ECL	335,564,535	817,415	334,747,120
Debt instruments at amortized cost	(a)		21,122,349	-	21,122,349
Other asset	(a)		1,715,000	-	1,715,000
			₱421,762,223	₱817,415	₱420,944,808

*\*Excluding cash on hand amounting to ₱5,000 and cash in banks amounting to ₱1,998,930 which are secured by Philippine Deposit Insurance Corporation (PDIC)*

- a) Cash, debt instruments at amortized cost and other asset are assessed to have low credit risk at each reporting period. These are held by reputable banking and quasi-banking institutions.
- b) For loans and receivables, the Association has applied the simplified approach to measure the loss allowance at lifetime ECLs. The Association determines the ECL based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

The Association computed ECL rate of the loans and receivables based on the payment profiles of member-borrowers over a period of twenty-four (24) months before December 31, 2023 and 2022 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. In 2023 and 2022, the Association's ECL rate was 0.25% for the current accounts under loans and receivables.

Trade and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Association and if past due for more than one (1) year.

In addition, the Association ensures that all members who wish to avail loans are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The following are the specific qualifications needed in order for a member to avail a loan:

- a) For managerial and rank and file employees of MERALCO and its affiliated companies who are members of the Association.

Members availing the loan are required to have a co-maker which will make them jointly and severally liable in paying the loan. The co-maker will serve as the borrower's collateral or security in paying the loan. Once the borrower defaulted in paying the loan, the outstanding balance of the loan will be automatically transferred to the co-maker.

Also, computation of borrowing capacity from employer is required indicating the applicable amount that a member may loan from the Association. A certain percentage of take-home pay must be met to assure that the amortization for the loan will be deducted or applied to his salary.

In case the member has been suspended or terminated, has retired, resigned or defaulted from paying his loan, the Association may deduct from whatever wages or cash benefits due to him from his employer.

- b) Retired employees who are members of the Association with pension

Member can avail loan from the Association as the retiree has a net pension provided that the pension is enough to cover the monthly amortization.

- c) Retired employees who are members of the Association without pension

Members availing loan are required to issue a post-dated check or a deed of assignment authorizing the Association to deduct the monthly loan amortization of the availed loan to his/her MESALA savings or capital contribution. Co-maker is also required.

All members availing loan are required to fill up a form, giving the Association the authority to deduct and collect.

The other receivables, which consists of unremitted collections and due and uncollected members' contribution from counterparties with strong capacity to meet its obligations, are assessed to be with low credit risk.

To measure the ECL, loans and receivables of the Association are based on shared credit risk characteristic and the days past due.

The loss allowance for loans and receivables as at December 31 is determined as follows:

	Current	1-30 days past due	> 90 days past due	> 1 year	Total
<b><u>December 31, 2023</u></b>					
<b>Gross carrying amount</b>					
Loans receivable	₱383,784,693	₱-	₱-	₱-	₱383,784,693
Other receivables	5,385,704	-	-	-	5,385,704
<b>Loss allowance</b>	<b>₱959,462</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱959,462</b>



	Current	1-30 days past due	> 90 days past due	> 1 year	Total
<b><u>December 31, 2022</u></b>					
Gross carrying amount					
Loans receivable	₱327,785,955	₱-	₱-	₱-	₱327,785,955
Other receivables	7,778,580	-	-	-	7,778,580
Loss allowance	₱817,415	₱-	₱-	₱-	₱817,415

The table below provides information regarding the credit risk exposure of the Association by classifying assets according to the Association's credit ratings of counterparties.

**December 31, 2023**

	Neither past due nor impaired		Past due but not impaired	Impaired financial assets	Total
	High	Medium			
Cash	₱30,009,814	₱-	₱-	₱-	₱30,009,814
Loans and receivables	388,210,935	-	-	959,462	389,170,397
Debt instrument at amortized cost	21,076,219	-	-	-	21,076,219
Other asset	1,715,000	-	-	-	1,715,000
	₱441,011,968	₱-	₱-	₱959,462	₱441,971,430

**December 31, 2022**

	Neither past due nor impaired		Past due but not impaired	Impaired financial assets	Total
	High	Medium			
Cash	₱63,360,339	₱-	₱-	₱-	₱63,360,339
Loans and receivables	334,747,120	-	-	817,415	335,564,535
Debt instrument at amortized cost	21,122,349	-	-	-	21,122,349
Other asset	1,715,000	-	-	-	1,715,000
	₱420,944,808	₱-	₱-	₱817,415	₱421,762,223

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. There are two types of interest rate risk:

- Fair value interest rate risk – the risk that the value of the financial instrument will fluctuate because of changes in market interest rates; and
- Cash flow interest rate risk – the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rate.

The Association's interest risk policy requires it to manage interest rate risk by managing the maturities of interest-bearing financial assets. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until the maturity. As at December 31, 2023 and 2022, the Association does not have financial instruments which have repricing interest.

The Association is exposed to fair value interest rate risk on its interest-bearing debt instruments as at December 31, 2023 and 2022. If interest rate increases/decreases by 100 basis points, with all variables held constant (through the impact of changes in fair value of these instruments) the Association's income and fund balance would increase or decrease by ₱136,718 for the years 2023 and 2022.

