# METROPOLITAN INSURANCE COMPANY, INC.

**FINANCIAL STATEMENTS**
**December 31, 2020 and 2019**

With Independent Auditors' Report

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# REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
**Metropolitan Insurance Company, Inc.**
3rd Flr. Athenaeum Bldg., L.P Leviste St.
Salcedo Village, Makati City

## Report on the Audit of the Financial Statements

*Qualified Opinion*

We have audited the financial statements of Metropolitan Insurance Company, Inc. (the Company), which comprise the statement of financial position as at December 31, 2020, and the statements of profit or loss and other comprehensive loss, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, except for the effects on the financial statements of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Firm Regulatory Registration & Accreditation:
PRC-BOA Registration No. 0003, valid until November 21, 2023
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

*Basis for Qualified Opinion*

The Company was able to obtain on November 27, 2019 and December 11, 2019 the appraisal values of its office condominium units and land, respectively, as basis for fair values on its property and equipment. There were no appraisals made from 2017 to 2018. The increase in value amounted to P37.44 Million from the last appraisal in 2016 to 2019. As disclosed by the Company in Note 30, it restated the comparative 2019 financial information and recognized the entire P37.44 Million for the said year. Philippine Accounting Standard 16 *Property, Plant and Equipment* requires that revaluations should be carried out with sufficient regularity that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Since there was a three-year gap between the last and the latest revaluation dates, we were unable to determine whether retrospective adjustments might have been necessary in respect of the statement of financial position as at January 1, 2019.

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

*Emphasis of Matter - Comparative Information*

We draw attention to Note 30 to the financial statements which indicates that the comparative information presented as at and for the year ended December 31, 2019 has been restated. Our opinion is not modified in respect of this matter except for the impact of the item discussed in the Basis for Qualified Opinion section of our report.

*Other Matter Relating to Comparative Information*

The financial statements of the Company as at and for the years ended December 31, 2019 and December 31, 2018 (from which the statement of financial position as at January 1, 2018 has been derived), excluding the adjustments described in Note 30 to the financial statements were audited by another auditor who expressed an unmodified opinion on those financial statements on July 27, 2020.

As part of our audit of the financial statements as at and for the year ended December 31, 2020, we audited the adjustments described in Note 30 that were applied to restate the comparative information presented as at and for the year ended December 31, 2019 and the statement of financial position as at January 1, 2019. We were not engaged to audit, review, or apply any procedures to the financial statements for the years ended December 31, 2019 or December 31, 2018 (not presented herein) or to the statement of financial position as at January 1, 2019, other than with respect to the adjustments described in Note 30 to the financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective financial statements taken as a whole. However, in our opinion, the adjustments described in Note 30 are appropriate and have been properly applied except for the restatement of property and equipment as described in the Basis for Qualified Opinion paragraph.

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

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

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

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

*Auditors' Responsibilities for the Audit of the Financial Statements*

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

**Report on the Supplementary Information Required Under Revenue Regulation No. 15-2010 of the Bureau of Internal Revenue**

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

**R.G. MANABAT & CO.**

TIRESO RANDY F. LAPIDEZ
Partner
CPA License No. 0092183
IC Accreditation No. 92183-IC, Group A, valid for five (5) years
covering the audit of 2019 to 2023 financial statements
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covering the audit of 2021 financial statements
Tax Identification No. 162-411-175
BIR Accreditation No. 08-001987-034-2020
Issued July 20, 2020; valid until July 19, 2023
PTR No. MKT 8533905
Issued January 4, 2021 at Makati City

August 31, 2021
Makati City, Metro Manila

## METROPOLITAN INSURANCE COMPANY, INC.
## STATEMENTS OF FINANCIAL POSITION

| | Note | December 31, 2020 | 2019 December 31 (As restated - see Note 30) | 2019 January 1 (As restated - see Note 30) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | *4, 25* | **P770,543,560** | P685,203,614 | P3,605,552 |
| Insurance receivables - net | *5, 25* | **13,983,087** | 15,549,586 | 8,700,676 |
| Financial assets: | *6, 25* | | | |
| Available-for-sale financial assets | | **4,509,496** | 5,667,906 | 3,982,861 |
| Held-to-maturity investments | | **227,487,734** | 227,835,737 | 62,717,881 |
| Loans and receivables | | **52,706,677** | 68,668,021 | 76,671,562 |
| Reinsurance assets | *7, 11, 25* | **6,170,416** | 7,486,362 | 2,889,946 |
| Deferred acquisition costs | *8, 25* | **4,413,122** | 4,993,644 | 869,949 |
| Property and equipment - net | *9, 25* | **82,083,201** | 86,962,671 | 52,457,392 |
| Other assets | *10, 25* | **19,653,811** | 17,858,844 | 18,654,426 |
| | | **P1,181,551,104** | P1,120,226,385 | P230,550,245 |
| **LIABILITIES AND EQUITY** | | | | |
| **Liabilities** | | | | |
| Insurance contract liabilities | *11, 25* | **P30,888,278** | P25,962,486 | P13,157,167 |
| Insurance payable | *12, 25* | **9,901,887** | 6,957,757 | 3,401,281 |
| Commissions payable | *25* | **1,510,747** | 1,090,074 | 768,277 |
| Deferred reinsurance commissions | *8, 25* | **936,985** | 1,156,965 | 157,984 |
| Pension liability | *14, 25* | **2,216,912** | 16,148,891 | 14,647,085 |
| Deposit for future subscription | *22, 25* | **520,076,753** | 438,482,753 | - |
| Deferred tax liability - net | *21, 25* | **26,248,477** | 24,721,320 | 13,985,650 |
| Other payables | *13, 25* | **6,416,440** | 1,345,807 | 3,073,778 |
| **Total Liabilities** | | **598,196,479** | 515,866,053 | 49,191,222 |
| **Equity** | | | | |
| Capital stock | *22* | **672,000,000** | 672,000,000 | 250,000,000 |
| Contributed surplus | *22* | **20,603,655** | 20,603,655 | 20,603,655 |
| Revaluation reserve on: | | | | |
| Available-for-sale financial assets | *6* | **2,929,652** | 4,572,377 | 3,133,332 |
| Property and equipment | *9* | **50,947,224** | 55,960,498 | 31,675,701 |
| Remeasurement gains on defined benefit plan | *14* | **1,604,176** | 3,830,341 | 3,614,680 |
| Deficit | *22* | **(164,730,082)** | (152,606,539) | (127,668,345) |
| **Total Equity** | | **583,354,625** | 604,360,332 | 181,359,023 |
| | | **P1,181,551,104** | P1,120,226,385 | P230,550,245 |

*See Notes to the Financial Statements.*

## METROPOLITAN INSURANCE COMPANY, INC.
## STATEMENTS OF PROFIT OR LOSS
## AND OTHER COMPREHENSIVE LOSS

| | | Years Ended December 31 | |
|---|---|---|---|
| | ***Note*** | **2020** | 2019 (As restated - see Note 30) |
| Gross earned premiums on insurance contracts | | **P52,398,217** | P14,948,151 |
| Reinsurers' share of gross earned premiums | | **(9,368,871)** | (6,679,977) |
| **NET EARNED INSURANCE PREMIUMS** | *15* | **43,029,346** | 8,268,174 |
| Investment income | *18* | **17,499,878** | 6,503,903 |
| Commission income | *8* | **3,045,078** | 533,959 |
| Other underwriting income | | **37,842** | - |
| Other income | *16* | **2,434,822** | 3,419,882 |
| **OTHER REVENUE** | | **23,017,620** | 10,457,744 |
| **TOTAL REVENUE** | | **66,046,966** | 18,725,918 |
| Gross insurance contract benefits and claims paid | *11, 17* | **6,523,798** | 8,067,964 |
| Reinsurers' share of gross insurance contract benefits and claims paid | *11, 17* | **(2,278,799)** | (2,961,636) |
| Gross change in insurance contract liabilities | *17* | **(3,239,990)** | (2,636,184) |
| Reinsurers' share of gross change in insurance contract liabilities | *17* | **1,019,980** | 386,340 |
| **NET INSURANCE BENEFITS AND CLAIMS** | | **2,024,989** | 2,856,484 |
| Operating expenses | *19* | **42,138,055** | 37,199,099 |
| Commissions expense | *8* | **12,540,990** | 1,787,348 |
| Other underwriting expense | *20* | **23,745,976** | 3,181,125 |
| **OTHER EXPENSES** | | **78,425,021** | 42,167,572 |
| **TOTAL BENEFITS, CLAIMS, AND OTHER EXPENSES** | | **80,450,010** | 45,024,056 |
| **LOSS BEFORE INCOME TAX** | | **(14,403,044)** | (26,298,138) |
| Current income tax | | **1,690,932** | 1,310,073 |
| Deferred income tax | | **1,042,841** | 81,900 |
| **PROVISION FOR INCOME TAX** | *21* | **2,733,773** | 1,391,973 |
| **NET LOSS** | | **(17,136,817)** | (27,690,111) |
| **OTHER COMPREHENSIVE (LOSS) INCOME** | | | |
| ***Item that will be reclassified to profit or loss in subsequent periods*** | | | |
| Net changes in the revaluation reserves on available-for-sale financial assets - net of tax | *6* | **(1,642,725)** | 1,439,045 |
| ***Item that will not be reclassified to profit or loss in subsequent periods*** | | | |
| Remeasurement loss (gain) on defined benefit plan - net of tax | *14* | **(2,226,165)** | 215,661 |
| Revaluation surplus | *9* | **-** | 26,211,139 |
| Total other comprehensive income | | **(3,868,890)** | 27,865,845 |
| **TOTAL COMPREHENSIVE LOSS** | | **(P21,005,707)** | (P175,734) |

*See Notes to the Financial Statements.*

# METROPOLITAN INSURANCE COMPANY, INC.
## STATEMENTS OF CHANGES IN EQUITY
## FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

| | *Note* | **Capital Stock** (Note 22) | **Contributed Surplus** (Note 22) | **Revaluation Reserve on Available-for-Sale Financial Assets** (Note 6) | **Revaluation Reserve on Property and Equipment** (Note 9) | **Remeasurement Gains on Defined Benefit Plan** (Note 14) | **Deficit** (Note 22) | **Total** |
|---|---|---|---|---|---|---|---|---|
| Restated balance at January 1, 2020 | | P672,000,000 | P20,603,655 | P4,572,377 | P55,960,498 | P3,830,341 | (P152,606,539) | P604,360,332 |
| Net loss during the year | | - | - | - | - | - | (17,136,817) | (17,136,817) |
| Other comprehensive income | *6, 14* | - | - | (1,642,725) | - | (2,226,165) | - | (3,868,890) |
| Total comprehensive loss for the year | | - | - | (1,642,725) | - | (2,226,165) | (17,136,817) | (21,005,707) |
| Transfer to retained earnings | *9* | - | - | - | (5,013,274) | - | 5,013,274 | - |
| **Balance at December 31, 2020** | | **P672,000,000** | **P20,603,655** | **P2,929,652** | **P50,947,224** | **P1,604,176** | **(P164,730,082)** | **P583,354,625** |
| As at January 1, 2019, as previously reported | | P250,000,000 | P20,603,655 | P3,133,332 | P31,675,701 | P3,614,680 | (P115,731,648) | P193,295,720 |
| Impact of restatement | *30* | - | - | - | - | - | (11,936,697) | (11,936,697) |
| Restated balance at January 1, 2019 | | 250,000,000 | 20,603,655 | 3,133,332 | 31,675,701 | 3,614,680 | (127,668,345) | 181,359,023 |
| Net loss during the year | | - | - | - | - | - | (27,690,111) | (27,690,111) |
| Other comprehensive income | *6, 9, 14* | - | - | 1,439,045 | 26,211,139 | 215,661 | - | 27,865,845 |
| Total comprehensive income (loss) for the year (restated) | | - | - | 1,439,045 | 26,211,139 | 215,661 | (27,690,111) | 175,734 |
| Piecemeal realization of revaluation surplus | *9* | - | - | - | (1,926,342) | - | 2,751,917 | 825,575 |
| Transaction with Owners of the Company | | | | | | | | |
| Issuance of shares during the year | *22* | 422,000,000 | - | - | - | - | - | 422,000,000 |
| Restated balance at December 31, 2019 | | P672,000,000 | P20,603,655 | P4,572,377 | P55,960,498 | P3,830,341 | (P152,606,539) | P604,360,332 |

