KAZAMA GRAMEEN (KGI)
MUTUAL BENEFIT ASSOCIATION, INC.
(KGI-MBA)

(A Nonstock, Not-for-Profit Association)

AUDITED FINANCIAL STATEMENTS
December 31, 2023
with Report of Independent Auditors
(With Comparative Figures for 2022)

MAM & Co.

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INDEPENDENT AUDITORS' REPORT

The Members and the Board of Trustees
Kazama Grameen (KGI)
Mutual Benefit Association (KGI-MBA) Inc.
Lot 25, Block 12, Sta. Monica Subdivision
Subic, Zambales

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Kazama Grameen (KGI) Mutual Benefit Association (KGI-MBA) Inc.** *(a Non-stock, Not-for-profit Association) (the Association),* which comprise the statement of financial position as at December 31, 2023, and the related statement of profit or loss and other comprehensive income, statement of changes in members' equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **Kazama Grameen (KGI) Mutual Benefit Association (KGI-MBA) Inc.,** as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Other Matters

The financial statements of **Kazama Grameen (KGI) Mutual Benefit Association (KGI-MBA) Inc.** ***(a Non-stock, Not-for-profit Association)*** as of and for the year then ended December 31, 2022 were audited by another independent auditors who expressed an unqualified opinion on those statements on April 24, 2023.

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern.

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

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

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

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

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

M. A. MERCADO & CO.

MARCELINO A. MERCADO
Partner
CPA License No. 066885
Tax Identification No. 102-921-222
P.T.R. No. 10088643; Issued on January 12, 2024, Makati City
SEC Accreditation No. 66885-SEC (Group B)
Issued on January 25, 2022
Valid until 2025 Financial Statements of SEC covered institutions
BIR Accreditation No. 08-003338-002-2021
Issued on December 9, 2021; Valid until December 8, 2024
IC Accreditation No. 66885-IC (Group A)
Issued on January 26, 2021
Valid until 2024 Financial Statements of IC covered institutions
Firm's BOA/PRC Cert. of Reg. No. 5658
Issued on September 18, 2020; Valid until September 17, 2023
Firm's SEC Accreditation No. 5658-SEC (Group B)
Issued on January 25, 2022
Valid until 2025 Financial Statements of SEC covered institutions
Firm's BIR Accreditation No. 08-006173-000-2024
Issued on March 5, 2024; Valid until March 5, 2027
Firm's IC Accreditation No. 5658-IC (Group A)
Issued on January 26, 2021
Valid until 2024 Financial Statements of IC covered institutions

April 15, 2024

KAZAMA GRAMEEN (KGI) MUTUAL BENEFIT ASSOCIATION (KGI-MBA) INC.
(A Non-Stock, Not-for-Profit Association)

(With comparative figures for 2022)
STATEMENTS OF FINANCIAL POSITION

	Notes		December 31 2023		2022
ASSETS					
Cash	2,4	₱	**14,377,220**	₱	17,562,672
Short-term investments	2,5		**14,124,632**		29,295,944
Financial assets	2,3,6				
Held-to-maturity (HTM) investments			**30,580,918**		15,813,000
Financial asset at fair value through profit or loss			**6,106,856**		5,857,621
Loans and receivables			**10,326,001**		8,078,256
Property and equipment	2,3,7		**141,385**		129,220
Prepayments and other assets	2,8		**912,570**		827,567
		₱	**76,569,582**	₱	77,564,280
LIABILITIES AND EQUITY					
Liabilitites					
Insurance contract liabilities	2,9	₱	**35,781,742**	₱	38,401,015
Accrued expenses and other liabilities	2,10		**2,151,834**		4,733,952
			37,933,576		43,134,967
Fund Balance					
Appropriated fund balance	20		**28,945,997**		20,826,652
Unappropriated fund balance	20		**9,690,009**		13,602,661
			38,636,006		34,429,313
		₱	**76,569,582**	₱	77,564,280

See Accompanying Notes to Financial Statements.

KAZAMA GRAMEEN (KGI) MUTUAL BENEFIT ASSOCIATION (KGI-MBA) INC.
(A Non-Stock, Not-for-Profit Association)
(With comparative figures for 2022)
STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31	
	Notes	**2023**	2022
REVENUES			
Premiums on insurance contracts	*2,11*	₱ **11,593,600**	₱ 12,349,322
Investment and other income	*2,12*	**1,643,399**	1,014,142
Miscellaneous income	*2,13*	**3,343,565**	8,557
TOTAL REVENUE		**16,580,564**	13,372,021
BENEFITS, CLAIMS, AND EXPENSES	*15*		
Gross insurance contract benefits and claims paid		**8,857,840**	8,187,427
Gross change in insurance contract liabilities		**(2,669,428)**	(547,798)
Collection fees		**594,590**	614,443
		6,783,002	8,254,072
GENERAL AND ADMINISTRATIVE EXPENSES	*14*	**5,456,806**	5,592,122
TOTAL COSTS AND OPERATING EXPENSES		**12,239,808**	13,846,194
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) BEFORE PROVISION FOR TAX		**4,340,756**	(474,173)
PROVISION FOR FINAL TAX	*16*	**134,063**	114,473
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR*		₱ **4,206,693**	₱ (588,646)

See Accompanying Notes to Financial Statements.

** The Association has no other comprehensive income*

KAZAMA GRAMEEN (KGI) MUTUAL BENEFIT ASSOCIATION (KGI-MBA) INC.
(A Non-Stock, Not-for-Profit Association)
(With comparative figures for 2022)
STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	Year ended December 31, 2023				
	Appropriated Fund Balance		**Unappropriated Fund Balance**		
	Guaranty Fund *(Note 20)*	**Member's Benefit**	**Guaranty Fund** *(Note 20)*	**Member's Benefit**	**Total**
Balances at January 1, 2023	**₱ 16,164,629**	**₱ 4,662,023**	**₱ 605,733**	**₱ 12,996,928**	**₱ 34,429,313**
Total comprehensive income	**-**	**-**	**-**	**4,206,693**	**4,206,693**
Appropriation of during the year	**579,680**	**7,586,715**	**(579,680)**	**(7,586,715)**	**-**
Reversal of appropriation	**(4,750)**	**-**	**4,750**	**-**	**-**
Distribution to members	**-**	**(42,300)**	**-**	**42,300**	**-**
Balance at December 31, 2023	**₱ 16,739,559**	**₱ 12,206,438**	**₱ 30,803**	**₱ 9,659,206**	**₱ 38,636,006**

	Year ended December 31, 2022				
	Appropriated		Unappropriated Fund Balance		
	Members' Equity *(Note 20)*	Guaranty Fund	Guaranty Fund *(Note 20)*	Members' Equity	Total
Balances at January 1, 2022	₱ 15,644,555	₱ 5,706,364	₱ 1,125,807	₱ 12,541,233	₱ 35,017,959
Total comprehensive loss	-	-	-	(588,646)	(588,646)
Appropriation of during the year	617,466	-	(617,466)	-	-
Reversal of appropriation	(97,392)	-	97,392	-	-
Distribution to members	-	(1,044,341)	-	1,044,341	-
Balance at December 31, 2022	₱ 16,164,629	₱ 4,662,023	₱ 605,733	₱ 12,996,928	₱ 34,429,313

See Accompanying Notes to Financial Statements.

