

Alas Oplas & Co., CPAs

PHILIPPINE NAVY SAVINGS AND LOAN ASSOCIATION, INC. *(A Non-Stock Savings and Loan Association)* TAGUIG CITY – PHILIPPINES

FINANCIAL STATEMENTS **DECEMBER 31, 2024 AND 2023**

Alas Oplas & Co., CPAs

7/F Philippine AXA Life Centre, 1286 Sen. Gil Puyat Avenue, Makati City Philippines 1200

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Offices:

Makati Alabang Cavite Ortigas Paranaque Bulacan Isabela Nueva Ecija Bacolod Iloilo Legazpi La Union Laguna Quezon Province



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PHILIPPINE NAVY SAVINGS AND LOAN ASSOCIATION, INC.

(Authorized by the Bangko Sentral ng Pilipinas)

PNSLAI Corporate Center, Lot 12 Blk 54 Ph4, Diego Silang St.,

AFP Officers Village, Fort Bonifacio, Taguig City 1630

Telefax Nos.: (02) 8887-3736; (02) 8887-3738 email: pnsclaimain@yahoo.com

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **PHILIPPINE NAVY SAVINGS AND LOAN ASSOCIATION, INC.** is responsible for the preparation and fair presentation of financial statements including the schedules attached therein, for the years ended December 31, 2024 and 2023, in accordance with the prescribed financial reporting framework indicated therein, and such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Trustees is responsible for overseeing the Association's financial reporting process.

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

Alas, Oplas & Co., CPAs, the independent auditor appointed by the members for the years ended December 31, 2024 and 2023, has audited the financial statements of the Association in accordance with Philippine Standards on Auditing, and in its report to the members, has expressed its opinion on the fairness of presentation upon completion of such audit.

COMMO EDUARDO T. DOMINGO AFP (Ret)
Chairman of the Board

BGEN EUGENIO N. CLEMEN AFP (Ret)
President

MICHAEL E. AVILLA
VP for Treasury

Signed this 26th day of February, 2025.

Alas Oplas & Co., CPAs

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Makati City, Philippines 1200
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Independent Member of

B K R International

INDEPENDENT AUDITORS' REPORT TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

To the Members and the Board of Trustees
PHILIPPINE NAVY SAVINGS AND LOAN ASSOCIATION, INC.
PNSLAI Corporate Center, Lot 12 Blk 54 Phase IV,
Diego Silang St. AFP Officers Village
Western Bicutan 1630 Taguig City NCR, 4th District Philippines

We have examined the financial statements of **PHILIPPINE NAVY SAVINGS AND LOAN ASSOCIATION, INC.** for the years ended December 31, 2024 and 2023, on which we have rendered the attached report dated February 26, 2025.

In compliance with Revised Securities Regulation Code Rule 68, we are stating that the Association has no stockholders, being a non-stock savings and loan association.

ALAS, OPLAS & CO., CPAs

BOA Registration No. 0190, valid from February 19, 2025, to February 18, 2028
BIR A.N. 08-001026-000-2024, issued on January 5, 2024; effective until January 4, 2027
SEC A.N. (Firm) 0190-SEC, Group A, issued on October 21, 2021; valid for 2021 to 2025 audit period
TIN 002-013-406-000

By:



RYAN A. SABUG

Partner

CPA License No. 0111183

BOA Registration No. 0190/P-004, valid from February 19, 2025, to February 18, 2028

BIR A.N. 08-001026-004-2023, issued on February 9, 2023; effective until February 8, 2026

SEC A.N. (Individual) 111183-SEC, Group A, issued on February 4, 2021; valid for 2020 to 2024 audit period

TIN 232-158-286-000

PTR No. 10466283, issued on January 2, 2025, Makati City

February 26, 2025
Makati City, Philippines

Alas Oplas & Co., CPAs

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INDEPENDENT AUDITORS' REPORT

Independent Member of

B K R International

To the Members and the Board of Trustees
PHILIPPINE NAVY SAVINGS AND LOAN ASSOCIATION, INC.
PNSLAI Corporate Center, Lot 12 Blk 54 Phase IV,
Diego Silang St. AFP Officers Village
Western Bicutan 1630 Taguig City NCR, 4th District Philippines

Opinion

We have audited the financial statements **PHILIPPINE NAVY SAVINGS AND LOAN ASSOCIATION, INC.** (the "Association") which comprise the statements of financial position as of December 31, 2024 and 2023, and the related statements of comprehensive income, statements of changes in member's equity and statements of cash flows for the years then ended, and notes to the financial statements, including material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2024 and 2023, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 5 to the financial statements which describes the basis used by the Association in setting up allowance for credit losses. As stated in Bangko Sentral ng Pilipinas (BSP) Circular 1046, BSP-supervised financial institutions with credit operations that may not economically justify adoption of simple loan loss estimation methodology that is compliant with PFRS 9, shall, at a minimum, be subject to regulatory guidelines in setting up allowance for credit losses prescribed under Appendix S-8 of the Manual of Regulations for Non-Bank Financial Institutions (MORNBF). Following the guidance of BSP Circular 1046 in adopting PFRS 9 impairment requirements, the Association assessed the ECL in accordance with the said standard and based on management judgement, it was determined that the amount recognized as allowance based on Appendix S-8 of the MORNBF is reasonable. Our opinion is not modified in respect of this matter.

Alas Oplas & Co., CPAs

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

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

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

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

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.

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.

Alas Oplas & Co., CPAs

The Supplementary Information Required under Bangko Sentral ng Pilipinas (BSP) Circular No. 1075 and Revenue Regulation No. 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1075 in Note 34 and Revenue Regulation No. 15-2010 on taxes, duties and license fees paid or accrued during the taxable year in Note 33 are presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of **PHILIPPINE NAVY SAVINGS AND LOAN ASSOCIATION, INC.** The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ALAS, OPLAS & CO., CPAs

BOA Registration No. 0190, valid from November 28, 2024, to February 18, 2028

BIR A.N. 08-001026-000-2024, issued on January 5, 2024; effective until January 4, 2027

SEC A.N. (Firm) 0190-SEC, Group A, issued on October 21, 2021; valid for 2021 to 2025 audit period

TIN 002-013-406-000

By:



RYAN A. SABUG

Partner

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TIN 232-158-286-000

PTR No. 10466283, issued on January 2, 2025, Makati City

February 26, 2025

Makati City, Philippines

PHILIPPINE NAVY SAVINGS AND LOAN ASSOCIATION, INC.
(A Non-Stock Savings and Loan Association)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2024 AND 2023
In Philippine Peso

	Notes	2024	2023
ASSETS			
Cash and cash equivalents	9	2,582,845,309	2,464,563,565
Investment securities at amortized cost	10	360,000,000	380,000,000
Loans and other receivables – net	11	6,517,817,663	6,525,023,746
Investment property – net	12	1,504,153	6,715,820
Property and equipment – net	13	225,635,158	231,565,506
Other assets	14	144,710,897	138,410,454
TOTAL ASSETS		9,832,513,180	9,746,279,091
LIABILITIES AND MEMBERS' EQUITY			
LIABILITIES			
Savings deposits	15	3,910,769,021	3,841,020,029
Accrued expenses and other liabilities	16	407,429,016	355,295,409
Retirement payable	17	–	–
Total Liabilities		4,318,198,037	4,196,315,438
MEMBERS' EQUITY			
Capital contribution	18	4,650,245,190	4,637,613,821
Surplus reserves	19	292,450,581	292,197,954
Surplus free	20	571,619,372	620,151,878
Total Members' Equity		5,514,315,143	5,549,963,653
TOTAL LIABILITIES AND MEMBERS' EQUITY		9,832,513,180	9,746,279,091

See Notes to Financial Statements.

PHILIPPINE NAVY SAVINGS AND LOAN ASSOCIATION, INC.
(A Non-Stock Savings and Loan Association)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023
In Philippine Peso

	Notes	2024	2023
INTEREST INCOME			
Loans receivable	11	731,741,453	724,183,639
Cash in banks	9	95,052,628	72,075,227
Investment securities at amortized cost	10	19,213,542	21,117,659
		846,007,623	817,376,525
INTEREST EXPENSE			
Savings deposits	15	(107,502,305)	(105,445,212)
NET INTEREST INCOME			
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	28	(55,612,963)	(21,941,220)
NET INTEREST INCOME AFTER PROVISION			
		682,892,355	689,990,093
OTHER INCOME			
Fees and commissions		41,839,727	48,218,079
Recovery on charged-off assets	24	2,208,379	1,943,928
Miscellaneous	25	4,808,903	5,392,803
		48,857,009	55,554,810
OPERATING EXPENSES			
Compensation and fringe benefits	21	(147,214,462)	(147,622,853)
Management and other professional fees		(14,617,320)	(14,934,154)
Depreciation	12,13	(14,783,603)	(14,307,670)
Fuel and lubricants		(4,203,224)	(3,976,370)
Power, light and water		(3,782,491)	(3,456,729)
Information Technology Expense		(74,628)	-
Postage, telephone, cable and telegrams		(3,148,225)	(3,205,366)
Security, messengerial, and janitorial services		(3,351,153)	(3,203,880)
Rent expense	22	(2,882,558)	(2,791,339)
Repairs and maintenance		(2,278,903)	(2,609,962)
Stationaries and supplies used		(2,338,425)	(2,439,290)
Advertising and publicity		(2,306,276)	(2,196,449)
Representation and entertainment		(1,985,002)	(1,893,435)
Taxes and licenses		(946,773)	(1,759,020)
Insurance expense		(1,119,050)	(1,079,594)
Travelling expenses		(796,424)	(866,019)
Periodicals and magazines		(150,866)	(152,860)
Membership fee and dues		(153,353)	(136,223)
Donations and charitable contributions		(59,483)	(84,032)
Fines, penalties, and other charges		(19,000)	(11,300)
Miscellaneous	23	(9,133,761)	(10,417,917)
		(215,344,980)	(217,144,462)
INCOME BEFORE TAX			
INCOME TAX EXPENSE	26	-	-
INCOME AFTER TAX			
		516,404,384	528,400,441
OTHER COMPREHENSIVE INCOME			
		-	-
TOTAL COMPREHENSIVE INCOME			
		516,404,384	528,400,441

See Notes to Financial Statements.

PHILIPPINE NAVY SAVINGS AND LOAN ASSOCIATION, INC.
(A Non-Stock Savings and Loan Association)
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023
In Philippine Peso

	Capital contribution (Note 18)	Surplus reserves (Note 19)	Surplus free (Note 20)	Total
Balance at December 31, 2022	4,591,022,338	341,266,124	624,924,559	5,557,213,021
Comprehensive income				
Income for the year	–	–	528,400,441	528,400,441
Transactions with members				
Additional contribution	1,237,713,191	–	–	1,237,713,191
Withdrawals	(1,191,121,708)	–	–	(1,191,121,708)
Reversal of appropriation	–	(50,000,000)	50,000,000	–
Appropriation	–	931,830	(931,830)	–
Dividend declaration	–	–	(582,241,292)	(582,241,292)
Total transactions with members	46,591,483	(49,068,170)	(533,173,122)	(535,649,809)
Balance at December 31, 2023	4,637,613,821	292,197,954	620,151,878	5,549,963,653
Comprehensive income				
Income for the year	–	–	516,404,384	516,404,384
Transactions with members				
Additional contribution	1,240,580,674	–	–	1,240,580,674
Withdrawals	(1,227,949,305)	–	–	(1,227,949,305)
Reversal of appropriation	–	–	–	–
Appropriation	–	252,627	(252,627)	–
Dividend declaration	–	–	(564,684,263)	(564,684,263)
Total transactions with members	12,631,369	252,627	(564,936,890)	(552,052,894)
Balance at December 31, 2024	4,650,245,190	292,450,581	571,619,372	5,514,315,143

See Notes to Financial Statements.

PHILIPPINE NAVY SAVINGS AND LOAN ASSOCIATION, INC.
(A Non-Stock Savings and Loan Association)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023
In Philippine Peso

	Notes	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before tax		516,404,384	528,400,441
Adjustments for:			
Interest income on cash in banks	9	(95,052,628)	(72,075,227)
Interest income on investment securities at amortized cost	10	(19,213,542)	(21,117,659)
Depreciation	12,13	14,783,603	14,307,670
Provision for retirement fund	17,21	3,885,362	–
Provision for credit and impairment losses	28	55,612,963	21,941,220
Operating cash flows before working capital changes		476,420,142	471,456,445
Decrease (increase) in operating assets:			
Loans and other receivables		(45,207,159)	107,692,416
Other assets		(9,500,162)	3,750,668
Increase (decrease) in operating liabilities:			
Savings deposits		69,748,992	1,993,962
Accrued expenses and other liabilities		52,133,607	(11,791,693)
Cash generated from operating activities		543,595,420	573,101,798
Interest received		114,266,170	89,527,334
Contributions to retirement fund	17,21	(3,885,362)	(1,683,344)
Net cash generated from operating activities		653,976,228	660,945,788
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment securities at amortized cost	10	(50,000,000)	(50,000,000)
Proceeds from redemption of matured investment securities at amortized cost	10	70,000,000	150,000,000
Acquisition of property and equipment	13	(3,641,590)	(22,524,331)
Net cash generated from investing activities		16,358,410	77,475,669
CASH FLOWS FROM FINANCING ACTIVITIES			
Additional capital contribution	18	1,240,580,674	1,237,713,191
Withdrawal of capital contribution	18	(1,227,949,305)	(1,191,121,708)
Payment of dividends	20,27,29	(564,684,263)	(582,241,292)
Net cash used in financing activities		(552,052,894)	(535,649,809)
NET INCREASE IN CASH		118,281,744	202,771,648
CASH AT BEGINNING OF THE YEAR		2,464,563,565	2,261,791,917
CASH AT END OF THE YEAR	9	2,582,845,309	2,464,563,565

See Notes to Financial Statements.

1. CORPORATE INFORMATION

PHILIPPINE NAVY SAVINGS AND LOAN ASSOCIATION, INC. (the “Association”) was organized under the law of the Philippines and duly registered with the Securities and Exchange Commission (SEC) on August 4, 1993 under SEC Registration Number ANO-93-003-407.

The Association’s primary purpose is to promote frugality, accumulation of savings, and judicious utilization of credit and divide its earnings among the members. On September 17, 1993, the Association was granted approval by the Bangko Sentral ng Pilipinas (BSP) to operate as a non-stock savings and loan association.

The By-Laws of the Association dated January 31, 1999, as amended states that regular membership is limited to military personnel and civilian employees of the Philippine Navy, either on active duty or retired, and their dependents (up to the second degree of consanguinity or affinity).

In addition, honorary members are the regular employees of the Association.

The Association is a tax-exempt entity under Section 5 of Republic Act No. 8367, otherwise known as the “Revised Non-Stock Savings and Loan Association Act of 1997”, which promotes exemption from payment of tax in respect to the income it receives including interest on its deposits with any association: *Provided, however*, that income derived from any of its properties real or personal, or any activity conducted for profit, regardless of the disposition thereof, is subject to the corresponding internal revenue taxes imposed under the National Internal Revenue Code of 1997, as amended.

Moreover, interest earnings on deposits of members with the Association, as well as the shares of its members from the net income of the Association, are exempt from income tax (BIR Ruling No. 347-98 dated July 28, 1998).

The Association’s registered office address is located at Molave St., Naval Station Jose Francisco (formerly Bonifacio Naval Station), Fort Bonifacio, Taguig City. In 2023, the Association changed its registered office address to PNSLAI Corporate Center Lot 12 Blk 54 Phase 4 Diego Silang Street AFP Officer’s Village Western Bicutan 1630 Taguig City NCR, Fourth District Philippines. The Association is domiciled in the Philippines.

As of December 31, 2024 and 2023, the Association operates eleven (11) active branches within the Philippines.