*See Notes to the Financial Statements.*

## METROPOLITAN INSURANCE COMPANY, INC.
## STATEMENTS OF CASH FLOWS

| | | Years Ended December 31 | |
|---|---|---|---|
| | *Note* | **2020** | 2019 (As restated - see Note 30) |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Loss before income tax | | **(P14,403,044)** | (P26,298,138) |
| Adjustments for: | | | |
| Depreciation | *9* | **5,353,411** | 3,037,419 |
| Amortization expense | *10* | **-** | 1,516,990 |
| Impairment loss | *19* | **1,434,839** | - |
| Interest income | *18* | **(17,499,878)** | (6,503,903) |
| Pension expense | *14, 19* | **971,746** | 1,717,467 |
| Foreign exchange gain | | **(75,795)** | (12,339) |
| Commission income | *8* | **(3,045,078)** | (533,959) |
| Commission expense | *8* | **12,540,990** | 1,787,348 |
| Change in unearned premium provision | *15* | **8,165,781** | 15,441,503 |
| Operating loss before working capital changes | | **(6,557,028)** | (9,847,612) |
| Changes in: | | | |
| Insurance receivables | | **131,660** | (6,848,910) |
| Loans and receivables | | **15,961,344** | 8,003,541 |
| Reinsurance assets | | **1,315,947** | (4,596,416) |
| Deferred acquisition costs | | **(11,960,467)** | (5,911,042) |
| Other assets | | **(1,794,967)** | 2,167,089 |
| Insurance contract liabilities | | **(3,239,989)** | (4,074,184) |
| Insurance payables | | **2,944,130** | 3,556,476 |
| Other payables | | **5,070,633** | (1,727,971) |
| Commissions payable | | **420,673** | 321,797 |
| Deferred reinsurance commissions | | **2,825,098** | 465,022 |
| Net cash generated by (used in) operations | | **5,117,034** | (18,492,210) |
| Income tax paid | *21* | **(1,690,932)** | (1,446,653) |
| Retirement benefits paid | *14* | **(17,129,890)** | - |
| Net cash used in operating activities | | **(13,703,788)** | (19,938,863) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisitions of: | | | |
| Held-to-maturity investments | *6* | **348,003** | (165,117,856) |
| Property and equipment | *9* | **(473,942)** | (98,214) |
| Available-for-sale financial assets | *6* | **-** | (246,000) |
| Interest received | *18* | **17,499,878** | 6,503,903 |
| Net cash from (used in) investing activities | | **17,373,939** | (158,958,167) |

*Forward*

| | | Years Ended December 31 | |
|---|---|---|---|
| | ***Note*** | **2020** | 2019 (As restated - see Note 30) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issuance of shares of stocks | *22* | **P -** | P422,000,000 |
| Deposit for future subscription | *22* | **81,594,000** | 438,482,753 |
| Cash provided by financing activities | | **81,594,000** | 860,482,753 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **85,264,151** | 681,585,723 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **685,203,614** | 3,605,552 |
| **EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS** | | **75,795** | 12,339 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | *4, 25* | **P770,543,560** | P685,203,614 |

*See Notes to the Financial Statements.*

# METROPOLITAN INSURANCE COMPANY, INC.
# NOTES TO THE FINANCIAL STATEMENTS

## 1. Reporting Entity

Metropolitan Insurance Company, Inc. (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on July 7, 1999 primarily to engage in the business of nonlife insurance, indemnifying others against loss, damage or liability from unknown or contingent events and to act as agent to other insurance or surety companies, or any of its branches, including life insurance. It includes lines such as health, accident, fire and allied lines, motor vehicle, casualty, surety, marine cargo, marine hull, comprehensive liability insurance and allied risks, and/or such other insurance coverage allied with, and incident to aforementioned lines.

On July 1, 2019, the Insurance Commission (IC) renewed the license of the Company as a nonlife domestic insurance company. Certificate of Authority was issued on July 9, 2019, valid until December 31, 2021.

The registered office address of the Company is 3rd Floor, Athenaeum Building, L.P. Leviste Street, Salcedo Village, Makati City.

## 2. Basis of Preparation

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs), which include all applicable PFRSs, Philippine Accounting Standards (PASs), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

These financial statements were authorized for issue by the Company's Board of Directors (BOD) on August 31, 2021.

Basis of Measurement

The financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis on each reporting date.

| Items | Measurement Bases |
|---|---|
| Available-for-sale (AFS) financial assets | Fair value unless not measured reliably |
| Land and office condominiums (under Property and equipment) | Fair value |
| Retirement liability | Present value of the defined benefit obligation (DBO) |

Functional and Presentation Currency
The financial statements are presented in Philippine Peso, the Company's functional currency, and all values represent absolute amounts except when otherwise indicated.

Presentation of Financial Statements
The Company presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within twelve (12) months after the reporting date (current) and more than 12 months after the reporting date (noncurrent) is presented in Note 25.

## 3. Significant Accounting Estimates and Judgments

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

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

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

a. *Classifying Financial Instruments*
The Company exercises judgment in classifying a financial instrument, or its components, on initial recognition either as a financial asset, financial liability or an equity in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of financial position.

b. *Determination of Fair Value of Financial Instruments*
The Company classifies financial assets by evaluating, among others, whether a financial 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 of whether quoted prices are readily and regularly available, whether the market from which the price quotes were obtained can be considered deep enough to qualify as an "active" market, and whether those prices represent actual and regularly occurring market transactions on an arms' length basis.

Where the fair values of financial assets recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The Company uses judgment to select from variety of valuation models and make assumptions regarding considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair value.

As at December 31, 2020 and 2019, the Company's financial assets measured at fair value amounted to P4.51 million and P5.67 million, respectively (see Note 6).

c. *Impairment of AFS Financial Assets*
The Company treats AFS equity securities as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment.

In 2020 and 2019, the Company did not recognize any impairment on its AFS equity investments.

d. *Ability to Continue as a Going Concern*
The financial statements have been prepared on the assumption that the Company will continue as a going concern. Management rendered its judgment in assuming that the financial and operational support of its Parent Company would be sufficient to allow the Company to pay its obligation as they fall due and will enable the Company to recover its deficit in the foreseeable future.

In view of the Corona Virus Disease (COVID) - 19 pandemic, the management assessed that there could be potential financial impacts in terms of generating underwriting income, however such was not material to exacerbate the Company's ability to continue as a going concern. Further. management believes that the Company's business will grow as evidenced by the increase in net earned insurance premiums generated in 2020 as compared to previous year despite the pandemic. This indicates that the consequences of the outbreak have not led to a material deterioration in operating results and financial position after the reporting date, that is so severe that the going concern basis of preparation is no longer considered appropriate. Therefore, the financial statements as at and for the year ended December 31, 2020 continue to be prepared on the going concern basis.

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

a. *Claims Liability Arising from Insurance Contracts*
For nonlife insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of the Incurred But Not Reported (IBNR) Losses claims at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty. At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to provision. Nonlife insurance claims provisions are not discounted for the time value of money.

The main assumption underlying the estimation of the claims provision is that the Company's past claims development experience can be used to project future claims development, and hence, ultimate claim costs. Historical claims development is mainly analyzed by accident years as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in the future (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as, internal factors such as portfolio mix, policy conditions and claims handling procedures), in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking into account the uncertainties involved.

The carrying values of claims reported and IBNR amounted to P5.07 million and P7.55 million as at December 31, 2020 and 2019, respectively (see Note 11).

b. *Liability Adequacy Test*
At each reporting period, management performs liability adequacy test to determine if there is a need to set aside expected claims and expenses which could arise during the unexpired coverage period of the policies after the reporting date which is over and above the reserve for unearned premiums less. The Company calculated the best estimate of future claims and expenses for each line of business using actuarial valuation techniques. Expected future claims include policy maintenance and claims handling expenses.

c. *Impairment of Insurance Receivable*
The Company reviews its insurance receivables at each reporting date to assess whether an allowance for impairment should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, age of balances, financial status of counterparties, payment behavior, and known market factors. The Company reviews the age and status of receivables and identifies accounts that are to be provided with allowance on a regular basis.

Insurance receivables net of allowance for doubtful accounts amounted to P11.59 million and P13.16 million as at December 31, 2020 and 2019, respectively. The Company recognized provision for impairment losses on receivables amounting to P1.49 million and P7.45 million in 2020 and 2019, respectively (see Notes 5 and 19).

d. *Valuation of Land and Office Condominium Units at Fair Value*
The Company's land and office condominium units are carried at fair value, which has been determined based on market data approach. In determining the fair value, the Company's external appraiser used generally accepted methodologies. There have been no significant changes on the valuation methodology used by the external appraiser. The valuation methodology and significant inputs used in the valuation are detailed in Note 9.

The carrying value of properties carried at fair value amounted to P81.48 million and P86.68 million as at December 31, 2020 and 2019, respectively (see Note 9).

*e. Pension and Other Employee Benefits*

The determination of DB obligation relating to minimum guarantee and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, mortality rates and future salary increase rate. Due to the long-term nature of these benefits, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the market yields of Philippine government bonds with terms consistent with the expected employee benefit payout as at the separate statement of financial position date.

As at December 31, 2020 and 2019, the Company has pension liability amounting to P2.22 million and P16.15 million, respectively (see Note 14).

*f. Estimating Useful Lives of Property and Equipment*

The Company estimates useful lives of property and equipment based on the period over which the assets are expected to be available for use and are updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence. The useful lives, and depreciation methods are reviewed periodically to ensure that the method and periods of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

As at December 31, 2020 and 2019, the carrying amounts of property and equipment amounted to P82.08 million and P86.96 million, respectively (see Note 9).

*g. Realizability of Deferred Tax Assets*

Deferred tax assets are recognized for all temporary future tax benefits to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized. These assets are periodically reviewed to determine the amount of deferred tax assets that can be recognized. Periodic reviews cover the nature and amount of deferred income and expense items, expected timing when assets will be used or liabilities will be required to be reported, reliability of historical profitability of businesses expected to provide future earnings and tax planning strategies which can be utilized to increase the likelihood that deferred tax assets will be realized.

As at December 31, 2020 and 2019, unrecognized deferred taxes amounted to P29.90 million and P26.22 million, respectively (see Note 21).

*h. Contingencies*

The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels and based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position. It is possible, however, that the results of operations could be materially affected by changes in the estimates.

## 4. Cash and Cash Equivalents

Cash and cash equivalents consists of:

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Cash on hand | | **P46,020** | P136,343 |
| Cash in banks | | **33,164,614** | 7,792,307 |
| Short-term placements | | **737,332,926** | 677,274,964 |
| | *25* | **P770,543,560** | P685,203,614 |

Cash in banks and short-term placements were not subjected to any restrictions. Short-term placements pertain to time deposits denominated in Philippine peso and U.S. dollar with various financial institutions and with maturities ranging from overnight to thirty days and interest ranging from 0.5% to 1.7% and nil to 2.875% per annum in 2020 and 2019, respectively.

Interest income from cash in bank and short-term placements recognized in profit or loss which is presented under "Investment income" amounted to P7.96 million and P2.97 million in 2020 and 2019, respectively (see Note 18).

