

Meralco Employees Savings and Loan Association, Inc. (A Non-stock Savings and Loan Association)

Financial Statements

As at and for the years ended December 31, 2023 and 2022



pwc



Independent Auditor's Report

To the Board of Trustees and Members of
Meralco Employees Savings and Loan Association, Inc.
(A Non-stock Savings and Loan Association)
Operations Building, Meralco Center
Ortigas Avenue, Pasig City

Report on the Audits of the Financial Statements

Our Opinion

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

What we have audited

The financial statements of the Association comprise:

- the statements of financial position as at December 31, 2023 and 2022;
- the statements of total comprehensive income for the years ended December 31, 2023 and 2022;
- the statements of changes in members' equity for the years ended December 31, 2023 and 2022;
- the statements of cash flows for the years ended December 31, 2023 and 2022; and
- the notes to the financial statements, including material accounting information.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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 Code of Ethics.

Isla Lipana & Co., 29th Floor, AIA Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines
T: +63 (2) 8845 2728, www.pwc.com/ph



Independent Auditor's Report
To the Board of Trustees and Members of
Meralco Employees Savings and Loan Association, Inc.
Page 2

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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.

Auditor's 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.



Independent Auditor's Report
To the Board of Trustees and Members of
Meralco Employees Savings and Loan Association, Inc.
Page 3

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.



Independent Auditor's Report
To the Board of Trustees and Members of
Meralco Employees Savings and Loan Association, Inc.
Page 4

Report on the Supplementary Information Required by the Bangko Sentral ng Pilipinas (BSP) and the Bureau of Internal Revenue (BIR)

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1075 in Note 23 and BIR Revenue Regulations Nos. 15-2010 and 34-2020 in Note 24 to the financial statements is presented for the purposes of filing with the BSP and the BIR, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of management of the Association. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

A handwritten signature in black ink, appearing to read 'Zaldy D. Aguirre', is written over a horizontal line.

Zaldy D. Aguirre
Partner
CPA Cert No. 0105660
P.T.R. No. 0024447, issued on January 12, 2024, Makati City
TIN 221-755-698
BIR A.N. 08-000745-077- 2023, issued on December 22, 2023; effective until December 21, 2026
BOA/PRC Reg. No. 0142, effective until November 14, 2025

Makati City
April 5, 2024

Meralco Employees Savings and Loan Association, Inc.
(A Non-stock Savings and Loan Association)

Statements of Financial Position
December 31, 2023 and 2022
(All amounts in Philippine Peso)

	Notes	2023	2022
Assets			
Cash and cash equivalents	2	2,511,263,834	1,738,693,340
Loans and receivables, net	3	4,838,067,161	5,093,546,989
Investment securities at amortized cost, net	4	7,581,443,868	7,925,633,874
Investment securities at fair value through other comprehensive income	5	212,375,520	222,558,960
Investment properties, net	6	4,411,933	4,195,600
Property and equipment, net	7	5,367,892	6,945,533
Computer software, net	8	21,805,583	26,167,383
Other assets		18,585,707	18,871,739
Total assets		15,193,321,498	15,036,613,418
Liabilities And Members' Equity			
Deposit liabilities	10	8,860,531,172	9,193,955,776
Accrued expenses and other liabilities	11	234,660,743	209,567,271
Retirement liability, net	13	10,388,869	6,903,401
Total liabilities		9,105,580,784	9,410,426,448
Members' equity			
Capital contributions	12	5,053,864,167	4,739,984,608
Surplus free	12	886,215,266	795,305,304
Surplus reserve	12	161,660,443	94,799,692
Accumulated other comprehensive (loss) income	12	(13,999,162)	(3,902,634)
Total members' equity		6,087,740,714	5,626,186,970
Total liabilities and members' equity		15,193,321,498	15,036,613,418

The notes on pages 1 to 35 are an integral part of these financial statements.

Meralco Employees Savings and Loan Association, Inc.
(A Non-stock Savings and Loan Association)

Statements of Total Comprehensive Income
For the years ended December 31, 2023 and 2022
(All amounts in Philippine Peso)

	Notes	2023	2022
Interest income on:			
Loans and receivables	3	383,147,821	381,823,879
Cash and cash equivalents and debt securities	2,4	477,609,320	384,451,858
		860,757,141	766,275,737
Interest expense	10,11	(115,624,289)	(152,587,626)
Net interest income		745,132,852	613,688,111
(Provision for) reversal of credit and impairment losses	9	(10,943,889)	12,674,098
Net interest income after impairment losses		734,188,963	626,362,209
Other income, net	16	33,059,867	20,946,976
		767,248,830	647,309,185
Operating expenses	15	(92,585,967)	(86,589,687)
Net income for the year		674,662,863	560,719,498
Other comprehensive income (loss)			
Items that will not be subsequently reclassified to profit or loss			
Remeasurement gain on retirement liability	12,13	86,912	785,450
Unrealized loss on fair value changes on financial assets at fair value through other comprehensive income	5,12	(10,183,440)	(7,327,330)
		(10,096,528)	(6,541,880)
Total comprehensive income for the year		664,566,335	554,177,618

The notes on pages 1 to 35 are an integral part of these financial statements.

Meralco Employees Savings and Loan Association, Inc.
(A Non-stock Savings and Loan Association)

Statements of Changes in Members' Equity
For the years ended December 31, 2023 and 2022
(All amounts in Philippine Peso)

	Capital contributions (Note 12)	Surplus free (Note 12)	Surplus reserve (Note 12)	Accumulated other comprehensive income (loss)	Total
Balances at January 1, 2022	4,528,712,956	716,639,671	90,574,259	2,639,246	5,338,566,132
Comprehensive income					
Net income for the year	-	560,719,498	-	-	560,719,498
Other comprehensive loss	-	-	-	(6,541,880)	(6,541,880)
Total comprehensive income (loss) for the year	-	560,719,498	-	(6,541,880)	554,177,618
Transactions with members					
Transfer from surplus free to surplus reserve	-	(4,225,433)	4,225,433	-	-
Capital contributions	516,502,071	-	-	-	516,502,071
Capital withdrawals	(305,230,419)	-	-	-	(305,230,419)
Dividends declared	-	(477,828,432)	-	-	(477,828,432)
	211,271,652	(482,053,865)	4,225,433	-	(266,556,780)
Balances at December 31, 2022	4,739,984,608	795,305,304	94,799,692	(3,902,634)	5,626,186,970
Comprehensive income					
Net income for the year	-	674,662,863	-	-	674,662,863
Other comprehensive loss	-	-	-	(10,096,528)	(10,096,528)
Total comprehensive income (loss) for the year	-	674,662,863	-	(10,096,528)	664,566,335
Transaction with members					
Transfer from surplus free to surplus reserve	-	-	-	-	-
	-	(66,860,751)	66,860,751	-	-
Capital contributions	583,558,741	-	-	-	583,558,741
Capital withdrawals	(269,679,182)	-	-	-	(269,679,182)
Dividends declared	-	(516,892,150)	-	-	(516,892,150)
	313,879,559	(583,752,901)	66,860,751	-	(203,012,591)
Balances at December 31, 2023	5,053,864,167	886,215,266	161,660,443	(13,999,162)	6,087,740,714

The notes on pages 1 to 35 are an integral part of these financial statements.

Meralco Employees Savings and Loan Association, Inc.
(A Non-stock Savings and Loan Association)

Statements of Cash Flows
For the years ended December 31, 2023 and 2022
(All amounts in Philippine Peso)

	Notes	2023	2022
Cash flows from operating activities			
Net income for the year		674,662,863	560,719,498
Adjustments for:			
Dividend income	5,16	(11,854,771)	(13,376,945)
(Reversal of) provision for allowance for impairment losses	9	10,943,889	(12,674,098)
Depreciation and amortization	15	8,149,885	8,098,765
Retirement benefits	13	3,572,380	3,715,800
Loss on sale of investment properties	6	-	530,250
Operating income before working capital changes		685,474,246	547,013,270
(Increase) decrease in:			
Loans and receivables, net		(175,298,049)	(101,941,758)
Investment property		(505,391)	(2,048,130)
Other assets		286,032	(11,517,433)
(Decrease) increase in:			
Deposit liabilities		(333,424,604)	(574,462,048)
Accrued expenses and other liabilities		25,867,724	(54,378,198)
Net cash from (used in) operating activities		202,399,958	(197,334,297)
Cash flows from investing activities			
Additions to:			
Investment securities at amortized cost	4	(821,200,000)	(2,616,273,749)
Property and equipment	7	(1,812,185)	(2,670,019)
Computer software	8	(109,201)	(737,935)
Proceeds from:			
Maturity/redemption of investment securities at amortized cost	4	1,175,223,994	2,060,890,063
Maturity/redemption of unquoted debt security	3	410,000,000	636,000,000
Maturity/redemption of investment securities at fair value through other comprehensive income	5	-	25,005,000
Sale of investment properties	6	-	405,500
Dividends received from investment securities at fair value through other comprehensive income	5	11,854,771	13,376,942
Net cash from investing activities		773,957,379	115,995,802
Cash flows from financing activities			
Receipt of capital contributions		583,558,741	516,502,071
Dividends paid	12	(516,892,150)	(305,230,419)
Withdrawals of capital contributions		(269,679,182)	(477,828,432)
Payment of principal and interest portion of lease liabilities	11	(774,252)	(774,252)
Net cash used in financing activities		(203,786,843)	(267,331,032)
Net (decrease) increase in cash and cash equivalents		772,570,494	(348,669,526)
Cash and cash equivalents at January 1		1,738,693,340	2,087,362,866
Cash and cash equivalents at December 31	2	2,511,263,834	1,738,693,340

The notes on pages 1 to 35 are an integral part of these financial statements.