No.	Business Unit	Location
1	Bicol Branch	Naval Forces Southern Luzon, Naval Station Julhasan A Arasain Rawis, Legaspi City
2	Cavite Branch	Naval Base Heracleo Alano, Sangley Point, Cavite City
3	Cebu Branch	Philippine Navy Compound, Arellano Blvd., Pier 3 Area, Tinago, Cebu City.
4	Davao Branch	Naval Station Felix Apolinario, Panacan, Davao City
5	La Union Branch	NAVFORNOL, Naval Station Ernesto R Ogbinar, Poro Point, San Fernando, La Union
6	Manila Branch	Molave Street, Naval Station Jose Francisco, Fort Bonifacio, Taguig City
7	Palawan Branch	Naval Forces West, Naval Station Apolinario Jalandon Puerto Princesa, Palawan
8	Taguig Branch	PNSLAI Corporate Center Lot 12 Blk 54 Phase 4 Diego Silang Street AFP Officer's Village Western Bicutan 1630 Taguig City NCR, Fourth District Philippines
9	Quezon City Branch	Ground Floor, AFPCOC Building, Camp Gen. Emilio Aguinaldo, Quezon City
10	Zambales Branch	Naval Education Training and Doctrine Center, Naval Station Leovigildo Gantioqui, San Antonio, Zambales
11	Zamboanga Branch	Naval Forces Western Mindanao, Naval Station Romulo M Espaldon, Bagong Calarian, Zamboanga City

2. FINANCIAL ACCOUNTING FRAMEWORK

2.01 Statement of Compliance

The financial statements of the Association have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs), except when otherwise indicated.

PFRSs include all applicable PFRSs, Philippine Accounting Standards (PASs), and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC. All provisions and requirements of PFRSs are applied by the Association in preparation of its financial statements except for the requirements of the following standard:

PFRS 9 Financial Instruments – For impairment, the Association adopted Appendix S-8 of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFIs) that provides guidelines for provisioning based on number of days past due, collaterals, and type of loan.

2.02 Basis of Preparation

The financial statements are prepared on a going concern basis under the historical cost convention, except for financial assets and financial liabilities at fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI) that have been measured at fair value.

2.03 Functional and Presentation Currency

Items included in the financial statements of the Association are measured using Philippine Peso, the currency of the primary economic environment in which the Association operates (the “functional currency”). All financial information presented in the functional currency has been rounded to the nearest peso, unless otherwise specified.

2.04 Use of Judgments and Estimates

The preparation of the Association’s financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the Association’s financial statements and accompanying notes.

Judgments are made by management on the development, selection and disclosure of the Association’s significant accounting policies and estimates, and the application of these policies and estimates.

The estimates and assumptions are reviewed on an ongoing basis. These are based on management’s evaluation of relevant facts and circumstances as of the reporting date. Actual results could be different from such estimates.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2.05 Going Concern

The Association is not aware of any significant uncertainties that may cast doubts upon the Association’s ability to continue as a going concern.

3. ADOPTION OF NEW AND AMENDED ACCOUNTING STANDARDS

3.01 New and Amended Standards and Interpretations Effective on January 1, 2024

The Association applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2024, unless otherwise stated.

- Classification of Liabilities as Current or Non-current (Amendments to PAS 1)
- Lease Liability in a Sale and Leaseback (Amendments to PFRS 16)
- Supplier Finance Arrangements (Amendments to PAS 7 and PFRS 7)
- Non-current Liabilities with Covenants (Amendments to PAS 1)

These amendments had no impact on the Association’s financial statements.

3.02 Standards Issued but Not Yet Effective (Effective Beginning on or After January 1, 2025)

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Association’s financial statements are disclosed below. The Association intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

3.02.01 PFRS 17 Insurance Contracts

PFRS 17 ‘Insurance Contracts’ is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. PFRS 17 replaces PFRS 4 ‘Insurance Contracts’. PFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them as well as to certain guarantees and financial instruments with discretionary participation features; a few scope exceptions will apply.

The overall objective of PFRS 17 is to provide a comprehensive accounting model for insurance contracts that is more useful and consistent for insurers, covering all relevant accounting aspects. PFRS 17 is based on a general model, supplemented by:

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

PFRS 17 is originally effective for annual periods beginning January 1, 2023. However, the Financial Reporting Standards Council has approved, on December 15, 2021, the amendment of PFRS 17 which defers the date of initial application by two years to annual periods beginning on or after January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two years after its effective date as decided by the IASB.

The Association does not expect the standard to have a material impact on its operations or financial statements.

3.02.02 Lack of Exchangeability (Amendments to PAS 21)

In August 2023, the IASB amended PAS 21 to help entities to determine whether a currency is exchangeable into another currency, and which spot exchange rate to use when it is not.

The amendment is effective for reporting periods beginning on or after January 1, 2025. The Association does not expect these amendments to have a material impact on its operations or financial statements.

3.02.03 Annual Improvements to PFRS Accounting Standards – Volume 11

In July 2024, the IASB published 'Annual Improvements to PFRS Accounting Standards – Volume 11'. A summary of improvements is set out below:

- PFRS 1 'First-time Adoption of PFRS Financial Reporting Standards' – Hedge accounting by a first-time adopter
- PFRS 7 'Financial Instruments: Disclosures' – Gain or loss on derecognition
- PFRS 7 'Financial Instruments: Disclosures' Implementation Guidance – Disclosure of differences between the fair value and the transaction price and disclosures on credit risk
- PFRS 9 'Financial Instruments' – Transaction price and lessee derecognition of lease liabilities
- PFRS 10 'Consolidated Financial Statements' – Determination of a 'de facto agent'
- PAS 7 'Statement of Cash Flows' – Cost method

The amendments will be effective for annual reporting periods beginning on or after January 1, 2026. Early application is permitted but will need to be disclosed. The Association does not expect these amendments to have a material impact on its operations or financial statements.

3.02.04 Amendments to the Classification and Measurement of Financial Instruments (Amendments to PFRS 9 and 7)

On May 30, 2024, the IASB issued targeted amendments to PFRS 9 and PFRS 7 to respond to recent questions arising in practice, and to include new requirements not only for financial institutions but also for corporate entities. These amendments:

- clarify the date of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system;
- clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest (SPPI) criterion;
- add new disclosures for certain instruments with contractual terms that can change cash flows (such as some financial instruments with features linked to the achievement of environment, social and governance targets); and
- update the disclosures for equity instruments designated at fair value through other comprehensive income (FVOCI).

The amendments will be effective for annual reporting periods beginning on or after January 1, 2026. Early adoption is permitted but will need to be disclosed. The Association does not expect these amendments to have a material impact on its operations or financial statements.

3.02.05 PFRS 18 'Presentation and Disclosure in Financial Statements'

PFRS 18 will replace PAS 1, *Presentation of Financial Statements*, introducing new requirements that will help to achieve comparability of the financial performance of similar entities and provide more relevant information and transparency to users. Even though PFRS 18 will not impact the recognition or measurement of items in the financial statements, its impacts on presentation and disclosure are expected to be pervasive, in particular those related to the statement of financial performance and providing management-defined performance measures within the financial statements.

Management is currently assessing the detailed implications of applying the new standard on the Association's financial statements.

The Association will apply the new standard from its mandatory effective date of January 1, 2027. Retrospective application is required, and so the comparative information for the financial year ending December 31, 2026 will be restated in accordance with PFRS 18.

3.02.06 PFRS 19 'Subsidiaries without Public Accountability: Disclosures'

Issued in May 2024, PFRS 19 allows for certain eligible subsidiaries of parent entities that report under PFRSs to apply reduced disclosure requirements.

PFRS 19 will become effective for reporting periods beginning on or after January 1, 2027, with early application permitted. The Association does not expect the standard to have a material impact on its operations or financial statements.

4. MATERIAL ACCOUNTING POLICIES

Principal accounting and financial reporting policies applied by the Association in the preparation of its financial statements are enumerated below and are consistently applied to all the years presented, unless otherwise stated.

4.01 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity or a financial liability or equity instrument of another entity.

Date of Recognition

The Association recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

'Day 1' Difference

Where the transaction price in a non-active market is different with the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Association recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Association determines the appropriate method of recognizing the 'Day 1' difference amount.

4.01.01 Financial Assets

Initial Recognition and Measurement

Financial assets are recognized initially at fair value, which is the fair value of the consideration given. The initial measurement of financial assets, except for those designated at FVPL, includes transaction cost.

Classification

The Association classifies its financial assets at initial recognition under the following categories: (a) financial assets at amortized cost, (b) financial assets at FVOCI, and (c) financial assets at FVPL. The classification of a financial asset at initial recognition largely depends on the Association's business model for managing the asset and its contractual cash flow characteristics.

Financial Assets at Amortized Cost

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

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

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process.

As of December 31, 2024 and 2023, the Association's cash, investment securities at amortized cost and loans and other receivables are classified under this category.

Cash

Cash include cash on hand, cash in banks, and checks and other items. These are highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Investment securities at amortized cost

Investment securities at amortized cost include non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as at amortized cost if the Association has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification. Investment securities at amortized cost are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

After initial measurement, these financial assets are subsequently measured at amortized cost. Gains and losses are recognized in the statement of comprehensive income when the investment securities at amortized cost are derecognized and impaired, as well as through the amortization process.

The Association's investment securities at amortized cost amounted to ₱360,000,000 and ₱380,000,000, for 2024 and 2023, respectively as disclosed in Note 10.

Loans receivable

Loans receivable include those arising from direct loans to members including officers and employees. These are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

After initial measurement, 'Loans receivables' are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included as 'Interest income' in the statement of comprehensive income. The losses arising from impairment are recognized in 'Provision for credit losses' in the statement of comprehensive income.

Financial assets at FVOCI

Financial assets at FVOCI include debt and equity securities.

Debt Instruments at FVOCI

For debt instruments that are not designated at FVPL under the fair value option, the financial assets are measured at FVOCI if both of the following conditions are met: (1) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and (2) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment gains or losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss as a reclassification adjustment.

As of December 31, 2024 and 2023, the Association does not have debt instruments at FVOCI.

Equity Instruments at FVOCI

For equity instruments that are not held for trading, the Association may irrevocably designate, at initial recognition, a financial asset to be measured at FVOCI when it meets the definition of equity instrument under PAS 32, *Financial Instruments: Presentation*. This option is available and made on an instrument by instrument basis. Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. All other gains or losses from equity instruments are recognized in OCI and presented in the equity section of the statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods, instead, these are transferred directly to retained earnings. Equity securities at FVOCI are not subject to impairment assessment.

As of December 31, 2024 and 2023, the Association does not have equity securities at FVOCI.

Financial Assets at FVPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

This category includes debt instruments whose cash flows, based on the assessment at initial recognition of the assets, are not "solely for payment of principal and interest", and which are not held within a business model whose objective is either to collect contractual cash flows or to both collect contractual cash flows and sell. The Association may, at initial recognition, designate a debt instrument meeting the criteria to be classified at amortized cost or at FVOCI, as a financial asset at FVPL, if doing so eliminates or significantly reduces accounting mismatch that would arise from measuring these assets.

This category also includes equity instruments which the Association had not irrevocably elected to classify at FVOCI at initial recognition.

After initial recognition, financial assets at FVPL are subsequently measured at fair value. Gains or losses arising from the fair valuation of financial assets at FVPL are recognized in profit or loss.

As of December 31, 2024 and 2023, the Association does not have equity securities at FVPL.

Reclassification

The Association reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in OCI.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, any gain or loss previously recognized in OCI, and any difference between the new amortized cost and maturity amount, are amortized to profit or loss over the remaining life of the investment using the effective interest method. If the financial asset is subsequently impaired, any gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at FVOCI, its fair value at the reclassification date becomes its new gross carrying amount. Meanwhile, for a financial asset reclassified out of the financial assets at FVOCI category to financial assets at FVPL, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Impairment of Financial Assets

At the end of the reporting period, the Association assess its expected credit losses (ECL). The Association recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. The Association being categorized as having simple and non-complex operations adopted the basic guidelines in setting up of allowance for credit losses provided for in BSP Circular 1046 of the Manual of Regulations for Non-Bank Financial Institutions in recognizing expected credit losses (ECL) for its loans and other receivables.

The Association considers a financial asset in default when contractual payments, i.e. last amortization paid are more than 30 days past due. However, in certain cases, the Association may also consider a financial asset to be in default when internal or external information indicates that the Association is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Association. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Association's ECL measurement, as determined by the Management, is disclosed in Note 6.

Derecognition

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

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

When the Association has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Association's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount that the Association could be required to repay.

4.01.02 Financial Liabilities

Initial Recognition and Measurement

Financial liabilities are recognized initially at fair value, which is the fair value of the consideration received. In case of financial liabilities at amortized costs, the initial measurement is net of any directly attributable transaction costs.

Classification

The Association classifies its financial liabilities at initial recognition as either financial liabilities at FVPL or financial liabilities at amortized cost.

As at December 31, 2024 and 2023, the Association does not have liabilities at FVPL.

Financial Liabilities at Amortized Cost

Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Association having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. 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, 2024 and 2023, the Association's savings deposits and accrued expenses and other liabilities (except statutory payables), are classified under this, as disclosed in Notes 15 and 16.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. 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 the consolidated statement of comprehensive income.

Classification of Financial Instrument between Liability and Equity

A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Association; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

4.01.03 Offsetting of Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

4.02 Property and Equipment

Property and equipment are measured at cost less any accumulated depreciation, and impairment losses. Cost consists of purchase price and costs directly attributable to bringing the asset to its working condition for its intended use.

Subsequent expenditures relating to an item of property and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Association.

The carrying amount of replaced parts is derecognized. All other subsequent expenditures are recognized as expense in the period in which those are incurred.

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

Furniture, fixtures and equipment	– 3 years
Transportation equipment	– 5 years

Leasehold improvements are depreciated over the shorter between the improvements' useful life of 1 year to 20 years or the lease term.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

When revalued assets are sold, the amounts included in other reserves are transferred to Surplus free.

Fully depreciated assets still in use are retained in the financial statements. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment in value are removed from the financial statements and any resulting gain or loss is credited or charged to profit or loss. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

4.03 Investment Properties

Investment properties shall be recognized as an asset when and only when: (a) it is probable that future economic benefit will flow to the entity, and (b) the cost of the investment property can be measured reliably.

Investment properties, which pertain to land and building acquired, are initially recognized at acquisition cost and other incidental cost necessary to transfer the property in the name of Association, and subsequently measured at cost less impairment, if any. Depreciation is computed using straight-line method based on the estimated useful lives of the assets of 20 years. Land is not depreciated. Impairment test is conducted when there is an indication that the carrying amount of the asset may not be recovered. An impairment loss is recognized for the amount by which the property's carrying amount exceeds its recoverable amount, which is the higher between the property's fair value less cost to sell and value in use.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on derecognition of an investment property is recognized in the statement of comprehensive income in the year of derecognition.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to income in the period on which the costs are incurred.

The Association determines the fair value of the acquired properties through internally or externally-generated appraisal. The appraised value is determined on the current economic and market conditions as well as the physical condition of the properties.

4.04 Other Assets

Other assets include cash advance, accounts receivable, stationery and unused supplies, documentary stamps, prepaid expenses, petty cash fund, refundable deposits, other investment and miscellaneous asset which are initially and subsequently measured at historical cost at each reporting period.

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are expensed to profit or loss as they are consumed in the operations or expire with the passage of time.

Refundable deposits represent payments to supplier of services in cash. Deposits are recorded as assets and measured at the amount of cash paid. The amount is refundable upon termination of the service agreements.

Other assets are derecognized when expensed or refunded by the Association.

4.05 Impairment of Non-Financial Assets

At each reporting date, the Association assesses whether there is any indication that any non-financial assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of these assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Association estimates the recoverable amount of the cash-generating unit to which the asset belongs.