## 5. Insurance Receivables

This account consists of:

| | *Note* | **2020** | 2019 (As restated - see Note 30) |
|---|---|---|---|
| Premium receivable | | **P10,847,115** | P9,805,827 |
| Reinsurance recoverable on paid losses | | **1,834,152** | 2,689,667 |
| Due from ceding companies | | **3,446,471** | 1,607,358 |
| Funds held by ceding companies | | **7,164,012** | 9,261,275 |
| | | **23,291,750** | 23,364,127 |
| Less: Allowance for doubtful accounts | *30* | **9,308,663** | 7,814,541 |
| | *25* | **P13,983,087** | P15,549,586 |

The Company utilizes reinsurance agreements to minimize its exposure to large losses in all aspects of its insurance business. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Company as direct insurer of the risk reinsured.

The rollforward analysis of the allowance for doubtful account is as follows:

| | *Note* | Premiums Receivable | Reinsurance Recoverable on Paid Losses | Due from Ceding Company | Funds Held by Ceding Company | Total |
|---|---|---|---|---|---|---|
| December 31, 2018 | | P2,138,351 | P71,975 | P511,529 | P33,467 | P2,755,322 |
| Provision | *19* | - | - | - | 5,059,219 | 5,059,219 |
| December 31, 2019 (as restated) | | 2,138,351 | 71,975 | 511,529 | 5,092,686 | 7,814,541 |
| Provision | *19* | 59,283 | - | - | 1,434,839 | 1,494,122 |
| **December 31, 2020** | | **P2,197,634** | **P71,975** | **P511,529** | **P6,527,525** | **P9,308,663** |

## 6. Financial Assets

The Company's financial assets are summarized by measurement categories as follows:

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Available-for-sale (AFS) | | **P4,509,496** | P5,667,906 |
| Held-to-maturity (HTM) | | **227,487,734** | 227,835,737 |
| Loans and receivables | | **52,706,677** | 68,668,021 |
| | *25* | **P284,703,907** | P302,171,664 |

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

*a) AFS Financial Assets*

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Quoted securities - at fair value | | | |
| common shares | | **P184,140** | P242,550 |
| Golf and club shares | | **4,200,000** | 5,300,000 |
| | | **4,384,140** | 5,542,550 |
| Unquoted securities - at cost | | | |
| common shares | | **125,356** | 125,356 |
| | *25* | **P4,509,496** | P5,667,906 |

The carrying value of AFS financial assets has been determined as follows:

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Balance at the beginning of the year | | **P5,667,906** | P3,982,861 |
| Unrealized fair value (loss) gain | | **(1,158,410)** | 1,685,045 |
| Balance at the end of the year | *25* | **P4,509,496** | P5,667,906 |

The rollforward analysis of the reserves on AFS financial assets is as follow:

| | **2020** | 2019 |
|---|---|---|
| Balance at the beginning of the year | **P4,572,377** | P3,133,332 |
| Changes in fair value (loss) gains during the year, net of tax | **(1,642,725)** | 1,439,045 |
| Net change during the year, net of tax | **(1,642,725)** | 1,439,045 |
| Balance at the end of the year | **P2,929,652** | P4,572,377 |

*b) HTM Investments*

The Company's HTM investments consist of investments in government securities amounting to P227.49 million and P227.84 million as at December 31, 2020 and 2019, respectively.

The carrying value of HTM Investments has been determined as follows:

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Balance at the beginning of the year | | **P227,835,737** | P62,717,881 |
| Additions | | **196,236,095** | 242,387,181 |
| Disposals/maturities | | **(194,893,809)** | (77,000,000) |
| Amortization | | **(1,690,289)** | (269,325) |
| Balance at the end of the year | *25* | **P227,487,734** | P227,835,737 |

The interest income earned from HTM investments amounted to P9.48 million and P3.50 million in 2020 and 2019, respectively (see Note 18).

*c) Loans and Receivables*

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Advances to key management officers | *23* | **P50,543,142** | P50,543,142 |
| Advances to shareholders | *23* | **-** | 15,000,000 |
| Employee salary loans | | **74,566** | 2,493,383 |
| Accrued interest receivable | | **2,088,969** | 631,496 |
| | *25* | **P52,706,677** | P68,668,021 |

The advances to key management officers and shareholders are unsecured, noninterest-bearing, and collectible on demand in 2020 and 2019.

In 2020 and 2019, no impairment losses have been recognized for loans and receivables.

## 7. Reinsurance Assets

This account consists of:

| | *Note* | **2020** | 2019 (As restated - see Note 30) |
|---|---|---|---|
| Reinsurance recoverable on unpaid losses | *11* | **P4,099,453** | P5,119,433 |
| Deferred reinsurance premiums | *11* | **4,463,090** | 4,759,056 |
| | | **8,562,543** | 9,878,489 |
| Less: Allowance for doubtful accounts | *30* | **2,392,127** | 2,392,127 |
| | *25* | **P6,170,416** | P7,486,362 |

## 8. Deferred Acquisition Costs and Deferred Reinsurance Commissions

The details of deferred acquisition costs and deferred reinsurance commissions follow:

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| **Deferred Acquisition Costs** | | | |
| Balance at the beginning of the year | | **P4,993,644** | P869,949 |
| Cost deferred during the year | | **11,960,468** | 5,911,043 |
| Amortization during the year | | **(12,540,990)** | (1,787,348) |
| Balance at the end of the year | *25* | **P4,413,122** | P4,993,644 |

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| **Deferred Reinsurance Commissions** | | | |
| Balance at the beginning of the year | | **P1,156,965** | P157,984 |
| Income deferred during the year | | **2,825,098** | 1,532,940 |
| Amortization during the year | | **(3,045,078)** | (533,959) |
| Balance at the end of the year | *25* | **P936,985** | P1,156,965 |

## 9. Property and Equipment

This account consists of property and equipment measured as follows:

| | *Note* | **2020** | 2019 (As restated - see Note 30) |
|---|---|---|---|
| At appraised value | | **P81,476,909** | P86,678,870 |
| At cost | | **606,292** | 283,801 |
| Balance at end of year | *25* | **P82,079,201** | P86,962,671 |

The rollforward analysis of property and equipment accounted for under the cost model is as follows:

| | | **2020** | | |
|---|---|---|---|---|
| **At Cost** | ***Note*** | **Furniture, Fixtures and Office Equipment** | **Transportation Equipment** | **Total** |
| **Cost** | | | | |
| At January 1 | | **P563,870** | **P2,665,064** | **P3,228,934** |
| Additions | | **473,941** | **-** | **473,941** |
| Retirement | | **(46,518)** | **-** | **(46,518)** |
| **Balance at end of year** | | **991,293** | **2,665,064** | **3,656,357** |
| **Accumulated Depreciation** | | | | |
| Balance at the beginning of the year | | **280,069** | **2,665,064** | **2,945,133** |
| Depreciation | *19* | **151,450** | **-** | **151,450** |
| Retirement | | **(46,518)** | **-** | **(46,518)** |
| **Balance at end of year** | | **385,001** | **2,665,064** | **3,050,065** |
| **Net Book Value as at December 31, 2020** | | **P606,292** | **P -** | **P606,292** |

| At Cost | *Note* | 2019<br>Furniture, Fixtures and Office Equipment | Transportation Equipment | Total |
|---|---|---|---|---|
| Cost | | | | |
| At January 1 | | P1,883,412 | P2,665,064 | P4,548,476 |
| Additions | | 98,214 | - | 98,214 |
| Retirement | | (1,417,756) | - | (1,417,756) |
| Balance at end of year | | 563,870 | 2,665,064 | 3,228,934 |
| Accumulated Depreciation | | | | |
| Balance at the beginning of the year | | 1,601,010 | 2,665,064 | 4,266,074 |
| Depreciation | *19* | 96,815 | - | 96,815 |
| Retirement | | (1,417,756) | - | (1,417,756) |
| Balance at end of year | | 280,069 | 2,665,064 | 2,945,133 |
| Net Book Value as at December 31, 2019 | | P283,801 | P - | P283,801 |

The rollforward analysis of property and equipment accounted for under the revaluation model is as follows:

| **2020** | ***Note*** | **Land** | **Office Condominium** | **Total** |
|---|---|---|---|---|
| **At Appraised Value** | | | | |
| At January 1 | | **P6,504,000** | **P80,174,870** | **P86,678,870** |
| Additions | | **-** | **-** | **-** |
| Revaluation | | **-** | **-** | **-** |
| Reversal | | **-** | **-** | **-** |
| **Balance at end of year** | | **6,504,000** | **80,174,870** | **86,678,870** |
| **Accumulated Depreciation** | | | | |
| At January 1 | | **-** | **-** | **-** |
| Depreciation | *19* | **-** | **5,201,961** | **5,201,961** |
| Disposals | | **-** | **-** | **-** |
| Reversal | | **-** | **-** | **-** |
| **Balance at end of year** | | **-** | **5,201,961** | **5,201,961** |
| **Net Book Value as of December 31, 2020** | | **P6,504,000** | **P74,972,909** | **P81,476,909** |

| 2019 | *Note* | Land | Office Condominium | Total |
|---|---|---|---|---|
| At Appraised Value | | | | |
| At January 1 | | P4,065,000 | P53,991,200 | P58,056,200 |
| Additions | | - | - | - |
| Disposals | | - | - | - |
| Revaluation | | 2,439,000 | 26,183,670 | 28,622,670 |
| Balance at end of year (as restated) | | 6,504,000 | 80,174,870 | 86,678,870 |
| Accumulated Depreciation | | | | |
| At January 1 | | - | - | - |
| Depreciation | *19* | - | 2,940,604 | 2,940,604 |
| Disposals | | - | - | - |
| Revaluation | | - | (2,940,604) | (2,940,604) |
| Balance at end of year (as restated) | | - | - | - |
| Net Book Value as at December 31, 2019 (as restated) | | P6,504,000 | P80,174,870 | P86,678,870 |

Accumulated depreciation on the appraisal increase on office condominium subsequently reversed through equity due to revaluation amounted to P3.51 million and P1.93 million in 2020 and 2019, respectively.

If office condominiums were carried at cost less accumulated depreciation, the amounts would be as follows:

| | **2020** | 2019 |
|---|---|---|
| Cost | **P32,321,798** | P32,321,798 |
| Less accumulated depreciation | **29,840,184** | 29,651,496 |
| Net carrying amount | **P2,481,614** | P2,670,302 |

Below is the rollforward of the revaluation reserve on property and equipment:

| | **2020** | 2019 (As restated - see Note 30) |
|---|---|---|
| Beginning | **P55,960,498** | P31,675,701 |
| Transferred to RE | **(5,013,274)** | (1,926,342) |
| | **50,947,224** | 29,749,359 |
| Revaluation | **-** | 26,211,139 |
| **Revaluation reserve, end (after tax)** | **P50,947,224** | P55,960,498 |

The fair values of the office condominium units, considered as Level 3, were determined using the market data approach. This means that the valuation performed by the appraiser is based on sales, listings, and other market data of comparable properties registered within the vicinity of subject property. The technique requires reducing reasonably comparative sales and listings to a common denominator in order to conform to the subject property. The comparison among the subject property and the comparable units was premised on the factors of location, size and shape of the lot, highest and best use, and the time element. The fair values of the properties and equipment are based on the valuations performed by an independent professionally qualified appraiser, Intech Property Appraisal, Inc.