Meralco Employees Savings and Loan Association, Inc.
(A Non-stock Savings and Loan Association)

Notes to the Financial Statements

As at and for the years ended December 31, 2023 and 2022

(In the notes, all amounts are shown in Philippine Peso unless otherwise stated)

1 General information

Meralco Employees Savings and Loan Association, Inc. (the “Association”) is a non-stock savings and loan association (NSSLA) established in the Philippines and registered with the Securities and Exchange Commission (SEC) on July 3, 1934.

The Association is operating under Republic Act (R.A.) No. 8367, Revised Non-Stock Savings and Loan Association Act of 1997, to encourage industry, frugality and the accumulation of savings and judicious utilization of credit primarily for the benefit and interest of its members. The activities of the Association are regulated by the Bangko Sentral ng Pilipinas (BSP).

The Association, established prior to the effectivity of R.A. No. 8367, is allowed to continue its existing membership coverage, unless otherwise disallowed by the Monetary Board of the BSP.

As provided under R.A. No. 8367, the Association is a tax-exempt entity with respect to income derived from its savings and loan activities. Income derived from any other activities conducted for profit and not related to the savings and loan activities are taxable.

The registered office address of the Association, which is also its principal place of business, is at Operations Building, Meralco Center, Ortigas Avenue, Pasig City.

As at December 31, 2023, the Association has 54 employees (2022 - 49).

Authorization of financial statements

The financial statements of the Association have been approved and authorized for issue by the Board of Trustees (BOT) as recommended by the Audit Committee on April 5, 2024.

2 Cash and cash equivalents

The account as at December 31 consists of:

	2023	2022
Cash on hand	2,005,000	2,005,000
Cash in banks	54,753,711	61,522,566
Short-term investments	2,454,505,123	1,675,165,774
	<u>2,511,263,834</u>	<u>1,738,693,340</u>

Cash in banks earn interest at prevailing bank deposit rates and are currently available for use in the current operations. Short-term investments include time deposits which bear nominal annual interest rates of 6.00% to 6.33% in 2023 (2022 - 4.63% to 5.75%).

Interest earned from cash and cash equivalents for the year ended December 31, 2023 amounts to P118.31 million (2022 - P41.55 million).

3 Loans and receivables, net

This account consists of:

	Note	2023	2022
Loans to members		4,193,012,093	4,125,099,856
Unquoted debt securities		500,000,000	910,000,000
Accrued interest		114,110,167	104,805,042
Others		120,753,631	22,672,944
		4,927,875,891	5,162,577,842
Allowance for impairment losses	9	(89,808,730)	(69,030,853)
		4,838,067,161	5,093,546,989

Unquoted debt securities represent long-term certificates of time deposits.

Other receivables include receivables from ex-members, advances to members on expected dividends, advances to officers and employees and sales contract receivable.

The major classifications of loans to members as at December 31 are as follows:

a. *Loans to members classified as to purpose/credit concentration/industry*

	2023		2022	
	Amount	%	Amount	%
Individual:				
Real estate	2,072,149,313	49%	2,109,875,615	51%
Consumption	1,601,693,777	38%	1,522,701,576	37%
Capital	321,810,306	8%	302,447,533	7%
Car	155,427,114	4%	143,652,884	4%
Salary/education	2,926,053	-	1,177,332	-
Others	4,152,879	-	10,392,265	-
	4,158,159,442	99%	4,090,247,205	99%
Corporate:				
Real estate	34,852,651	1%	34,852,651	1%
	4,193,012,093	100%	4,125,099,856	100%

Under the existing BSP rules and regulations, there is credit concentration when the loan exposure to a particular industry exceeds 30% of the total loan portfolio. Majority of the Association's loan exposure arises from real estate and consumption loan products. As at December 31, 2023 and 2022, the Association does not have concentration of credit risk to particular industries.

Corporate loans due from Corfarm Grains, Inc. (Corfarm) was fully provided with allowance for impairment loss since 2005 amounting to P34.9 million until December 31, 2017. On September 6, 2018, a Sheriff's Return has been issued to implement the Sheriff's Final Notice, Writ of Execution and other attachments to execute the proper deed to effect *dacion en pago* of properties on the loan in favor of the Association. With this, the Association reversed a portion of the previously recognized allowance for impairment loss amounting to P8.71 million. In 2020, the court ordered the Registry of Deeds to effect the conveyance of the properties to the Association. With this, the Association reversed additional allowance for impairment loss amounting to P9.89 million in 2021 and P9.20 million in 2022. The allowance for impairment loss on corporate loans amounts to P7.05 million as at December 31, 2023 and 2022.

b. *Loans to members classified as to collateral*

	2023	2022
Secured:		
Real estate	2,072,149,313	2,109,875,615
Chattel	155,427,114	143,652,884
Others	325,963,185	312,839,798
	2,553,539,612	2,566,368,297
Unsecured	1,639,472,481	1,558,731,559
	4,193,012,093	4,125,099,856

Real estate loans are secured by mortgages on real properties and due in one (1) to twenty-five (25) years with annual interest ranging 5.00% to 15.00% in 2023 and 2022.

Car loans are secured by mortgages on motor vehicles and due in one to five years with annual interest rates of 7.00% to 8.75% in 2023 and 2022.

Other collateralized loans are secured by capital contribution hold-outs and due in less than a year to five years with annual interest ranging from 4.00% to 11.00% in 2023 and 2022.

The total fair market value of real and personal properties serving as collateral as at December 31, 2023 amounts to P5.96 billion (2022 - P5.46 billion).

Unsecured loans are loans with no collateral but are guaranteed by co-makers who are also members of the Association. These loans are due in less than a year to five (5) years with annual interest ranging from 4.00% to 12.75% in 2023 and 2022.

c. *Loans to members classified as to maturity*

	2023	2022
Due in one year or less	368,146,302	483,341,550
Due beyond one year		
Over one year to five years	1,884,091,239	1,650,459,147
Over five years	1,940,774,552	1,991,299,159
	4,193,012,093	4,125,099,856

Interest earned on loans and receivables amounts to P383.15 million in 2023 (2022 - P381.82 million).

The aging analysis of loans and receivables is as follows:

	2023		2022	
	Gross Amount	Impairment	Gross Amount	Impairment
Current	4,577,360,655	42,913,973	4,941,908,080	38,720,589
Past Due				
One to 30 days	112,408,723	262,076	17,185,850	120,466
31 to 90 days	22,205,071	51,110	29,706,470	207,886
Over 91 days	215,901,442	46,581,571	173,777,442	29,981,912
	4,927,875,891	89,808,730	5,162,577,842	69,030,853

The fair values of loans and receivables are estimated based on the discounted cash flow method using the Association's current incremental lending rates for similar types of loans and receivables.

Discount rates used range from 4% to 19% in 2023 and 2022. The fair value measurement for loans and receivables has been categorized under Level 2 of the fair value hierarchy.

4 Investment securities at amortized cost, net

Investment securities at amortized cost as at December 31 consist of:

	Note	2023		2022	
		Interest rates	Amount	Interest rates	Amount
Corporate bonds		3.30% to 7.60%	4,668,990,744	3.09% to 6.29%	5,016,791,105
Government debt securities		2.375% to 8.00%	2,917,409,551	2.375% to 4.75%	2,923,633,184
			7,586,400,295		7,940,424,289
Allowance for impairment loss	9		(4,956,427)		(14,790,415)
			7,581,443,868		7,925,633,874

Movements in Investment securities at amortized cost for the years ended December 31 are summarized as follows (gross of allowance for impairment loss):

	2023	2022
At January 1	7,940,424,289	7,385,040,603
Additions	821,200,000	2,616,273,749
Maturities	(1,173,360,000)	(2,043,483,748)
Net unamortized (discount) premium	(1,863,994)	(17,406,315)
At December 31	7,586,400,295	7,940,424,289

Interest income earned from Investment securities at amortized cost amounts to P359.30 million in 2023 (2022 - P342.90 million).