### *Liquidity Risk*

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

The Association manages its liquidity needs by carefully monitoring scheduled payments. The Association maintains cash to meet its liquidity requirements. Excess cash are invested in time deposits or short-term marketable securities.

The Association's accounts payable and other liabilities (excluding liabilities to government agencies and members' contributions received in advance) amounting to ₱12,232,096 in 2023 and ₱13,958,461 in 2022 has contractual maturities of less than three months.

The table below summarizes the maturity profile of the Association's financial assets and financial liabilities based on contractual undiscounted payments.

<b><u>December 31, 2023</u></b>	<b><u>Up to one year</u></b>	<b><u>One to 3 years</u></b>	<b><u>3 to 5 Years</u></b>	<b><u>Over 5 years</u></b>	<b><u>Total</u></b>
<b><u>Assets</u></b>					
Cash	₱31,593,900	₱-	₱-	₱-	₱31,593,900
Loans and receivables	196,513,396	191,697,539	-	-	388,210,935
Debt instruments at amortized cost	21,076,219	-	-	-	21,076,219
Other asset	-	-	-	1,715,000	1,715,000
	<b>249,183,515</b>	<b>191,697,539</b>	<b>-</b>	<b>1,715,000</b>	<b>442,596,054</b>
<b><u>Liabilities</u></b>					
Accounts payable and other liabilities	12,524,274	-	-	-	12,524,274
Liability on individual equity value	120,108,452	-	-	-	120,108,452
	<b>132,632,726</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>132,632,726</b>
<b>Liquidity position gap</b>	<b>₱116,550,789</b>	<b>₱191,697,539</b>	<b>₱-</b>	<b>₱1,715,000</b>	<b>₱309,963,328</b>

December 31, 2022	Up to one year	One to 3 years	3 to 5 Years	Over 5 years	Total
<u>Assets</u>					
Cash	₱65,359,269	₱-	₱-	₱-	₱65,359,269
Loans and receivables	175,348,566	159,398,554	-	-	334,747,120
Debt instruments at amortized cost	21,122,349	-	-	-	21,122,349
Other asset	-	-	-	1,715,000	1,715,000
	261,830,184	159,398,554	-	1,715,000	422,943,738
<u>Liabilities</u>					
Accounts payable and other liabilities	14,191,873	-	-	-	14,191,873
Liability on individual equity value	114,949,383	-	-	-	114,949,383
	129,141,256	-	-	-	129,141,256
Liquidity position gap	₱132,688,928	₱159,398,554	₱-	₱1,715,000	₱293,802,482

### Fund Risk Objective and Management

The primary objective of the Association's fund management is to ensure that the Association complies with externally imposed capital requirements and that the Association maintains strong credit ratings and healthy capital ratios in order to support its business and maximize members' value.

### *Risk-Based Capital (RBC) Requirements*

Based on Circular Letter No. 11-2006 dated December 8, 2006, the IC approved the guidelines on the adoption of RBC framework for MBAs. This requires every MBA to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the Association to corresponding regulatory intervention which has been defined in various levels.

The RBC ratio shall be calculated as Members' Equity divided by the RBC requirement. Members' Equity is defined as Admitted assets minus all liabilities inclusive of actuarial reserve and other obligations under the policies and membership certificate.

The RBC ratio as determined by the Association as follows:

	2023	2022
Members' equity	<b>₱91,179,933</b>	₱90,235,333
RBC requirement	<b>53,527,919</b>	46,234,131
RBC ratio	<b>170%</b>	195%

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

As at December 31, 2023 and 2022, the Association is in compliance with the required RBC ratio by the IC.

### Insurance Risk

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

The main insurance risks the Association is exposed to are:

- Mortality risk – risk of loss arising due to member death experience being different than expected.
- Longevity risk – risk of loss arising due to annuitant living longer than expected.
- Investment return risk – risk of loss arising from returns being different from expected.
- Expense risk – risk of loss arising from expense experience being different from expected.
- Member decision risk – risk of loss arising due to member experiences being different than expected.

The Association's main insurance policy entitles a member to life insurance with accidental death benefit and dismemberment coverage.

The significant factors that could increase the overall frequency of claims are terrorisms, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected.

The Association manages its insurance risk by ensuring it generates lasting returns from its financial assets, so that it will be able to fund its obligation arising from its insurance contracts. The Association also closely monitors its assets and liabilities to attempt to match the expected pattern of claim payments with the maturity dates of its assets.

The Association determines its concentration of insurance risk base or sectoral concentration. Majority of the Association's members are from MERALCO, its subsidiaries and affiliates, which composes 100% of the total membership base of the Association as at December 31, 2023 and 2022.

The Association's exposure to insurance risk pertains to Basic contingent benefit reserve of ₱211,108,057 and ₱196,470,321 as at December 31, 2023 and 2022, respectively.