Description of the valuation techniques used and key inputs to valuation on properties and equipment follow:

| | Valuation Techniques | Unobservable Inputs Used | Range (Weighted Average) 2020 | 2019 |
|---|---|---|---|---|
| **Office Condominium Carried at Fair Value** | | | | |
| The Athenaeum Condominium Building Salcedo Village, Makati City | Market data approach | Price per square meter | **87,692 to 190,000 (138,846)** | 89,975 to 96,552 (93,264) |
| Keppel Building, Cebu Business Park, Cebu City | Market data approach | Price per square meter | **33,516 to 110,200 (71,858)** | 55,000 to 97,170 (76,085) |
| Land carried at fair value representing deemed cost Brgy. Merville Paranaque City | Market data approach | Price per square meter | **6,630 to 8,468 (7,549)** | 21,000 to 28,000 (24,500) |

There were no transfers to or out of Level 3 hierarchy in respect of the above office condominium units as at December 31, 2020 and 2019. Significant increase (decrease) in price per square meter would result in a significantly higher (lower) fair value.

## 10. Other Assets

This account consists of:

| | **2020** | 2019 (As restated - see Note 30) |
|---|---|---|
| Creditable withholding taxes (CWT) | **P17,036,471** | P16,946,449 |
| Prepaid expenses | **1,407,629** | 658,855 |
| Others | **1,209,711** | 253,540 |
| | **P19,653,811** | P17,858,844 |

CWTs pertain to taxes withheld at source by its customers and are creditable against the income tax liability of the Company.

Others include security and deposit funds and intangible asset.

The gross carrying amounts and accumulated amortization of the intangible asset in 2020 and 2019 are shown below:

| **Intangible Asset** | **2020** | 2019 |
|---|---|---|
| Cost | **P -** | P60,679,605 |
| Accumulated amortization | **-** | (60,679,605) |
| | **P -** | P - |

Reconciliation of the carrying amount of the intangible asset at the beginning and end of each year is shown below:

| **Intangible Asset** | **2020** | 2019 |
|---|---|---|
| Balance at January 1 net of accumulated amortization | **P -** | P1,516,990 |
| Amortization expense for the year | **-** | (1,516,990) |
| | **P -** | P - |

## 11. Insurance Contract Liabilities

Insurance contract liabilities analyzed as follows:

| | | **2020** | | |
|---|---|---|---|---|
| | ***Note*** | **Insurance Contract Liabilities** | **Reinsurers' Share of Liabilities** (Note 7) | **Net** |
| Provision for claims reported and loss adjustment expenses | | **P3,703,132** | **P3,617,812** | **P85,320** |
| Provision for IBNR | | **611,030** | **481,641** | **129,389** |
| Total claims reported and IBNR | | **4,314,162** | **4,099,453** | **214,709** |
| Provision for unearned premiums | | **26,574,116** | **4,463,090** | **22,111,026** |
| **Total Insurance Contract Liabilities** | *25* | **P30,888,278** | **P8,562,543** | **P22,325,735** |

| | | 2019 | | |
|---|---|---|---|---|
| | *Note* | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 7) | Net |
| Provision for claims reported and loss adjustment expenses | | P7,072,151 | P4,747,433 | P2,324,718 |
| Provision for IBNR | | 482,000 | 372,000 | 110,000 |
| Total claims reported and IBNR | | 7,554,151 | 5,119,433 | 2,434,718 |
| Provision for unearned premiums | | 18,408,335 | 4,759,056 | 13,649,279 |
| Total Insurance Contract Liabilities | *25* | P25,962,486 | P9,878,489 | P16,083,997 |

Provisions for claims reported by policyholders and IBNR analyzed as follows:

| | | **2020** | | |
|---|---|---|---|---|
| | ***Note*** | **Insurance Contract Liabilities** | **Reinsurers' Share of Liabilities** (Note 7) | **Net** |
| Balance at the beginning of the year | | **P7,554,151** | **P5,119,433** | **P2,434,718** |
| Claims incurred during the year | | **3,154,779** | **1,149,178** | **2,005,601** |
| Claims paid during the year, net of salvage and subrogation | *17* | **(6,523,798)** | **(2,278,799)** | **(4,244,999)** |
| Increase in IBNR | *17* | **129,030** | **109,641** | **19,389** |
| Balance at the end of the year | | **P4,314,162** | **P4,099,453** | **P214,709** |

| | Note | 2019 Insurance Contract Liabilities | 2019 Reinsurers' Share of Liabilities (Note 7) | 2019 Net |
|---|---|---|---|---|
| Balance at the beginning of the year | | P10,190,336 | P4,733,093 | P5,457,243 |
| Claims incurred during the year | | 6,130,405 | 3,716,435 | 2,413,970 |
| Claims paid during the year, net of salvage and subrogation | *17* | (8,067,964) | (2,961,636) | (5,106,328) |
| Decrease in IBNR | *17* | (698,626) | (368,459) | (330,167) |
| Balance at the end of the year | | P7,554,151 | P5,119,433 | P2,434,718 |

Provision for unearned premiums may analyzed as follows:

| | ***Note*** | **2020 Insurance Contract Liabilities** | **2020 Reinsurers' Share of Liabilities** (Note 7) | **2020 Net** |
|---|---|---|---|---|
| Balance at the beginning of the year | | **P18,408,335** | **P4,759,056** | **P13,649,279** |
| New policies written during the year | *15* | **60,859,964** | **9,368,871** | **51,491,093** |
| Premiums earned during the year | *15* | **(52,694,183)** | **(9,664,837)** | **(43,029,346)** |
| **Balance at the end of the year** | | **P26,574,116** | **P4,463,090** | **P22,111,026** |

| | *Note* | 2019 Insurance Contract Liabilities | 2019 Reinsurers' Share of Liabilities (Note 7) | 2019 Net |
|---|---|---|---|---|
| Balance at the beginning of the year | | P2,966,832 | P548,980 | P2,417,852 |
| New policies written during the year | *15* | 26,179,578 | 6,679,977 | 19,499,601 |
| Premiums earned during the year | *15* | (10,738,075) | (2,469,901) | (8,268,174) |
| Balance at the end of the year | | P18,408,335 | P4,759,056 | P13,649,279 |

## 12. Insurance Liabilities

The rollforward analysis of insurance payables is as follows:

| | ***Note*** | **2020** | 2019 |
|---|---|---|---|
| Balance at the beginning of the year | | **P6,957,757** | P3,401,281 |
| Arising during the year | | **9,826,216** | 4,170,867 |
| Settlements | | **(6,882,086)** | (614,391) |
| Balance at the end of the year | *25* | **P9,901,887** | P6,957,757 |

## 13. Other Payables

This account consists of:

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Taxes payable | | **P2,644,919** | P638,951 |
| Others | | **3,771,521** | 706,856 |
| | *25* | **P6,416,440** | P1,345,807 |

Taxes payable consist of documentary stamps, business tax, fire service tax, premium tax, and withholding tax. These are subsequently remitted within one month after the reporting date.

Others pertain to the obligation of the Company for various expenses shouldered by the officers. These obligations do not bear interest.

## 14. Employee Benefits

The Company has an unfunded, noncontributory, defined benefit pension plan covering substantially all of its regular employees. The benefits are based on years of service and compensation on the last year of employment.

Below is the rollforward analysis of the Company's DBO.

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Balance at the beginning of the year | | **P16,148,891** | P14,647,085 |
| **Included in Profit or Loss** | | | |
| Interest cost | | **653,384** | 1,037,014 |
| Current service cost | | **318,362** | 680,453 |
| | *19* | **971,746** | 1,717,467 |
| **Included in Other Comprehensive Income** | | | |
| Changes in financial assumptions | | **(405,477)** | (215,661) |
| Experience adjustments | | **2,631,642** | - |
| | | **2,226,165** | (215,661) |
| **Others** | | | |
| Benefits paid | | **(17,129,890)** | - |
| Balance at the end of the year | | **P2,216,912** | P16,148,891 |

The lower DBO was driven by the retirement of eighteen (18) employees, with benefits paid amounting to P17.13 million in 2020.

As at December 31, 2020 and 2019, the Company's pension liability is equal to the present value of defined benefit obligation as it has no plan assets.

The rollforward of remeasurement gains on defined benefit plan is as follows:

| | **2020** | 2019 |
|---|---|---|
| Balance at the beginning of the year | **P3,830,341** | P3,614,680 |
| Actuarial (loss) gain on DBO | **(2,226,165)** | 215,661 |
| Balance at end of year | **P1,604,176** | P3,830,341 |

The principal assumptions used in determining pensions for the Company's plan are shown below:

| | **2020** | 2019 |
|---|---|---|
| Discount rate | **2.87%** | 4.05% |
| Rate of salary increase | **1.50%** | 1.50% |
| Mortality rate | **PICM 2009 - 2014 Age Last Birthday, Sex Distinct** | PICM 2009 - 2014 Age Last Birthday, Sex Distinct |
| Disability rate | **1952 Disability Study of the Society of Actuaries** | 1952 Disability Study of the Society of Actuaries |

*Sensitivity Analysis*
The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| Position | **Change in variables** | **Increase (Decrease)** | Change in variables | Increase (Decrease) |
| Discount rate | **+50bps** | **(P2,291,622)** | +50bps | (P14,484,196) |
| | **-50bps** | **2,269,453** | -50bps | 14,819,003 |
| Salary increase rate | **+50bps** | **2,261,250** | +50bps | 14,827,814 |
| | **-50bps** | **(2,239,081)** | -50bps | (14,474,663) |

There were no changes in the methodology and assumptions used in determining the above sensitivity analysis

*Maturity Profile*
Shown below is the maturity analysis of the undiscounted benefits payments as at end of the reporting date for 2020 and 2019:

| **2020** | |
|---|---|
| Within one year to five years | **P1,127,132** |
| More than five years to nine years | **522,504** |
| More than 10 years to 14 years | **114,026** |
| More than 15 years | **829,364** |
| 2019 | |
| Within one year to five years | 11,630,309 |
| More than five years to nine years | 3,761,964 |
| More than 10 years to 14 years | 1,363,576 |
| More than 15 years | 3,060,727 |

The Company does not expect to contribute to its retirement plan in 2021.

## 15. Net Earned Insurance Premiums

Gross earned premiums on insurance contracts and reinsurers' share of gross earned premiums on insurance contracts consist of the following

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Insurance contract premiums revenue: | | | |
| Direct insurance | | **P19,709,387** | P14,545,725 |
| Assumed reinsurance | | **41,150,577** | 11,633,853 |
| Total insurance contract premiums revenue | *11* | **60,859,964** | 26,179,578 |
| Gross change in unearned premium provision | | **(8,165,781)** | (15,441,503) |
| **Total gross premiums on insurance contracts** | *11* | **52,694,183** | 10,738,075 |
| Reinsurers' share of insurance contract premiums revenue: | | | |
| Direct insurance | | **9,087,631** | 6,398,737 |
| Assumed reinsurance | | **281,240** | 281,240 |
| Total reinsurers' share of insurance contract premiums revenue | *11* | **9,368,871** | 6,679,977 |
| Reinsurers' share of gross change in unearned premium provision | | **295,966** | (4,210,076) |
| **Total reinsurers' share of gross earned premiums on insurance** | *11* | **9,664,837** | 2,469,901 |
| **Net earned insurance premiums** | | **P43,029,346** | P8,268,174 |

## 16. Other Income

Other income amounted to P2.43 million and P3.42 million in 2020 and 2019, respectively. Included in other income are service fees derived from the agreement entered into by the Company in 2018 with Allied Bankers Insurance Corporation (ABIC), a domestic nonlife insurance company, whereby the Company will render technical and data processing services.

## 17. Net Insurance Benefits and Claim

Gross insurance contract benefits and claims paid consist of the following:

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Insurance contract benefits and claims paid: | | | |
| Direct insurance | | **P4,191,403** | P4,978,998 |
| Assumed reinsurance | | **2,332,395** | 3,088,966 |
| Total insurance contract benefits and claims paid | *11* | **P6,523,798** | P8,067,964 |

As at December 31, 2020 and 2019, the reinsurers' share of direct gross insurance contract benefits and claims paid amounted to P2.28 million and P2.96 million, respectively (see Note 11).