5 Investment securities at fair value through other comprehensive income (FVOCI)

Details and movements in the account for the years ended December 31 are summarized as follows:

	Notes	2023		
		Quoted equity securities	Unquoted equity securities	Total
Balances at beginning of the year		222,558,960	4,113,045	226,672,005
Maturities		-	-	-
Other comprehensive loss:				
Unrealized fair value loss	12	(10,183,440)	-	(10,183,440)
Balances at end of year		212,375,520	4,113,045	216,488,565
Allowance for impairment losses	9	-	(4,113,045)	(4,113,045)
Carrying amount		212,375,520	-	212,375,520

	Notes	2022		
		Quoted equity securities	Unquoted equity securities	Total
Balances at beginning of the year		254,891,290	4,113,045	259,004,335
Maturities		(25,005,000)	-	(25,005,000)
Other comprehensive loss:				
Unrealized fair value loss	12	(7,327,330)	-	(7,327,330)
Balances at end of year		222,558,960	4,113,045	226,672,005
Allowance for impairment losses	9	-	(4,113,045)	(4,113,045)
Carrying amount		222,558,960	-	222,558,960

Quoted equity securities

Investments in quoted equity securities pertain to various cumulative, non-convertible, non-participating, and non-voting preferred shares of companies listed in the Philippine Stock Exchange. These preferred shares earn annual dividends ranging from 5.09% to 6.48% for a period of five (5) to ten (10) years.

Dividend income from investments in quoted equity securities amounts to P11.85 million in 2023 (2022 - P13.38 million) (Note 16).

Unquoted equity securities

As at December 31, 2023 and 2022, the unquoted equity securities pertain to redeemable preferred shares of Advent Capital and Finance Corporation (ACFC) aggregating 309,843 shares. The investment in ACFC is fully provided with allowance for impairment losses as at December 31, 2023 and 2022.

6 Investment properties, net

Details and movements in this account are as follows:

	Note	2023			Total
		Land	Land improvements	Motor vehicle	
Cost					
Balances at beginning of year		2,620,881	1,684,051	829,391	5,134,323
Additions		-	3,400	501,991	505,391
Disposals		-	-	-	-
Balances at end of year		2,620,881	1,687,451	1,331,382	5,639,714
Accumulated depreciation					
Balance at beginning of year		-	362,619	-	362,619
Disposals		-	-	-	-
Depreciation		-	146,826	142,232	289,058
Balances at end year		-	509,445	142,232	651,677
Allowance for impairment losses	9	-	198,713	377,391	576,104
Net book value		2,620,881	979,293	811,759	4,411,933
2022					
	Note	Land	Land improvements	Motor vehicle	Total
Cost					
Balances at beginning of year		2,745,631	1,405,236	-	4,150,867
Additions		-	407,739	829,391	1,237,130
Disposals		(124,750)	(128,924)	-	(253,674)
Balances at end of year		2,620,881	1,684,051	829,391	5,134,323
Accumulated depreciation					
Balance at beginning of year		-	344,717	-	344,717
Disposals		-	(128,924)	-	(128,924)
Depreciation		-	146,826	-	146,826
Balances at end year		-	362,619	-	362,619
Allowance for impairment losses	9	-	198,713	377,391	576,104
Net book value		2,620,881	1,122,719	452,000	4,195,600

The investment properties represent foreclosed collaterals in settlement of loans and receivables.

Disposals of investment properties in 2022 resulted in a gain of P530,250. The gain (loss) on disposals is recognized under Other income, net (Note 16).

The fair values of investment properties as at December 31 are as follows:

	2023	2022
Land	5,004,000	5,004,000
Land improvements	3,546,320	3,546,320
Motor vehicle	1,018,000	452,000
	9,568,320	9,002,320

7 Property and equipment, net

Details and movements in this account are as follows:

	Computer equipment	Transportation equipment	Building improvements	Furniture, fixtures, and office equipment	Leased premises	Total
Cost						
At January 1, 2022	22,639,599	2,694,026	5,690,484	2,876,393	2,218,648	36,119,150
Additions	1,947,640	-	15,630	706,749	-	2,670,019
December 31, 2022	24,587,239	2,694,026	5,706,114	3,583,142	2,218,648	38,789,169
Additions	1,540,220	-	149,510	122,455	-	1,812,185
At December 31, 2023	26,127,459	2,694,026	5,855,624	3,705,597	2,218,648	40,601,354
Accumulated depreciation						
At January 1, 2022	18,830,039	2,550,757	4,131,272	2,399,377	369,775	28,281,220
Depreciation	1,546,647	143,266	837,298	295,656	739,549	3,562,416
At December 31, 2022	20,376,686	2,694,023	4,968,570	2,695,033	1,109,324	31,843,636
Depreciation	1,506,932	-	739,223	404,122	739,549	3,389,826
At December 31, 2023	21,883,618	2,694,023	5,707,793	3,099,155	1,848,873	35,233,462
Carrying amount						
At December 31, 2022	4,210,553	3	737,544	888,109	1,109,324	6,945,533
At December 31, 2023	4,243,842	3	147,831	606,443	369,775	5,367,892

No item of property and equipment was disposed or retired in 2023 and 2022.

The cost of fully depreciated assets still being used in operations amounts to P28.02M million as at December 31, 2023 (2022 - P22.85 million).

8 Computer software, net

Movements in this account are as follows:

	2023	2022
Balance at beginning of year	26,167,383	29,818,971
Additions	109,201	737,935
Amortization	(4,471,001)	(4,389,523)
Balance at end of year	21,805,583	26,167,383

9 Allowance for impairment losses

The summary of allowance for impairment losses is presented as follows:

	Loans and receivables (Note 3)	Investment securities at FVOCI (Note 5)	Investment securities at amortized cost (Note 4)	Investment properties (Note 6)	Total
At January 1, 2022	91,452,474	4,113,045	5,420,283	198,713	101,184,515
Provision (reversal)	(22,421,621)	-	9,370,132	377,391	(12,674,098)
At December 31, 2022	69,030,853	4,113,045	14,790,415	576,104	88,510,417
(Reversal) provision	20,777,877	-	(9,833,988)	-	10,943,889
At December 31, 2023	89,808,730	4,113,045	4,956,427	576,104	99,454,306

The Association has assessed that the allowance for impairment losses as at December 31, 2023 and 2022 is adequate to cover any losses that may arise from non-collection or non-realization of the Association's financial and non-financial assets.

10 Deposit liabilities

This account consists of:

	2023	2022
Regular savings	6,586,641,172	7,263,932,076
Time deposits	2,273,890,000	1,930,023,700
	8,860,531,172	9,193,955,776

Annual fixed interest rates on deposit liabilities are as follows:

	2023	2022
Regular savings	0.75%	0.75%
Time deposits	1.5% to 4.8%	1% to 4%

Interest expense on deposit liabilities amounts to P115.60 million in 2023 (2022 - P152.54 million).

11 Accrued expenses and other liabilities

This account consists of:

	2023	2022
Payable to ex-members	164,212,594	166,316,763
Accounts payable	55,468,810	27,580,254
Accrual for:		
Employee benefits	2,573,400	2,379,132
Others	3,033,022	2,814,476
Lease liabilities	383,761	1,134,248
Withholding taxes	703,950	1,088,349
Others	8,285,206	8,254,049
	234,660,743	209,567,271

Payable to ex-members, which are due upon demand, pertains to deposit liabilities, which were reclassified as part of "Accrued expenses and other liabilities" account.

Accounts payable are non-interest bearing and expected to be settled within one year.

Others pertain to liability for repairs and maintenance charges, stale checks, unidentified bank deposits from members and provision for employee bonus, which are payable in the next reporting year.

There are no assets pledged as security for any liabilities of the Association as at December 31, 2023 and 2022.

The Association has a lease agreement covering its data recovery center for a period of three years. Upon expiration of the term in June 2021, the Association renewed the lease for another three (3) years until June 2024.

The movements in the Association's lease liabilities for the years ended December 31 follow:

	2023	2022
Beginning of the year	1,134,248	1,862,583
Additions	-	-
Interest expense	23,763	45,917
Payments for the year	(774,252)	(774,252)
	383,761	1,134,248

The classification of the Association's lease liabilities as to maturity as at December 31 follows:

	2023	2022
Current (within 12 months)	383,761	750,487
Non-current (over 12 months)	-	383,761
	383,761	1,134,248

The lease agreement does not impose any covenants other than the security interests in the leased asset that are held by the lessor. Leased asset cannot be used as security for borrowing purposes.

(i) Amounts recognized in the statement of comprehensive income

The statement of comprehensive income for the years ended December 31 shows the following amounts relating to leases:

	2023	2022
Depreciation expense - Leased premises (Note 7)	739,549	739,549
Expense relating to variable lease payments not included in lease liabilities (included in rent expense)	31,552	91,854
Interest expense	23,763	45,917
	794,864	877,320

The total cash outflow for leases for the year ended December 31, 2023 is P774,252 (2022 - P774,252)

(ii) Discount rate

Payments for lease of property is discounted using the lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Association's incremental borrowing rate applied to the lease liabilities is 3.00%.

(iii) Extension and termination options

Extension and termination options are included in the property lease of the Association. This is used to maximize operational flexibility in terms of managing the asset used in the Association's operations. The extension and termination options held are exercisable only by the Association and not by the lessor.

12 Members' equity

Members' equity is composed of the following:

a. *Capital contributions*

The capital contributions of members represent their ownership interest in the Association. Every member is required to contribute a fixed capital of at least P1,000, which shall be considered as the minimum capital contribution.

Members' capital contribution is classified as fixed capital contribution (FCC) or, formerly, non-withdrawable capital and capital contribution buffer (CCB), or formerly withdrawable capital. FCC refers to the portion of members' capital contributions that must be maintained and once increased and recorded, cannot be reduced for the duration of membership except upon termination of membership. CCB refers to the capital contributions in excess of the FCC, which should not exceed ten times (10x) of the capital contributions. This may be withdrawn partially by members provided that said amount is not subject of any encumbrance in favor of the Association.