When a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized as an expense.

4.06 Equity Instruments

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

- Capital contribution

Capital contribution refers to the amount contributed by the members to finance the Association's operations.

Capital contribution is determined using the nominal value of contributions by members and is presented as part of members' equity. It is increased by the amount of additional contributions or upon declaration of dividend when allowed by the Board of Trustees. Members' equity is further decreased by withdrawals of members.

- Surplus reserves

Reserves include withdrawable share reserves, reserve for office premises, furniture, fixtures and equipment, and reserve for contingencies. These are amounts set aside by action of the board of trustees and retained by the Association for specific purposes.

Surplus reserves pertain to a portion of the Association's income from operation set-up on a yearly basis in compliance with BSP regulations and appropriation for general banking risk. Surplus reserves increase or decrease by provisions set up by the Association and transfers to or from surplus free. Surplus reserve includes:

- a. *Withdrawable share reserve* – two percent (2%) of the total capital contribution is provided from the net income for the year as provision for withdrawable share reserve required by Section 22 of Savings and Loan Association Act (R.A. 3779), as amended by R.A. 4378 and R.A. 8367(Revised Non-stock Savings and Loan Association Act of 1997).

b. *Reserve for office premises, furniture, fixture and equipment* – NSSLAs shall set aside five percent (5%) of their yearly net income until it amount to at least five percent (5%) of the total assets as a reserve for building fund to cover the cost of construction or acquisition of office premises, and of the purchase of office furniture, fixtures and equipment.

- Surplus free

Surplus free is the sum of all profits generated by the Association since its inception which is available for dividend distribution. Surplus free are reduced by losses, dividends declared to stockholders, and transfers to reserves and/or allowances.

4.07 Fair Value Measurement

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

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

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

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

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

- Level 1 – Quoted (unadjusted) market price in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchange (e.g. listed equity securities traded in active, deep markets, such as Philippine Stock Exchange, Inc. or Philippine Dealing and Exchange Corp., etc.) The Association has no financial instruments that fall under this category.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

4.08 Provisions, Contingent Liabilities and Contingent Assets

4.08.01 Provisions

Provisions are recognized when the Association has a present obligation, whether legal or constructive, as a result of a past event, it is probable that the Association will be required to settle the obligation, and a reliable estimate can be made for the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured reliably.

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

4.08.02 Contingent Liabilities and Assets

Contingent liabilities and assets are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Association. Contingent liabilities are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are disclosed only when an inflow of economic benefits is probable.

4.09 Revenue Recognition

4.09.01 Revenue Recognition for Revenues within the scope of PFRS 15

Prior to January 1, 2018, under PAS 18, Revenue, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Association and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is recognized to the extent that it is probable that the economic benefit will flow to the Association and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable by the Association for services provided in the normal course of business.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Association expects to be entitled in exchange for those services.

The Association assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Association has no revenue within the scope of PFRS 15.

4.09.02 Revenue Recognition for Revenues outside the scope of PFRS 15

For revenues outside the scope of PFRS 15, the following specific recognition criteria must also be met before revenue is recognized:

- a. *Interest on loans* – Interest income is recognized in the statements of comprehensive income for all interest-bearing financial instruments using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset.

Section 306-S of MORNBF1 provides for method of computing interest. NSSLA shall only charge interest based on the outstanding balance of a loan at the beginning of an interest period. For a loan where the principal is payable in instalments, interest per instalment period shall be calculated based on the outstanding balance of the loan at the beginning of each instalment period.

- b. *Interest income on cash in banks and investment securities at amortized cost* – Interest on cash in banks and investment securities at amortized cost are recognized using the effective interest method.
- c. *Other Income* – Service charges and other fees are recognized only upon collection or accrued when there is a reasonable degree of certainty as to its collectability. Miscellaneous income such as ID fees, membership fees, and surcharges and penalties are recognized when received.

4.10 Expense Recognition

Expenses are recognized in profit or loss when incurred or a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in profit or loss in the following manner:

- On the basis of a direct association between costs incurred and the earning of specific items of income;
- On the basis of a systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and association with income can only be broadly or indirectly determined; or
- Immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

4.11 Employee Benefits

4.11.01 Post-employment Benefits

The Association has retirement plan approved by the Board of Trustees effective January 1, 2018. The retirement plan was registered with Bureau of Internal Revenue with certificate of Tax Exemption No: RP-150-2021 on July 19, 2021.

The name of the plan is Philippine Navy Savings and Loan Association, Inc. Employees Retirement and Separation Plan. This plan establish the Philippine Navy Savings & Loan Association, Inc. Retirement Trust Fund that will provide retirement, death, disability and severance benefits for all eligible employees of the Association.

Membership in the Plan is automatic for all officers and employees of the Association who are considered having a regular employment status. Membership in the plan will commence retroactively on the day of his regular employment status.

A member may opt to retire upon completion of at least five (5) years of credited service with Association. The member's optional retirement benefit shall be a percentage of the plan annual salary for every year of credited service in accordance with the vesting schedule below:

Years of service	Percentage	Years of service	Percentage
Less than 5 years	0%	20 years	60%
More than 5 but less than 6 years	15%	21 years	63%
6 years	18%	22 years	66%
7 years	21%	23 years	69%
8 years	24%	24 years	72%
9 years	27%	25 years	75%
10 years	30%	26 years	78%
11 years	33%	27 years	81%
12 years	36%	28 years	84%
13 years	39%	29 years	87%
14 years	42%	30 years	90%
15 years	45%	31 years	93%
16 years	48%	32 years	96%
17 years	51%	33 years	99%
18 years	54%	34 years	100%
19 years	57%	35 years	100%

A Member who is allowed to by the Association to continue to work beyond his normal retirement date shall continue to be a member of the plan. The late Retirement Date of a member shall be the first day of any month after attaining his normal retirement date but not beyond age sixty-five (65).

The Association recognizes immediately the following changes in the retirement benefit obligation in the statements of comprehensive income.

The retirement benefit is a defined benefit plan computed as a certain percentage of current basic monthly salary multiplied by year of service rendered.

4.11.02 Short-term Benefits

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

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the reporting date. These are included in Other Liabilities account at the undiscounted amount that the Association expects to pay as a result of the unused entitlement.

4.11.03 Termination Benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Association recognizes termination benefits when it is demonstrably committed to either; terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

4.12 Leases

4.12.01 The Association as Lessee

For any new contracts entered into on or after 1 January 2019, the Association considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Association assesses whether the contract meets three (3) key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Association.
- the Association has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.
- the Association has the right to direct the use of the identified asset throughout the period of use. The Association assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Recognition and Initial Measurement

At lease commencement date, the Association recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Association, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

At the commencement date, the Association measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Association's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

The Association has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

4.13 Borrowing Costs

Borrowing costs are recognized in profit or loss in the period in which they are incurred.

4.14 Related Party Transactions

Parties are considered related if one party has control, joint control, or significant influence over the other party in making financial and operating decisions. The key management personnel of the Association, post-employment benefit plans for the benefit of Association's employees, and close members of the family of any individuals owning directly or indirectly a significant voting power of the Association that gives them significant influence in the financial and operating policy decisions of the Association are also considered to be related parties.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged. An entity is related to the Association when it directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with the Association.

4.15 Income Tax

The Association is a tax-exempt entity under Republic Act (RA) No. 8367, otherwise known as the revised Non-stock Savings and Loan Association Act of 1997. Under R.A. No. 8367, the Association is exempt from the payment of tax in respect to income received, including interest on Association deposits, but excluding income derived from any of its real or personal property, or any activity conducted for profit.

4.16 Cash Advance

As a transition/adjustment to the BSP Circular No. 1045 series of 2019, which states that 'an NSSLA shall distribute net income to members only once in a calendar year or fiscal year', the Association, thru its Board of Trustees, approves the grant of Cash advance to members. Cash advance is recognized upon approval of Board of Trustees and is included under other assets. Cash advance is derecognized upon final declaration of annual dividend to members.

BSP Circular No. 1045 series of 2019 states that 'An NSSLA may distribute net income to members out of its adjusted Undivided Profits and the balance of its Surplus Free account as of the calendar year-end of fiscal year-end immediately preceding the date of net income distribution. In accordance with BSP regulations, dividends are paid to the members if the Association does not receive any approval from the BSP regarding the dividend declaration within 20 days from the date of notice'.

4.17 Events after the end Reporting Period

The Association identifies events after the reporting date as events that occurred after the reporting date but before the date the financial statements were authorized for issue. Any event that provides additional information about the Association's financial position at the reporting date is reflected in the financial statements. Non-adjusting events are disclosed in the notes to the financial statements when material.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

5.01 Critical Judgments in Applying Accounting Policies

The following are the critical judgments, apart from those involving estimations that Management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in financial statements.

5.01.01 Classification of financial assets

The Association follows the guidance of PFRS 9 starting January 1, 2018 in classifying financial assets at initial recognition whether it will be subsequently measured at fair value through other comprehensive income, at amortized cost, or at fair value through profit or loss. The Association determines the classification based on the contractual cash flow characteristics of the financial assets and on the business model it uses to manage these financial assets. The Association determines whether the contractual cash flows associated with the financial asset are solely payments of principal and interest (the "SPPI"). If the instrument fails the SPPI test, it will be measured at fair value through profit or loss.

In both years, Management assessed that there is no change in the objective of holding the investments, as a result, the carrying amounts of investment securities at amortized cost are ₱360,000,000 and ₱380,000,000 as of December 31, 2024 and 2023, respectively, as disclosed in Note 10.

5.01.02 Determining whether or not a contract contains a lease

At inception of a contract, the Association assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Identified asset

An asset is typically identified by being explicitly specified in a contract. However, an asset can also be identified by being implicitly specified at the time that the asset is made available for use by the customer.

i. Substantive substitution rights

Even if the asset is specified, the Association does not have the right to use an identified asset, if, at inception of the contract, a supplier has the substantive right to a substitute the asset throughout the period of use (i.e., the total period of time that an asset is used to fulfill a contract with the Association, including the sum of any non-consecutive periods of time). A supplier's right to substitute an asset is substantive when both of the following conditions are met:

- The supplier has the practical ability to substitute alternative assets throughout the period of use (e.g., the Association cannot prevent the supplier from substituting an asset and alternative assets are readily available to the supplier or could be sourced by the supplier within a reasonable period of time); and
- The supplier would benefit economically from the exercise of its right to substitute the asset (i.e., the economic benefits associated with substituting the asset is expected to exceed the costs associated with substituting the asset).

The Association's evaluation of whether a supplier's substitution right is substantive is based on facts and circumstances at inception of the contract. At inception of the contract, the Association does not consider future events that are not likely to occur.

Right to obtain substantially all of the economic benefits from use of the identified asset

To control the use of an identified asset, the Association is required to have the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use (e.g., by having exclusive use of the asset throughout that period).

When assessing whether the Association has the right to obtain substantially all of the economic benefits from the use of an asset, the Association considers the economic benefits that result from use of the asset within the defined scope of the customer's right to use the asset. A right that solely protects the supplier's interest in the underlying asset (e.g., limits on the number of miles a customer can drive a supplier's vehicle) does not, in and of itself, prevent the Association from obtaining substantially all of the economic benefits from use of the asset and, therefore, are not considered when assessing whether the Association has the right to obtain substantially all of the economic benefits.

If a contract requires the Association to pay the supplier or another party a portion of the cash flows derived from the use of an asset as consideration (e.g., a percentage of sales from the use of retail space), those cash flows are considered to be economic benefits that the Association derives from the use of the asset.

Right to direct the use of the identified asset

The Association has the right to direct the use of an identified asset throughout the period of use when either the Association has the right to direct how and for what purpose the asset is used throughout the period of use. The Association has the right to direct the use of an identified asset whenever it has the right to direct how and for what purpose the asset is used throughout the period of use (i.e., it can change how and for what purpose the asset is used throughout the period of use). When evaluating whether the Association has the right to change how and for what purpose the asset is used throughout the period of use, its focus is on whether the Association has the decision-making rights that will most affect the economic benefits that will be derived from the use of the asset. The decision-making rights that are most relevant are likely to depend on the nature of the asset and the terms and conditions of the contract.

5.01.03 Determining Fair Value of Financial Instruments

The Association classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Where the fair values of financial assets and financial liabilities recorded on the statements of financial position cannot be derived from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models was taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation.

5.01.04 Determining Asset Impairment

The Association performs an impairment review when certain impairment indicators are present. Determining the fair value of property and equipment, investments properties, and assets held for sale, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Association to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Association to conclude that property and equipment, investments and intangible assets associated with an acquired business is impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations. The preparation of the estimated future cash flows involves significant judgment and estimations. While the Association believes that its assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under generally accepted accounting principles in the Philippines.

Management has assessed the Association's property and equipment and investment property annually for impairment. As of December 31, 2024, allowance for impairment loss in property and equipment of the Association amounted to ₱2,410,118, as a result of reclassification as disclosed in Note 13.

As of December 31, 2024 and 2023, allowance for impairment loss in investment property of the Association amounted to nil and ₱2,410,118, respectively as disclosed in Note 12.

5.01.05 Determining Method of Computing ECL

As stated in Bangko Sentral ng Pilipinas (BSP) Circular 1046, the BSP-supervised financial institutions with credit operations that may not economically justify adoption of simple loan loss estimation methodology that is compliant with PFRS 9, shall, at a minimum, be subject to regulatory guidelines in setting up allowance for credit losses under Appendix S-8 of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFIs).

Following the guidance of BSP Circular 1046 in adopting PFRS 9 impairment requirements, the Association assessed the ECL in accordance with the said standard and based on management judgement, it was determined that the amount recognized as allowance based on Appendix S-8 is reasonable.

In determining the appropriate level of allowance for credit losses, the Association consider the higher amount computed based on ECL model consistent with PFRS 9 and the regulatory requirements set by the BSP.

5.02 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5.02.01 Estimating Allowance for Credit Losses

The Association estimates the allowance for credit losses related to its loans and other receivables based on assessment of specific accounts where the Association has information that certain customers are unable to meet their financial obligations. In these cases, judgment used was based on the best available facts and circumstances including but not limited to, the length of relationship with the customer and the customer's current credit status based on third party credit reports and known market factors. The Association used judgment to record specific reserves for customers against amounts due to reduce the expected collectible amounts. These specific reserves are re-evaluated and adjusted as additional information received impacts the amounts estimated, notwithstanding the provisioning requirements under Manual of Regulations for Non-Banks Financial Institutions (MORNBFI).

The amounts and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in the allowance for credit losses would increase the recognized operating expenses and decrease current assets.

As of December 31, 2024 and 2023, loans and other receivables amounted to ₱6,517,817,663 and ₱6,525,023,746, respectively, net of allowance for credit losses amounting to ₱462,800,187 and ₱591,737,217 in 2024 and 2023, respectively as disclosed in Note 11.

Total provision for credit losses on loans and other receivable recognized for the years ended December 31, 2024 and 2023 amounted to ₱55,612,963 and ₱21,941,220, respectively, as disclosed in Note 28.

5.02.02 Estimating Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. The policy on the recognition and disclosure of provisions is discussed in Note 4. As of December 31, 2024 and 2023, the Association has determined that no contingencies will materially affect the Association's financial statements, hence no provisions are recognized.

5.02.03 Determining Useful Lives of Property and Equipment and Investment Properties

The Association estimates the useful lives of property and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimate useful lives of property and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets.

It is possible, however, that future results operations could be materially affected by changes in estimates brought about by changes in factors and circumstances. A reduction in the estimated useful lives of property and equipment would increase recorded operating expenses and decrease non-current assets.

The net carrying amount of the Association's property and equipment amount to ₱225,635,158 and ₱231,565,506 as of December 31, 2024 and 2023, respectively as disclosed in Note 13.