Details of the gross change in insurance contract liabilities are as follows:

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Insurance contract benefits and claims paid: | | | |
| Direct insurance | | **P4,191,403** | P4,978,998 |
| Assumed reinsurance | | **2,332,395** | 3,088,966 |
| Total insurance contract benefits and claims paid | *11* | **P6,523,798** | P8,067,964 |

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Change in insurance contract liabilities: | | | |
| Direct insurance | | **(P3,369,020)** | (P1,937,558) |
| Change in provision for IBNR | *11* | **129,030** | (698,626) |
| **Total Gross Change in Insurance Contract Liabilities** | | **(P3,239,990)** | (P2,636,184) |

Details of the reinsurers' share of gross change in insurance contract liabilities are as follows:

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Reinsurers' shares of gross change in direct outstanding claims provisions: | | | |
| Reinsurers' shares of change in insurance contract liabilities | | **P910,339** | P754,799 |
| Change in provision for IBNR | *11* | **109,641** | (368,459) |
| **Total Reinsurers' Share of Gross Change in Insurance Contract Liabilities** | | **P1,019,980** | P386,340 |

## 18. Investment Income

This account consists of:

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Interest income on: | | | |
| HTM investments | *6* | **P9,483,299** | P3,500,724 |
| Short-term placements | *4* | **7,895,151** | 2,862,671 |
| Cash | *4* | **69,266** | 105,042 |
| Dividend income | | **52,162** | 35,466 |
| | | **P17,499,878** | P6,503,903 |

## 19. Operating Expenses

This account consists of:

| | *Note* | **2020** | 2019 (As restated - see Note 30) |
|---|---|---|---|
| Salaries and wages | *14* | **P13,781,361** | P13,119,803 |
| Professional fees | | **5,470,967** | 2,805,587 |
| Depreciation | *9* | **5,353,411** | 3,037,419 |
| Taxes and licenses | | **3,483,778** | 5,559,088 |
| Bureau and association fees | | **1,534,438** | 1,103,191 |
| Medical expenses | | **1,469,171** | 853,034 |
| Impairment loss | *5* | **1,434,839** | - |
| Pension expense | *14* | **971,746** | 1,717,467 |
| Communication | | **769,022** | 848,089 |
| Employee benefits | | **751,175** | 522,500 |
| Social security and other contributions | *14* | **706,689** | 601,934 |
| Light and water | | **614,047** | 1,020,597 |
| Repairs and maintenance | | **377,580** | 400,111 |
| Stationery and supplies | | **262,628** | 219,701 |
| Transportation and travel | | **222,307** | 1,419,873 |
| Rent | | **203,291** | 239,624 |
| Entertainment, amusement, and recreation | | **69,928** | 487,257 |
| Amortization of intangible asset | *9* | **-** | 1,516,990 |
| Miscellaneous | | **4,661,677** | 1,726,834 |
| | | **P42,138,055** | P37,199,099 |

Salaries and wages consist of the compensation and benefits paid to the Company's employees for the services rendered.

Professional fees consist of the payments made to various consultants and other expenses associated with legal and contractual services provided to the Company.

Miscellaneous consists mainly of other administrative expenses incurred by the Company.

## 20. Other Underwriting Expenses

Other underwriting expenses amounted to P23.75 million and P3.18 million in 2020 and 2019, respectively. This account includes lump amount of miscellaneous and administration charges from the assumed businesses.

## 21. Income Tax

The provision for income tax consists of:

| | **2020** | 2019 |
|---|---|---|
| Final taxes | **P1,690,932** | P1,310,073 |
| RCIT/MCIT | **-** | - |
| Current | **1,690,932** | 1,310,073 |
| Deferred | **1,042,841** | 81,900 |
| | **P2,733,773** | P1,391,973 |

The reconciliation of the income tax expense computed at statutory tax rate to the income tax shown in the statements of comprehensive income is as follows:

| | **2020** | 2019 |
|---|---|---|
| Loss before income tax | **(P14,403,044)** | (P26,298,138) |
| At 30% tax rate | **(4,320,913)** | (7,889,441) |
| Income subject to lower tax rates | **(3,628,876)** | (641,098) |
| Nondeductible expense | **3,725,866** | 952,116 |
| Change in other unrecognized net operating loss carryover NOLCO | **11,654,243** | 5,366,097 |
| Change in other unrecognized DTA | **(4,696,547)** | 3,604,299 |
| | **P2,733,773** | P1,391,973 |

Deferred tax assets have not been recognized because it was not probable that future taxable profit will be available against which the Company can utilize the benefits from. The unrecognized deferred tax assets as at December 31, 2020 and 2019 are as follows:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Tax Base** | **Deferred Tax Assets** | Tax Base | Deferred Tax Assets |
| NOLCO | **P85,742,612** | **P25,722,784** | P60,741,229 | P18,222,369 |
| IBNR, net of reinsurance recoveries | **19,389** | **5,817** | - | - |
| Pension liability | **2,216,912** | **665,074** | 16,148,891 | 4,844,667 |
| Allowance for doubtful accounts | **11,700,790** | **3,510,237** | 10,206,668 | 3,062,000 |
| MCIT | **1,078** | **1,078** | 89,419 | 89,419 |
| | **P99,680,781** | **P29,904,990** | P87,186,207 | P26,218,455 |

Below is the movement of the deferred tax assets and deferred tax liability recognized as at December 31, 2020 and 2019.

| | **2020** | | | |
|---|---|---|---|---|
| | **Beginning Balance** | **Amount Charged to Profit or Loss** | **Amount Recognized in Other Comprehensive Income** | **Ending Balance** |
| IBNR | **P33,000** | **P -** | **P -** | **P33,000** |
| Deferred acquisition costs net of deferred reinsurance commission | **-** | **(1,042,841)** | **-** | **(1,042,841)** |
| Revaluation reserve on revalued PPE - net | **(23,983,070)** | **-** | **-** | **(23,983,070)** |
| Revaluation reserve for quoted unlisted AFS | **(771,250)** | **-** | **(484,316)** | **(1,255,566)** |
| Deferred tax liabilities - net | **(P24,721,320)** | **(P1,042,841)** | **(P484,316)** | **(P26,248,477)** |

| | 2019 | | | |
|---|---|---|---|---|
| | Beginning Balance | Amount Charged to Profit or Loss | Amount Recognized in Other Comprehensive Income | Ending Balance |
| IBNR | P114,900 | (P81,900) | P - | P33,000 |
| Deferred acquisition costs net of deferred reinsurance commission | - | - | - | - |
| Revaluation reserve on revalued PPE - net | (13,575,300) | - | (10,407,770) | (23,983,070) |
| Revaluation reserve for quoted unlisted AFS | (81,900) | - | (689,350) | (771,250) |
| Deferred tax liabilities - net | (P13,542,300) | (P81,900) | (P11,097,120) | (P24,721,320) |

The details of NOLCO and MCIT as at December 31, 2020 and 2019, which is available for offset against future taxable income, follow:

| Year Incurred | NOLCO | Expired | Balance | Expiry Year |
|---|---|---|---|---|
| 2020 | P38,847,478 | P - | P38,847,478 | 2025 |
| 2019 | 34,485,523 | - | 34,485,523 | 2022 |
| 2018 | 12,409,611 | - | 12,409,611 | 2021 |
| 2017 | 13,846,095 | (13,846,095) | - | 2020 |
| | P99,588,707 | (P13,846,095) | P85,742,612 | |

| Year Incurred | MCIT | Expired | Balance | Expiry Year |
|---|---|---|---|---|
| 2018 | P1,078 | P - | P1,078 | 2021 |
| 2017 | 88,341 | (88,341) | - | 2020 |
| | P89,419 | (P88,341) | P1,078 | |

## 22. Equity

The details of this account are as follows:

| | **2020** | 2019 |
|---|---|---|
| **Authorized** | | |
| Par value per share | **P1** | P1 |
| Number of shares | **672,000,000** | 672,000,000 |
| **Issued and Outstanding** | | |
| Number of shares | **672,000,000** | 672,000,000 |
| Capital stock | **P672,000,000** | P672,000,000 |
| Contributed surplus | **20,603,655** | 20,603,655 |
| | **P692,603,655** | P692,603,655 |

As at December 31, 2020 and 2019 the Company has a deficit of P164.73 million and P152.61 million, respectively.

On May 22, 2019, the major shareholder of the Company entered into agreement with Streetcorner E-Commerce Ltd. (SEL) whereby SEL infused P422 million in order for the Company to comply with the minimum net worth requirements set by the law. This agreement was duly approved by the IC and the shares were issued in 2019.

On December 20, 2019, the BOD approved the increase in authorized capital from P672 million to P1.11 billion. The P438.48 million worth of shares will be subject for subscription agreement with SEL. The application for the increase in capital is still pending as of 2020.

In 2020, SEL and the Company entered into another subscription agreement wherein SEL agreed to invest up to the total amount of P200 million in the Company in exchange of shares to expand its business operations in the Philippines. The Company received the first tranche of the subscription amounting to P81.59 million on December 26, 2020. As of the BOD approval of the financial statements, the application on the increase in capital stock has not been filed with the regulators.

Deposit for Future Subscription

The Company received P438.48 million and P81.59 million as deposit for future subscription from SEL in 2019 and 2020, respectively, which represent as payments of subscription to the increase in authorized capital stock.

In accordance with Financial Reporting Bulletin No. 6 issued by the SEC in January 2013, an entity shall classify a contract to deliver its own equity instruments under equity as a separate account (e.g., Deposit for Stock Subscription) from "Outstanding Capital Stock" if and only if, all of the following elements are present as of the end of reporting date:

- The unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;
- There is BOD approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);
- There is stockholders' approval of said proposed increase; and
- The application for the approval of the proposed increase has been presented for filing or has been filed with the Commission.

If any or all of the foregoing elements are not present, the transaction should be recognized as a liability.

The application for the P438.48 million increase in capital is filed with SEC and was approved on February 16, 2021. While, the P81.59 million deposit for future subscription received on December 26, 2020 and pending application with the regulators. Accordingly, these deposits for future stock subscriptions were presented as liability rather than equity in the Company's statement of financial position as at December 31, 2020 and 2019 since some of the above considerations are not yet complied with as at the end of each reporting period.

## 23. 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 the financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel or members.

The Company has the following significant related party balances and transactions as at December 31, 2020 and 2019:

| Category/Transaction | *Note* | Year | Amount of the Transaction | Outstanding Balances: Due from a Related Party | Outstanding Balances: Due to Related Party | Terms |
|---|---|---|---|---|---|---|
| Key management remuneration | | **2020** | **P2,206,947** | **P -** | **P -** | **-** |
| | | 2019 | 2,571,772 | - | - | - |
| Advances to key officers | *6* | **2020** | **-** | **50,543,142** | **-** | Unsecured, |
| | | 2019 | (19,885,424) | 50,543,142 | - | noninterest-bearing, collectible on demand |
| Advances to shareholders | *6* | **2020** | **(15,000,000)** | **-** | **-** | Unsecured, |
| | | 2019 | 15,000,000 | 15,000,000 | - | noninterest-bearing, collectible on demand |
| Deposit for future subscription | *22* | **2020** | **81,594,000** | **-** | **81,594,000** | **-** |
| | | 2019 | 438,482,753 | - | 438,482,753 | - |

Key management personnel of the Company include all personnel having position of vice president and up. The transaction with key management personnel includes salaries and other employee benefits.

The related party transactions are normally settled in cash except for deposit for future subscription.

## 24. Contingencies

The Company is contingently liable for various claims arising in the ordinary conduct of business which are either pending decision by the courts or are being contested, the outcomes of which are not presently determinable. In the opinion of management, the eventual liability under these claims, if any, will not have a material or adverse impact on the Company's financial position and results of operations.