Details of the Association's member count and capital contributions as at December 31 are as follows:

	2023	2022
Number of members	22,552	22,305
Capital contributions	5,053,864,167	4,739,984,608

b. *Surplus free*

On February 10, 2023, the Association declared dividends of 11.50% equivalent to P516.89 million, as approved by the BSP on February 10, 2023, and distributed to members on February 13, 2023.

On February 4, 2022, the Association declared dividends of 11.00% equivalent to P477.83 million, as approved by the BSP on January 28, 2022, and distributed to members on February 7, 2022.

c. *Surplus reserve*

In compliance with the BSP regulations, the Association maintains a withdrawable surplus reserve equivalent to 2% of the aggregate capital contributions of the members. The reserve should first be adjusted before the Association declares and pays dividends at any time of the year. The Association should not distribute to its members any portion of its net income if the withdrawable surplus reserve is less than the required balance, or if by such payment of distribution, the reserve is reduced to an amount below the required balance pursuant to Sections 122-S and 123-S of the Manual of Regulations for Non-Banks Financial Institutions (MORNBF1). The withdrawable surplus reserves are invested in debt instruments classified under investment securities at amortized cost.

In 2023, the Association made an appropriation of surplus amounting to P60.58 million in compliance with BSP Regulations. The Association shall set aside 5% of its yearly net income until it amounts to at least 5% of the total assets as a reserve for a building fund to cover the construction or acquisition of office premises and of the purchase of office furniture and fixtures pursuant to Section 4119-S of the MORNBF1.

d. *Other comprehensive income (OCI)*

Movements in OCI for the years ended December 31 are as follows:

	Notes	2023	2022
Cumulative remeasurement gain (loss) on retirement asset			
Balance at beginning of year		1,046,406	260,956
Remeasurement gain (loss)	13	86,912	785,450
Balance at end of year		1,133,318	1,046,406
Cumulative net unrealized gain on fair value changes of financial assets			
Balance at beginning of year		(4,949,040)	2,378,290
Unrealized fair value (loss) gain	5	(10,183,440)	(7,327,330)
Balance at end of year		(15,132,480)	(4,949,040)
		(13,999,162)	(3,902,634)

13 Retirement benefits

The Association has a funded, non-contributory defined benefit retirement plan covering all of its regular officers and employees. The retirement benefits are based on years of service and compensation on the last year of employment as determined by an external actuary. The latest actuarial report as at December 31, 2022 has been prepared by an independent actuary.

The retirement benefits recorded as part of "Salaries, wages, and employee benefits" under "Operating expenses" account in the statement of total comprehensive income are as follows:

	2023	2022
Service cost	3,116,755	3,544,959
Net interest expense	455,625	170,841
	3,572,380	3,715,800

Details of remeasurement gain (loss) recognized in OCI are as follows:

	2023	2022
Experience adjustments	2,341,053	358,006
Changes in financial assumptions	(2,238,693)	3,933,622
Actual return	(15,448)	(3,506,178)
	86,912	785,450

The funded status and amounts recognized in the statement of financial position for the retirement liability are presented as follows:

	2023	2022
Present value of retirement liability	55,178,196	49,482,862
Fair value of plan assets	(44,789,327)	(42,579,461)
Retirement liability	10,388,869	6,903,401

Changes in the fair value of plan assets are as follows:

	2023	2022
Balance at beginning of year	42,579,461	46,461,369
Interest income	2,810,244	1,997,839
Actual return	(15,448)	(3,506,178)
Benefits paid	(584,930)	(2,373,569)
Balance at end of year	44,789,327	42,579,461

Changes in the present value of retirement liability are as follows:

	2023	2022
Balance at beginning of year	49,482,862	50,434,420
Service cost	3,116,755	3,544,959
Remeasurement losses (gains) recognized in OCI		
Experience adjustments	(2,341,053)	(358,006)
Changes in financial assumptions	2,238,693	(3,933,622)
Interest expense	3,265,869	2,168,680
Benefits paid	(584,930)	(2,373,569)
Balance at end of year	55,178,196	49,482,862

Plan assets consist of the following:

	2023	2022
Investments in		
Unit investment trust fund	99.80%	99.80%
Equity instruments	0.20%	0.20%
	100.00%	100.00%

The plan is exposed to interest rate risk, changes in the life expectancy of qualified employees and salary rates.

Interest rate risk. The present value of defined benefit retirement obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the defined benefit retirement obligation.

Longevity and salary risks. The present value of defined benefit retirement obligation is calculated by reference to the best estimates of: (1) the mortality of plan participants and (2) the future salaries of the plan participants. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the defined benefit retirement obligation.

The principal assumptions used in determining the retirement liability of the Association are shown below:

	2023	2022
Discount rate	6.10%	6.60%
Expected rate of salary increase	6.00%	5.00%

Sensitivity analysis on the defined benefit obligation in 2023 and 2022 are as follows:

	2023		2022	
	Assumption	Effect on retirement liability	Assumption	Effect on retirement liability
Discount rate	+1.00%	(1,649,190)	+1.00%	(1,473,020)
	-1.00%	1,797,128	-1.00%	1,608,920
Salary increases	+1.00%	1,801,318	+1.00%	1,620,585
	-1.00%	(1,635,208)	-1.00%	(1,467,356)

The sensitivity analysis has been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting year.

Shown below is the maturity profile of the undiscounted benefit payments as at December 31:

	2023	2022
Less than one year	40,938,804	38,611,473
More than one year to five years	6,769,147	5,950,709
More than five years to ten years	24,474,094	17,092,832
More than ten years to fifteen years	19,003,641	25,912,261
More than fifteen years to twenty years	22,446,651	20,240,820

The weighted average duration of the defined benefit obligation in 2023 is 5.6 years (2022 - 5.8 years).

There is no expected contributions to the plan for the year 2023.

14 Related party transactions and balances

Related party transactions consist of loans and other transactions with the Association's trustees, officers and related interests (TORI). Under the Association's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risk. In aggregate, the loans should not exceed 20% of the total capital contributions of the Association.

Under the BSP regulations, the Association may grant loans to members not exceeding the amount deposited and/or contributed by the member-borrower plus the members' 12-month salary plus guaranteed bonuses and allowances or retirement pension from employment, or up to 70% of the fair market value of any property acceptable as collateral, whichever is higher.

The information on loans to TORI included under "Loans and receivables, net" account in the statement of financial position follows:

Relationship	Nature of Transaction	2023		2022		Terms and conditions
		Amounts of transactions	Outstanding balance	Amounts of Transactions	Outstanding balance	
Key officers and employees	Loans	1,404,000	10,006,598	3,145,000	12,227,989	- Secured and unsecured - Interest bearing at 5.5% to 12% - Payable upon maturity within 1 to 25 years in cash at gross amount
	Interest income on loans	97,965	632,163	267,657	803,344	
Trustees	Loans	1,080,438	15,781,868	28,503,100	36,174,315	- Secured and unsecured - Interest bearing at 4.5% to 12.5% - Payable upon maturity within 1 to 20 years in cash at gross amount
	Interest income on loans	111,739	1,005,253	1,580,252	2,103,831	
Related interest	Loans	1,807,722	9,830,918	8,509,600	13,839,431	- Secured and unsecured - Interest bearing at 4.5% to 11.75% - Payable upon maturity within 1 to 25 years in cash at gross amount
	Interest income on loans	107,429	635,459	485,084	821,960	
		37,892,259		65,970,870		

Key management personnel compensation

Details of compensation of key management personnel are as follows:

Relationship	Nature of transaction	2023	2022
Key officers and employees	Salaries, wages and employee benefits	17,123,813	18,073,495
Trustees	Short term benefits	3,302,671	3,249,671
		20,426,484	21,323,166

15 Operating expenses

The account for the years ended December 31 consists of:

	Notes	2023	2022
Salaries, wages, and employee benefits		59,105,477	57,990,593
Depreciation and amortization	6,7,8	8,149,885	8,098,765
Repairs and maintenance		7,790,030	7,209,624
Outside services		3,940,652	3,955,146
Communication		1,249,866	1,364,427
Representation and entertainment		1,419,649	1,235,505
Membership fees and dues		582,300	580,000
Insurance		502,539	549,818
Office supplies		438,236	974,780
Donations and charitable contributions		226,525	235,943
Rent	11	31,552	91,854
Taxes and licenses		6,731,304	2,875,520
Others		2,417,952	1,427,712
		92,585,967	86,589,687

16 Other income, net

The account for the years ended December 31 consists of:

	Note	2023	2022
Dividend income	5	11,854,771	13,376,942
Operating fees		2,404,464	1,662,840
Maintenance fees		1,759,457	1,458,295
Others, net		17,041,175	4,448,899
		33,059,867	20,946,976

Others include membership fees, loss on retirement of property and equipment and gain (loss) on disposals of investment properties.

17 Financial risk management

Risk management framework

The BOT has overall responsibility for the establishment and oversight of the Association's risk management framework. The BOT created a Risk Management Committee to develop, monitor and evaluate the Association's financial risk in line with the strategies, policies and limits set by the BOT.