5.02.04 Estimating Retirement Benefit Obligation

The determination of the retirement obligation and cost and other retirement benefits is dependent on the selection of certain assumptions. Those assumptions include among others, discount rates, expected returns on plan assets and rates of compensation increase. 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 pension and other retirement obligations.

The management estimates retirement benefit obligation as certain percentage of current basic monthly salary for every year of service rendered by the qualified employee. As of December 31, 2024 and 2023, the management believes that the difference between the retirement costs determined under the current method used by the Association and the acceptable actuarial valuation is not significant.

The retirement benefit obligation as of December 31, 2024 and 2023 amounted to nil, for both years, as disclosed in Note 17.

5.02.05 Assessing Impairment Losses on Non-Financial Assets

The Association performs an impairment review when certain impairment indicators are present. Determining the fair value of investment properties, and property and equipment, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Association to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Association to conclude that investment properties and property and equipment are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

The preparation of the estimated future cash flows involves significant judgment and estimations. While the Association believes that its assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under PFRS. Impairment of investment properties is disclosed in Note 12.

6. FINANCIAL RISK AND CAPITAL MANAGEMENT

By their nature, the Association's activities are principally related to the use of financial instruments. The Association accepts deposits from members at fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Association seeks to increase these margins by investing these funds in high-quality assets. The Association seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

To manage the financial risk for holding financial assets and liabilities, the Association operates an integrated risk management system to address the risks it faces in its Association's activities. The Association's risk management objective is to adequately and consistently evaluate, manage, control, and monitor the risk profile of the Association's financial position to optimize the risk-reward balance and maximize return on the Association's capital.

Under the amended by-laws dated April 26, 2008, Article XII, The Association created the semestral and annual Program Performance Review and Assessment (PPRA) to be conducted regularly to gauge the performance of the Association. The President shall present the annual PPRA on or before the regular BOT meeting every February while the semestral PPRA shall be presents not later than two (2) months after the end of the period under review.

Per Board Resolution No. 2012-092 dated May 25, 2012, the Association approved and adopted the Revised Risk Management Manual (as amendment of Board Resolution No. 2010-095) as part of the Association's policy in compliance with the requirement of Bangko Sentral ng Pilipinas.

The Revised Risk Management Manual (RMM) is designed to identify potential events and trends that may significantly affect the operations and the achievement of the strategic objectives of the Association, either negatively or positively. Through the risk management process, these identified risks are assessed to their impact to the operations of the Association and the likelihood of them happening in the future, given the existing controls that are in place, and evaluating them vis-à-vis the level of risk tolerance of the Association.

6.01 Risk Management Process

6.01.01 Risk Identification

This is the first step in the risk management process. It is identifying the risks that the Association might face. It is a structure process that considers the source of risks, areas of impact, and potential events and their causes and consequences.

Risks are categorized as follows:

1. Compliance Risk – is the current and prospective risk to earning or capital arising from violations of, or non-conformance with laws, regulations, prescribed practices, internal policies and procedures, or ethical standards. Compliance risk also arises in situations where the laws or rules governing certain products or activities of the clients may be ambiguous or untested. Compliance risk can lead to diminished reputation, limited business opportunities, reduced expansion potential and lack of contract enforceability.
2. Strategic Risks – is the current and prospective impact on earnings or capital arising from adverse decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation.

The general guidelines in controlling strategic risk are as follows:

- a. The Association should consider new trends in industry so as to keep pace in the new developments happening that possibly other associations are adopting.
- b. The Association should be cognizant with competition in the industry. New entrants like new associations created in other PN units can make competition hard.
- c. It is important to adopt new innovations that would help expedite and improve efficiency of service. Lessening the waiting time and making the members more convenient are key factors to consider.
- d. The Association should be able to detect members' preferences. At times, member/borrower would prefer the scheme of no-front loading scheme or sometimes they would ask long-term loans to be able to acquire real estate.
- e. There should be a regular environmental scanning. This involves identifying emerging issues, situations and potential pitfalls that may affect the Association's future. SWOT (strength, weakness opportunities and threats) analysis should be regularly conducted to review the environment where the Association operates.

- f. The annual Operating Program and Budget (OPB), usually a 5-day activity, should be done to determine the specific objectives and plans at least for the coming year. Long term strategic planning is necessary as well and can be referred to as the 5-year Strategic Plan of the Association. A feedback mechanism should be in place to monitor the progress of the entire plan.
 - g. Strategic initiatives should be analyzed/studied and subjected to risk management processes.
 - h. The Association should endeavour to improve its management information system particularly those supporting strategic initiatives. Staff training on risk management should be on-going to ensure the corporation that knowledge is maintained.
3. Reputation Risk – is the current and prospective impact on earnings or capital arising from negative public opinion. This affects the Association's ability to establish new relationships or services or continue servicing existing relationships. This risk may expose the Association to litigation, financial loss, or a decline in its customer base.

In extreme cases, financial institutions (FI) that loses their reputation may suffer a run on deposits. Reputation risk exposure is present throughout the organization and requires the responsibility to exercise an abundance of caution in dealing with customers and the community.

General guidelines in controlling reputation risk are as follows:

- a. Ensure compliance to laws and regulations.
- b. The management shall continue to track the changing perceptions, requirements and expectations of the members so that it can be able to deliver the good quality of service and products.
- c. The management of Association shall promote good governance practices within the Association by ensuring that politics on governance as approved by the Board of Trustees are consistently adopted across the Association. There should be clear and well-communicated business vision, values and strategy that set the right ethical tone for the business.
- d. As much as possible, meet the expectations of the members.
- e. The management shall support policies and codes of conduct that guide employee behaviour and decision-making so that goals are achieved in accordance with business values.
- f. Processes for crises management should be planned and documented. The Business Community Plan should be reviewed and tested regularly. The objective is to minimize the disruptions in business in order to maintain high trust and confidence in the organization. Management should proactively incorporate business continuity considerations into the overall design of its business model to mitigate the risk of service disruptions.
- g. Confidentiality of information should always be maintained. Employees should be properly trained on handling sensitive information and not give out unauthorized data. Data encryption should always be utilized when transferring sensitive data over the internet.
- h. The perception of the members should regularly be monitored and issues should immediately be addressed. Implement the communication strategy that enables the organization to respond quickly and effectively to bad news. Manage the issues promptly and openly.
- i. The Association should maintain good corporate reputation or untarnished name at all times. Rumors or issues should be skilfully handled otherwise to lose the members' confidence has the potential to create massive withdrawals. Good and transparent communications is vital to meet stakeholder needs and build trust and confidence.

4. Operation Risk – is the current and prospective risk to earnings or capital arising from fraud, error, and the inability to deliver products or services, maintain a competitive position and manage information. Risk is inherent in efforts to gain strategic advantage, and in the failure to keep pace with changes in the financial services market place. Operational risk encompasses: product development and delivery, operational processing, systems development, computing systems, complexity of products and services and the internal control environment.

Sources of operational risk include the following:

- a. Failure to detect red flags of existence of fraud, theft or loss.
- b. No adequate security over physical assets that could easily be robbed or vandalized. Physical assets may also be damaged due to calamities like floods, earthquakes and fires and if there is no insurance coverage to compensate the damages it may be difficult to recover.
- c. Cash may be exposed to certain operation risk if it is loosely controlled.
- d. Branch manager/heads paying no attention to details. Signing without checking may oftentimes lead to erroneous reports.
- e. No maintenance of accurate personnel records of dishonest acts or disciplinary actions. Acts of dishonesty may be forgotten and possibly the employee will commit the same mistake again.
- f. Failure to recognize the operational risk on information technology.
- g. Failure to recognize operational risk on information, communication, and personnel.
- h. Inadequate personnel-screening policies when hiring new employees to fill positions of trust.
- i. Poor or absence of a monitoring system.
- j. Unexpected expenses. Loss of property due to theft or casualty, such as floods, earthquakes and fire for which the Association is not insured can cause major cash shortage.

General guidelines in controlling operational risks are as follows:

- a. Fraud risk assessment should be performed and related controls should be assessed. This typically involves identifying scenarios in which theft or loss could occur and determining if existing control procedures effectively manages the risk to an acceptable level.
 - b. Proper handling adequate records and physically security should be emphasized to each employee having access to or responsibility for cash. These general guidelines are important and should be communicated to each employee.
 - c. Department heads and/or branch managers/heads should check the details of what they are signing to ensure accuracy and completeness.
 - d. Maintain records of employees' dishonest acts or disciplinary actions.
 - e. Operational policies pertaining to information technology must have provision for manual operations in case its IT Database and Online System Servers at the Corporate Office is unavailable.
 - f. Adequate personnel-screening policies when hiring new employees to fill positions of trust should be established.
 - g. Identified operational risk should be monitored. Recommendations for improvements should be tracked if proper action were taken and implemented. Follow-up should also be done. The Manual of Internal Control should be strictly enforced.
5. 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.

As of December 31, 2024 and 2023, the Association is not exposed to foreign currency risk, interest rate risk, and price risk as the Association does not have transactions or balances measured at foreign currency, liabilities at both fixed and floating rates, and do not hold any equity investments.

6. Credit Risk – arises from the counterparty's failure to meet the terms of the contract with the Association or otherwise perform as agreed. Credit risk is found in all activities where success depends on counterparty, issuer, or borrower performance. It arises anytime when financial institution funds are extended, committed, invested or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet. Credit risk is not limited to the loan portfolio.

Sources of credit risk are as follows:

- a. The borrower did not have the capacity to pay. This could be because his net take home pay is not enough to pay for monthly amortization for he has borrowed too much not only from the Association but from other financial institutions as well. The business that the borrower will use the borrowed money is not also feasible from the very beginning.
- b. Inadequate background checking/verification on character and account of the borrower.
- c. Incomplete loan documentation requirement. The loan may have been granted to the borrower despite that the lack of necessary requirements or other legal aspects of such documentation.
- d. No signs of approval from appropriate level of authority. Collection may be difficult to impose because of the possible deficiencies in granting loan.
- e. Failure to include borrower from the billing statement.
- f. Inexperienced staff assigned to process loans at front desk.
- g. Borrowers' accounts are not properly monitored.
- h. Failure to institute immediate recovery procedure on past due accounts.

General guidelines in controlling credit risk are as follows:

- a. Only borrowers with paying capacity should be processed by frontline staff and approved by the approving authority. The required amortization of the loan should not lower the borrower's net take home pay to what is mandated by law.
- b. The Branch (Association) must have adequate information on the prospective borrower before it grants loans to minimize the risk involved. The collection background and credit information of the borrower should be considered. The loan processor is primarily responsible for checking and verifying the circumstances of the prospective borrower through verification from the Corporate Office/ Other branches and interview. Branch personnel should take reasonable measures to ascertain that the signatures of principal borrowers and co-makers, if any, are genuine.
- c. All personnel must be aware and familiar with the documentary requirements. Loan should only be processed from a completely filled up and submitted loan application form and requirements. It shall be the responsibility of the loan processor to obtain all the necessary documents and the approval before the loan is released.
- d. All loans should be approved by the appropriate level of authority. Branches should only approve within the limits of their authority. Higher management acts required on higher amounts and other limitations.
- e. Timely and accurate billing statement shall be sent to the PNFC. This is to ensure that all amortizations are collected on time. Failure to do so may be taken as opportunity by other financial institutions to feed in their billing statement.
- f. Branch personnel should read and understand the loan policies and the marketing plan which clearly indicate the target market, the purpose and structure of the credit and its source of repayment and a thorough understanding of the borrower to be able to operate under a sound, well-defined credit-granting criterion.
- g. Proper monitoring and following up collections should be done.

- h. All past due accounts should be reported along with the corresponding reasons for non-payment. They should be subjected to more frequent review and monitoring. The review should update the status and development of the loan accounts and progress of the remedial plans. When it becomes obvious that the borrower's account has deteriorated seriously to warrant a substandard classification or worse, immediate measures/steps must be taken to halt or avoid further deterioration.

Credit Risk Exposure

The table below shows the gross maximum exposure to credit risk of the Association as of December 31, 2024 and 2023.

	Notes	2024	2023
Cash and cash equivalent*	9	₱ 2,572,641,256	₱ 2,455,901,393
Investment securities at amortized cost	10	360,000,000	380,000,000
Loans and other receivables	11	7,040,227,503	7,170,116,953
Other assets**	14	140,637,035	134,421,141
		₱ 10,113,505,794	₱ 10,140,439,487

*excluding cash on hand amounting to ₱10,204,053 and ₱8,662,172 as of December 31, 2024 and 2023, respectively.

**excluding non-financial asset amounting to ₱4,073,861 and ₱3,989,313 as of December 31, 2024 and 2023, respectively, and net of allowance for credit losses amounting to ₱293,427,393 and ₱227,860,224 as of December 31, 2024 and 2023, respectively.

Credit Quality of Financial Assets

The table below shows the credit quality by class of financial assets as of December 31, 2024 and 2023.

2024	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cash and cash equivalent*	2,572,641,256	–	–	2,572,641,256
Investment securities at amortized cost	360,000,000	–	–	360,000,000
Loans receivables	6,546,033,983	49,850,063	409,053,299	7,004,937,345
Accrued interest receivable	20,621,933	335,799	14,332,426	35,290,158
Other assets**	140,627,485	4,307	5,243	140,637,035
	9,639,924,657	50,190,169	423,390,968	10,113,505,794
2023				
Cash and cash equivalent *	2,455,901,393	–	–	2,455,901,393
Investment securities at amortized cost	380,000,000	–	–	380,000,000
Loans receivables	6,589,140,320	25,821,330	515,765,676	7,130,727,326
Accrued interest receivable	17,446,181	296,302	21,647,144	39,389,627
Other assets**	133,832,871	130,085	458,185	134,421,141
	9,576,320,765	26,247,717	537,871,005	10,140,439,487

*excluding cash on hand amounting to ₱10,204,053 and ₱8,662,172 as of December 31, 2024 and 2023, respectively.

**excluding non-financial asset amounting to ₱4,073,861 and ₱3,989,313 as of December 31, 2024 and 2023, respectively and net of allowance for credit losses amounting to ₱293,427,393 and ₱227,860,224 as of December 31, 2024 and 2023, respectively.

The credit quality of the financial assets was determined as follows:

- i. Neither past due nor impaired – The credit quality of the portfolio of loans and advances can be assessed by reference to the historical experience of the Association with the borrower.
- ii. Past due but not impaired – Late processing and other administrative delays can lead to a financial asset being past due but not impaired. Therefore, loans receivables up to 90 days are not usually considered impaired, unless other information is available to indicate the contrary.
- iii. Impaired – Loans and receivables with more than 91 days past due are considered impaired.

Impairment Assessment

The Association recognizes impairment losses based on the results of the specific/individual and collective assessment of its credit exposures. Impairment has taken place when there is a presence of known difficulties in the servicing of cash flows by counterparties, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold. These and the other factors constitute observable events and/or data that meet the definition of an objective evidence of impairment.

The two methodologies applied by the Association in assessing and measuring impairment include: (1) specific/individual assessment; and (2) collective assessment. Under specific/individual assessment, the Association assesses each individual significant credit exposure for any objective evidence of impairment, and where such evidence exists, accordingly calculates the required impairment. Among the items and factors considered by the Association when assessing and measuring specific impairment allowances are:

(a) the timing of the expected cash flows; (b) the projected receipts or expected cash flows; (c) the going concern of the counterparty's business; (d) the ability of the counterparty to repay its obligations during financial crises; (e) the availability of other sources of financial support; and (f) the existing realizable value of collateral. The impairment allowances, if any, are evaluated as the need arises, in view of favourable or unfavourable developments.