KAZAMA GRAMEEN (KGI) MUTUAL BENEFIT ASSOCIATION (KGI-MBA) INC.
(A Non-Stock, Not-for-Profit Association)

(With comparative figures for 2022)
STATEMENTS OF CASH FLOWS

		Years ended December 31	
	Notes	**2023**	2022
Cash flows from operating activities			
Income (loss) before provision for final tax		₱ **4,340,756**	₱ (474,173)
Adjustments for:			
Interest income	2	**(1,394,165)**	(1,035,788)
Amortization of premium/(discount)	2,3,6	**953,082**	(245,160)
Depreciation	2,3,7	**63,425**	34,523
Fair value loss (gain) on financial assets through profit or loss	2,3,6	**(249,235)**	21,646
Cash generated from operations before working capital changes		**3,713,864**	(1,698,952)
Changes in operating assets and liabilities:			
(Increase) decrease in:			
Loans and receivables	2,3,6	**(2,247,745)**	(4,256,306)
Prepayments and other assets	2,8	**(85,003)**	(230,745)
Increase (decrease) in:			
Insurance contract liabilities	2,9	**(2,619,273)**	(547,798)
Accrued expenses and other liabilities	2,10	**(2,582,118)**	270,507
Cash used in operations		**(3,820,275)**	(6,463,294)
Final taxes paid		**(134,064)**	(114,473)
Net cash used in operating activities		**(3,954,339)**	(6,577,767)
Cash flows from investing activities			
Proceeds from:			
Short-term investments	2,3,6	**15,182,049**	-
Maturities of HTM investments	2,3,6	**15,182,049**	15,646,150
Acquisitions/availments of:			
Short-term investments	2,3,6	**-**	(172,368)
Held-to-maturity (HTM) investments	2,3,6	**(30,903,049)**	(15,567,840)
Property and equipment	2,3,7	**(75,590)**	(158,479)
Interest received; net of final tax	2	**1,383,428**	1,498,705
Net cash used in investing activities		**768,887**	1,246,168
Net decrease in cash and cash equivalents		**(3,185,452)**	(5,331,599)
Cash and cash equivalents, beginning of year	2,4	**17,562,672**	22,894,271
Cash and cash equivalents, end of year		₱ **14,377,220**	₱ 17,562,672

See Accompanying Notes to Financial Statements.

1. CORPORATE INFORMATION

Kazama Grameen (KGI) Mutual Benefit Association (KGI-MBA) Inc. *(a Non-stock, Not-for profit Association)* ("the Association") was registered with the Securities and Exchange Commission (SEC) as a non-stock, not-for-profit association on September 23, 2011, with SEC Registration No. CN201117039.

The Association obtained its license to offer life and health insurance to all its members on March 14, 2012. The Association focused on the campaign and information dissemination of its insurance products to branches, members and employees. Subsequently, the Insurance Commission (IC) approved the Association's Implementing Rules and Regulations governing benefits under the Certificate of Membership to members or their beneficiaries.

It was granted a license by the IC on January 1, 2019 to engage as a mutual benefit association that extends microinsurance benefits and services for the welfare and financial security of its members and their families. The Association actively involves the members in the direct management of the Association including the implementation of policies and procedures geared towards sustainability and improved services. The license of the Association is valid until December 31, 2024.

The Association is a non-stock, not-for-profit entity that no part of the income, which the Association may obtain as an incident to its operations, shall be distributed as dividends to its members, trustees or officers subject to the provisions of the Corporation Code on dissolution. Any profit obtained by the Association as a result of its operations, whenever necessary or proper shall be used for the furtherance of its purposes.

As a non-stock, not-for-profit and mutual benefit association, the Bureau of Internal Revenue (BIR) accords tax-exempt status to these corporations and associations with respect to income and value-added taxes as provided under the National Internal Revenue Code of 1997 as amended by Republic Act 8424 known as the Comprehensive Tax Reform Program by the Bureau of Internal Revenue.

As of April 15, 2024, the Association has not yet secured a BIR ruling or Certificate of Tax Exemption.

The registered office address of the Association is Block 12, Lot 25, Sta. Monica Subdivision, Subic Zambales.

The Board of Trustees of the Association has reviewed and approved the release of the accompanying financial statements on April 15, 2024.

2. MATERIAL ACCOUNTING POLICY INFORMATION

The more significant accounting policies and practices of the Association are summarized below to facilitate the understanding of data presented in the financial statements.

Basis of Preparation

These financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS includes all applicable PFRS, Philippine Accounting Standards (PAS) and interpretation, which have been approved by the Financial Reporting Standards Council

(FRSC) and adopted by the Securities and Exchange Commission (SEC), including SEC pronouncements.

The financial statements have been prepared under the historical cost convention except for financial assets at fair value through profit or loss (FVPL), which have been measured at fair value. The Association's financial statements are presented in Philippine Peso, which is the functional and presentation currency under PFRS. All values are rounded to the nearest peso except as otherwise indicated.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Association's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

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

Fair Value Measurement
The Association measures financial instruments at fair value at each financial position date.

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

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

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

The fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the assets in its highest and best use or by selling it to another 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 categorised 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 prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

Changes in Accounting Policies

The following explains the significant accounting policies which have been adopted in the preparation of the financial statements.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for the changes in accounting policies as explained below.

New and amended standards adopted by the Association

The Association has applied the following applicable new and revised accounting standards except otherwise as stated. The accounting policies adopted are consistent with those of the previous financial year.

Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed.

The amendments have had an impact on the Association’s disclosures of accounting policies, but not on measurement, recognition on presentation of any items in the Association’s financial statements.

Amendments to PAS 1 and PAS 8, *Definition of Accounting Estimates*

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

These amendments are effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and accounting estimates that occur on or after the start of that period. Earlier application is permitted.

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

Amendments to PAS 12, *Deferred Tax related to Asset and Liabilities arising from a Single Transaction*

The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments also clarify that where payments that settle a liability are deductible for tax purpose, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in financial statements (and interest expenses) or to the related asset component (and interest expenses).

An entity applies the amendments to transactions that occur on or after January 1, 2023 with earlier adoption permitted.

The amendments do not have material impact on the Association.

Amendments to PAS 12, *International Tax Reform – Pillar Two Model Rules*
The amendments introduce a mandatory exception in PAS 12 from recognizing and disclosing deferred tax assets and liabilities related to Pillar Two income taxes.

The amendments also clarify that PAS 12 applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two Model Rules published by the Organization for Economic Cooperation and Development (OECD) including tax law that implements qualified domestic minimum top up taxes. Such tax legislation and the income taxes arising from it are referred to as 'Pillar Two legislation' and 'Pillar Two income taxes', respectively.

The temporary exception from recognition and disclosure of information about deferred taxes and the requirement to disclose the application of the exception, apply immediately and retrospectively upon adoption of the amendments in June 2023.

Meanwhile, the disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after January 1, 2023.

The amendments will have no impact on the Association's financial statements.

Standards Issued but not yet Effective
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Association does not expect that the future adoption of the said pronouncement will have a significant impact on its financial statements. The Association intends to adopt the following pronouncement when they become effective.

Effective for annual periods beginning on or after January 1, 2024

Amendments to PAS 1 *Classification of Liabilities as Current or Non-current*

The amendments to paragraph 69 to 76 of PAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. However, in November 2021, the International Accounting Standard Board (IASB) tentatively decided to defer the effective date to no earlier than January 1, 2024.

The amendments are not expected to have a material impact on the Association.