The Association's risk management policies are established to identify and analyze the risks faced by the Association, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions and products and services offered. The Association, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Association's Audit Committee is responsible for monitoring compliance with the Association's risk management policies and procedures and for reviewing the adequacy of the risk management framework. The Audit Committee is assisted in these functions by the Internal Audit and Compliance Office. Internal Audit undertakes both regular and ad-hoc reviews of risk management policies and procedures, the results of which are reported to the Audit Committee.

(a) Credit risk and concentration limit

Credit risk is the risk of financial loss to the Association when a counterparty to a financial instrument fails to meet its contractual obligations, especially those arising from the Association's lending activities. Concentration limits for the Association are set by types of borrowers and loan classifications.

For risk management reporting purposes, the Association considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country, and sector risk) based on the existing BSP regulations.

Loans are granted by the Association based on the financial strength and payment history of potential borrowers. Corporate guarantees and surety agreements also affect the loan granting decision. The Association uses an Internal Credit Risk Rating System to objectively determine the credit worthiness of potential borrowers. This system has been embedded into its loan disbursement process pursuant to the requirements of the BSP.

The analysis of the concentration of credit risk by loan type as at December 31, 2023 and 2022 is disclosed in Note 3 to financial statements.

As at December 31, the Association's maximum exposure to credit risk before collateral held or other credit enhancements is as follows:

	Notes	2023	2022
Cash and cash equivalents*	2	2,509,258,834	1,736,688,340
Loans and receivables, net**	3	4,839,935,291	5,096,165,715
Investment securities at amortized cost, net	4	7,581,443,868	7,925,633,874
		14,930,637,993	14,758,487,929

*Excluding cash on hand amounting to P2.00 million in 2023 (2022 - P2.00 million)

**Including dividend receivables presented under other assets amounting to P1.87 million in 2023 (2022 – P2.62 million).

Loans and receivables, net can be classified either as unsecured or secured by real estate, chattel, or hold-out of capital contribution (Note 3).

The Association holds collateral against certain loans and receivables, net in the form of mortgage interest over property and capital contribution hold-outs. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired.

Fair values of mortgage interest over property are determined by the Association's internal appraisers or by accredited external appraisers. Normally, there are three approaches available to the Association in arriving at the value of collateral (i.e., real estate and chattel) which are the: (1) cost approach; (2) market approach; and (3) income approach. The Association utilizes the appraisal values determined through the market approach.

The Association acquires real estate properties by taking possession of collateral held as security as settlement of loans and receivables, net. Foreclosed properties are classified in the statement of financial position as investment properties (Note 6).

Credit quality of cash and cash equivalents and investment securities at amortized cost

The Association maintains its main banking activities with highly rated universal banks. The Association's investment securities at amortized cost pertain to investments in bonds and government securities.

The breakdown of the financial assets as to credit quality are as follows (amounts in thousands of Pesos):

	2023			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Due from other local banks	54,754	-	-	54,754
Cash equivalents	2,454,505	-	-	2,454,505
Loans to members	3,947,571	134,614	110,827	4,193,012
Unquoted debt securities	500,000	-	-	500,000
Accrued interest	114,110	-	-	114,110
Dividend receivables	1,868	-	-	1,868
Others	22,361	-	98,393	120,754
	7,095,169	134,614	209,220	7,439,003
Investment securities at amortized cost	7,586,400	-	-	7,586,400
	14,681,569	134,614	209,220	15,025,403
Allowance for impairment losses				
Specific	-	-	7,047	7,047
Collective	47,870	313	39,535	87,718
	47,870	313	46,582	94,765
	14,633,699	134,301	162,638	14,930,638

	2022			Total
	Stage 1 12-month ECL	Stage Lifetime ECL	Stage 3 Lifetime ECL	
Due from other local banks	61,523	-	-	61,523
Cash equivalents	1,675,166	-	-	1,675,166
Loans to members	3,904,430	46,892	173,778	4,125,100
Unquoted debt securities	910,000	-	-	910,000
Accrued interest	104,805	-	-	104,805
Dividend receivables	2,619	-	-	2,619
Others	22,673	-	-	22,673
	6,681,216	46,892	173,778	6,901,886
Investment securities at amortized cost	7,940,424	-	-	7,940,424
	14,621,640	46,892	173,778	14,842,310
Allowance for impairment losses				
Specific	-	-	7,047	7,047
Collective	53,618	207	22,949	76,774
	53,618	207	29,996	83,821
	14,568,022	46,685	143,782	14,758,489

The aging analysis of loans and receivables, net, is presented in Note 3.

(b) Liquidity risk

Liquidity risk is the risk that the Association will encounter difficulty in meeting obligations associated with its financial liabilities. The Association ensures that sufficient liquid assets are available to meet short-term funding and regulatory requirements. In addition, the Association has contingency plans to ensure that it will have sufficient liquidity to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Association's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

2023	Carrying amount	Contractual cash flows		
		On demand	Less than one year	Total
Financial liabilities at amortized cost:				
Deposit liabilities	8,860,531,172	8,860,531,172	-	8,860,531,172
Accrued expenses and other liabilities*	233,847,971	233,847,971	-	233,847,971
	9,094,379,143	9,094,379,143	-	9,094,379,143

*Excluding withholding taxes amounting to P0.70 million and payable to government agencies amounting to P0.11 million.

2022	Carrying amount	Contractual cash flows		
		On demand	Less than one year	Total
Financial liabilities at amortized cost:				
Deposit liabilities	9,193,955,777	9,193,955,777	-	9,193,955,777
Accrued expenses and other liabilities*	208,380,032	208,380,032	-	208,380,032
	9,402,335,809	9,402,335,809	-	9,402,335,809

* Excluding withholding taxes amounting to P1.09 million and payable to government agencies amounting to P0.10 million.

The following presents the maturity profiles of financial instruments (amounts in thousands):

	2023						Total
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	More than five years	
Cash and cash equivalents*	2,509,259	-	-	-	-	-	2,509,259
Loans and receivables	853,010	432,992	345,002	575,621	780,476	1,940,775	4,927,876
Dividend receivables	1,868	-	-	-	-	-	1,868
Investment securities at amortized cost	1,440,359	2,054,494	1,451,783	842,688	900,302	896,774	7,586,400
Deposit liabilities	(7,139,090)	(428,603)	(116,536)	(950,843)	(225,459)	-	(8,860,531)
Accrued expenses and other liabilities**	(233,848)	-	-	-	-	-	(233,848)
	(2,568,442)	2,058,883	1,680,249	467,466	1,455,319	2,837,549	5,931,024

*Excluding cash on hand amounting to P2.00 million.

**Excluding withholding taxes amounting to P0.70 million and payable to government agencies amounting to P0.11 million.

	2022						Total
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	More than five years	
Cash and cash equivalents*	1,736,688	-	-	-	-	-	1,736,688
Loans and receivables	1,020,820	482,980	553,220	440,899	673,360	1,991,299	5,162,578
Dividend receivables	2,619	-	-	-	-	-	2,619
Investment securities at amortized cost	1,033,410	1,410,794	1,954,646	1,423,096	844,900	1,273,578	7,940,424
Deposit liabilities	(9,193,956)	-	-	-	-	-	(9,193,956)
Accrued expenses and other liabilities**	(208,380)	-	-	-	-	-	(208,380)
	(5,608,799)	1,893,774	2,507,866	1,863,995	1,518,260	3,264,877	5,439,973

*Excluding cash on hand amounting to P2.00 million.

**Excluding withholding taxes amounting to P1.09 million and payable to government agencies amounting to P0.10 million.

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange rates, will affect the Association's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return on risk.

Interest rate risk

Interest rate risk refers to the possibility that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest.

The primary source of the Association's interest rate risk relates to cash and cash equivalents, investments in fixed income securities, loans and receivables and deposit liabilities.

As at December 31, 2023 and 2022, the Association does not have any financial instrument with variable interest carried at amortized cost nor any debt instruments measured at fair value.