Disclosure of additional details beyond the present disclosures usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed as it may prejudice the Company's position and negotiation with counterparties. Thus, as allowed by PAS 37, only general disclosures were provided.

## 25. Maturity Profile of Assets and Liabilities

The following table presents all assets and liabilities as at December 31, 2020 and 2019 analyzed according to when they are expected to be recovered or settled (based on contractual maturity).

| | | **2020** | | | 2019 | | |
|---|---|---|---|---|---|---|---|
| | ***Note*** | **Within One Year** | **Beyond One Year** | **Total** | Within One Year | Beyond One Year | Total |
| **Assets** | | | | | | | |
| Cash and cash equivalents | *4* | **P770,543,560** | **P -** | **P770,543,560** | P685,203,614 | P - | P685,203,614 |
| Insurance receivables - net | *5, 30* | **5,454,795** | **8,528,292** | **13,983,087** | 8,457,540 | 7,092,046 | 15,549,586 |
| Financial assets: | | | | | | | |
| Available-for-sale financial assets | *6* | **-** | **4,509,496** | **4,509,496** | - | 5,667,906 | 5,667,906 |
| Held-to-maturity investments | *6* | **-** | **227,487,734** | **227,487,734** | - | 227,835,737 | 227,835,737 |
| Loans and receivables | *6* | **2,163,535** | **50,543,142** | **52,706,677** | 18,124,879 | 50,543,142 | 68,668,021 |
| Reinsurance assets | *7, 11* | **-** | **6,170,416** | **6,170,416** | - | 7,486,362 | 7,486,362 |
| Deferred acquisition costs | *8* | **-** | **4,413,122** | **4,413,122** | - | 4,993,644 | 4,993,644 |
| Property and equipment - net | *9, 30* | **-** | **82,083,201** | **82,083,201** | - | 86,962,671 | 86,962,671 |
| Other assets | *10, 30* | **1,209,711** | **18,444,100** | **19,653,811** | 912,395 | 16,946,449 | 17,858,844 |
| | | **P779,371,601** | **P402,179,503** | **P1,181,551,104** | P712,698,428 | P407,527,957 | P1,120,226,385 |
| **Liabilities** | | | | | | | |
| Insurance contract liabilities | *11* | **P -** | **P30,888,278** | **P30,888,278** | P - | P25,962,486 | P25,962,486 |
| Insurance payables | *12* | **-** | **9,901,887** | **9,901,887** | - | 6,957,757 | 6,957,757 |
| Commissions payable | | **1,510,747** | **-** | **1,510,747** | 1,090,074 | - | 1,090,074 |
| Deferred reinsurance commissions | *8* | **936,985** | **-** | **936,985** | 1,156,965 | - | 1,156,965 |
| Pension liability | *14* | **-** | **2,216,912** | **2,216,912** | - | 16,148,891 | 16,148,891 |
| Deposit for future subscription | *22* | **-** | **520,076,753** | **520,076,753** | - | 438,482,753 | 438,482,753 |
| Deferred tax liability - net | *21* | **-** | **26,248,477** | **26,248,477** | - | 24,721,320 | 24,721,320 |
| Other payables | *13* | **6,416,440** | **-** | **6,416,440** | 1,345,807 | - | 1,345,807 |
| | | **P8,864,172** | **P589,332,307** | **P598,196,479** | P3,592,846 | P512,273,207 | P515,866,053 |

## 26. Subsequent Events

Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill

On March 26, 2021, the President signed the Bill into law as Republic Act (RA) No. 11534 or the "Corporate Recovery and Tax Incentives for Enterprises Act", with some items vetoed. The abovementioned provisions on reduction in corporate income tax rates were approved and corporate income tax retroacts to July 1, 2020 as intended. Accordingly, the annual income tax return for the year 2020 to be filed on or before April 15, 2021, unless otherwise extended, will already have to use the prorated corporate income tax rate for calendar year 2020.

On April 08, 2021, the Bureau of Internal Revenue (BIR) issued the following implementing revenue regulations (RR) that are effective immediately upon publication:

1. BIR RR No. 2-2021, *Amending Certain Provisions of RR No. 2-98, As Amended, to Implement the Amendments Introduced by RA No. 11534, or the Act, to the National Internal Revenue Code (NIRC) of 1997, as Amended, Relative to the Final Tax on Certain Passive Income;*

2. BIR RR No. 3-2021, *Rules and Regulations Implementing Section 3 of RA. No. 11534, Otherwise Known as the Act, Amending Section 20 of the NIRC of 1997, As Amended;*

3. BIR RR No. 4-2021, *Implementing the Provisions on Value-Added Tax (VAT) and Percentage Tax Under RA No. 11534, Otherwise Known as the Act, Which Further Amended the NIRC of 1997, as Amended, as Implemented by RR No. 16-2005 (Consolidated VAT Regulations of 2005), As Amended; and*

4. BIR RR No. 5-2021, *Implementing the New Income Tax Rates on the Regular Income of Corporations, on Certain Passive Incomes, Including Additional Allowable Deductions from Gross Income of Persons Engaged in Business or Practice of Profession Pursuant to RA No. 11534 or Act, Which Further Amended the NIRC of 1997, As amended.*

The enactment of the CREATE Law is a non-adjusting subsequent event thus, the current and deferred income taxes as at December 31, 2020 are measured using the applicable income tax rates as at December 31, 2020.

Further, the BIR has issued its RR No. 5-2021 to promulgate the implementation of the new income tax rates on the regular income of corporations, on certain passive incomes and additional allowable deductions of persons engaged in business or practice of profession as provided for in CREATE Law.

The corporate income tax of the Company will be lowered from 30% to 25%, effective July 1, 2020. The impact of this change in tax rate is a decrease of P0.09 million in deferred tax expense and nil impact in other taxes.

Continuing Effects of COVID-19

The COVID-19 outbreak has spread across the globe causing disruptions to businesses and economic activities. On January 30, 2020, the World Health Organization announced COVID-19 as a global health emergency and, on March 11, 2020, declared it as a pandemic.

On March 8, 2020, under Proclamation 922, the Office of the President declared a state of public health emergency and, subsequently, on March 16, 2020, under Proclamation 929, a state of calamity throughout the Philippines due to the rapidly increasing cases of COVID-19. To manage the spread of the disease, the major areas of the Philippines have been placed under an Enhanced Community Quarantine, effective from March 17, 2020 until May 15, 2020, which involved several measures including travel restrictions, strict home quarantine and temporary suspension or regulation of business operations, among others, limiting activities to only the provision of essential goods and services. As of August 31, 2021, community quarantine restrictions of varying degrees remain in place throughout the country.

The Company considers the financial reporting effects of the outbreak to be insignificant and has assessed that there could be potential financial impact in the impairment of financial assets but does not believe that the outbreak will cast significant doubt about its ability to continue as a going concern.

## 27. Significant Accounting Policies

The accounting policies applicable and adopted in the preparation of the financial statements are consistent with those of the previous financial year, except for the adoption of new standards and interpretations as discussed below.

Adoption of Amendments to Standards and Framework

The Company has adopted the following amendments to standards and framework starting January 1, 2020 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards and framework did not have any significant impact on the Company's financial statements.

- *Amendments to References to Conceptual Framework in PFRSs* sets out amendments to PFRSs, their accompanying documents and PFRSs practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes:

  - a new chapter on measurement;
  - guidance on reporting financial performance;
  - improved definitions of an asset and a liability, and guidance supporting these definitions; and
  - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

  Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 or the Conceptual Framework for Financial Reporting issued in 2010.

  The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- *Definition of Material (Amendments to PAS 1 Presentation of Financial Statements and PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors).* The amendments refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

  The amendments clarify the definition of material and its application by:

  - raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence';
  - including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;
  - clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
  - clarifying the explanatory paragraphs accompanying the definition; and
  - aligning the wording of the definition of material across PFRSs and other publications.

  The amendments are expected to help entities make better materiality judgements without substantively changing existing requirements.

- Extension of the Temporary Exemption from Applying PFRS 9 (Amendments to PFRS 4 *Insurance Contracts*). The amendments extend the expiry date for the temporary exemption from PFRS 9 to annual periods beginning on or after January 1, 2023. The extension maintains the alignment between the expiry date of the temporary exemption and the effective date of PFRS 17 *Insurance Contracts* which was deferred to annual periods on or after January 1, 2023.

  The Company has selected to apply the deferral approach as allowed by this amendment, effectively deferring application of PFRS 9 (2014) to periods beyond January 2023, since the Company was able to meet the following criteria:

  - it has not previously applied any version of PFRS 9; and,
  - its activities are predominantly connected with insurance as of December 31, 2015, the Company's latest annual reporting date immediately preceding April 1, 2016, and no reassessment is required as the activities of the Company did not change at subsequent dates after initial assessment and before the effective date of PFRS 9.

  Based on management's assessment, liabilities arising from insurance contracts represents over 90% of the total carrying amount of all the Company's total liabilities.

  These liabilities include insurance contract liabilities, insurance payables, commission payable, and deferred reinsurance commissions.

  Consequently, the Company will continue to apply its existing accounting policy on financial instruments.

*Effective June 1, 2020*

- *Corona Virus Disease 2019 (COVID-19) Related Rent Concessions (Amendment to PFRS 16 Leases).* The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The practical expedient applies if:

  - the revised consideration is substantially the same or less than the original consideration;
  - the reduction in lease payments relates to payments due on or before June 30, 2021; and
  - no other substantive changes have been made to the terms of the lease.

  Lessees applying the practical expedient are required to disclose that fact, whether they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and the amount recognized in profit or loss for the reporting period arising from application of the practical expedient. No practical expedient is provided for lessors.

  The amendment is effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. A lessee applies the amendments retrospectively, recognizing the cumulative effect of the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate. This amendment is not applicable to the Company since no rent concession was provided by lessor in 2020.

Standards Issued but Not yet Effective

The Company will adopt, where applicable, the following amendments to existing standards when these become effective. Unless otherwise stated, the adoption of these amendments thereto is not expected to have significant impact in the Company's financial statements. Additional disclosures will be provided when these amendments are adopted.

*Effective April 1, 2021*

- *COVID-19 Related Rent Concessions beyond June 30, 2021 (Amendment to PFRS 16).* The amendment extends the practical expedient introduced in the 2020 amendment which simplified how a lessee accounts for rent concessions that are a direct consequence of COVID-19, permitting lessees to apply the practical expedient to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022.

  The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Earlier application is permitted. A lessee applies the amendments retrospectively, recognizing the cumulative effect of the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate.

  The adoption is mandatory for lessees that chose to apply the practical expedient introduced by the 2020 amendments and may result in reversal of lease modifications that was ineligible for the practical expedient under the 2020 amendments, but becomes eligible as a result of the extension.

*Effective January 1, 2023*

- *Classification of Liabilities as Current or Noncurrent (Amendments to PAS 1).* To promote consistency in application and clarify the requirements on determining whether a liability is current or noncurrent, the amendments:

  - removed the requirement for a right to defer settlement of a liability for at least 12 months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;
  - clarified that a right to defer settlement exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; and
  - clarified that settlement of a liability includes transferring a company's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or noncurrent.

  The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

- *Disclosure of Accounting Policies (Amendments to PAS 1 and PFRS Practice Statement 2 Making Materiality Judgements).* The amendments are intended to help companies provide useful accounting policy disclosures. The key amendments to PAS 1 include:

  - requiring companies to disclose their material accounting policies rather than their significant accounting policies;
  - clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
  - clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

  The amendments to PFRS Practice Statement 2 include guidance and additional examples on the application of materiality to accounting policy disclosures.

  The amendments are effective from January 1, 2023. Earlier application is permitted.