Amendments to PFRS 16, Leases
The amendments clarify that the liability that arises from a sale and leaseback transaction, that satisfies the requirements in PFRS 15, revenue from Contracts with Customers, to be accounted for as a sale, is a lease liability to which PFRS 16 applies and give rise to a right-of-use asset. For the subsequent measurement, the seller-lessee shall determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying this subsequent measurement does not prevent the seller-lessee from recognizing any gain or loss relating to the partial or full termination of a lease. Any gain or loss relating to the partial or full termination of the lease does not relate to the right of use retained but to the right of use terminated. The amendments must be applied retrospectively. Earlier application is permitted.

The amendments are not expected to have a material impact on the Association.

Amendments to IAS 7 and IFRS 7, *Supplier Finance Arrangements*
In May 2023, the International Accounting Standards Board issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures. With the amendments, the IASB has introduced new disclosure requirements in IFRS Standards to enhance the transparency and, thus, the usefulness of the information provided by entities about supplier finance arrangements.

Entities will have to disclose the effects of supplier finance arrangements on their liabilities, cash flows and exposure to liquidity risk.

The amendments will be effective for annual reporting periods beginning on or after 1st January 2024, with early application permitted.

The amendments are not expected to have an impact on the Association.

Effective for annual periods beginning on or after January 1, 2025:

Amendments to PFRS 17 *Insurance Contracts*
The amendments to PFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4 Insurance Contracts (PFRS 4) that was issued in 2005. PFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

On December 15, 2021, the FRSC amended the mandatory effective date of PFRS from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

PFRS 17 is effective for reporting periods beginning on or after 1 January 2025, with comparative figures required. Early application is permitted provided the entity also applies PFRS 9 and PFRS 15 on or before the date it first applies PFRS 17.

The Association is currently assessing the potential impact of the impending adoption of PFRS 17 and plans to adopt the new standards on the required effective date once adopted locally.

Amendments to PAS 21, Lack of exchangeability
The amendments clarify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking, as well as require the disclosure of information that enables users of financial statements to understand the impact of a currency not being exchangeable.

The amendments apply for annual reporting periods beginning on or after 1 January 2025. Earlier application is permitted, in which case, an entity is required to disclose that fact. The date of initial application is the beginning of the annual reporting period in which an entity first applies the amendments.

The amendments are not expected to have an impact on the Association.

Deferred Effectivity

Amendments to PFRS 10, *Consolidated Financial Statements,* and PAS 28, *Sale or Contribution of Assets between an Investor and its Associates or Joint Venture*
The amendments address the conflict between PFRS 10 and PAS 8 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the full gain or loss is recognized when transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investor's interests in the associate or joint ventures.

The amendments are not applicable and will have no significant impact on the Association since the Association is not an investment entity or does it have an investment entity associate.

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

Qualifying for temporary exemption from PFRS 9
The Association applies the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4 Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts. The temporary exemption permits the Association to continue applying PAS 39 rather than PFRS 9 for annual periods beginning before January 1, 2025.

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

- The carrying amount of its liabilities arising from contracts within the scope of PFRS 4 is significant compared to the total carrying amount of all its liabilities; and
- The percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all of its liabilities is:
    a. Greater than 90 percent; or
    b. Less than or equal to 90 percent but greater than 80 percent, and the insurer does not engage in a significant activity unconnected with insurance.

Applying the requirements, the Association performed the predominance assessment using the statement of financial position as of December 31, 2015 and concluded that it qualified for the temporary exemption from PFRS 9. Since December 31, 2015, there has been no change in the activities of the Association that requires reassessment of the use of the temporary exemption.

Fair value disclosures
The table below represents an analysis of the fair value of classes of financial assets of the Association as of December 31, 2023 and 2022, as well as the corresponding change in fair value for the year then ended. The financial assets are divided into two categories:

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

	2023			
	SPPI financial assets		**Other financial assets**	
	Fair value	**Fair value change**	**Fair value**	**Fair value change**
Cash	**₱ 14,358,996**	**₱ -**	**₱ -**	**₱ -**
Short-term investments	**14,124,632**	**-**	**-**	**-**
Financial asset at fair value through profit or loss	**-**	**-**	**6,106,856**	**570,235**
Held-to-maturity investments	**30,580,918**	**-**	**-**	**-**
Loans and receivables	**10,326,001**	**-**	**-**	**-**
	₱ 69,390,547	**₱ -**	**₱6,106,856**	**₱ 570,235**

	2022			
	SPPI financial assets		Other financial assets	
	Fair value	Fair value change	Fair value	Fair value change
Cash	₱ 17,549,567	₱ -	₱ -	₱ -
Short-term investments	29,295,944	-	-	-
Financial asset at fair value through profit or loss	-	-	5,857,621	(24,527)
Held-to-maturity investments	15,813,000	-	-	-
Loans and receivables	8,078,256	-	-	-
	₱ 70,736,767	₱ -	₱5,857,621	₱ (24,527)

Credit risk disclosures

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

	2023					
	Credit Rating					
	Total	AAA	AA/A	BBB	BB/B	Unrated
Cash and cash equivalents	₱ 14,377,220	₱ 14,377,220	₱ -	₱ -	₱ -	₱ -
Short-term investments	14,124,632	14,124,632	-	-	-	-
Held-to-maturity investments	30,580,918	30,580,918	-	-	-	-
Loans and receivables	10,326,001	-	-	-	-	10,326,001
	₱ 69,408,771	₱ 59,082,770	₱ -	₱ -	₱ -	₱ 10,326,001

	2022											
	Credit Rating											
		Total		AAA		AA/A		BBB		BB/B		Unrated
Cash and cash equivalents	₱	17,562,672	₱	17,562,672	₱	-	₱	-	₱	-	₱	-
Short-term investments		29,295,944		29,295,944		-		-		-		-
Held-to-maturity investments		15,813,000		15,813,000		-		-		-		-
Loans and receivables		8,078,256		-		-		-		-		8,078,256
	₱	70,749,872	₱	62,671,616	₱	-	₱	-	₱	-	₱	8,078,256

Financial assets that passed the SPPI test have low credit risk as of December 31, 2023.

Material Accounting Policies

Cash
Cash includes cash on hand and in banks. These are carried in the statements of financial position at face amount. Cash in banks earn interest based on the prevailing bank deposit rates.

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

Financial Instruments

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

Initial recognition of financial instruments
Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability. Except for financial instruments valued at fair value through profit or loss (FVPL), the initial instrument of financial assets includes transaction costs.

The Association classifies its financial instruments in the following categories: financial assets or liabilities at FVPL, loans and receivables, held-to-maturity investments (HTM) and available-for-sale (AFS) financial assets and other financial liabilities, as appropriate. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Determination of fair value
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 the 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.

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 hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

As of December 31, 2023 and 2022, the Association's financial instruments are classified as loans and receivables, held-to-maturity investments, financial asset at fair value through profit or loss and other financial liabilities.

'Day 1' difference
Where the transaction price in a non-active market is different to the fair value from 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 profit or loss. In cases where use is made of data which is not observable, the difference between transaction price and model value is only recognized in the profit or loss 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.

Financial assets
The fair value for financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations, without any deduction for transaction costs. When current market prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

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

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in "Interest income" in profit or loss. The losses arising from impairment of such loans and receivables are recognized in profit or loss. This accounting policy relates to the Association's statement of financial position captions "Cash", "Short-term investments" and "Loans and receivables".

Financial assets or financial liabilities at FVPL
Financial assets or financial liabilities at FVPL includes financial assets or financial liabilities held for trading designated upon initial recognition as at FVPL.

Financial assets or financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial assets or financial liabilities designated upon initial recognition at fair value through profit or loss are so designated only if the criteria of PAS 39 are satisfied. Gains or losses on assets or liabilities held for trading are recognized in profit or loss.