The fixed interest rates for the interest-bearing financial instruments are as follows:

2023						
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	More than five years
Cash and cash equivalent	0.63% - 6.33%	-	-	-	-	-
Loans and receivables	4%-13%	4%-13%	4.5%-14.75%	5.5%-12.25%	5.5%-12.75%	5%-11.5%
Investment securities at amortized cost	2.38%-6.50%	2.63%-6.41%	3.73-8.00%	4.63%-5.59%	3.75%-6.17%	4.00%-7.53%
Deposit liabilities	0.75%-4.80%	1.75%-3.50%	2.25%-2.75%	2.75%-3.25%	3.25%-3.50%	-

2022						
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	More than five years
Cash and cash equivalent	0.63% - 5.75%	-	-	-	-	-
Loans and receivables	4%-19%	4%-13%	4%-13%	5.5%-13%	5.5%-12.25%	5%-11.5%
Investment securities at amortized cost	2.38%-6.25%	2.38%-6.25%	2.63%-6.08%	3.73%-8%	4.63%-5.59%	3.75%-7.53%
Deposit liabilities	0.75%-4%	-	2%-3.5%	2.5%-2.75%	3%-3.25%	-

The following tables demonstrate the sensitivity to a reasonable possible change in interest rate of the Association's net interest income with all other variables held constant (amounts in millions):

	2023			
	Increase (decrease) by			
	5%	10%	(5%)	(10%)
Changes in net interest income				
Cash and cash equivalents	5.92	11.83	(5.92)	(11.83)
Loans and receivables	19.16	38.31	(19.16)	(38.31)
Investment securities at amortized cost	17.96	35.93	(17.96)	(35.93)
Deposit liabilities	(5.78)	(11.56)	5.78	11.56

	2022			
	Increase (decrease) by			
	5%	10%	(5%)	(10%)
Changes in net interest income				
Cash and cash equivalents	2.08	4.15	(2.08)	(4.15)
Loans and receivables	19.09	38.18	(19.09)	(38.18)
Investment securities at amortized cost	17.15	34.29	(17.15)	(34.29)
Deposit liabilities	(7.63)	(15.26)	7.63	15.26

18 Fair value measurement

The following table presents the carrying amounts and fair values of the Association's assets measured at fair value and for which fair values are disclosed, and the corresponding fair value hierarchy (amounts in thousands):

	Notes	Carrying amount	Fair value		
			Quoted price in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
2023					
Assets measured at fair value					
Investment securities at FVOCI		212,376	212,376	-	-
Assets for which fair value are disclosed					
Investment properties	6				
Land		2,621	-	-	5,004
Land improvements		979	-	-	3,546
Motor vehicle		812	-	-	1,018
		4,412	-	-	9,568
		216,788	212,376	-	9,568
2022					
Assets measured at fair value					
Investment securities at FVOCI	5	222,559	222,559	-	-
Assets for which fair value are disclosed					
Investment properties	6				
Land		2,621	-	-	5,004
Land improvements		1,123	-	-	3,546
Motor vehicle		452	-	-	452
		4,196	-	-	9,002
		226,755	222,559	-	9,002

There were no transfers between any levels in the fair value hierarchy for 2023 and 2022.

19 Capital risk management

The primary objectives of the Association for capital management are to ensure its ability to continue as a going concern, to maintain a strong credit rating and quality ratios, to ensure compliance with BSP regulations, and to provide returns and benefits to its members.

The BOT is responsible for managing the Association's capital structure and makes necessary adjustments to adapt to changes in economic conditions and regulatory requirements.

The Association considers the members' equity as its capital. This consists of the following:

	2023	2022
Capital contributions	5,053,864,167	4,739,984,608
Surplus free	886,215,266	795,305,304
Surplus reserve	161,660,443	94,799,692
	6,101,739,876	5,630,089,604

The Association, being a non-stock savings and loan association, is regulated by the BSP and is subject to the following capital requirements:

- Each member should maintain minimum capital contributions during his membership;
- The combined capital accounts of the Association shall not be less than an amount equal to 10% of its risk assets; and
- The Association shall create an amount of withdrawable surplus reserve which shall consist of 2% of the total capital contributions of the members. Such amount shall be invested in bonds or evidences of indebtedness of the Republic of the Philippines or its subdivisions, agencies or instrumentalities and evidences of indebtedness of the BSP.

Management also ensures that all the required ratios set by the BSP are being complied with and has set maximum limit to high-risk investments.

The Association's risk assets as at December 31, 2023 amount to P12.19 billion (2022 - P12.03billion). The combined accounts of the Association as at December 31, 2023 amount to P6.03 billion (2022 - P5.6 billion), which exceeded the 10% of risk assets by P4.81 billion (2022 - P4.39 billion).

As at December 31, 2023 and 2022, the risk-based capital adequacy ratio as submitted to the BSP are as follows:

	2023	2022
Total assets (as reported to BSP)	15,117,481,080	14,958,963,042
Risk assets	12,193,073,412	12,026,585,601
Combined capital accounts	6,032,921,465	5,563,568,061
Total combined capital account to:		
Total assets	39.91%	37.19%
Risk assets	49.48%	46.26%

The withdrawable surplus reserve is adjusted for increases and decreases in capital contributions. As at December 31, 2023, the balance of withdrawable surplus reserve amounts to P161.66 million (2022 - P94.80 million). These amounts were invested in government securities classified under investment securities at amortized cost.

There were no changes in the Association's approach to capital management in 2023 and 2022.

20 Critical accounting judgment, estimates, and assumptions

The preparation of financial statements requires the Association to exercise judgment, make estimates, and use assumptions that affect the amounts reported in the financial statements and related notes. The judgment and estimates used in the financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the financial statements. While the Association believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

20.1 Critical accounting judgment

Determination of the lease term (Note 11)

In determining the lease term, the Association considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The Association included extension period for leases which the Association has expressed its intention to extend with the lessor as at assessment date.

20.2 Estimates and assumptions

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future periods if the revision affects both current and future years.

(a) Measurement of expected credit loss (ECL) under PFRS 9 (Note 3)

The measurement of ECL allowance for financial assets measured at amortized cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The assumptions used in the measurement of ECL are based on a number of factors and actual results may differ, resulting in future changes to the allowances.

(b) Estimating useful lives of investment properties, property and equipment and computer software (Notes 6, 7 and 8)

The Association estimates the useful lives of investment properties, property and equipment, and computer software for purposes of computing depreciation and amortization based on the year over which the assets are expected to be available for use and are updated if expectations differ from previous estimates due to physical wear and tear and technical and commercial obsolescence.

The useful lives and depreciation and amortization method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from items of investment properties, property and equipment, and computer software.

There is no change in the estimated useful lives of investment properties, property and equipment and computer software in 2023 and 2022.

(c) *Determination of incremental borrowing rate (Note 11)*

To determine the incremental borrowing rate for leases, the Association made reference to specific rates from its interest offered for time deposits, and equated this to what they would have to pay to borrow, over a similar term, the funds necessary to obtain an asset of a similar value to the cost of the right-of-use asset in a similar economic environment. The discount rate applied by the Association is disclosed in Note 11.

(d) *Assessing impairment losses on non-financial assets*

The Association assesses impairment on non-financial assets such as investment properties, property and equipment, and computer software, whenever events or changes in circumstances indicate that the carrying amounts of these assets 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.

In determining the present value of the estimated future cash flows expected to be generated from the continued use of the assets, the Association is required to make estimates and assumptions on the timing and amount of cash flows that can materially affect the financial statements.

For investment properties, fair value is determined using the valuation made by independent appraisers using the market approach for land and land improvements. In the absence of an appraisal report, reference is made to the market listing or selling price of the property set by the Association.

There is no indication that property and equipment and computer software may be impaired. As at December 31, 2023 and 2022, the allowance for impairment losses on investment properties amounts to P576,104 (Note 9).

The carrying amounts of investment properties, property and equipment and computer software are as follows:

	Notes	2023	2022
Investment properties	6	4,411,933	4,195,600
Property and equipment, net	7	5,367,892	6,945,533
Computer software, net	8	21,805,583	26,167,383

(e) *Measurement of retirement liability (Note 13)*

The determination of the obligation and cost of retirement benefits is dependent on the assumptions used by the actuary in calculating such amounts. These assumptions include, among others, discount rates, expected rates of return on plan assets and salary increase rates. Actual results that differ from the Association's assumptions are recognized in OCI and therefore, generally affect the recorded obligation in future years.

As at December 31, 2023, the carrying amount of retirement liability amounts to P10.39 million (2022 - P6.90 million). Retirement benefits recognized in profit or loss amount to P3.57 million in 2023 (2022 - P3.72million).

21 Summary of material accounting policies

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

21.1 Basis of preparation

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income.

The preparation of these financial statements in conformity with PFRSs requires the use of certain 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 and accounting estimates are disclosed in Note 20.

Changes in accounting policy and disclosures

(a) Amendments to existing standards adopted by the Association

The Association has adopted the following amendments to existing standards effective January 1, 2023:

i. Amendments to PAS 1, 'Presentation of Financial Statements', and PFRS Practice Statement 2

The amendment requires entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' (being information that, when considered together with other information included in an entity's financial statements, can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements) and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

To support this amendment, PFRS Practice Statement 2, Making Materiality Judgements, was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The adoption of this amendment resulted to changes in the accounting policies disclosed by the Association.

There are no other new standards, amendments to existing standards and interpretations which are effective for the financial year beginning on January 1, 2023 that are considered relevant or material to the Association's financial statements.

(b) Amendments to existing standards not yet adopted by the Association

There are no other new standards, amendments to existing standards or interpretations effective subsequent to December 31, 2023 that may be considered relevant or would be expected to have a material impact on the financial statements of the Association.

21.2 Cash and cash equivalents

Cash and cash equivalents include deposits held at call with local banks and short-term highly liquid investments with maturities of three months or less from the date of acquisition.

21.3 Financial assets

A financial asset is any asset that is (a) cash; (b) an equity instrument of another entity; or (c) a contractual right to receive cash or another financial asset from another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the Association.

The Association recognizes a financial asset in the statement of financial position when it becomes a party to the contractual provisions of a financial instrument. Regular way purchases and sales of financial assets are recognized on trade date, the date on which the Association commits to purchase or sell the financial asset.