- *Definition of Accounting Estimates (Amendments to PAS 8).* To clarify the distinction between changes in accounting policies and changes in accounting estimates, the amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty.

  The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an accounting estimate is developed to achieve the objective set out by an accounting policy.

  Developing an accounting estimate includes both selecting a measurement technique and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in such inputs or measurement techniques are changes in accounting estimates.

The definition of accounting policies remains unchanged. The amendments also provide examples on the application of the new definition.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted, and will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the amendments are applied.

*Effective January 1, 2025*

- PFRS 17. PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, nonlife, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

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

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

  PFRS 17 is effective starting January 1, 2023 as prescribed by the IASB. However, the IC deferred the adoption of local insurers to 2025. The Company is currently assessing the potential impact of adopting this new standard.

- PFRS 9. PFRS 9 (2014) replaces PAS 39 *Financial Instruments: Recognition and Measurement,* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

  The Company availed the temporary exemption in the implementation of PFRS 9 as allowed by PFRS 4 above.

Product Classification

*Insurance Contracts*

Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index, or other variable.

*Investment Contracts*

Investment contracts mainly transfer financial risk but can also transfer insignificant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or have expired. Investment contracts can, however, be reclassified as insurance contracts after inception if the insurance risk becomes significant.

*Gross Premium on Insurance Contracts*

Gross premium on insurance contracts comprise the total premiums for the whole coverage period provided in the insurance contracts entered during the accounting period and are recognized on the inception date of the policy. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods.

*Commission Expense and Deferred Acquisition Costs*

Commissions are recognized as expense over the period of the contracts using the 24$^{th}$ method. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as “Deferred acquisition costs” in the statement of financial position. The net changes in deferred acquisition costs at the end of each reporting period is recognized as “Commission expense” account in profit or loss.

Commissions and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as expense when incurred.

An impairment review is performed at the end of each reporting periods or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount. The impairment loss is charged to profit or loss.

Deferred acquisition costs are derecognized when the related contracts are settled or disposed of.

Reinsurance

The Company cedes insurance risk in the normal course of business. Ceded insurance arrangements do not relieve the Company from its obligation to the policyholders. Premiums payable for reinsurance contracts are recognized as a contra-income account upon recognition of related premiums which are presented under “Reinsurers’ share of gross earned premiums” account in profit or loss.

The related reinsurance premium ceded that pertains to the unexpired periods at end of the reporting period are accounted for as reinsurance premiums reserve shown as part of “Reinsurance assets” account in the statement of financial position. The net changes in reinsurance premiums reserve between each end of reporting period are recognized using the 24th method and are presented as part of “Reinsurers’ share of gross earned premiums” account in profit or loss.

Reinsurance assets represents balances due from reinsurance companies for its share on the unpaid losses incurred by the Company. Recoverable amounts are estimated in the manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. Reinsurance recoverable on paid losses are included as part of “Insurance receivable - net” in the statement of financial position.

The benefits unpaid recoverable to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance recoverable on unpaid losses classified under “Reinsurance assets” account in the statement of financial position. Reinsurance recoverable on unpaid losses are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contracts.

When the Company enters into reinsurance agreements for ceding out its insurance business, the Company recognizes the amount payable to reinsurer under “Insurance payable” account in the statement of financial position for the reinsurer’s share in premium.

The Company also assumes reinsurance risk in the normal course of business. Premiums and claims on assumed reinsurance are recognized in profit or loss as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the assumed business. For the assumed insurance risk, the Company recognizes its share in premium and portion of the reinsurance premium withheld by ceding companies as due from ceding companies and funds held by ceding companies, respectively, presented under “Insurance receivables” in the statement of financial position.

Gains and losses on buying reinsurance, if any, are recognized in profit or loss immediately at the date of purchase and are not amortized.

Premiums and claims are presented on a gross basis for ceded reinsurance. Reinsurance premiums are presented as “Reinsurers’ share of gross earned premiums”. The reinsurers’ share in claims paid by the Company and unpaid including IBNR claims are presented as “Reinsurer’s share of gross insurance contract benefits and claims paid” and “Reinsurer’s share of gross change in insurance contract liabilities”, respectively, in profit or loss.

Reinsurance assets and liabilities are derecognized when the contractual right is extinguished or expired or when the contract is transferred to another party

*Impairment of Reinsurance Assets*
The Company assesses its reinsurance assets for impairment at least annually. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance assets to its recoverable amount and recognize that impairment loss in profit or loss. The Company gathers the objective evidence that a reinsurance asset is impaired using specific assessment. The Company identifies individually which accounts should be provided with impairment loss.

*Commission Income and Deferred Reinsurance Commissions*
Commissions earned from reinsurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the commissions that relate to the unexpired periods of the policies at end of the reporting period are accounted for as "Deferred reinsurance commissions" in the statement of financial position. The net changes in deferred reinsurance commissions between each end of reporting period are recognized as "Commission income" in the profit or loss.

Insurance Contract Liabilities
Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.

*Provision for Unearned Premiums*
The portion of written premiums, gross of commissions' payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired, is deferred as provision for unearned premiums. Premiums from short- duration insurance contracts are recognized as revenue over the contract period using the 24th method. The change in the provision for unearned premiums is taken to profit or loss in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

*Provision for Claims Reported and IBNR Losses*
Provision for claims reported and IBNR losses are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the reporting date. The IBNR shall be calculated based on standard actuarial projection techniques or combination of such techniques, such as but not limited to the chain ladder method, the expected loss ratio approach, the Bornhuetter - Ferguson method. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are charged to Gross change in insurance contract liabilities" in profit or loss.

*Liability Adequacy Test*
At the end of each reporting period, liability adequacy test is performed to ensure the adequacy of insurance contract liabilities, net of the related deferred acquisition cost. The test considers current best estimates of future cash flows, claims handling cost and policy administrative expenses. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy arising from the test is immediately charged to profit or loss by establishing an unexpired risk provision for losses.

The Company's insurance contract liabilities are composed of premium liabilities and claims liabilities. Premium liabilities are calculated as the higher of provision for unearned premiums and the unexpired risk reserve. Unexpired risk reserve (URR) is an estimate of future claims and expenses, at a designated level of confidence, in respect of the risk during the unexpired period after the valuation date of the policies written prior to that date including maintenance and claims handling expense. If the unexpired risk reserve is higher than the provision for unearned premiums, the excess is set up as an additional insurance reserves on top of provision for unearned premiums. The estimation of URR is made for each class of business line.

While claims liabilities are composed of provision for claims reported and IBNR. The related significant accounting policies are disclosed in the preceding section of the notes to the financial statements.

Financial Assets

*Date of Recognition*

Financial instruments are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. The purchase or sale of a non-derivative financial asset that will be delivered within the timeframe generally established by regulation or convention in the market concerned, except for equity securities, are recognized on the date on which the instrument is actually transferred (the settlement date).

*Initial Recognition*

On initial recognition, a financial asset or financial liability is measured at fair value plus directly attributable transaction costs, unless the instrument is classified at fair value through profit or loss (FVPL). Normally, the fair value on initial recognition is the transaction price - i.e., the fair value of the consideration given (in case of an asset) or received (in case of a liability) for the financial instrument.

*Classification and Subsequent Measurement*

The Company classifies its financial assets in the following categories: financial assets at FVPL, HTM investments, loans and receivables, and AFS financial assets. The Company classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at the end of each reporting period.

The Company has no financial instruments at FVPL as at December 31, 2020 and 2019. Financial instruments issued by the Company are classified as a financial liability or equity in accordance with the substance of the contractual arrangement. Any interest, dividends, and realized and unrealized gains and losses from financial instruments or component considered as a financial liability are recognized in profit or loss for the period. On the other hand, distributions to holders of financial instruments classified as equity are treated as owner-related and thus charged directly to retained earnings.

As at December 31, 2020 and 2019, the Company did not issue any financial instruments classified as equity.

A more detailed description of the financial assets held by the Company is as follows:

*Loans and Receivables*

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

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees that are integral part of the effective interest rate (EIR). Loans and receivables that are perpetual and that have either a fixed or a market-based variable rate of interest are measured at cost.

Any interest earned on loans and receivables is recognized in profit or loss on an accrual basis. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

The Company's financial assets categorized as loans and receivables consist of insurance receivables and loans and receivables.

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less while, short-term placements have maturities of more than three months to less than a year. Cash and cash equivalents and short-term placements are subject to an insignificant risk of changes in value.

*HTM*
HTM investments are non-derivative financial assets with fixed and determinable payments and a fixed maturity that the Company has the positive intention and ability to hold to maturity other than those that: (1) the Company designates on initial recognition as at FVPL, (2) the Company designates as AFS financial assets and (3) those financial assets that meet the definition of loans and receivables. HTM investments are initially measured at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method, less any impairment in value. The amortization of premiums and discounts and any impairment losses during the year are recognized in profit or loss.

*AFS Financial Assets*
AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. These financial assets are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. These include debt and equity securities.

Subsequent to initial recognition, AFS financial assets are measured at fair value. Fair value changes are recognized in other comprehensive income. Cumulative change in the fair value is presented as "Revaluation reserve on AFS financial assets". Impairment losses and foreign exchange gains and losses on AFS debt instruments are recognized in profit or loss as they arise.

When the relevant asset is derecognized, on sale or other disposal, or is impaired, the cumulative fair value changes recognized in other comprehensive income are reclassified from equity to profit or loss. For a partial disposal, a proportionate share of the fair value gains and losses previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Such gains and losses include all fair value changes until the date of disposal.

The Company's listed and unquoted equity securities are classified under this category.

*Other Financial Liabilities*
Issued financial instruments or their components, which are not classified as FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial instrument to the holder or lender, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial assets.

Subsequent to initial measurement, these financial liabilities are carried at amortized cost using the effective interest method, less any impairment losses. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees and costs that are an integral part of the EIR of the liability. The amortization is recognized in profit or loss.

Included in this category are claims reported under “Insurance contract liabilities”, insurance payable, commission payable and other payables (excluding amounts payable to government agencies).

Fair Value Measurements

*Determination of Fair Values*

The fair values of financial instruments traded in active markets at reporting date are based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair values are determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flows method, price comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

*Fair Value Hierarchy*

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 prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices); and

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

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

*“Day 1” Profit*

Where the transaction price in a non-active market is different from 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 Company recognizes the difference between the transaction price and fair value (a “Day 1” profit) in profit or loss, unless it qualifies for recognition as some other type of asset. In cases where data used as inputs in a valuation model are not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the “Day 1” profit.

Offsetting Financial Instruments

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

Impairment of Financial Assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets may be impaired. A financial asset or a group of financial assets is impaired and impairment loss is incurred if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (loss event) and that loss event(s) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

*AFS Financial Assets Carried at Fair Value*

In case of equity securities classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of the investments below cost. Where there is objective evidence of impairment, the cumulative loss lodged under equity account, measured as the difference between the acquisition cost and the current fair value, less any impairment previously recognized in other comprehensive income, is transferred to profit or loss.

In the case of AFS debt securities, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the EIR on the reduced carrying amount of the asset and is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss to the extent that the resulting carrying amount of the security does not exceed its carrying amount had no impairment loss been recognized.

For a partial disposal, a proportionate share of the fair value gains and losses previously recognized in other comprehensive income is reclassified from equity account to profit or loss. Such gains and losses include all fair value changes until the date of disposal.

Gains (losses) on sale of AFS financial assets and impairment losses are reclassified from accumulated other comprehensive income to net gains (losses) on AFS financial assets.

*AFS Financial Assets Carried at Cost*

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

*Loans and Receivables and HTM Investments*
For financial assets carried at amortized cost such as loans and receivables and HTM investments, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Company includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that a borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If an asset has a variable rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. For collective impairment purposes, impairment losses are computed based on their respective default and historical loss experience.