With regard to the collective assessment of impairment, allowances are assessed collectively for losses on receivables that are not individually significant and for individually significant receivables when there is no apparent or objective evidence of individual impairment. A particular portfolio is reviewed on a periodic basis, in order to determine its corresponding appropriate allowances. The collective assessment evaluates and estimates the impairment of the portfolio in its entirety even though there is no objective evidence of impairment on an individual assessment. Impairment losses are estimated by taking into consideration the following deterministic information: (a) historical losses/write offs; (b) losses which are likely to occur but has not yet occurred; and (c) the expected receipts and recoveries once impaired.

Individually Assessed Credit Exposure

1. Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with allowance for credit losses (ACL) based on the number of days of missed payments as follows

For unsecured loans and other credit exposures:

No. of days unpaid/with missed payments	Classification	Minimum ACL	Stage
31 – 90 days	Substandard (underperforming)	10%	2
91 – 120 days	Substandard (non-performing)	25%	3
121 – 180 days	Doubtful	50%	3
181 days and over	Loss	100%	3

For secured loans and other credit exposures:

No. of days unpaid/with missed payments	Classification	Minimum ACL	Stage
31 – 90 days*	Substandard (underperforming)	10%	2
91 – 180 days*	Substandard (non-performing)	10%	3
181 – 365 days	Substandard (non-performing)	25%	3
Over a year – 5 years	Doubtful	50%	3
Over 5 years	Loss	100%	3

**When there is imminent possibility of foreclosure and expectation of loss. ACL shall be increased to 25%*

Provided, that where the quality of physical collaterals or financial guarantees securing the loans and advances are determined to be insufficient, weak or without recoverable values, such loans and advances shall be treated as if these are unsecured.

2. Loans and other credit exposures that exhibit the characteristics for classified accounts described under Section 114- S (credit classification and provisioning) shall be provided with ACL as follows:

Classification	Minimum ACL	Stage
Especially mentioned	5%	2
Substandard – secured	10%	2 or 3
Substandard – unsecured	25%	2 or 3
Doubtful	50%	3
Loss	100%	3

3. Unsecured loans and other credit accommodations classified as "substandard" in the last two (2) internal credit reviews which have been continuously renewed/extended without reduction in principal and is not in process of collection, shall be downgraded to "Doubtful" classification and provided with a fifty percent (50%) allowance for credit losses.
4. Loans and other credit accommodations under litigation which have been classified as "Pass" prior to the litigation process shall be classified as "Substandard" and provided with twenty percent (25%) allowance for credit losses.
5. Loans and other credit accommodations that were previously classified as "Pass" but were subsequently restructured shall have a minimum classification of Especially Mentioned (EM) and provided with a five percent (5%) allowance for credit losses, except for loans which are considered non- risk under existing laws, rules and regulations.
6. Classified loans and other credit accommodations that were subsequently restructured shall retain their classification and provisioning until the borrower has sufficiently exhibited that the loan will be fully repaid.

Collectively Assessed Loans and Other Credit Exposures

- Current "Pass" loans and other credit exposures should be provided with a reasonable level of collective allowance, using historical loss experience adjusted for current conditions.
- Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with ACL based on the number of days of missed payments as follows:

For unsecured loans and other credit exposures:

No. of days unpaid/with missed payments*	Classification	Minimum ACL	Stage
1 – 30 days	Especially Mentioned	2%	2
31 – 60 days/1 st restructuring	Substandard	25%	2 or 3
61 – 90 days	Doubtful	50%	3
91 days and over/2 nd restructuring	Loss	100%	3

*PAR for microfinance loans

For secured and other credit exposures:

No. of days unpaid/with missed payments*	Classification	ACL (%)		Stage
		Other types of collateral	Secured by real estate	
31 – 90 days	Substandard (underperforming)	10	10	2
91 – 120 days	Substandard (non-performing)	25	15	3
121 – 360 days	Doubtful	50	25	3
361 days – 5 years	Loss	100	50	3
Over 5 years	Loss	100	100	3

Provided, that where the quality of physical collaterals or financial guarantees securing the loans and advances are determined to be insufficient, weak or without recoverable values, such loans and advances shall be treated as if these are unsecured.

- Liquidity Risks – is the current and prospective risk to earnings or capital arising from a financial institution's inability to meet its obligations when they come due without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

General guidelines in controlling liquidity risk are as follows:

- a. The Association should ensure quick access to liquid assets by maintenance of a stock of high quality liquid assets.
- b. The Association should select banks that are financially sound and stable. It is very important to get all available information concerning the banks especially if it involves their stability and security of deposits.
- c. The Corporate Office is responsible for managing the cash position of the Association and does overall investment planning. These investments earn much higher interest income than ordinary deposit accounts of branches. It is important branches request fund only when they need it so as to maximize the Association's potential earning capabilities.
- d. The Daily Collection and Disbursement Report generated by all branches are required to be prepared religiously and submitted to the Treasury Department for daily monitoring of cash flow. The Treasury Department shall always prepare a Daily Cash Position Report to be distributed to the President, EVP and the General Manager and SVP-Operations.
- e. Branches are allowed and should always maintain appropriate level of cash on hand to adequately meet daily cash requirements particularly withdrawals of member's deposits.
- f. It is important to plan disbursement to maximize potential interest income from banks. As much as possible, the budgeted expenditures must be observed and the liabilities are paid when already due.
- g. Lines of credit with depository banks should be established. It provides ready cash to help meet short term funding needs.
- h. Liquidity risk provides information about a firm's ability to meet short term financial obligations. High current ratio is usually preferred by short-term creditors since it reduces their risk. Lower current ratio may be preferred by members because it means that more of the Association's assets are working to grow the business.
- i. The basic information of the Association is trust and confidence. The Association therefore should maintain good corporate reputation or untarnished name at all time.
- j. Branches should control spending. On the other, loan production should continually be improved. All should be guided by the approved budget and strategic plans to reach the Association's goals.
- k. New deposit and loan products should be adequately studied prior to offering. Associated risks should be analyzed and related cost vs. benefits measured. It is difficult to reverse the consequences of a defective product that was already introduced in the market.
- l. Changes in priorities should be analyzed carefully because they may either affect the financial position of the Association in a positive or adverse way.
- m. Estimates and assumptions used for the Association's Operating Program and Budget should undergo deliberation to ensure that they are SMART (simple, measurable, attainable, realistic and timely).
- n. Properties of the Association should be insured to recover uncertainties. Proceed from insurance claims will help the Association recover from damages.

As of December 31, 2024 and 2023, minimum required liquidity ratio of the Association is 59.81% and 58.70%, respectively.

The table below summarizes maturity profile of the Association's financial assets and liabilities as of December 31, 2024 and 2023 based on undiscounted contractual cash flows.

2024	On Demand	Due within one (1) year	Due after one (1) year	Total
Financial Assets				
Cash and cash equivalent (Note 9)*	615,610,014	1,957,031,242		2,572,641,256
Investment securities at amortized cost (Note 10)	–	–	360,000,000	360,000,000
Loans and other receivables (Note 11)	147,388,459	435,455,127	6,422,093,759	7,004,937,345
Other assets (Note 14)**	192,596	140,412,198	32,241	140,637,035
	763,191,069	2,532,898,567	6,782,126,000	10,078,215,636
Financial Liabilities				
Savings deposits (Note 15)	3,910,769,021	–	–	3,910,769,021
2023				
Financial Assets				
Cash and cash equivalent (Note 9)*	647,551,059	1,808,350,334	–	2,455,901,393
Investment securities at amortized cost (Note 10)		70,000,000	310,000,000	380,000,000
Loans and other receivables (Note 11)	605,756,656	417,861,942	6,107,108,728	7,130,727,326
Other assets (Note 14)**	1,219,149	133,201,992	–	134,421,141
	1,254,526,864	2,429,414,268	6,417,108,728	10,101,049,860
Financial Liabilities				
Savings deposits (Note 15)	3,841,020,029	–	–	3,841,020,029

*excluding cash on hand amounting to ₱10,204,053 and ₱8,662,172 as of December 31, 2024 and 2023, respectively

**excluding non-financial asset amounting to ₱4,073,861 and ₱3,989,313 as of December 31, 2024 and 2023, respectively, and net of allowance for credit losses amounting to ₱293,427,393 and ₱227,860,224 as of December 31, 2024 and 2023, respectively.

6.01.02 Analyzing and Assessing Risk

Analyzing and assessing risk is the second step in the risk management process. It involves identifying and evaluating any existing controls and analyzing the risks in terms of consequences and likelihood.

The Risk Management Matrix shall be used as a tool in analyzing the risk identified. The consideration of likelihood and consequences leads to a rating or ranking of the risk, which can assist evaluation of the best method of handling the risk.

6.01.03 Risk Evaluation

Once the level of risk has been determined based in the table of Likelihood of Consequences, the next step is to evaluate the risk and see where the risk fits against the Legend/Action Levels. The table gives guidance as to the acceptability of the risk and who is responsible for the acceptable decision for that risk.

Each risk that is identified needs to be allocated a Risk Owner. This is the person responsible for managing the risk and is usually the person who is directly responsible for the strategy, activity or function that related to the risk.

6.01.04 Controlling Risk

Controlling risk involves establishing and communicating risk limits through policies, standards and procedures that define responsibility and authority. These control limits should be valid tolls that management should be able to adjust when conditions or risk tolerances change.

Once a risk has been analysed and evaluated, the Risk Owner makes informed decision to do the following:

- Accept the risk – the opportunity outweighs the risk and the existing controls are deemed adequate and effective.
- Avoid the risk – do not carry on with the activity that is associated with the risk.
- Treat the risk – reduce the consequence, likelihood or both and/or improve the controls rating by strengthening existing controls or developing new controls so that the risk can be accepted.

6.01.05 Risk Monitoring

Risk Monitoring is the final step in risk management process is ongoing risk monitoring which is built into the normal, recurring operating activities of the Association. This will ensure that problems will immediately be identified as actions are performed on real-time basis.

Effective risk management requires reporting and review structure to ensure that risks are effectively identified and assessed and that appropriate controls and responses are in place. Regular audits of policy and standards compliance should be carried out and standards performance reviewed to identify opportunities for improvement.

It should be remembered that organizations are dynamic and operated in dynamic environment in which it operates must be identified and appropriate modifications to systems. The monitoring process should provide assurance that there are appropriate controls in place for the organization's activities and that the procedures are understood and followed. Changes in the organization and the environment in which it operates must be identified and appropriate changes are made to systems.

Any monitoring and review process should also determine whether:

- The measures adopted resulted in what was intended.
- The procedure adopted and information gathered for undertaking the assessment was appropriate.
- Improved knowledge would have helped reach better decisions and identify what lessons could be learned for future assessment and management of risks.

The Association established various organizational committees to manage and control the risks as follows:

- a. The Board of Trustees (BOT) - The BOT shall be responsible for defining the Association's level of risk tolerance and for approval and oversight of the implementation of policies and procedures relating to the management of risks throughout the organization.
- b. Risk Management Committee (RMC) - The RMC shall be responsible for the development and oversight of the risk management program. It shall oversee the system of limits to discretionary authority that the board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.
- c. Executive Committee (EXECOM) - The EXECOM is composed of three members of the Board is and tasked to review all management actions and decisions and to recommend to the Board approval of certain transactions/actions that require its approval.
- d. Audit Committee - The Audit Committee provides oversight over the Association's financial reporting policies, practices and control and internal and external audit functions. It shall be responsible for setting up the internal audit department and for the appointment of the internal auditor as well as the independent external auditor who shall both report directly to the audit committee. It shall monitor and evaluate the adequacy and effectiveness of the internal control system.

- e. Loans and Credit Committee - The Loans and Credit Committee shall review all existing loans to determine their status and to finally determine the accounts that need to be supervised and monitored more closely than the others.
It is also tasked, as a result of its review process, to determine the amount of reserves and loan loss provision to be set up.
- f. Corporate Planning Committee (Corplan) - The Corplan shall review periodically the overall economic situations as it relates to the Association in order to identify opportunities that the Association can pursue as well as threats that the Association should prepare for.

6.02 Capital Management

The Association, in fulfillment of its mission, plans and monitors fervently its capital contribution and deposits in order to fully utilize the accumulation of savings and its leading operations thus maximizing each member's value. It is extremely important to secure sufficient capital to cover risks the Association faces, from the viewpoint of ensuring the soundness and appropriateness of the Association's business. The management is charged with and responsible for taking the initiative in developing and establishing such.

The management sets policies and internal rules with regard to capital management, ensures the development and implementation of capital plans, assessment of capital adequacy and capital allocation processes.

The Association reviews at least annually whether its policies and internal rules adopted and the tasks undertaken by the capital management group are suited to the levels of complexity and sophistication of the internal capital adequacy assessment processes used by the Association and whether their respective capital management processes are functioning effectively. The review should be conducted by using check items concerning internal capital adequacy assessment as part of the capital management system and those concerning the comprehensive risk management system, and any problem with regard to capital adequacy should be examined as the issue of management system.

The Association ensures that the management is appropriately implementing (1) policy development, (2) development of internal rules and organizational frameworks and (3) development of a system for assessment and improvement activities.

The Association appropriately determines whether there are any weaknesses or problems in the capital management system and the particulars thereof, and appropriately reviews their causes by precisely analyzing the status of capital management, such as the results of information available regarding the status of capital management, such as the results of audits by external auditors, and internal audits. In addition, if necessary, take all possible measures to find the causes by, for example, establishing fact findings committees, etc.

The management may revise the analysis and assessment processes in a timely manner by reviewing their effectiveness based on reports and findings on the status of capital management in a regular and timely manner or on an as needed basis. They provide a system to implement improvements in the areas of the problems and weaknesses in the capital management system identified through their analysis, assessment and review.

They also provide a system to follow up on the efforts for improvement in a timely and appropriate manner by reviewing the progress status in a regular and timely manner on an as needed basis.

The Association's debt-to-equity ratio is presented below:

	2024	2023
Total liabilities	₱ 4,318,198,035	₱ 4,196,315,438
Total member's equity	₱ 5,514,315,145	₱ 5,549,963,653
Debt-to-equity ratio	₱0.78: ₱1.00	₱0.76: ₱1.00

6.02.01 Regulatory Qualifying Capital

In accordance with Section 121-S of MORNBF1, as amended by BSP Circular No. 1045 series of 2019, the Association shall have a minimum initial aggregate capital contribution of ₱1.0 million and shall, thereafter, maintain a minimum capital that would allow it to comply with the capital adequacy ratio requirements. The Association's capital contribution amounted to ₱4,650,245,190 and ₱4,637,613,821 as of December 31, 2024 and 2023, respectively, as disclosed in Note 18.

In accordance with Section 122-S of BSP Manual of Regulations for Non-Bank Financial Institutions, the risk-based capital ratio of the Association as a non-stock savings and loan association, expressed as a percentage of qualifying capital-to-risk assets, should not be less than ten percent (10%). Qualifying capital and risk assets are computed based on BSP regulations. Risk assets consist of total assets less cash on hand, government securities, loans covered by hold-out or assignment of deposits and other non-risk items determined by the Monetary Board of BSP.

Capital contributions shall be classified as either fixed/non-withdrawable or withdrawable. Fixed/non-withdrawable refers to capital contribution which must be maintained for the duration of membership as prescribed by the Association's by-laws, and the remainder from the total capital contribution shall refer to the withdrawable portion.

For purposes of computing capital-to-risk asset ratio, the aggregate amount of withdrawable capital contribution that shall be allowed to form part of the Association's total capital accounts shall be capped at ten times (10x) the aggregate amount of fixed/non-withdrawable capital contributions.