21.3.1 Classification and subsequent measurement

The Association classifies its financial assets at amortized cost.

The classification depends on the Association's business model for managing the financial assets and the contractual terms of the cash flows.

At initial recognition, the Association measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

The Association reclassifies debt investments when and only when its business model for managing those assets changes.

In the determination of the business model, the Association considers its past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and how risks are assessed and managed.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on the Association's business model for managing the asset and the cash flow characteristics of the asset.

Based on these factors, the Association classifies its debt instruments at amortized cost.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at fair value through profit or loss, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. As at December 31, 2023 and 2022, the Association's financial assets at amortized cost include cash and cash equivalents, loans and other receivables and investment securities at amortized cost.

Business model: The business model reflects how the Association manages the assets in order to generate cash flows. That is, whether the Association's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of other business model and measured at fair value through profit or loss. Factors considered by the Association in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Association assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Association considers whether the contractual cash flows are consistent with a basic lending arrangement i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Association reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity investments

Equity investments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Association subsequently measures all equity investments at fair value through other comprehensive income. At initial recognition, the Association irrevocably designates an equity investment at FVOCI. When this election is used, fair value gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, even on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Association's right to receive payments is established. Unrealized gains or losses on fair value changes on equity investments at FVOCI are included in the statement of total comprehensive income.

As at December 31, 2023 and 2022, investment securities at FVOCI are composed of quoted and unquoted equity securities.

21.3.2 Impairment

The Association assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost. The Association recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Credit impaired financial assets

Financial assets are assessed for credit impairment at each reporting date and more frequently when circumstances warrant further assessment. Evidence of credit-impairment may include indications that the debtor is experiencing significant financial difficulty, probability of bankruptcy or other financial reorganization, as well as measurable decrease in the estimated future cash flows evidenced by the adverse changes in the payment status of the debtor or economic conditions that correlate with defaults. An asset that is in Stage 3 will move back to Stage 2 when, as at reporting date, it is no longer considered to be credit-impaired. The asset will transfer back to Stage 1 when its credit risk at the reporting date is no longer considered to have increased significantly from initial recognition, and when there is sufficient evidence to support full collection of principal and interest due. Prior to the transfer to Stage 1, the asset should have exhibited both the quantitative and qualitative indicators of probable collection.

When a financial asset has been identified as credit-impaired, expected credit losses are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the instrument's original effective interest rate. For impaired financial assets with drawn and unwithdrawn components, expected credit losses also reflect any credit losses related to the portion of the loan commitment that is expected to be drawn down over the remaining life of the instrument.

Impairment of other financial assets

The Association applies the simplified approach as permitted by PFRS 9 in measuring expected credit losses which uses a lifetime expected loss allowance for other financial assets.

To measure the expected credit losses, other financial assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of receivables over a period of 60-month and 36-month before December 31, 2023 and 2022, respectively, and corresponding historical credit losses experienced within these periods. The forward-looking information on macroeconomic factors are considered insignificant in calculating impairment of other financial assets.

21.3.3 Derecognition

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have ceased, or when they have been transferred and either (i) the Association transfers substantially all the risks and rewards of ownership, or (ii) the Association neither transfers nor retains substantially all the risks and rewards of ownership and the Association has not retained control. Related gains and losses at the time of derecognition are recognized in profit or loss.

21.4 Financial liabilities

21.4.1 Classification and measurement of financial liabilities

The Association classifies its financial liabilities in the following categories: financial liabilities at FVTPL and other financial liabilities at amortized cost.

The Association does not have financial liabilities that are measured at FVTPL as at December 31, 2023 and 2022.

Other financial liabilities

Financial liabilities are classified in this category if these are not held for trading or are not designated at FVTPL upon the inception of the liability. Other financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any related issue costs and discount or premium on the issue. Gains and losses are recognized in profit or loss when the liabilities are derecognized or impaired, or through the amortization process.

As at December 31, 2023 and 2022, deposit liabilities and accrued expenses and other liabilities (excluding withholding taxes) are classified under this category.

21.4.2 Derecognition of financial liabilities

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished. When 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 profit or loss.

21.5 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

Financial instruments

The Association classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp. (PDEX), etc.).
- 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). This level includes the majority of the over-the-counter (OTC) derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Association considers relevant and observable market prices in its valuations where possible.

As at December 31, 2023 and 2022, there are no financial assets and liabilities that have been offset.

21.6 Investment properties

Investment properties consist of real properties acquired in settlement of loans. An investment property acquired through an exchange transaction is measured at fair value, unless the fair value of the asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the asset given up. Non-refundable capital gains tax, documentary stamps tax, and other transfer taxes incurred in connection with the foreclosure are capitalized as part of the carrying amounts of the foreclosed properties, provided that such carrying amounts do not exceed the appraised values. Subsequent to initial recognition, investment properties, except land, are carried at cost less accumulated depreciation and any impairment losses. Land is carried at cost less any accumulated impairment losses and is not subject to depreciation.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance, are normally recognized in profit or loss when incurred.

Amortization on land improvements is calculated on a straight-line basis over the estimated average useful life of 10 years from the date of foreclosure.

The estimated useful lives and amortization method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefit from items of investment properties.

Investment properties are derecognized when these have either been disposed of or permanently withdrawn from use, and no future economic benefit is expected from their disposal. Any resulting gain or loss, which is the difference between net disposal proceeds and the carrying amount of the property, is recognized in profit or loss in the year of derecognition.

Other assets mainly consist of prepaid expenses.

21.7 Property and equipment, net

Property and equipment are carried at cost less accumulated depreciation and any impairment losses.

Initially, an item of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable cost of bringing the asset to the location and condition for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally charged to profit or loss. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of the property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets:

<u>Asset category</u>	<u>Number of years</u>
Computer equipment	3 to 5
Transportation equipment	5
Building improvements	2 to 10 or the term of the lease, whichever is shorter
<u>Furniture, fixtures, and office equipment</u>	<u>3 to 5</u>

Right-of-use asset, which refers to the leased premises, is depreciated over the remaining lease term of 36 months from July 1, 2022, on a straight-line basis.

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

Fully depreciated assets are retained in the accounts until these are no longer in use.

When these assets are disposed of, or are permanently withdrawn from use and no future economic benefits are expected from their disposal, the cost and accumulated depreciation and any impairment losses are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss in the year of derecognition.

21.8 Computer software

Computer software acquired is measured on initial recognition at cost, including direct costs of bringing the software into use. Subsequent to initial recognition, computer software is carried at cost less accumulated amortization and any impairment losses. Internally-generated computer software, excluding capitalized development costs, is not capitalized and expenditure is charged against profit or loss in the year in which the expenditure is incurred.

Computer software is amortized over its estimated economic life of eight (8) years and assessed for impairment whenever there is an indication that the computer software may be impaired. The amortization period and method are reviewed at least at each reporting date. Changes in the expected economic life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Gains or losses arising from disposition of computer software, measured as the difference between the disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

21.9 Impairment of non-financial assets

The carrying amounts of investment properties, property and equipment, and computer software are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists and when the carrying amounts exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less cost to sell or value-in-use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exists or have decreased. The recovery is recognized in profit or loss. However, the increase in carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent that it does not exceed the carrying amount that would have been determined (net of depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

21.10 Members' equity

Capital contributions

Capital contributions represent contributions by members to the fixed or withdrawable capital of the Association.

Surplus free

Surplus free includes accumulated net income from current and prior years, net of any dividend declaration and transfers to surplus reserve.

Surplus reserve

Surplus reserve representing withdrawable surplus reserve is equal to 2% of the total capital contributions of the members.

Other comprehensive income (OCI)

OCI comprises items of income and expense that are not recognized in profit or loss during the year. OCI of the Association pertains to unrealized gain or loss on fair value changes of financial assets at FVOCI and remeasurement gain or loss on retirement liability.

21.11 Revenue recognition

Revenue is recognized to the extent that it is probable that the transaction will generate future economic benefits to the Association and the revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized.

Dividend income

Revenue is recognized when the Association's right to receive the payment is established.

21.12 Costs and expense recognition

Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Operating expenses

Operating expenses include costs of administering the Association. These are recognized in profit or loss as incurred.

21.13 Retirement liability, net

Retirement liability, net is actuarially determined using the projected unit credit method, which reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Association recognizes service costs, comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements and net interest expense or income in profit or loss. Net interest is calculated by applying the discount rate to the net retirement liability or asset.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in OCI in the year in which these arise. Remeasurements are not reclassified to profit or loss in subsequent year.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Association, nor can they be paid directly to the Association. Fair value of plan assets is based on market price information or is otherwise estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets.

Net retirement asset or liability is the aggregate of the present value of the defined benefit obligation and the fair value of plan assets out of which the obligations are to be settled directly. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial valuations are made with sufficient regularity so that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

21.14 Leases

The Association recognizes leases as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

Assets and liabilities arising from leases are initially measured on a present value basis. The interest expense is recognized in profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the lease term on a straight-line basis.

i. Measurement of lease liabilities

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for the Association's leases, the lessee's incremental borrowing rate is used, being the rate that the Association would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Association uses recent and available third-party financing received by the Association as a starting point, adjusted to reflect the changes in financing conditions since third party financing was received.