As of December 31, 2023 and 2022, the Association's financial assets designated as at FVPL include investments in unit investment trust fund and guaranty fund. These financial assets are managed, and their performances are evaluated on a fair value basis, in accordance with the investment strategy.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity. Where the association sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement these investments are subsequently measured at amortized cost using the effective interest rate method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income.

As of December 31, 2023 and 2022, the Association's HTM investments consists of government securities.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities. The substance of the contractual arrangement results in the Association having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that form an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of income.

As of December 31, 2023 and 2022, the Association's other financial liabilities consist of claims payable and accrued expenses and other liabilities.

Classification of Financial Instruments between Debt and Equity
A financial instrument is classified as debt if it provides for a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Association; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares.

If the Association does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole, the amount separately determined as the fair value of the liability component on the date of issue.

Offsetting
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Association assesses that it has a currently enforceable right of offset if the right is not contingent on a future event and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Association and all of the counterparties.

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

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

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

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

Financial assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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

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

When the Association has transferred its right to receive cash flows from an asset 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 carrying amount of the asset and the maximum amount of consideration that the Association could be required to repay.

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

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

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

	Years
Office furniture and fixtures	10
Office equipment	5

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

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

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

Impairment of Nonfinancial Assets
At each reporting date, the Association assesses whether there is any indication that its non- financial assets may be impaired. When an indicator or impairment exists or when an annual impairment testing for an asset is required, the Association makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's cash generating unit (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or CGU).

An impairment loss is charged to operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

For the nonfinancial assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss and other comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Fund Balance
Fund balance represents accumulated excess of revenue over expenses of the Association.

Revenue Recognition
Revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

Gross Premiums on Insurance Contracts
Premiums are recognized when collected. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue. The Association receives its premiums through KGI-MBA which is acting as a collecting institution.

Interest income
Interest on interest-bearing placements is accrued using the effective interest rate (EIR) method.

Other income
Income from other sources is recognized when earned.

Insurance Contract Liabilities
Life insurance contract liabilities
Life insurance contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The Association accumulates and maintains, out of the periodic member's contribution and premiums collected as equity value reserves of 50% of the total member's contributions collected thereon. Valuation standards for life insurance policy reserves require all life insurance companies to calculate the reserves for traditional life insurance policies with a term of one year or less using unearned premium method.

Liability Adequacy Test
Liability adequacy tests are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against the statement of comprehensive income initially by establishing a provision for losses arising from the liability adequacy tests.

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

Expense Recognition
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants.

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

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

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

Leases
Short-term leases and leases of low-value assets
The Association applies recognition exemption to lease payments on short-term lease of office space (i.e. lease term ends within 12 months). Lease payments on short-term leases assets are recognized as expense on a straight-line basis over the lease term.

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

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

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

3. MANAGEMENT'S USE OF JUDGMENTS AND ESTIMATES

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

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

Judgment
HTM investments
The Association classifies non-derivative financial assets with fixed or determinable payments and fixed maturities as HTM investments. This classification requires significant judgment. In making this judgment, the Association evaluates its intention and ability to hold such investments to

maturity. If the Association fails to keep these investments to maturity other than in certain specific circumstances, the Association will be required to reclassify the entire portfolio as AFS financial assets and to measure these at fair value and not at amortized cost. The Association has HTM investments amounting to ₱30.58 million and ₱15.81 million as of December 31, 2023 and 2022, respectively (see Note 6).

Leases
The Association does not recognize right-of-use (ROU) asset and lease liability. In accordance with PFRS 16, Leases, the Association applies the short-term lease recognition exemption to its short-term lease agreement for its head office (i.e. lease that has a lease term of 12 months or less from the commencement date and does not contain a purchase option). The renewal option for the existing lease is not included as part of the lease term because the renewal is subject to mutual agreement of both the lessor and the Association.

Estimates
Estimation of member's equity value
The Association is required to put up a reserve liability not lower than the equity value of all in-force, active member certificates as at the end of each calendar year. Hence, the Association sets up the 50% of its gross premium collection as its reserves for member's equity.

Estimation of incurred but not reported claims
Incurred but not reported claims is the sum of individual claims on membership certificates that have already occurred but notice has not been received by the Association as of reporting date. The Association computes the IBNR claims by getting the average number of days to settle the claim multiplied by the average actual claims paid during year. Estimation of basic contingent benefit reserves The Association estimates basic contingent benefit reserves for payment of claims or obligations computed on the basis of a prudent prospective actuarial valuation method. The assumptions used are based on the 17.5% of total contributions for the month of December each year. This is based on mortality, disability and morbidity rate assumptions. As of December 31, 2023 and 2022, the Association's basic contingent benefit reserves amounted to ₱64,796 and ₱123,506, respectively (see Note 9).

Estimation of credit life insurance reserves
Credit life insurance reserves pertain to unearned premium reserves. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies at reporting date are accounted for as credit life insurance reserves and presented as part of "Insurance contract liabilities" in the liabilities section of the statement of financial position. The change in the credit life insurance reserves is taken to profit or loss in the order that revenue is recognized over the period of risk.

As of December 31, 2023 and 2022, the Association's credit life insurance reserves amounted to ₱154,230 and ₱162,269, respectively. (see Note 9).

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

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

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

In 2023 and 2022, no impairment loss has been recognized for the Association's property and equipment. As of December 31, 2023 and 2022, the carrying value of property and equipment amounted to ₱141,385 and ₱129,220, respectively. (see Note 7)

4. CASH AND CASH EQUIVALENTS

This account consists:

		2023		2022
Cash on hand and in banks	₱	**18,224**	₱	13,105
Cash equivalents		**14,358,996**		17,549,567
	₱	**14,377,220**	₱	17,562,672

Cash on hand includes petty cash fund and undeposited collections at year end.

Cash in banks earns interest at the prevailing bank deposit rates. Cash in banks earned interest of nil to 0.25% and 0.05% to 0.125% in 2023 and 2022, respectively. Interest income earned from cash in banks amounted to ₱4,403 and ₱12,346 in 2023 and 2022, respectively. (see Note 12)

5. SHORT-TERM INVESTMENTS

Short-term investments are money market placements with maturity of more than 3 months to 1 year and bear annual interest rates that ranged from 0.125% to 0.750% in 2023 and 2022. As of December 31, 2023 and 2022 the Association's short-term investments amounted to ₱14.12 million and ₱29.30 million, respectively. Interest income earned from these investments amounted to ₱160,899 and ₱215,616 in 2023 and in 2022, respectively. (see Note 12)

6. FINANCIAL ASSETS

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

		2023		2022
Financial assets at FVPL	₱	**6,106,856**	₱	5,857,621
HTM investments		**30,580,918**		15,813,000
Loans and receivables - net		**10,326,001**		8,078,256
	₱	**47,013,775**	₱	29,748,877

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

a) Financial assets at FVPL On August 13, 2018, the Association entered into a Participating Trust Agreement with Bank of the Philippine Islands (BPI) as investment manager of Bayanihan balanced fund. The Bayanihan balanced fund is a balanced Unit Investment Trust Fund (UITF) with 5.00% to 20.00% equities exposure that intends to achieve long term capital growth derived from a diversified portfolio of equity and fixed income securities. This account also includes a guaranty fund which pertains to cash paid by the Association to Microinsurance MBA Association of the Philippines, Inc. This fund represents a claim reserve held and being managed by MIMAP that will be subsequently used to satisfy the claims of the Association's members in case of insolvency. The fund is being managed by a universal bank and invested in bank deposits and government securities. The fair value of the guaranty fund amounted to ₱443,116 and ₱423,759 as of December 31, 2023 and 2022, respectively. The rollforward analysis of financial assets at FVPL follows:

	2023			2022		
	Bayanihan Balanced Fund	**Guaranty Fund**	**Total**	Bayanihan Balanced Fund	Guaranty Fund	Total
Balance at beginning of year	₱ **5,433,862**	₱ **423,759**	₱ **5,857,621**	₱ 5,458,389	₱ 420,878	₱ 5,879,267
Fair value gain (loss) (Note 14)	**229,878**	**19,357**	**249,235**	(24,527)	2,881	(21,646)
Balance at end of the year	**5,663,740**	₱ **443,116**	₱ **6,106,856**	₱ 5,433,862	₱ 423,759	₱ 5,857,621

b) *HTM investments*

This consists of government securities with aggregate carrying amount of ₱30.58 million and ₱15.81 million as at December 31, 2023 and 2022, respectively, and which earned interest at a nominal rate of 1.77% in 2023 and 2022.

The amortized costs of HTM investments follow:

	2023	2022
Fair value	₱ **31,925,000**	₱ 16,204,000
Discount	**(391,000)**	(636,160)
Carrying value	**31,534,000**	15,567,840
Amortization of discount	**(953,082)**	245,160
Balance at end of the year	₱ **30,580,918**	₱ 15,813,000

The rollforward analysis of HTM investments follows:

	2023	2022
At January 1	₱ **15,813,000**	₱ 15,646,150
Acquisitions	**30,903,049**	15,567,840
Maturities	**(15,182,049)**	(15,646,150)
Amortization of discount	**(953,082)**	245,160
Balance at end of the year	₱ **30,580,918**	₱ 15,813,000

Interest earned from HTM investments, including amortization of discount, amounted to ₱488,750 and ₱334,800 in 2023 and 2022, respectively. (see Note 12)

c) *Loans and receivables*

This account consists of:

		2023		2022
Due from KGI Microfinance (KGMI)	₱	**10,305,332**	₱	7,710,735
Due from microfinance institution (MFI) branches		**-**		345,571
Interest receivable		**20,669**		21,950
	₱	**10,326,001**	₱	8,078,256

The rollforward analysis of Due from KGMI as follows

		2023		2022
At January 1	₱	**7,710,735**	₱	3,800,000
Additions		**14,500,000**		10,000,000
Payments		**(11,905,403)**		(6,089,265)
	₱	**10,305,332**	₱	7,710,735

In April 2021, the Association granted a loan to KGMI amounting to ₱8 million in which the Association collected ₱4.25 million and ₱3.75 million in 2022 and 2021 respectively.

KGMI entered into a new bridge loan agreement amounting to ₱10.00 million divided equally between January and February 2022, with interest of 5.00% per annum. On December 22, 2022, the Association received payment for the principal amounting to ₱2.29 million. The remaining balance of KGMI amounted to ₱7.71 million as of December 31, 2023, which is secured by the assignment of KGMI to the Association of certain loans from its microfinance business (see Note 17).

KGMI entered into new loan agreements during the year amounting to ₱14.5 million, with interest of 3% per annum. Also during the year, the Association received payment for the outstanding loan amounting to ₱11.9 million. The remaining balance of the loan amounted to ₱10.3 million.

Interest earned from the bridge loan contract amounted to ₱740,112 and ₱452,084 in 2023 and 2022, respectively (see Note 12).

Due from MFI branches pertain to premiums collected by the branches of KGI from the Association's members. These are generally on 1-to-30 day terms.

Other receivables include advances to officers and employees. These are collected through payroll deductions or through expense liquidations.

7. PROPERTY PLANT AND EQUIPMENT

The roll forward analysis of this account follows:

		2023				
		Office Equipment		Office Furniture and Fixtures		Total
Cost						
At January 1, 2023	₱	**1,778,416**	₱	**206,321**	₱	**1,984,737**
Additions		**75,590**		**-**		**75,590**
At December 31,2023	₱	**1,854,006**	₱	**206,321**	₱	**2,060,327**
Accumulated depreciation and amortization						
At January 1, 2023	₱	**1,656,487**	₱	**199,030**	₱	**1,855,517**
Depreciation and amortization (Note 14)		**59,925**		**3,500**		**63,425**
At December 31,2023		**1,716,412**		**202,530**		**1,918,942**
Net book values	₱	**137,594**	₱	**3,791**	₱	**141,385**

		2022				
		Office Equipment		Office Furniture and Fixtures		Total
Cost						
At January 1, 2022	₱	1,630,436	₱	195,822	₱	1,826,258
Additions		147,980		10,499		158,479
At December 31,2022	₱	1,778,416	₱	206,321	₱	1,984,737
Accumulated depreciation and amortization						
At January 1, 2022	₱	1,625,172	₱	195,822	₱	1,820,994
Depreciation and amortization (Note 14)		31,315		3,208		34,523
At December 31,2022		1,656,487		199,030		1,855,517
Net book values	₱	121,929	₱	7,291	₱	129,220

Cost of fully depreciated assets still in use amounted to ₱2,596,258 and ₱1,826,258 as of December 31, 2023 and 2022, respectively.

8. PREPAYMENTS AND OTHER ASSETS

This account consists of:

		2023		2022
Prepaid expenses	₱	**730,300**	₱	760,600
Supplies inventory		**48,855**		66,967
Others		**133,414**		-
	₱	**912,569**	₱	827,567

Prepaid expenses pertain to payments made to the Insurance Commission for the renewal of the Association's license which is valid for three (3) years and software development contract.

Supplies inventory consists of unused vouchers, official receipts and membership certificates.

9. INSURANCE CONTRACT LIABILITIES

This account consists of:

		2023		2022
Liability on individual equity value	₱	**35,289,520**	₱	37,892,198
Claims payable		**273,196**		223,042
Optional benefit reserves		**154,230**		162,269
Basic contingent benefit reserves		**64,796**		123,506
		35,781,742		38,401,015

The liability on individual equity represents entitlement of members for the 50% of total gross contributions paid. The contributions are invested and the interests thereon are credited to the equity value. Interest rate is determined by the BOT and in no case be less than the prevailing savings rate of the commercial banks. This equity value, inclusive of interest thereon, is payable upon termination of membership from MBA including death or total and permanent disability (as amended on June 23, 2016).

Claims payable consists of the following:

		2023		2022
Claims in course of settlement	₱	**63,000**	₱	95,700
Claims resisted/denied		**27,000**		-
Claims incurred but not yet reported (IBNR)		**183,196**		78,242
Claims due and unpaid		**-**		49,100
		273,196	₱	223,042

Basic contingent benefit reserves represent reserves for payment of claims or obligations computed on the basis of a prudent prospective actuarial valuation method where the assumptions used are based on 17.5% of total contribution for the month of December. Total contributions for the month of December in 2023 and 2022 amounted to ₱333,234 and ₱705,750, respectively. The decrease in basic contingent benefit reserves charged against profit or loss amounted to ₱58,711 and ₱9,957 in 2023 and 2022, respectively.