As of December 31, 2024 and 2023, the Association's capital-to-risk assets ratio in compliance with BSP regulations is as follows:

	2024	2023
Total assets	₱ 9,832,513,180	₱ 9,746,279,091
Risk assets	₱ 9,057,420,965	₱ 8,967,169,324
Qualifying capital	₱ 5,514,315,144	₱ 5,549,963,653
Capital-to-risk asset ratio	60.88%	61.89%

Qualifying capital consists of:

	Notes	2024	2023
Capital contribution	18	₱ 4,650,245,190	₱ 4,637,613,821
Surplus reserves	19	292,450,581	292,197,954
Surplus free	20	571,619,374	620,151,878
		₱ 5,514,315,145	₱ 5,549,963,653

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities measured at amortized cost approximates their carrying values either because these instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material.

7.01 Fair Value Hierarchy

The Association uses the following hierarchy as guide for determining fair value of financial instruments:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchange;

Investment securities at amortized cost of the Association are categorized as Level 2 in the absence of bid-offer as at reporting date and due to low volume of trading activity in the market.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: Inputs for the asset or liability that are not based on observable market data (observable inputs). This level includes equity investment (if any,) and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available.

The Association has no financial instruments that fall under this category.

As of December 31, 2024 and 2023, there were no transfers between Level 1 and Level 2 fair value measurements.

7.02 Fair Value Determination

Basis or assumptions in determining the fair value of financial instruments are disclosed below:

7.02.01 Cash in banks

The estimated fair value of fixed interest-bearing deposits is made based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

7.02.02 Investment Securities at Amortized Cost

The fair value for investment securities at amortized cost is based on market prices. Where this information is not available, the fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics or through valuation techniques using discounted cash flow analysis.

7.02.03 Loans and Other Receivables

Loans and other receivables are net of provisions for credit losses. The estimated fair value of loans and other receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at original rates to determine fair value.

7.02.04 Savings deposits

The estimated fair value of savings deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of other deposits represents the estimated cash flows expected to be paid which are discounted at the current market rates.

7.02.05 Accrued expenses and other liabilities

Due to their short duration, the carrying amounts of accrued interest and other expenses and other liabilities in the statement of financial position are considered to be reasonable approximations of their fair values.

7.03 Fair Value Measurement for Non-financial Assets

The fair value of the Association's investment properties account, as disclosed in Note 12, is determined on the basis of the appraisals performed by an appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Association's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location.

The fair value with impairment allowance of investment properties as of December 31, 2024 and 2023 is disclosed in Note 12.

8. RELATED PARTY TRANSACTIONS

Related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among the reporting entities, which are under common control with the reporting enterprise, or between, and/or among the reporting entities and its key management personnel, trustees, or its shareholders.

Significant provisions of Section 321-S of MORNBF1 regarding related party transactions follow:

- a) The Association shall not directly or indirectly make any loans to any trustee or officer, either for himself or as agent or as partner of another, except with the written approval of the majority of the trustees of the Association, excluding the trustee concerned.
- b) Total loans, direct or indirect, granted at any one time to such trustees and officers shall not exceed twenty percent (20%) of the total capital contributions of such Association.
- c) In all cases of the credit accommodations granted to trustees and officers, the written approval of the majority of the trustees of the Association, excluding the Trustee concerned, shall be entered upon the records of the Association and a copy of such entry be transmitted forthwith to the BSP.
- d) The transaction of all trustee-officers with the Association shall not be under terms of more favorable than those transacted with other members.

There are transactions and arrangements between the Association and its related parties and the effects of these on the basis determined between the parties are reflected in these financial statements.

2024

Category	Amount of Transactions	Outstanding Balance	Terms	Conditions
TORI Loans	545,550	23,246,594	Payable in installment; interest bearing; settled in cash	Secured; unsecured; unimpaired

2023

Category	Amount of Transactions	Outstanding Balance	Terms	Conditions
TORI Loans	1,106,892	22,701,044	Payable in installment; interest bearing; settled in cash	Secured; unsecured; unimpaired

The Association's transactions with related parties in the ordinary course of business are described below:

- a. The Association has loan transactions with the Trustees, Officers and Related Interest (TORI) with total outstanding balance of ₱23,246,594 and ₱22,701,044 as of December 31, 2024 and 2023, respectively, which are summarized as follows:

	2024	2023
Back-to-back	₱ 11,700,879	₱ 10,867,931
VALUE	64,711	–
Others	11,481,004	11,833,113
Total	₱ 23,246,594	₱ 22,701,044

Other relevant information regarding TORI loans were summarized as follows:

2024	TORI Loans	Related Party Loans (Inclusive of TORI Loans)
Total outstanding TORI/ Related party loans	₱ 23,246,594	23,246,594
Percent of TORI/ Related party accounts to total loans	0.33%	0.33%
Percent of unsecured TORI/ Related party accounts to TORI/ Related party accounts	49.67%	49.67%
Percent of past due TORI/ Related party accounts to total TORI/ Related party accounts	0.00%	0.00%
Percent of nonperforming TORI/ Related party accounts to total TORI/ Related party accounts	4.43%	4.43%
<hr/>		
2023	TORI Loans	Related Party Loans (Inclusive of TORI Loans)
Total outstanding TORI/ Related party loans	₱ 22,701,044	₱ 22,701,044
Percent of TORI/ Related party accounts to total loans	0.32%	0.32%
Percent of unsecured TORI/ Related party accounts to TORI/ Related party accounts	44.19%	44.19%
Percent of past due TORI/ Related party accounts to total TORI/ Related party accounts	4.53%	4.53%
Percent of nonperforming TORI/ Related party accounts to total TORI/ Related party accounts	4.53%	4.53%

The Association assess impairment on TORI loans annually. As of December 31, 2024 and 2023, no impairment loss was recognized on TORI loans.

Moreover, total TORI loans are 0.50% and 0.49% of the total capital contribution of ₱4,650,245,190 and ₱4,637,613,821 as of December 31, 2024 and 2023, respectively. See Note 18.

The Association satisfactorily complied with the MORNBF1's Section 322-S mandating that TORI loans should not exceed 20% of the Association's capital contribution.

b. Remuneration of key management personnel

	2024	2023
Compensation	₱ 31,137,548	₱ 33,259,474
Trustee's fee	8,217,065	8,100,284
Post-employment benefits	-	-
	₱ 39,354,613	₱ 41,359,758

9. CASH AND CASH EQUIVALENTS

The account consists of the following:

	2024	2023
Cash on hand	₱ 10,204,053	₱ 8,662,172
Cash in banks	2,572,611,360	2,454,371,543
Checks and other cash items	29,896	1,529,850
	₱ 2,582,845,309	₱ 2,464,563,565

Cash in banks represent unrestricted deposits with various local banks which earn interest at the prevailing bank deposit rates ranging from 0.125% to 6%.

The Association earned interests on these bank deposits amounting to ₱95,052,628 and ₱72,075,227 for the years ended December 31, 2024 and 2023, respectively.

10. INVESTMENT SECURITIES AT AMORTIZED COST

The account consists of:

2024					
Certificate Number	Date issued	Maturity Date	Term	Interest	Amount
PIID 2537J015	October 12, 2019	October 19, 2037	25 years	6.125%	60,000,000
PIID 1026I057	September 16, 2016	September 20, 2026	10 years	3.500%	50,000,000
PIID 0528B176	February 22, 2023	August 22, 2028	5.5 years	6.125%	50,000,000
PIID0527C159	March 4, 2022	March 4, 2027	5 years	4.875%	50,000,000
PIID0528I160	September 6, 2022	September 6, 2028	6 years	5.750%	50,000,000
PIID 0527L140	December 2, 2021	June 2, 2027	5 years	4.625%	50,000,000
PH0000058281	February 27, 2024	February 28, 2029	5 years	6.250%	50,000,000
Total					₱ 360,000,000
2023					
Certificate Number	Date issued	Maturity Date	Term	Interest	Amount
PIID 2537J015	October 12, 2019	October 19, 2037	25 years	6.125%	60,000,000
PIID 1026I057	September 16, 2016	September 20, 2026	10 years	3.500%	50,000,000
PIID 0528B176	February 22, 2023	August 22, 2028	5.5 years	6.125%	50,000,000
PIID0527C159	March 4, 2022	March 4, 2027	5 years	4.875%	50,000,000
PIID0528I160	September 6, 2022	September 6, 2028	6 years	5.750%	50,000,000
PIID 0324C115	March 9, 2021	March 9, 2024	3 years	2.375%	50,000,000
PIID 0527L140	December 2, 2021	June 2, 2027	5 years	4.625%	50,000,000
PIID0524C129	March 12, 2019	March 12, 2024	5 years	6.250%	20,000,000
Total					₱ 380,000,000

The above investments are carried at amortized cost.

Total interest income from the foregoing investments in bonds amounted to ₱19,213,542 and ₱21,117,659 for the years ended December 31, 2024 and 2023, respectively.

Under Sec. 331-S of the MORNBFI, no Association at any one time shall invest in bonds and securities in a total amount in excess of ten percent (10%) of the total assets. As of December 31, 2024 and 2023, the Association has satisfactorily complied with this provision.

In addition, the foregoing investments are restricted to fund the withdrawable share reserves amounting to ₱93,004,903 and ₱92,752,276 as of December 31, 2024 and 2023.

None of the foregoing amount was used as collateral to any obligations of the Association.

The detailed movements of the account are as follows:

	2024	2023
Beginning	₱ 380,000,000	₱ 480,000,000
Acquisitions during the year	50,000,000	50,000,000
Redeemed matured investment – net of discount/premium	(70,000,000)	(150,000,000)
	₱ 360,000,000	₱ 380,000,000

11. LOANS AND OTHER RECEIVABLES – net

The account consists of the following:

	2024	2023
Current loans	₱ 6,546,033,983	₱ 6,589,140,320
Past due loans	458,903,362	541,587,006
Total loans receivable	7,004,937,345	7,130,727,326
Accrued interest receivable		
Loans receivable	25,225,183	31,786,599
Due from other banks	8,082,926	5,768,896
Debt securities at amortized cost	1,982,049	1,834,132
	35,290,158	39,389,627
Total loans and other receivables	7,040,227,503	7,170,116,953
Unearned interest discount	(59,609,654)	(53,355,990)
	6,980,617,849	7,116,760,963
Allowance for credit losses:		
Loans receivable (Note 28)	(448,259,243)	(570,168,869)
Accrued interest receivable (Note 28)	(14,540,943)	(21,568,348)
	(462,800,186)	(591,737,217)
Loans and other receivables – net	₱ 6,517,817,663	₱ 6,525,023,746

Details of loans receivable are as follows (gross of unearned interest discount):

	2024	2023
Current		
VALUE loans	₱ 5,307,826	₱ 6,138,980
Multi-purpose loans	18,763,964	20,365,752
Back-to-back loans	179,253,004	158,823,185
Other promotional loans	6,342,709,189	6,403,812,403
Total current	6,546,033,983	6,589,140,320
Past due loans	458,903,362	541,587,006
Total loan portfolio	7,004,937,345	7,130,727,326
Allowance for credit losses	(448,259,243)	(570,168,869)
Net loans receivable	₱ 6,556,678,102	₱ 6,560,558,457

Unearned interest discount consists of the following:

Type of Loans	2024	2023
Multi-purpose loans	₱ 143,617	₱ 154,838
VALUE Loans	42,156	57,686
Accounts receivable	5,402	18,655
Other promotional loans	59,418,479	53,124,811
	₱ 59,609,654	₱ 53,355,990

The Association earned interest income on loans during the years 2024 and 2023 amounting to ₱731,741,453 and ₱724,183,639, respectively using effective interest method as prescribed by the BSP and Philippine Accounting Standards.

As of December 31, 2024 and 2023, no assets were pledged as collateral to secure borrowings and other liabilities of the Association.

Breakdown of allowance for credit losses is as follows:

	2024	2023
Specific loan loss provision	₱ 384,318,629	₱ 506,196,567
General loan loss provision	63,940,614	63,972,302
Total	₱ 448,259,243	₱ 570,168,869

As of December 31, 2024 and 2023, non-performing loans (NPLs) not fully covered by allowance for credit losses are as follows:

	2024	2023
Total Non-performing loans	₱ 409,053,299	₱ 515,800,578
Less: Non-performing loans covered by allowance for credit losses	409,053,299	515,800,578
Total	₱ -	₱ -

Information regarding the Association's non-performing loans (based on MORNBF I Sec. 307-S) are as follows:

	2024	2023
Gross Non-performing loans	₱ 409,053,299	₱ 515,800,578
Ratio of gross NPLs to gross TLP (%)	5.84%	7.23%
Net non-performing loans	₱ -	₱ -
Ratio of net NPLs to gross TLP (%)	-	-
Ratio of total allowance for credit losses to gross NPLs (%)	109.58%	110.54%
Ratio of specific allowance for credit losses on gross TLP to gross NPLs (%)	93.95%	98.14%

Section 307-S of MORNBF I defined non-performing loans (NPLs) as follows:

Loans, investments, receivables or any financial asset shall be considered non-performing, even without missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

12. INVESTMENT PROPERTY – net

The account includes a 2,500 sq. m. parcel of land located in Bo. Sta. Monica, Puerto Princesa, Palawan. The land was acquired by the Association as settlement of a delinquent account. The property was transferred under the name of the Association on September 8, 2005. The cost of the land originally amounted to ₱750,000 plus subsequent expenditures amounting to ₱99,249 necessary to transfer the property in the name of the Association were also capitalized.

On November 7, 2017, the Association purchased a property in Villa Rio, Pasonanca, Zamboanga City with area of 179 sq. m. which originally amounted to ₱7,000,000 plus additional cost of ₱2,410,118.

The Association acquired a 31,024 sq. m. lot in Buenavista, Puerto Princesa, Palawan City in November 29, 2017 which originally amounted to ₱600,000 plus additional cost of ₱51,273. Additional cost amounting to ₱3,630 was incurred in 2018.

Movements in the account are summarized as follows:

	2024	2023
Cost:		
Balance, January 31	₱ 10,914,271	₱ 10,914,271
Reclassification:		
to Land	(1,432,000)	–
to Building	(7,978,118)	–
Balance, December 31	1,504,153	10,914,271
Accumulated depreciation:		
Balance, January 1	1,788,333	1,498,333
Depreciation expense	–	290,000
Reclassification	(1,788,333)	–
Balance, December 31	–	1,788,333
Impairment loss		
Balance, January 31	2,410,118	2,410,118
Reclassification	(2,410,118)	–
Balance, December 31	–	2,410,118
Carrying amount	₱ 1,504,153	₱ 6,715,820

There was no additional impairment recognized during the year and neither were the properties used as collateral to secure liabilities of the Association.

The Association's property in Villa Rio, Pasonanca, Zamboanga City with area of 179 sq. m. which originally classified as Real and Other Property Acquired (ROPA) was reclassified to Land and Building in the amount of ₱1,432,000 and ₱7,978,118, respectively per Board Resolution No. 2024-079 dated 15 May 2024.

The Association applies cost model. No income or expense was recognized during the year.

The significant unobservable inputs (level 3 in fair value hierarchy) used in the fair value measurement of the Association's investment property are the estimated net price per square meter and various factors such as size, location, and utility among others. The Management believes that the cost of the assets approximates their fair values as of December 31, 2024 and 2023.

13. PROPERTY AND EQUIPMENT – net

A reconciliation of the carrying amounts at the beginning and end of years 2024 and 2023, and the gross carrying amounts and accumulated depreciation of property and equipment are shown below.