Lease payments are allocated between principal and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

ii. Measurement of right-of-use assets

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the lease term on a straight-line basis. If the Association is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

iii. Extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term is reassessed if an option is actually exercised (or not exercised) or the Association becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is revised only if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

22 Classification of assets and liabilities

The following table presents the assets and liabilities as at December 31, 2023 and 2022 analyzed according to whether these are expected to be recovered or settled within 12 months or over from the reporting date.

	2023	2022
Current assets		
Cash and cash equivalents	2,511,263,834	1,738,693,340
Loans and receivables, net	702,210,611	969,395,458
Investment securities at amortized cost, net	1,439,331,490	1,028,874,533
Other assets	18,585,707	18,871,739
	4,671,391,642	3,755,835,070
Non-current assets		
Loans and receivables, net	4,135,856,550	4,124,151,531
Investment securities at amortized cost, net	6,142,112,378	6,896,759,341
Investment securities at fair value through other comprehensive income	212,375,520	222,558,960
Investment properties, net	4,411,933	4,195,600
Property and equipment, net	5,367,892	6,945,533
Computer software, net	21,805,585	26,167,383
	10,521,929,858	11,280,778,348
Total assets	15,193,321,500	15,036,613,418
Current liabilities		
Deposit liabilities	8,860,531,172	9,193,955,776
Accrued expenses and other liabilities	234,660,743	209,183,510
	9,095,191,915	9,403,139,286
Non-current liabilities		
Accrued expenses and other liabilities	-	383,761
Retirement liability, net	10,388,869	6,903,401
	10,388,869	7,287,162
Total liabilities	9,105,580,784	9,410,426,448

23 Supplemental information required under BSP Circular No. 1075

Presented below are the additional information required by BSP Circular No. 1075 issued on January 8, 2020. This information is presented for BSP reporting purposes and is not required in the basic financial statements.

(i) Basic quantitative indicators of financial performance

The key financial performance indicators follow:

	2023	2022
Return on average equity	11.25%	9.59%
Return on average assets	4.49%	3.56%
Net interest margin	5.57%	4.43%
Rate paid on funds	0.95%	1.27%
Minimum liquidity ratio	76.29%	76.34%
Leverage ratio	34.77%	28.16%
Total exposure measure	15,232,734,326	15,100,682,171

Return on equity is determined by dividing net income by the average members' equity. The ratio signifies how efficient the Association is in generating income out of the capital contributions.

Return on assets is determined by dividing net income by the average total assets. This ratio provides information as to the ability of the Association to turn its available assets into profit.

Net interest margin is computed by dividing net interest income over the average total earning assets of the Association. This ratio measures how successful the Association's investment decisions are compared to its debt situation.

Rate paid on funds is computed by dividing total interest expense by average total earning assets. This ratio indicates the rate of interest that the Association is paying out of its assets.

Minimum liquidity ratio is computed by dividing liquid assets over total liabilities and irrevocable obligations. This ratio measures the ability of the Association to pay obligations using its readily available asset.

Leverage ratio is computed by dividing total loans over total deposit liabilities and total capital contributions. This ratio provides information about the Association's use of funds from members' deposits as well as to measure the ability of the Association to cover any unforeseen fund requirements.

Total exposure measure is computed as the total of all on-balance sheet assets, gross of allowance for impairment losses on loans and receivables.

(ii) Breakdown of total loans as to (a) security (secured, including type of security, and unsecured); and (b) status (performing and non-performing) per product line

a. Details of loans and receivables portfolio as to security as at December 31 are as follows:

	2023	2022
Secured:		
Real estate	2,072,149,313	2,144,728,266
Chattel	155,427,114	143,652,884
Others	325,963,185	312,839,798
	2,553,539,612	2,601,220,948
Unsecured	1,639,472,481	1,523,878,908
	4,193,012,093	4,125,099,856

Real estate loans are secured by mortgages on real properties and due in one (1) to twenty-five (25) years with annual interest ranging 5.00% to 15.00% in 2023 and 2022.

Car loans are secured by mortgages on motor vehicles and due in one (1) to five (5) years with annual interest rates of 7.00% to 8.75% in 2023 and 2022.

Other collateralized loans are secured by capital contribution hold-outs and due in less than a year to five (5) years with annual interest ranging from 4.00% to 11.00% in 2023 and 2022.

The total fair market value of real and personal properties mortgaged as collateral as at December 31, 2023 amounts to P5.96 billion (2022 - P5.46 billion).

Unsecured loans are loans with no collateral but are guaranteed by co-makers who are also members of the Association. These loans are due in less than a year to five (5) years with annual interest ranging from 4.00% to 12.75% in 2023 and 2022.

b. Details of loans and receivables portfolio as to status as at December 31 are as follows:

2023	Performing	Non-performing
Consumption	1,586,617,353	15,076,424
Real estate	1,879,594,090	227,407,873
Car	153,688,451	1,738,663
Capital	321,107,593	702,713
Salary/education	2,780,102	145,952
Others	3,783,212	369,668
	3,947,570,801	245,441,293

2022	Performing	Non-performing
Consumption	1,494,246,966	28,454,611
Real estate	1,959,092,376	185,635,891
Car	140,400,015	3,252,869
Capital	299,930,397	2,517,135
Salary/education	1,031,364	145,968
Others	9,728,975	663,289
	3,904,430,093	220,669,763

Total non-performing loans (NPLs) are as follows:

	2023	2022
Secured	231,273,215	193,198,685
Unsecured	14,168,078	27,471,078
	245,441,293	220,669,763

NPLs are:

- Loans that are still unpaid even after written demand or within one year from the date of grant or renewal, whichever comes earlier;
- Loans collectible in monthly installments that have one or more installments in arrears;
- Restructured loans that have payments that are due and remain unpaid; and
- Loans under litigation, as defined in the Association's Manual of Accounts.

NPLs are not reclassified as performing loans until the interest and principal payments are brought to current status and future payments are assured.

The Association's loan portfolio includes non-risk loans, as defined under the existing BSP regulations, aggregating P321.81 million as at December 31, 2023 (2022 - P302.45 million).

(iii) *Breakdown of exposures to Trustees, Officers and their Related Interests (TORI)*

The information on loans to TORI included under the Loans and receivables, net account in the statement of financial position follows:

	2023	2022
Outstanding TORI loans and receivable	35,619,384	62,241,735
Percentage of TORI loans to total capital contributions	0.70%	1.31%
Percentage of TORI loans to total loan portfolio	0.85%	1.51%
Percentage of unsecured TORI loans to total TORI loans	11.23%	7.77%
Percentage of past due TORI loans to total TORI loans	0.00%	0.00%
Percentage of non-performing TORI loans to total TORI loans	0.00%	0.00%

No impairment losses have been recognized against outstanding balances with the Association's TORI in 2023 and 2022.

(iv) *Secured liabilities and assets pledged as security*

There are no loans and receivables at December 31, 2023 and 2022 used as security for any liabilities.

(v) *Contingencies and commitments from off-balance sheet items*

There are no credit risk exposures relating to off-balance sheet items as at December 31, 2023 and 2022.

24 Supplementary information required by the Bureau of Internal Revenue (BIR)

Revenue Regulations (RR) No. 15-2010

Below is the additional information required by RR No. 15-2010 that is relevant to the Association. This information is presented for the purposes of filing with the BIR and is not a required part of the basic financial statements.

(i) *Output value-added tax (VAT)*

The Association is a non-VAT registered entity engaged in the business of general financing and investing.

(ii) *Documentary stamp tax (DST)*

The Association incurred DST for new time deposit placement amounting to 7.43 million, of which P0.34 million was accrued as of December 31, 2023.

(iii) *All other local and national taxes*

All other local and national taxes for the year ended December 31, 2023 consist of:

	Amount
Municipal taxes and mayor's permit	71,128
Community tax	11,000
Others	7,610
	89,738

(iv) Withholding taxes

Withholding taxes paid and accrued/withheld for the year ended December 31, 2023 consist of:

	Paid	Accrued	Total
Withholding tax on compensation	5,289,929	448,795	5,738,724
Expanded withholding taxes	660,878	213,057	873,935
Final withholding taxes	2,088,065	42,098	2,130,163
	8,038,872	703,950	8,742,822

As at December 31, 2023, the Association has no creditable withholding taxes.

(v) Tax assessment

The Association has no pending tax assessment as at December 31, 2023

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

RR No. 34-2020

On December 18, 2020, BIR issued RR No. 34-2020, Prescribing the Guidelines and Procedures for the Submission of BIR Form No. 1709, Transfer Pricing Documentation (TPD) and other Supporting Documents, Amending for this Purpose the Pertinent Provisions of RR Nos. 19-2020 and 21-2002, as amended by RR No. 15-2010, to streamline the guidelines and procedures for the submission of BIR Form No. 1709, TPD and other supporting documents by providing safe harbors and materiality thresholds. Section 2 of the RR provides the list of taxpayers that are required to file and submit the RPT Form, together with the Annual Income Tax Return.

The Association is not covered by the requirements and procedures for related party transactions provided under this RR as it does not meet any criteria of taxpayers prescribed in Section 2 of the RR.