The rollforward of BLIP reserve follows:

		2023		2022
Balance, beginning of the year	₱	**123,506**	₱	133,463
Arising (reversal) during the year		**(58,710)**		(9,957)
		64,796	₱	123,506

Optional benefit reserves pertain to the proportion of written premiums attributable to subsequent periods or to risks that have not yet expired. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The change in the optional benefit reserves is taken to profit or loss in the order that revenue is recognized over the period of risk. Total loans issued by MFI covered by credit life insurance premium amounted to ₱504.41 million and ₱216.28 million as of December 31, 2023 and 2022, respectively. The increase in optional benefit reserves in the profit or loss amounted to ₱8,040 and ₱14,135 in 2023 and 2022, respectively.

Collection fees are those fees charged to the Association by KGI in exchange for collecting contributions from members. This is 3% of gross basic life insurance premiums and optional benefit fund - HAPI and 25% of optional benefit - credit life insurance gross premiums. As of December 31, 2023 and 2022, collection fees amounted to ₱549,590 and ₱614,443, respectively.

10. ACCRUED EXPENSES AND OTHER LIABILITIES

This account consists of:

		2023		2022
Accrued expenses and provisions	₱	**1,758,885**	₱	4,663,274
Payable to government agencies		**392,949**		70,678
	₱	**2,151,834**	₱	4,733,952

Accrued expenses and provisions pertain to accrual of audit fee, other post-employment benefits and provisions recognized for estimated losses on claims by a third party. The information usually required by PAS 37 Provisions, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments. Payable to government agencies consists mainly of withholding taxes on purchases from suppliers as well as statutory contribution of employees which are subsequently remitted within one month after the reporting date.

11. PREMIUMS ON INSURANCE CONTRACTS

Under the Association's basic life insurance program, members and its qualified dependents are entitled to receive a minimum amount of benefit upon death or permanent disability duly approved by the Association after meeting certain conditions as stated in the certificate of membership issued to members. The member's contribution is ₱50 every week. Additionally, a member shall be entitled to an equity value (equivalent to 50% of total gross contributions paid), inclusive of interest thereon, payable upon termination of membership from the Association. However, a surrender charge equal to 30% of equity value may be imposed by the association for member's termination occurring only within the first three years of membership. Under the Association's Credit life insurance program, debtor-members and the creditor-Association are entitled to receive the amount of loan insured upon death or permanent disability of the member duly approved by the Association after meeting certain conditions as stated in the policy certificate issued to members. The member's contribution is ₱10.00 per 1,000 of loan per year on a mode of single payment and the length of coverage is based on the term of the loan.

KGI MBA also issues a Hospitalization Assistance Pamilya Insurance Plan (HAPI Plan). This is paid in case member-insured or his/her legal dependents/s is/are hospitalized due to sickness or accident occurring after the effective date of the insurance coverage. The member-insured are charged a weekly premium of twenty pesos (₱20), which may be adjusted by the Board of Trustees as may be necessary to maintain funds of KGI MBA at a level adequate to meet its benefit obligations or commitments under the HAPI Plan.

Premiums for Basic life, Credit life, and HAPI Plan insurance amounted to a total of ₱11.59 million and ₱12.35 million in 2023 and 2022, respectively. Breakdown follows:

		2023		2021
Basic Life Insurance Premiums (BLIP)	₱	**6,213,100**	₱	11,240,400
Optional benefit				
CLIP		**1,120,640**		1,108,922
HAPI		**4,259,860**		
	₱	**11,593,600**	₱	12,349,322

12. INVESTMENT AND OTHER INCOME - NET

This account consists of:

		2023		2022
Interest income from:				
Cash in banks (Note 5)	₱	**4,403**	₱	33,288
Short-term investments (Note 6)		**160,899**		215,616
HTM investments (Note 6)		**488,750**		334,800
Loans and receivables (Note 6)		**740,112**		452,084
Fair value gain (loss) on financial assets at FVPL		**249,235**		(21,646)
	₱	**1,643,399**	₱	1,014,142

13. MISCELLANEOUS INCOME

This account consists of income other than those related to premiums and investments.

As of December 31, 2023 and 2022, other income amounted to ₱3,343,565 and ₱8,557, respectively.

14. GENERAL AND ADMINISTRATIVE EXPENSES

This account consists of:

		2023		2022
Salaries and allowances	₱	**2,110,712**	₱	2,573,228
Meetings and seminars		**948,432**		691,967
Technical and professional fees		**727,449**		230,070
Transportation and travel		**457,525**		448,024
Taxes and licenses (Note 22)		**281,712**		140,160
Membership dues		**265,051**		209,877
Rent (Note 19)		**240,000**		240,000
Depreciation (Notes 7)		**63,425**		34,523
Light and water		**56,650**		62,690
Supplies		**10,824**		24,464
Social and community service expense		**5,863**		457,692
Provision for (reversal of) probable losses		**-**		414,670
Miscellaneous		**289,163**		64,757
	₱	**5,456,806**	₱	5,592,122

In 2021, the Association reversed provision for probable losses amounting ₱526,154. These pertain to provisions for prior years that the Association believes are no longer probable. In 2022, the Association recorded additional provision for probable losses amounting to ₱414,670.

No provision for probable losses was recorded by the Association during the year.

15. BENEFITS, CLAIMS, AND EXPENSES

This account consists of:

		2023		2022
Gross insurance contract benefits and claims paid	₱	**8,857,840**	₱	8,187,427
Gross change in insurace contract liabilities		**(2,669,428)**		(547,798)
Collection fees		**594,590**		614,443
	₱	**6,783,002**	₱	8,254,072

16. INCOME TAXES

Provision for income tax consists of final tax from interest income on cash in banks, short term investments and held-to-maturity investments amounting to ₱134,063 and ₱114,473 in 2023 and 2022, respectively (see Note 12).

President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2011 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

The CREATE Act did not have a significant impact on the financial statements of the Association as it maintains that it is exempt from income tax with respect to income obtained as an incident to its operations.

17. RELATED PARTY TRANSACTIONS

The significant transactions of related parties consist of premium collections made by the Microfinance Institution branches of KGI on behalf of the Association and bridge loan contract with KGMI. Details follow:

2023

Category		Amount/ Volume		Outstanding Balance	Terms	Conditions
Due from MFI branches	₱	345,571	₱	-	Non-interest bearing; payable on demand	Unsecured and Cash settled
Due from KGMI		2,594,597		10,305,332	Non-interest bearing; payable on demand	Unsecured and Cash settled
Collection fee due to MFI branches		549,590		-	Non-interest bearing; payable on demand	Unsecured and Cash settled
	₱	3,489,758	₱	10,305,332		

2022

Category		Amount/ Volume		Outstanding Balance	Terms	Conditions
Due from MFI branches	₱	12,349,322	₱	345,571	Non-interest bearing; payable on demand	Unsecured and Cash settled
Due from KGMI		7,710,735		7,710,735	Non-interest bearing; payable on demand	Unsecured and Cash settled
Collection fee due to MFI branches		614,443		-	Non-interest bearing; payable on demand	Unsecured and Cash settled
	₱	20,674,500	₱	8,056,306		

Compensation of key management personnel amounted to ₱1,020,000 for the years ended December 31, 2023 and 2022, respectively.

Terms and conditions of transactions with related parties
Outstanding balances at year-end are unsecured, interest-fee if paid when due, otherwise, interest bearing, and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

The Association has not recognized any impairment losses on amount due from related parties for the years ended December 31, 2023 and 2022. This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.

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

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

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

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

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

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

Guaranty fund
As a mutual benefit association, the IC also requires the Association to possess a guaranty fund of ₱5.00 million. This minimum amount shall be maintained at all times and it must be increased by an amount equivalent to 5% of the Association's gross premium collections. The Association appropriated a guaranty fund amounting to ₱579,680 and ₱617,466 during 2023 and 2022, respectively. In 2023 and 2022, the Association reversed an appropriation amounting to ₱4,750 and ₱97,392, respectively. The reversal of appropriation made in 2022 resulted in the IC's review of the Association's 2021 annual statements.