	Land	Building	Building under construction	Furniture, fixtures and equipment	Leasehold improvement	Total
2024						
Cost:						
Balance, January 1	64,930,240	140,325,810	1,176,500	56,206,466	45,072,423	307,711,439
Additions	–	865,556	–	2,413,849	362,185	3,641,590
Transfer from Investment properties (Note 12)	1,432,000	7,978,118	–	–	–	9,410,118
Balance, December 31	66,362,240	149,169,484	1,176,500	58,620,315	45,434,608	320,763,147
Accumulated depreciation:						
Balance, January 1	–	8,144,958	–	46,560,251	21,440,725	76,145,934
Depreciation	–	7,365,305	–	5,324,551	2,093,747	14,783,603
Transfer from Investment properties (Note 12)	–	1,788,334	–	–	–	1,788,334
Balance, December 31	–	17,298,597	–	51,884,802	23,534,472	92,717,871
Allowance for Losses (Note 12)	–	2,410,118	–	–	–	2,410,118
Net carrying value	66,362,240	129,460,769	1,176,500	6,735,513	21,900,136	225,635,158

PHILIPPINE NAVY SAVINGS AND LOAN ASSOCIATION, INC.
(A Non-Stock Savings and Loan Association)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023
In Philippine Peso

2023

	Land	Building	Building under construction	Furniture, fixtures and equipment	Leasehold improvement	Total
Cost:						
Balance, January 1	64,754,212	134,869,204	1,176,500	51,862,743	33,009,746	285,672,405
Additions	176,028	5,456,606	–	4,829,020	12,062,677	22,524,331
Write-off	–	–	–	(486,155)	–	(486,155)
Balance, December 31	64,930,240	140,325,810	1,176,500	56,205,608	45,072,423	307,710,581
Accumulated depreciation:						
Balance, January 1	–	1,246,929	–	41,440,371	19,926,260	62,613,560
Depreciation	–	6,898,029	–	5,605,176	1,514,465	14,017,670
Write-off	–	–	–	(486,155)	–	(486,155)
Balance, December 31	–	8,144,958	–	46,559,392	21,440,725	76,145,075
Net carrying value	64,930,240	132,180,852	1,176,500	9,646,216	23,631,698	231,565,506

The Association has no outstanding contractual commitments to acquire certain property and equipment as of December 31, 2024 and 2023 and none of the foregoing assets was used as collateral on any liability of the Association for both 2024 and 2023.

During the year, the Association carried out a review of the recoverable amounts of its property and equipment. The Association has determined that there is no indication that an impairment loss has occurred on its property and equipment.

All additions were paid in cash.

Depreciation was presented as part of operating expenses in statements of comprehensive income.

Property and equipment with cost amounting to ₱51,464,430 and ₱43,844,610 that are fully depreciated as at December 31, 2024 and 2023, respectively, are still used by the Association for the years then ended.

14. OTHER ASSETS

The account consists of the following:

	2024	2023
Cash advance	₱ 140,029,215	₱ 133,201,993
Prepaid expenses	1,329,165	738,397
Stationery and supplies unused	1,086,817	1,025,233
Documentary stamps	1,023,350	1,453,806
Accounts receivable*	497,282	1,108,610
Petty cash fund	92,000	92,000
Other investment	18,538	18,538
Miscellaneous asset	634,530	771,877
	₱ 144,710,897	₱ 138,410,454

* net of allowance for credit losses amounting to ₱293,427,393 and ₱227,860,224 as of December 31, 2024 and 2023, respectively.

Cash advance pertains to the advance intended dividend paid to members. This is derecognized upon final declaration of annual dividend to members.

Stationery and supplies unused refer to supplies used by the Association in its day-to-day activities.

Documentary stamps refer to documentary stamps purchased by the Association which are being refunded from the borrowers upon approval of their loans.

Prepaid expenses represent expenses not yet incurred but already paid in cash.

Accounts receivable consists of advances to employees for the procurement of office expenses subject for liquidation and receivable from an employee due to cash shortage, unpaid loan balance of members who are no longer considered members pursuant to the NSSLA's By-Laws. The account is presented net of allowance amounting to ₱293,427,393 and ₱277,860,224 in 2024 and 2023, respectively.

	Note	2024	2023
Balance, January 1		₱ 227,860,224	₱ 366,128,116
Provision		3,109,561	4,900,342
Reclassification	28	167,121,431	(7,903,527)
Write-off		(104,663,823)	(135,264,707)
Balance, December 31		₱ 293,427,393	₱ 227,860,224

Reclassification pertains to terminated members outside well-defined group.

15. SAVINGS DEPOSITS

The Association's savings deposits for the year are composed as follows:

	2024	2023
Savings deposit	₱ 3,541,817,269	₱ 3,533,079,838
Special savings deposit	368,951,752	307,940,191
	₱ 3,910,769,021	₱ 3,841,020,029

Savings deposit earns annual interest rate of 2.5% for 2024 and 0.5% for 2023 which is paid on a monthly basis. Special savings deposit earns 6.0% annual interest rate compounded monthly for 2024 and 2023.

Interest expense on deposit liabilities amounted to ₱107,502,305 and ₱105,445,212 as of December 31, 2024 and 2023, respectively.

16. ACCRUED EXPENSES AND OTHER LIABILITIES

The account consists of the following:

	2024	2023
Accounts payable	₱ 393,623,490	₱ 340,739,356
Accrued interest payable	9,085,825	8,786,650
Accrued expenses payable	2,862,240	2,467,432
Withholding tax payable	433,464	1,866,865
Other liabilities	1,423,997	1,435,106
	₱ 407,429,016	₱ 355,295,409

Accounts payable includes advance payments of loans, appraisal fee, and advances from employees.

Accrued interest payable represents accruals on interest on regular savings deposit and special deposits account of depositors.

Other liabilities include government contributions and provision for medical expenses of employees.

17. RETIREMENT PAYABLE

Under Republic Act (RA) No. 7641, otherwise known as the Retirement Pay Law that took effect on January 17, 1993, the Association is required to provide minimum retirement benefits to qualified retiring employees.

The Association has a retirement plan entitled PNSLAI Retirement Trust Fund which shall provide retirement, death, disability and severance benefits for all eligible employees of the Association. The retirement benefit is a defined benefit plan computed as a certain percentage of current basic monthly salary multiplied by year of service rendered. Management believes that the effect on the financial statements of the difference between the retirement costs determined under the current method used by the Association and the acceptable actuarial valuation is not material.

The amount of retirement benefit obligation recognized in the statements of financial position as of December 31, 2024 and 2023 are determined as follows:

	2024	2023
Present value of defined benefit obligation	₱ 63,149,108	₱ 51,222,875
Fair value of the plan assets	(63,149,108)	(51,222,875)
Present value of unfunded obligation	₱ -	₱ -

The movement in the present value of the defined benefit obligation for the years December 31, 2024 and 2023 are as follows:

	Note	2024	2023
Beginning of year		₱ 51,222,875	₱ 52,061,655
Current service cost	21	3,885,362	-
Adjustment		8,040,871	-
Benefits paid from plan asset		-	(838,780)
		₱ 63,149,108	₱ 51,222,875

Provision for retirement fund amounting to ₱3,885,362 and nil, which represents current service cost, for the years ended December 31, 2024 and 2023, respectively, is recognized as part of operating expenses as presented in the statements of comprehensive income.

Movements in fair value of plan assets for the years ended December 31, 2024 and 2023 are as follows:

	2024	2023
Balance, January 1	₱ 51,222,875	₱ 50,378,311
Contribution	3,885,362	1,683,344
Return on plan assets	8,040,871	-
Benefits paid from plan asset	-	(838,780)
Balance, December 31	₱ 63,149,108	₱ 51,222,875

A Certificate of Qualification as a Reasonable Employees' Retirement Benefit Plan was issued to the Association last July 19, 2021, with Certificate of Tax Exemption No: RP 150-2021.

18. CAPITAL CONTRIBUTION

The movements of the Association's capital contribution are as follows:

	2024	2023
Beginning	₱ 4,637,613,821	₱ 4,591,022,338
Additional contribution/deposits	1,240,580,674	1,237,713,191
Withdrawals	(1,227,949,305)	(1,191,121,708)
	₱ 4,650,245,190	₱ 4,637,613,821

The Association's capital contribution is divided into fixed/non-withdrawable and withdrawable capital, as follows:

	2024	2023
Fixed/non-withdrawable	₱ 503,703,063	₱ 498,073,855
Withdrawable	4,146,542,127	4,139,539,966
	₱ 4,650,245,190	₱ 4,637,613,821

Withdrawals and deposits normally are made by the members of the Association as long as the minimum capital contribution of the member does not fall below the required amount of its fixed capital contribution. Only the withdrawable amount can be withdrawn.

19. SURPLUS RESERVES

The account consists of the following:

	2024	2023
Withdrawable share reserves	₱ 92,752,276	₱ 92,752,276
Others:		
Office premises, furniture and fixtures	149,698,305	149,445,678
Gross receipt tax	50,000,000	50,000,000
	199,698,305	199,445,678
	₱ 292,450,581	₱ 292,197,954

The table below shows the movement of reserves:

	2024	2023
Surplus – reserves, beginning	₱ 292,197,954	₱ 341,266,124
Additional appropriation for office premises, furniture and fixtures	252,627	–
Additional appropriation for withdrawable shares reserves	–	931,830
Reversal of provision for gross receipt tax	–	(50,000,000)
Balance, December 31	₱ 292,450,581	₱ 292,197,954

In 2024 and 2023, the Association set aside an additional fund for office premises, furniture and fixtures amounting to ₱252,627 and nil, respectively.

Per Section 123-S, NSSLAs shall create a withdrawable share reserve which shall consist of 2% of total contributions of the members.

Per section 125-S, NSSLAs shall set aside 5% of their yearly net income until it amounts to at least 5% of the total assets as a reserve for a building to fund to cover the cost of construction or acquisition of office premises, and of the purchase of office furniture, fixtures and equipment. The Association was granted an exemption from the BSP to comply with the minimum requirements. In 2019 through Board Resolution No. 2019-166, it started to allocate its yearly net income for the construction of the building. In 2022 through Board Resolution No. 2022-33, it discontinued the allocation of their yearly net income since the building was already completed.

20. SURPLUS FREE

The table below shows the retained earnings free for the year:

	Note	2024	2023
Surplus free, beginning		₱ 620,151,878	₱ 624,924,559
Cash dividends declared	27,29	(564,684,263)	(582,241,292)
Profit		516,404,384	528,400,441
Reversal of appropriation			50,000,000
Appropriation		(252,627)	(931,830)
Surplus free, ending		₱ 571,619,372	₱ 620,151,878

21. COMPENSATION AND FRINGE BENEFITS

Expenses recognized for employee benefits are presented below:

	2024	2023
Salaries and wages	₱ 74,172,983	₱ 73,606,506
Staff benefits	45,316,076	50,875,296
Directors and committee's fees	8,217,065	8,100,284
SSS, Med and EC premiums share	7,897,745	7,444,458
Trustees' benefits	5,474,639	5,720,693
Provision for retirement fund	3,885,362	—
Medical, dental and hospitalization	2,250,592	1,875,616
	₱ 147,214,462	₱ 147,622,853

22. RENT EXPENSE

Operating lease payments represent rentals payable by the Association for lease of its office premises. Leases are negotiated for an average term of 1 year. Rent expense, as presented under operating expenses in the statements of comprehensive income, represents operating leases incurred by the Association amounting to ₱2,882,558 and ₱2,791,339 for the years ended December 31, 2024 and 2023, respectively. All lease agreements entered into were cancellable and with an option to renew subject to mutually acceptable terms and conditions between parties.

23. MISCELLANEOUS EXPENSE

The account consists of expenses such as cash/equipment donations to various organizations, notarial fees, office and janitorial supplies, snacks and meal during meetings and other small expenses necessary for the operation of the Association totalling ₱9,133,761 and ₱10,417,917 for the years ended December 31, 2024 and 2023, respectively.

24. RECOVERY ON CHARGED-OFF ASSETS

The account pertains to the recovery from impairment of items previously written-off or provided with allowance for credit losses. As of December 31, 2024 and 2023 recovery on charged-off assets amounted ₱2,208,379 and ₱1,943,928, respectively.

25. MISCELLANEOUS INCOME

The account generally consists of surcharges and penalties on loans, membership fee and ID's and replacement/penalties for lost passbooks and ID, other minor operating income and recoveries from charged off assets amounting ₱4,808,903 and ₱5,392,803 for the years ended December 31, 2024 and 2023, respectively.

26. INCOME TAXES

RA No. 8367 provides that the Association is exempt from payment of tax in respect to income received including interest on its deposits with any bank. Further, the Bureau of Internal Revenue (BIR), on September 14, 2005 pursuant to the Authority of Revenue Administrative Order No. 10-95 and Delegation of Authority under Revenue Memorandum Circular No. 14-2001 issued a ruling confirming the Association exemption from final withholding taxes of 20% on interest from deposit and deposit substitute with various bank in light of the provisions of Section 5 of RA No. 8367.

Components of income tax expense are as follows:

	2024	2023
Income tax expense (RCIT at 25%) – current	₱ –	₱ –

A numerical reconciliation between tax expense and the product of accounting income multiplied by the tax rate in 2024 and 2023 are as follows:

	2024	2023
Accounting income	₱ –	₱ –
Income tax expense at 25%	–	–
Exempt income	–	–
Costs and expenses attributable to exempt income	–	–
Non-deductible expense	–	–
Income subject to final tax	–	–
Current tax expense – RCIT at 25%	₱ –	₱ –

26.01 Revenue Regulations (RR) No. 34-2020 – Related Party Transaction (RPT) Form and Transfer Pricing Documentation

The Bureau of Internal Revenue, in its Revenue Regulation No. 34-2020, requires taxpayers to submit BIR Form No. 1709 (RPT Form) to allow the BIR to verify that taxpayers are reporting their related party transactions at arm's length prices. It is also intended to improve and strengthen the Bureau's transfer pricing risk assessment and audit functions. Most importantly, the information that will be gathered from the RPT Form and its attachments will be used by the BIR during the transfer pricing risk assessment to determine whether or not to conduct a thorough review/audit of a particular entity or transaction.

Under the said RR, the following are required to file and submit the RPT Form, together with the Annual Income Tax Return (AITR):

1. Large taxpayers
2. Taxpayers enjoying tax incentives, i.e. Board of Investments (BOI)-registered and economic zone enterprises, those enjoying Income Tax Holiday (ITH) or subject to preferential income tax rate;

3. Taxpayers reporting net operating losses for the current taxable year and the immediately preceding two (2) consecutive taxable years; and
4. A related party, as defined under Section 3 of RR No. 19-2020, which has transactions with (1), (2) or (3) above. For this purpose, key management personnel (KMP), as defined under Section 3(7) of RR No. 19-2020, shall no longer be required to file and submit the RPT Form, nor shall there be any requirement to report any transaction between KMP and the reporting entity/parent company of the latter in the RPT Form.

In addition, the preparation and submission of Transfer Pricing Documentation (TPD) under RR No. 02-2013, otherwise known as "Transfer Pricing Guidelines" and all other relevant issuances, shall be mandatory for taxpayers enumerated above who meet the following materiality thresholds:

- a. Annual gross sales/revenue for the subject taxable period exceeds ₱150 million and the total amount of related party transactions with foreign and domestic related parties exceeds ₱90 million; OR
- b. Related party transactions meeting the following materiality threshold:
 - i. If it involves sale of tangible goods in the aggregate amount exceeding ₱60 million within the taxable year;
 - ii. If it involves service transaction, payment of interest, utilization of intangible goods or other related party transaction in the aggregate amount exceeding ₱15 million within the taxable year.
- c. If TPD was required to be prepared during the immediately preceding taxable period for exceeding either (a) or (b) above.

As it does not belong to taxpayers who are required to file and submit the RPT Form under Section 2 of RR 34-2020, the Association is not covered by the requirements and procedures for related party transactions under the said RR.

26.02 Republic Act No. 11534, otherwise known as the "Corporate Recovery and Tax Incentives for Enterprises (CREATE)" Act

On February 03, 2021, the final provisions of Senate Bill No. 1357 and House Bill No. 4157 or the CREATE Bill, which seeks to reform corporate income taxes and incentives in the country, had been ratified by the Senate and the House of Representatives of the Philippines.