As at December 31, 2023 and 2022, it is estimated that a general increase of one percent (1%) in basic contingent benefit reserve, with all other variables held constant, would decrease the Association's net income and fund balance by approximately ₱2,111,081 and ₱1,964,703, respectively. An equal change in the opposite direction would have increased net income and fund balance by an equal but opposite amount.

## 17. FAIR VALUE INFORMATION

*Financial assets and liabilities measured at amortized cost for which fair value is disclosed*

The following gives information about how the fair values of the Association's financial assets and liabilities, which are not measured at fair value but the fair values, are disclosed at the end of each reporting period are determined.

*Cash, loans receivable (current portion), other receivables, liability on individual equity value and accounts payable and other liabilities*

Due to the short-term nature of these financial instruments, their fair value approximates the carrying amount as at reporting date.

The carrying amount and fair value of the categories of noncurrent financial assets presented in the statements of financial position are shown below:

	2024			
	Carrying values	Fair values	Fair value hierarchy	Valuation techniques
<b><u>Financial assets</u></b>				
Loans and receivables	₱191,697,539	₱191,697,539	Level 2	(a)
Debt instruments at amortized cost	21,076,219	19,900,122	Level 2	(b)
Other asset	1,715,000	1,619,911	Level 2	(c)
	<b>₱214,488,758</b>	<b>₱213,217,572</b>		
	2022			
	Carrying values	Fair Values	Fair value hierarchy	Valuation techniques
<b><u>Financial assets</u></b>				
Loans and receivables	₱159,398,554	₱159,398,554	Level 2	(a)
Debt instruments at amortized cost	21,122,349	19,856,404	Level 2	(b)
Other asset	1,715,000	1,630,075	Level 2	(c)
	<b>₱182,235,903</b>	<b>₱180,885,033</b>		

### *(a) Loans and receivables*

The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at the loan's interest rates ranging from 3.50% to 7.00% in 2023 and 2022.

### *(b) Debt instrument at amortized cost*

The fair value of the Association's debt instrument at amortized cost is determined based on the present value of estimated future cash flows using prevailing market rates. Fair values are based on quoted rates of 5.91% in 2023 and 6.38% in 2022.

(c) *Other assets*

Estimated fair value is determined based on the present value of estimated future cash flows using prevailing market rates. The discount rate used is 5.87% and 5.21% in 2023 and 2022, respectively.

# 18. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

December 31, 2023	Less than 12 months	Over 12 months	Total
<u>Assets</u>			
Cash	₱31,598,900	₱-	₱31,598,900
Loans and receivables (net)	196,513,396	191,697,539	388,210,935
Debt instruments at amortized cost	-	21,076,219	21,076,219
Property and equipment (net)	-	44,620	44,620
Other asset	-	1,715,000	1,715,000
Total assets	₱228,112,296	₱214,533,378	₱442,645,674
<u>Liabilities</u>			
Accounts payable and other liabilities	₱12,524,274	₱-	₱12,524,274
Basic contingent benefit reserve	-	211,108,057	211,108,057
Liability on individual equity value	120,108,452	-	120,108,452
Retirement benefits obligation	-	2,901,758	2,901,758
Total liabilities	₱132,632,726	₱214,009,815	₱346,642,541
December 31, 2022	Less than 12 months	Over 12 months	Total
<u>Assets</u>			
Cash	₱65,364,269	₱-	₱65,364,269
Loans and receivables (net)	175,348,566	159,398,554	334,747,120
Debt instruments at amortized cost	-	21,122,349	21,122,349
Property and equipment (net)	-	115,465	115,465
Other asset	-	1,715,000	1,715,000
Total assets	₱240,712,835	₱182,351,368	₱423,064,203
<u>Liabilities</u>			
Accounts payable and other liabilities	₱14,191,873	₱-	₱14,191,873
Basic contingent benefit reserve	-	196,470,321	196,470,321
Liability on individual equity value	114,949,383	-	114,949,383
Total liabilities	₱129,141,256	₱196,470,321	₱325,611,577

# 19. SUPPLEMENTARY INFORMATION REQUIRED BY BIR

## Revenue Regulation (RR) No. 15-2010

Presented below is the detailed information for the year ended December 31, 2023:

- a. As a non-stock, non-profit organization, the Association is exempted from VAT.

- b. The schedule of taxes, licenses and fees follows:

IC supervision fee	<b>₱50,500</b>
IC audit fee and related fees	<b>20,200</b>
Business permit	<b>18,952</b>
RoSS subscription	<b>12,000</b>
SEC Processing of amendment of By-Laws and Articles of Incorporation	<b>8,430</b>
IC revision of membership certificate	<b>6,550</b>
IC amendment of By-Laws and Articles of Incorporation	<b>1,010</b>
BIR Annual Registration Fee	<b>500</b>
	<b>₱118,142</b>

- c. The amount of withholding taxes follows:

Taxes on compensation and benefits	<b>₱224,252</b>
Expanded withholding taxes	<b>42,873</b>
	<b>₱267,125</b>

- d. The Association has no tax cases under preliminary investigation and/or prosecution in courts or bodies outside the BIR.

RR No. 34-2020

The Association is not covered by the requirements and procedures for related party transactions under RR No. 34-2020.

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