As of December 31, 2023 and 2022, the Association has a total guaranty fund of ₱16.74 million and ₱16.16 million, respectively, representing guaranty fund which is deposited with the IC. The guaranty fund is presented under "Appropriated fund balance" in the statements of financial position.

Distribution to Members
Per IC Circular Letter 2015-46, a mutual benefit association shall only maintain free and unassigned fund balance of not more than twenty percent (20%) of its total liabilities as verified by the IC.

Appropriation made for the year 2023 amounted to ₱7.59 million. No appropriation of surplus made for the year 2022 since the Association incurred net loss.

The Association distributed benefits in-kind to all its active members amounting to ₱42,300 and ₱1.04 million in 2023 and 2022, respectively, from the Association's surplus approved and verified by the Insurance Commission. The balance of appropriated fund balance for allocation to members amounted to ₱12.21 million and ₱4.66 million as of December 31, 2022 and 2021, respectively.

Risk-based capital requirements (RBC2)
On December 8, 2006, the IC issued IMC No. 11-2006, adopting the RBC framework for the mutual benefit associations to establish the required amounts of capital to be maintained by entities in relation to their investment and insurance risks. Every mutual benefit association is annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance entity to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as members' equity divided by the RBC requirement whereas, members' equity is defined as admitted assets minus all liabilities inclusive of actuarial reserves and other policy obligations.

The following table shows how the RBC ratio was determined by the Association based on its calculation:

		2023		2022
Total assets	₱	**76,569,581**	₱	77,564,280
Less: Non-admitted assets		**11,221,693**		8,891,165
Admitted assets	₱	**65,347,888**	₱	68,673,115
Total liabilities		**37,933,575**		43,134,967
Member's equity		**27,414,313**		25,538,148
Aggregate RBC requirement		**596,241**		576,513
RBC Ratio		**4598%**		4430%

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.

Loans to Partner Microfinance Institutions (MFI)
Per IC Circular Letter 2016-33, MBAs may be allowed to grant loans to partner MFIs to finance their lending business to MFI clients, based on the following:

- The MFI/s shall have a P.E.S.O rating not lower than 2.
- The total amount of loans granted by the MBA to all its partner MFIs shall not exceed 10% of the former's Total Admitted Assets (TAA) based on the latest verified financial statements or 20% of the Member's Equity/Paid-Up Capital of the partner MFI, whichever is lesser.
- The loan shall be secured by a qualified security enumerated under Section 204 of the New Insurance Code (RA 10607).
- The loan transaction shall be approved by the Board of Trustees and duly supported by a notarized loan agreement.
- The loan to partner MFI/s shall be subject to prior approval of the Insurance Commission.
- The request for approval shall be accompanied by a risk management plan drawn up jointly by the MBA and MFI in relation to the administration of the loan.

In 2023 and 2022, the Association granted loans to KGMI amounting to ₱14.50 million and ₱10.00 million, respectively. The total amount of loan that can be granted by the Association to its partner MFI shall not exceed ₱7.31 million (10% of its verified TAA as of December 31, 2021 amounting to ₱73.5 million) or ₱7.71 million (20% of the Member's equity/Paid-up capital of the partner MFI amounting to ₱38.55 million as of December 31, 2021) whichever is lesser.

In 2023 and 2022, the Association breached the IC threshold in its loans to partner KGMI. As of December 31, 2023 and 2022, the outstanding balance of the Association's loans to KGMI amounted to ₱10.31 million and ₱7.71 million, respectively (see Note 6).

The main risks arising from the Association's financial instruments follow:

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

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

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

- Mortality risk - risk of loss arising due to policyholder death experience being different than expected.
- Morbidity risk - risk of loss arising due to policyholder health experience being different than expected.
- Investment return risk - risk of loss arising from actual returns being different than expected.

- Expense risk - risk of loss arising from expense experience being different than expected.
- Policyholder decision risk - risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

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

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

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

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

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

Investment return
The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long-term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments. An increase in investment return would lead to a reduction in expenditure and an increase in the funds of the Association.

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

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

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

Discount rate
Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the

expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on current industry risk rates, adjusted for the Association's own risk exposure. A decrease in the discount rate will increase the value of the liability.

Financial instruments
The Association's principal financial instruments are cash, short-term investments, loans and receivables, accrued expenses and other liabilities. The main purpose of these financial instruments is to finance their operations.

Due to the short-term nature of transactions, the carrying amounts of financial instruments such as cash, short-term investments, loans and receivables, claims payable and accrued expenses and other liabilities approximate their fair values. Also, due to the insignificance of the fair value adjustment for 'Due from KGMI', its carrying amount approximates its fair value.

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

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

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

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

a. The credit risk in respect of customer balances, incurred on nonpayment of premiums or contribution will only persist during the grace period specified in the following document or when the policy is either paid up or terminated.

b. Reinsurance is placed with highly rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews. At each reporting date, management performs an assessment of credit worthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

c. The Association sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long term credit ratings.

The table below shows the maximum exposure to credit risk for the components of the statements of financial position.

		2023		2022
Financial Assets				
Cash*	₱	**14,358,996**	₱	17,549,567
Short-term investments		**14,124,632**		29,295,944
Loans and receivables				
Due from KGMI		**10,305,332**		7,710,735
Due from MFI branches		-		345,571
Interest receivable		**20,669**		21,950
Financial assets at FVPL		**6,106,856**		5,857,621
Held-to-maturity investments		**30,580,918**		15,813,000
	₱	**75,497,403**	₱	76,594,388

**Excluding cash on hand*

The table below provides information regarding the credit risk exposure of the Association by classifying assets according to the Association's credit ratings of counterparties as of December 31, 2023 and 2022.

2023

	Neither Past-Due nor Impaired							
		Investment Grade		**Non-Investment Grade**		**Past Due and Impaired**		**Total**
Financial Assets								
Cash*	₱	**14,358,996**	₱	-	₱	-	₱	**14,358,996**
Short-term investments		**14,124,632**		-		-		**14,124,632**
Loans and receivable								-
Due from KGMI		-		**10,305,332**		-		**10,305,332**
Due from MFI branches		-		-		-		-
Interest receivable		**20,669**		-		-		**20,669**
Financial assets at FVPL		**6,106,856**		-		-		**6,106,856**
Held-to-maturity investments		**30,580,918**		-		-		**30,580,918**
	₱	**65,192,071**	₱	**10,305,332**	₱	-	₱	**75,497,403**

** Excluding cash on hand*

<u>2022</u>

	Neither Past-Due nor Impaired			
	Investment Grade	**Non-Investment Grade**	**Past Due and Impaired**	**Total**
Financial Assets				
Cash*	₱ 17,549,567	₱ -	₱ -	₱ 17,549,567
Short-term investments	29,295,944	-	-	29,295,944
Loans and receivable				-
Due from KGMI	-	7,710,735	-	7,710,735
Due from MFI branches	-	345,571	-	345,571
Interest receivable	21,950	-	-	21,950
Financial assets at FVPL	5,857,621	-	-	5,857,621
Held-to-maturity investments	15,813,000	-	-	15,813,000
	₱ 68,538,082	₱ 8,056,306	₱ -	₱ 76,594,388

** Excluding cash on hand*

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

Investment grade financial assets are assets which have strong capacity to meet the Association's financial commitments and are unsusceptible to adverse effects of changes in economic conditions. Non-investment grade financial assets are assets which are vulnerable to impairment due to the assets' significant speculative characteristics. Adverse economic conditions will likely impair non-investment grade financial assets.