Under the bill, the regular corporate income tax (RCIT) will be reduced from the current 30% to 20% for domestic corporations with total assets not exceeding ₱100 million, excluding land, and total net taxable income of not more than P5 million. The corporate income tax of all other corporations, meanwhile, will be lowered to 25%. The bill would also lower the minimum corporate income tax from 2% to 1% effective July 1, 2020 until June 30, 2023.

Other key provisions of the CREATE bill include:

- Effective January 1, 2021, income tax rate for nonresident foreign corporation is reduced from 30% to 25%.
- Preferential income tax rate for proprietary educational institutions and hospitals which are nonprofit is reduced from 10% to 1% effective July 1, 2020 to June 30, 2023.
- Effective January 1, 2022, regional operating headquarters (ROHQ) currently enjoying 10% preferential income tax rate shall be subject to RCIT.
- Imposition of improperly accumulated earnings tax (IAET) is repealed.
- Foreign-sourced dividends received by domestic corporations are exempt from income tax subject to the following conditions:
 - The funds from such dividends actually received or remitted into the Philippines are reinvested in the business operations of the domestic corporation in the Philippines within the next taxable year from the time the foreign-sourced dividends were received;

- Shall be limited to funding the working capital requirements, capital expenditures, dividend payments, investment in domestic subsidiaries, and infrastructure project; and
- The domestic corporation holds directly at least 20% of the outstanding shares of the foreign corporation and has held the shareholdings for a minimum of 2 years at the time of the dividend distribution.
- Qualified export enterprises shall be entitled to 4 to 7 years income tax holiday (ITH) to be followed by 10 years 5% special corporate income tax (SCIT) or enhanced deductions (ED).
- Qualified domestic market enterprises shall be entitled to 4 to 7 years ITH to be followed by 5 years ED.
- For investments prior to effectivity of CREATE:
 - Registered business enterprises (RBEs) granted only an ITH – can continue with the availment of the ITH for the remaining period of the ITH.
 - RBEs granted an ITH followed 5% GIT or are currently enjoying 5% GIT – allowed to avail of the 5% GIT for 10 years.

The said bill was signed into law on March 26, 2021, except for certain provisions that were vetoed, by the President of the Philippines.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

27. DIVIDEND

As a transition/adjustment to the BSP Circular No. 1045 series of 2019, which states that 'an NSSLA shall distribute net income to members only once in a calendar year or fiscal year', the Association, thru its Board of Trustees, approves the grant of cash advance to members. Cash advance is recognized upon approval of Board of Trustees and is presented as part of other assets. Cash advance is derecognized upon final declaration of annual dividend to members.

On July 16, 2024, the Associations' Board of Trustees in its Resolution No. 2024-113 resolved to grant a cash advance equivalent to 6% of members' capital contribution or a total available amount of ₱271,362,171 out of which, ₱140,029,215 was actually released to members who applied as of December 31, 2024. The declared dividend net of cash advance is scheduled to be distributed to all members on January 28, 2025 at 12% per annum as approved by the Board in its Resolution No. 2025-001.

On July 19, 2023, the Associations' Board of Trustees in its Resolution No. 2023-131 resolved to grant a cash advance equivalent to 6% of members' capital contribution or a total available amount of ₱269,638,164 out of which, ₱133,201,992 was actually released to members who applied as of December 31, 2023. The declared dividend net of cash advance is scheduled to be distributed to all members on January 26, 2024 at 12.5% per annum as approved by the Board in its Resolution No. 2024-001.

Movements of cash advance are as follows:

	2024	2023
Balance at January 1	₱ 133,201,992	₱ 139,114,555
Additions	140,029,215	133,202,123
Returns	(133,201,992)	(139,114,686)
Advanced intended dividend, December 31	₱ 140,029,215	₱ 133,201,992

PHILIPPINE NAVY SAVINGS AND LOAN ASSOCIATION, INC.
(A Non-Stock Savings and Loan Association)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023
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The summary of Board declaration for dividend is as follows:

Calendar Year	Declaration date	Date of record	Amount	Board Resolution No.
CY 2024	January 6, 2025	January 28, 2025	544,794,369	2025-001
CY 2023	January 3, 2024	January 26, 2024	564,684,263	2024-001
CY 2022	January 9, 2023	January 30, 2023	582,241,291	2023-001

Movements of dividends payable are as follows:

	Note	2024	2023
Balance at January 1		₱ -	₱ -
Dividends declared	20, 29	564,684,263	582,241,292
Payments		564,684,263	(582,241,292)
Dividends payable, December 31		₱ -	₱ -

28. ALLOWANCE FOR CREDIT AND IMPAIRMENT LOSSES

Allowance for credit and impairment losses is comprised of the following:

	2024	2023
Balance at January 1		
Loans and receivables (Note 11)	₱ 570,168,869	₱ 606,254,209
Accounts receivable (Note 14)	227,860,224	31,665,440
Accrued interest receivable (Note 11)	21,568,348	366,128,116
Investment properties (Note 12)	2,410,118	2,410,118
	822,007,559	1,006,457,883
Provision for credit and impairment losses		
Loans and receivables	51,958,487	16,996,541
Accrued interest receivable	544,915	44,337
Accounts receivable	3,109,561	4,900,342
	55,612,963	21,941,220
Write off		
Loans and receivable	(6,843,970)	(60,985,408)
Accrued interest receivable	(6,965,507)	(9,795,914)
Accounts receivable	(104,663,823)	(135,264,707)
	(118,473,300)	(206,046,029)
Reversal		
Accrued interest receivable	(606,812)	(345,515)
Reclassification		
Loans and receivable	(167,121,431)	7,903,527
Accounts receivable	167,121,431	(7,903,527)
Investment property	(2,410,118)	-
Property and equipment	2,410,118	-
	-	-
Balance at December 31		
Loans and receivables (Note 11)	448,259,243	570,168,869
Accrued interest receivable – loans (Note 11)	14,540,943	21,568,348
Accounts receivable (Note 14)	293,427,393	227,860,224
Investment properties (Note 12)	-	2,410,118
Property and Equipment (Note 13)	2,410,118	-
	₱ 758,637,697	₱ 822,007,559

29. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following shows the movement of financial liabilities.

2024	January 1	Cash flows	Non-cash changes				December 31
			Interest expense	Foreign exchange	Fair value changes	Declaration of cash dividends	
Dividends payable	-	(564,684,263)	-	-	-	564,684,263	-

2023	January 1	Cash flows	Non-cash changes				December 31
			Interest expense	Foreign exchange	Fair value changes	Declaration of cash dividends	
Dividends payable	-	(582,241,292)	-	-	-	582,241,292	-

30. PROVISIONS, CONTINGENT LIABILITIES AND ASSETS

The Association is a plaintiff in various cases pending in courts, the matter has been referred to arbitration and, having received legal advice, the trustees believe that a favourable outcome is probable. The contingent asset has been recognized as a receivable in the statements of financial position of the Association as of December 31, 2024 and 2023.

The Association intends to prosecute and seek conviction against all former employees who may have directly or indirectly benefitted from the missing cash funds. The contingent asset has been recognised as a receivable at December 31, 2024 and 2023.

31. EVENTS AFTER THE END OF THE REPORTING PERIOD

No events after the end of the reporting date were identified in these financial statements that provide evidence of conditions that existed at the reporting date (adjusting events after reporting date), and that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board of Trustees on February 26, 2025.

33. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATION 15-2010

Revenue Regulations (RR) No. 21-2002 prescribing additional procedural requirements in connection with the preparation and submission of financial statements accompanying income tax returns was amended under RR 15-2010. The amendment that became effective on December 28, 2010 requires the inclusion in the notes to financial statements, information on taxes, duties and license fees paid or accrued during the year in addition to what is required under the Philippine Financial Reporting Standards and such other standards and/or conventions.

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

33.01 Value-added Taxes

The Association is a non-VAT registered entity engaged in the business of general financing and investing business, classified as non-bank financial institution which is VAT-exempt under Section (1)(V) of the National Internal Revenue Code (NIRC) of 1997, as amended.

33.02 Other Taxes and Licenses

All other taxes, local and national, including license and permits lodged under the Taxes and Licenses account in administrative expense accounts are listed as follows:

	2024	2023
Business permit	₱ 747,736	₱ 1,661,742
Real property tax	149,413	52,088
Vehicle registration fee	49,624	45,190
	₱ 946,773	₱ 1,759,020

33.03 Withholding Taxes

The amount of withholding taxes withheld during the year is enumerated as follows:

2024	Paid	Accrued	Total
Total expanded withholding tax, withholding tax on compensation, and final withholding tax	₱ 12,070,742	433,464	₱ 12,504,206

2023	Paid	Accrued	Total
Total expanded withholding tax, withholding tax on compensation, and final withholding tax	₱ 11,859,317	1,866,865	₱ 13,726,182

33.04 Tax Assessments/Cases

As of December 31, 2024 and 2023, the Association has no outstanding tax assessments and has no outstanding tax cases in any other courts or bodies outside of BIR.

All other tax information required as supplemental disclosure to the notes to the financial statements under the above-mentioned regulation is not applicable to the Association.

34. SUPPLEMENTARY INFORMATION REQUIRED UNDER BSP CIRCULAR 1075

On January 8, 2020, the Monetary Board of the Bangko Sentral ng Pilipinas issued BSP circular 1075, *Amendments to the Regulation on the Financial Audits of Non-Bank Financial Institutions*, which requires Associations to include the following additional information:

34.01 Basic Quantitative Indicators of Financial Performance

The Association's comparative financial indicators on financial performance are shown below:

	2024	2023
Return on average equity	9.33%	9.51%
Return on average assets	5.28%	5.42%
Net interest margin	7.85%	7.60%
Capital-to-risk asset ratio	60.88%	61.89%
Minimum liquidity ratio	59.81%	58.70%
Leverage ratio*	81.82%	84.10%
Debt-to-equity ratio	0.78:1	0.76:1

*Total loans portfolio/(deposit liabilities plus capital contribution)

34.02 Capital Instrument Issued

The description of the capital instrument issued by the Association is disclosed in Note 18.

34.03 Significant Credit Exposures

The Association's total loan portfolio by loan type, status and credit concentration as to purpose/industry are summarized as follows (gross of unearned interest discount):

2024				
Type of Loans	Current	Past due	Total	%
VALUE loans	5,307,826	43,312,436	48,620,262	0.69%
Back to back loans	179,253,004	—	179,253,004	2.56%
Multi-purpose loans	18,763,964	4,025,667	22,789,631	0.33%
Convenience loans	—	—	—	0.00%
Other promotional loans	6,342,709,189	411,565,259	6,754,274,447	96.42%
Total loan portfolio	6,546,033,983	458,903,362	7,004,937,345	100%
Percentage	93.45%	6.55%		
Allowance for credit losses			(448,259,243)	6.40%
Net loans receivable			6,556,678,101	93.60%
2023				
Type of Loans	Current	Past due	Total	%
VALUE loans	6,138,980	116,419,484	122,558,464	1.72%
Back to back loans	158,823,185	—	158,823,185	2.23%
Multi-purpose loans	20,365,752	19,003,582	39,369,334	0.55%
Convenience loans	—	4,831	4,831	0.00%
Other promotional loans	6,403,812,403	406,159,109	6,809,971,512	95.50%
Total loan portfolio	6,589,140,320	541,587,006	7,130,727,326	100%
Percentage	92.40%	7.60%		
Allowance for credit losses			(570,168,869)	8.00%
Net loans receivable			6,560,558,457	92.00%

Under existing BSP rules and regulations, there is credit concentration when the loan exposure to a particular industry exceeds 30% of the total loan portfolio.

The Association's concentration on its lending activities based on the total loan portfolio is on other promotional loans with a credit exposure of 96.42% and 95.50% in 2024 and 2023, respectively.

34.04 Breakdown of Total Loans

34.04.01 As to security

Breakdown of loans as to secured and unsecured, and secured loans as to type of security:

	2024	%	2023	%
Secured				
Capital contribution	142,028,296	2.03%	128,283,837	1.80%
Savings deposit	20,530,690	0.29%	19,639,467	0.28%
Special saving deposit	16,694,017	0.24%	10,951,881	0.15%
Retiree's future pay	7,561,949	0.11%	20,849,680	0.29%
	186,814,952	2.67%	179,724,865	2.52%
Unsecured	6,818,122,393	97.33%	6,951,002,461	97.48%
Total loan portfolio	7,004,937,345	100.00%	7,130,727,326	100.00%

34.04.02 As to status

Breakdown of loans as to performing and non-performing status per product is as follows:

2024	Performing	Non-performing	Total
VALUE loans	₱ 5,307,826	₱ 43,312,436	₱ 48,620,262
Back to back loans	179,253,004	–	179,253,004
Multi-purpose loans	18,763,964	4,025,667	22,789,631
Expanded back to back loans	–	–	–
Convenience loans	–	–	–
Other promotional loans	6,392,559,252	361,715,196	6,754,274,448
	₱ 6,595,884,046	₱ 409,053,299	₱ 7,004,937,345

2023	Performing	Non-performing	Total
VALUE loans	₱ 6,343,860	₱ 116,214,604	₱ 122,558,464
Back to back loans	158,823,185	–	158,823,185
Multi-purpose loans	20,365,752	19,003,582	39,369,334
Expanded back to back loans	52,000	–	52,000
Convenience loans	–	4,831	4,831
Other promotional loans	6,429,341,951	380,577,561	6,809,919,512
	₱ 6,614,926,748	₱ 515,800,578	₱ 7,130,727,326

34.05 Information of Related Party Loans

Information on related party loans is disclosed in Note 8.

34.06 Aggregate Amount of Secured Liabilities and Assets pledge as Security

As of December 31, 2024 and 2023, there were no assets pledge as a collateral for any liabilities of the Association.

34.07 Contingencies and Commitments Arising from Off-balance Sheet Items

As of December 31, 2024 and 2023, the Association has no contingencies and commitments arising from off-balance sheet items as describe in BSP Circular 1075.

PHILIPPINE NAVY SAVINGS AND LOAN ASSOCIATION, INC.
SUPPLEMENTARY SCHEDULE OF EXTERNAL AUDITOR FEE-RELATED
INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2024
(With Comparative Figures for 2023)
In Philippine Peso

	2024	2023
Total audit fees	₱ 430,000	₱ 410,000
Non-audit service fees:		
Other assurance services	-	-
Tax services	-	-
All other services	-	-
Total non-audit fees	-	-
Total audit fees and non-audit fees	₱ 430,000	₱ 410,000

	2024	2023
Total audit fees	₱ -	₱ -
Non-audit service fees:		
Other assurance services	-	-
Tax services	-	-
All other services	-	-
Total audit fees and non-audit fees of other related entities	₱ -	₱ -

Audit and non-audit fees of other related entities

The amount disclosed are excluding of out-of-pocket expenses and VAT.

ANNEX 68 - E

**SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
PHILIPPINE NAVY SAVINGS AND LOAN ASSOCIATION, INC.**

As of December 31, 2024

Ratio	Formula	Current Year	Prior Year
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	222.47%	226.74%
Acid test ratio	$\frac{\text{Quick Assets}}{\text{Current Liabilities}}$	219.12%	228.75%
Solvency ratio	$\frac{\text{Net Income} + \text{Depreciation and Amortization}}{\text{Total Liabilities}}$	12.30%	12.93%
Debt-to-equity ratio	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$	78.31%	75.61%
Asset-to-equity ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	178.31%	175.61%
Interest rate coverage ratio	$\frac{\text{Earnings before Interest and Taxes}}{\text{Interest Expense}}$	580.37%	601.11%
Return on equity	$\frac{\text{Net Income}}{\text{Average Total Equity}}$	9.33%	9.51%
Return on assets	$\frac{\text{Net Income}}{\text{Average Total Assets}}$	5.28%	5.42%
Net profit margin	$\frac{\text{Net Income}}{\text{Revenue}}$	61.04%	64.65%