The Association trades only with members who are also members of the related parties. The receivables represent mostly collections of the related parties pertaining to contributions for premiums for life insurance, loan redemption assistance and provident fund unremitted to the Association. Receivables are generally on a 1-30 days terms and are all current. All receivables are neither past due nor impaired.

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

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

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

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

b) Set guidelines on assets allocations, portfolio limit structures and, maturity profiles of assets, in order to ensure sufficient funding available to meet insurance and investment contracts obligations.

The following table shows an analysis of assets liabilities analyzed according to whether they are expected to be recovered or settled within one (1) year and beyond 1 year from reporting date:

2023

		Up to one year		1-3 years		3-5 years		Over 5 years		No term		Total
Financial Assets												
Cash*	₱	14,358,996	P	-	P	-	P	-	P	-	₱	14,358,996
Short-term investments		14,124,632		-		-		-		-		14,124,632
Loans and receivble				-		-		-		-		-
Due from KGMI		10,305,332		-		-		-		-		10,305,332
Due from MFI branches		-		-		-		-		-		-
Interest receivable		20,669		-		-		-		-		20,669
Financial assets at FVPL		6,106,856		-		-		-		-		6,106,856
HTM investments		30,580,918		-		-		-		-		30,580,918
	₱	75,497,403	₱	-	₱	-	₱	-	₱	-	₱	75,497,403

**Excluding cash on hand*

2022

		Up to one year		1-3 years		3-5 years		Over 5 years		No term		Total
Financial Assets												
Cash*	₱	17,549,567	P	-	P	-	P	-	P	-	₱	17,549,567
Short-term investments		29,295,944		-		-		-		-		29,295,944
Loans and receivble				-		-		-		-		-
Due from KGMI		7,710,735		-		-		-		-		7,710,735
Due from MFI branches		345,571		-		-		-		-		345,571
Interest receivable		21,951		-		-		-		-		21,951
Financial assets at FVPL		5,857,621		-		-		-		-		5,857,621
HTM investments		15,813,000		-		-		-		-		15,813,000
	₱	76,594,389	₱	-	₱	-	₱	-	₱	-	₱	76,594,389

**Excluding cash on hand*

Market Risk
Market risk is the risk that the fair value or future cash flow of financial instruments will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates. (interest rate risk) and market prices (price risk).
The following policies and procedures are in place to mitigate the Association's exposure to market risk.

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

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

3) Stipulated diversification benchmarks by type of instrument, and the association is exposed to guaranteed bonuses, cash annuity options when interest rates falls.

19. LEASE COMMITMENT

Association as Lessee
In 2014, the Association entered into an operating lease agreement for its office space for a period of seventeen (17) months commencing on August 1, 2014 and ended on December 31, 2015. This was subsequently renewed by the Association on a yearly basis. As of December 31, 2022, the Association has renewed the lease agreement for a period of one year commencing on January 1, 2023 to December 31, 2023.

Rent expense pertaining to this lease agreement amounting to ₱240,000 is recorded under "General and Administrative Expenses" in 2023 and 2022 (see Note 14).

20. CONTINGENCIES

The Association has no contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested, the outcome of which are not presently determinable. No provision for probable losses arising from legal contingencies was recognized in the Association's financial statements in 2023 and 2022.

21. SUPPLEMENTARY DISCLOSURE ARISING FROM NON-CASH TRANSACTIONS FROM INVESTING AND FINANCING ACTIVITIES

There are no non-cash transactions from investing and financing activities for the years ended December 31, 2023 and 2022.

22. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATIONS NO.15-2010

Revenue Regulation No. 15-2010
On November 25, 2010, the Bureau of Internal Revenue (BIR) issued Revenue Regulation (RR) No. 15-2010 which took effect on December 29, 2010 which provides for additional information required to be disclosed in the notes to financial statements regarding taxes, duties and license fee, paid or accrued, during the taxable year. Specifically, the disclosure should include the following: (a) amount of Value-Added Tax (VAT) output taxes declared during the year with account title and amount/s; (b) amount of VAT Input taxes claimed; (c) landed cost of imports and the amount of customs duties and tariff fees; (d) amount of excise taxes, classified per major product category; (e) documentary stamp tax (DST) on loan instruments and other transactions; (f) all other taxes, local and national, license and permit fees lodged under taxes and licenses account both under the Cost of sales and operating expense accounts; (g) amount of withholding taxes;(h) periods covered and amounts of deficiency assessments; and (i) tax cases and amounts involved.

In compliance with the requirements set forth by RR 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

1. The Association is not VAT-registered being a tax exempt organization.

2. Landed Cost, Customs' Duties and Tariff Fees

   The Association did not have any importations in 2023 and 2022 that would require for payment of customs duties and tariff fees.

3. Excise Tax

   The Association did not have any transactions in 2023 and 2022 which are subject to excise tax.

4. Other Taxes and Licenses

		2023
Local tax	₱	281,212
National tax		500
	₱	281,712

5. Withholding Taxes

		2023
National Internal Revenue Taxes		
Withholding Tax on Compensation	₱	5,033
Expanded Withholding Tax		12,000
	₱	17,033

6. Deficiency Tax Assessments and Tax Cases

As of December 31, 2023, the Association did not have any final deficiency tax assessments from the BIR nor does it have cases outstanding or pending in courts or bodies outside of the BIR in any of the open years.

7. Other Information

All other information prescribed to be disclosed by the BIR has been included in this note.

MAM & Co.

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SUPPLEMENTAL STATEMENT OF INDEPENDENT AUDITORS

The Members and the Board of Trustees
Kazama Grameen (KGI)
Mutual Benefit Association (KGI-MBA) Inc.
Lot 25, Block 12, Sta. Monica Subdivision
Subic, Zambales

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Kazama Grameen (KGI) Mutual Benefit Association (KGI-MBA) Inc. as of and for the year ended December 31, 2023, on which we have issued our attached report dated April 15, 2024.

In compliance with Revised Securities Regulation Code Rule 68 and based on the result of our review of the recent general information sheet and relevant records, we are stating that the above Association has no stockholders being a non-stock, not-for-profit organization.

M.A. MERCADO & CO.

MARCELINO A. MERCADO
Partner
CPA License No. 066885
Tax Identification No. 102-921-222
P.T.R. No. 10088643; Issued on January 12, 2024, Makati City
SEC Accreditation No. 66885-SEC (Group B)
Issued on January 25, 2022
Valid until 2025 Financial Statements of SEC covered institutions
BIR Accreditation No. 08-003338-002-2021
Issued on December 9, 2021; Valid until December 8, 2024
IC Accreditation No. 66885-IC (Group A)
Issued on January 26, 2021
Valid until 2024 Financial Statements of IC covered institutions
Firm's BOA/PRC Cert. of Reg. No. 5658
Issued on September 18, 2020; Valid until September 17, 2023
Firm's SEC Accreditation No. 5658-SEC (Group B)
Issued on January 25, 2022
Valid until 2025 Financial Statements of SEC covered institutions
Firm's BIR Accreditation No. 08-006173-000-2024
Issued on March 5, 2024; Valid until March 5, 2027
Firm's IC Accreditation No. 5658-IC (Group A)
Issued on January 26, 2021
Valid until 2024 Financial Statements of IC covered institutions

April 15, 2024