The carrying amounts of the loans and receivables and HTM investments shall be reduced either directly or through the use of an allowance account. The impairment losses for the period shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment losses decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of impairment losses is recognized in profit or loss, to the extent that the carrying amounts of the loans and receivables and HTM investments do not exceed their amortized cost at the reversal date.

Where loans and receivables have been ascertained to be worthless, the related amount is written-off against the corresponding allowance for impairment.

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

- the contractual rights to receive cash flows from the asset have expired;

- the Company 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 Company has transferred its right to receive cash flows from the asset and either has:

  - transferred substantially all the risks and rewards of the asset; or

  - neither transferred nor retained substantially the risks and rewards of the financial asset but has transferred the control of the financial asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset but transferred control of the asset, the Company continues to recognize the asset to the extent of the Company's continuing involvement. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be acquired to pay.

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

Property and Equipment
Property and equipment, except for office condominium and land, are stated at cost, net of accumulated depreciation and any impairment in value. The Company's parcel of land obtained through foreclosure is recognized at fair value as at the date of foreclosure. The said fair value is considered the deemed cost of the property.

The initial cost of property and equipment comprises its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged against profit or loss during the financial period in which they are incurred.

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

| | Number of Years |
|---|---|
| Office condominium | 19 |
| Furniture, fixtures, and office equipment | 5 |
| Transportation equipment | 5 |

The assets' residual values, estimated useful lives, and depreciation method are reviewed periodically to ensure that these are consistent to the expected pattern of economic benefits from the said property and equipment.

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

Land is measured at fair value, while the office condominium units are measured at fair value less accumulated depreciation and impairment losses recognized at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

A revaluation surplus is recorded in other comprehensive income under “Revaluation reserve on property and equipment” account, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized in the statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognized in the revaluation surplus.

Accumulated depreciation as of the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Transfers from revaluation reserve to retained earnings are not made through profit or loss.

Intangible Assets

Intangible asset represents the future economic benefits expected to be derived from the acquisition of insurance related assets, liabilities, and obligations of an insurance company through the establishment of policyholder relationships. Subsequent to initial recognition, the intangible asset is carried at cost less accumulated amortization. The intangible asset is being amortized over a period of 20 years from the date of acquisition. The unamortized portion is included under “Other assets” in the statement of financial position.

Determination of Fair Value of Nonfinancial Assets

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

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

The principal or the most advantageous market must be accessible to the Company.

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 nonfinancial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

External appraisers are involved for valuation of significant assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

Impairment of Nonfinancial Assets

At each reporting date, the Company assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount.

Recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs.

Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset (or cash generating unit).

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

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

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase under other comprehensive income.

After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

Capital stock represents the value of shares that have been issued at par.

Contributed surplus includes any premiums received in excess of par value on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from contributed surplus.

Deficit includes all the accumulated losses of the Company, distribution to stockholders, and adjustments resulting from changes in accounting policy.

Revaluation reserve on AFS securities pertain to the unrealized fair value gains and losses from mark-to-market valuation of AFS securities

Revaluation reserve on property represents the appraisal increment on office condominium units classified under "Property and equipment".

Remeasurement gains on defined benefit plan represents the cumulative amount of remeasurement of retirement liability arising from actuarial gains and losses due to expenses and demographic assumptions as well as gains and losses in the plan assets.

Revenue Recognition

The Company's revenue streams arising from insurance contracts falls under PFRS 4 while interest and dividend income falls under PAS 39 and other income under PFRS 15 *Revenue from Contracts with Customers*. The following specific criteria must also be met before revenue is recognized:

*Premiums Revenue*

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies at reporting date is accounted for as pprovision for unearned premiums presented as part of "Insurance contract liabilities" in the statement of financial position. The related reinsurance premiums that pertain to the unexpired periods at reporting date are accounted for as deferred reinsurance under "Reinsurance assets". The net changes in these accounts between reporting dates are included in the determination of net earned insurance premiums.

*Reinsurance Commission Income*

Commissions earned from short-duration insurance contracts are recognized as revenue over the contract period using the 24th method. The portion of the commissions that relate to the unexpired periods of the policies at the reporting date are accounted for as "Deferred reinsurance commissions" in the statement of financial position.

*Interest Income*

Interest income is recognized as it accrues in accordance with effective interest method.

*Dividend Income*

Dividend income is recognized when the Company's right to receive payment is established.

*Other Income*

Other income, including other underwriting income, is recognized when earned.

Service fee represent income earned from administrative services (technical support and data processing services), accounted under the scope of PFRS 15.

*Determining whether the Company is Acting as Principal or an Agent*

The Company assesses its revenue arrangements against the following criteria to determine whether it is acting as a principal or an agent:

- whether the Company has primary responsibility for providing the services; and
- whether the Company has discretion in establishing prices.

If the Company has determined it is acting as a principal, the Company recognizes revenue on gross basis with the amount remitted to the other party being accounted as part of cost and expenses. If the Company has determined it is acting as an agent, only the net amount retained is recognized as revenue.

The Company has determined that it is acting as principal in its revenue arrangements.

Expense Recognition

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

*Other Underwriting Expense*

Other underwriting expense pertains to the costs incurred by the Company prior to the issuance of policies to its policyholders. These costs include expenses for technical inspections, actuarial reviews, and other work deemed necessary to determine whether or not to accept the risks to be written.

*Operating Expenses*

Operating expenses constitute costs of administering the business. These are recognized as expense when incurred.

Pension Benefits

The net pension liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net pension asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- service cost;
- net interest on the net pension liability or asset; and
- remeasurements of defined benefit plan.

Service costs which include current service costs, past service costs, and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net pension liability or asset is the change during the period in the net pension liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net pension liability or asset. Net interest on the net pension liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). The Company has not set up plan assets as at December 31, 2020 and 2019.

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

Leases

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- leases of low value assets; and
- leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Company's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favor of the Company if it is reasonable certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognized where the Company is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortized over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognized in profit or loss.

When the Company renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy.

- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount.

- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognized in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of- use asset is adjusted by the same amount.

For contracts that both convey a right to the Company to use an identified asset and require services to be provided to the group by the lessor, the group has elected to account for the entire contract as a lease, i.e. it does allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

*Short-term Leases*
The Company has elected not to recognize ROU assets and lease liability for short-term leases of 12 months or less. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Foreign Currency Transactions and Balances
The functional and presentation currency of the Company is the Philippine Peso. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined. All foreign exchange differences are taken to profit or loss except for equity securities classified as AFS financial assets where such differences are taken to other comprehensive income.

Taxes
*Current Tax*
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at each reporting date, and any adjustment to tax payable in respect of previous years.

*Deferred Tax*
Deferred tax is provided, using the asset-liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular income tax, and unused NOLCO, to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow all or part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that is applicable to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as of the reporting date. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged against or credited to income for the period.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

*Final Tax*
Interest income from cash in banks, debt securities, funds held by ceding companies and dividend income, which is subject to final withholding tax, is presented at gross amounts while taxes paid or withheld are recognized as final tax under “Current income tax” in profit or loss.

*CWT*
CWT pertains to the indirect tax paid by the Company that is withheld by its counterparty for the payment of premiums to the Company. CWT is initially recorded at cost under “Other assets” account in the statement of financial position.

At each end of the tax reporting deadline, CWT may either be offset against future income tax payable or be claimed as a refund from the taxation authorities at the option of the Company. If CWT is claimed as a refund, these will be reclassified to receivables in the statement of financial position when the refund is virtually certain.

At each end of the reporting period, an assessment for impairment is performed as to the recoverability of the CWT.

*VAT*
Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Related Parties
Related party relationships exist when one party has the ability to control or influence the other party, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel or directors. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Provisions
A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

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

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

## 28. Management of Capital, Insurance Risks, and Financial Risks

Governance Framework
The primary objective of the Company's risk and financial management framework is to recognize, identify and measure risks and manage the Company's portfolio to achieve expected return consistent with the risks taken. The Company recognizes the importance of having efficient and effective risk management systems in place to minimize uncompensated and inappropriate risks.

The Company has established a risk management function with clear terms of reference for the BOD and senior management. Further, a clear organization structure with delegated authorities and responsibilities from senior management to department managers has been developed. Lastly, the Company policy framework which sets out the risk portfolio of the Company, including but not limited to geographical and industry segments, risk management, control and business conduct standards for the Company's operations has been put in place.

The Company's senior management together with the department managers meet once a month or as the need arises, to discuss the Company's identified risks, their quantification and disposition, whether they will be accepted, transferred or eliminated from the portfolios, taking into account the Company's retention limit structure, the prevailing commercial and regulatory requirements, and potential financial effects.

Regulatory Framework

Regulators are interested in protecting the rights of the policyholders and maintain close vigil to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains appropriate solvency position to meet liabilities arising from claims and that the risk levels are at acceptable levels. The operations of the Company are also subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., capital adequacy to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise).

Capital Management Framework

The primary objective for capital management is to enable the Company to determine the level of capital necessary to support its insurance operations, to provide a desired degree of protection for its policyholders, and to maintain an adequate margin of solvency at all times. The Company shall maintain capital equal to or higher than the minimum capital requirements set by the regulators and the amount computed under the Risk-Based Capital (RBC) Model. Management considers the Company's total equity as its capital.

Any inadequacy in the required capital will require capital infusion or the Company's license to operate insurance business could be revoked.

There were no changes made to its capital base, objectives, policies and processes from previous years.

*Net Worth Requirements*

Under Section 194 of the Amended Insurance Code RA) which was approved on August 15, 2013, every insurance company doing business in the Philippines needs to comply with the following net worth requirements:

| Net Worth | Compliance Date |
|---|---|
| P250,000,000 | On or before June 30, 2013 |
| 550,000,000 | On or before December 31, 2016 |
| 900,000,000 | On or before December 31, 2019 |
| 1,300,000,000 | On or before December 31, 2022 |

As at December 31, 2020 and 2019, the Company has complied with the net worth requirements based on internal calculations. The final amount of net worth can be determined only after the accounts of the Company have been examined by the IC, especially as to the admitted and non-admitted assets as defined under the Amended Insurance Code.

Accordingly, the deposits for future stock subscription received by the Company amounting to P520.08 million and P438.48 million as at December 31, 2020 and 2019, respectively, (see Note 22) presented as liability in the Company's statement of financial position were considered by management in the computation of the net worth requirement.

RBC Requirements

IC Circular Letter No. 2016-68, *Amended RBC2 Framework*, provides for the RBC2 framework for the nonlife insurance industry to establish the required amounts of capital to be maintained by the insurance companies in relation to the risks an insurance company is exposed to. Every nonlife insurance company is annually required to maintain an RBC2 ratio of at least 100% and not to fail the trend test. Failure to meet the minimum RBC2 ratio shall subject the insurance company to regulatory intervention which could be at various levels depending on the degree of the violation.

The RBC2 ratio shall be calculated as total available capital (TAC) divided by the RBC2 requirement. TAC is the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits determined by IC. With Tier 1 Capital being the capital fully available to cover losses at all times on a going concern and winding up basis. And Tier 2 Capital as the capital that can also provide additional buffer to the insurance company, though it is not of the same high quality as Tier 1 Capital.

The following table shows how the RBC ratio was determined by the Company based on internal calculations:

| | **2020** | 2019 |
|---|---|---|
| Net worth | **P958,021,155** | P971,734,040 |
| RBC capital | **26,252,683** | 34,084,873 |
| RBC ratio | **3,649%** | 2,851% |

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

Insurance Risk

The risk under an insurance contract is the possibility of occurrence of insured event and uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims will exceed the carrying amount of insurance liabilities. This could occur due to any of the following:

*Occurrence Risk*

The possibility that the number of insured events will differ from those expected.

*Severity Risk*

The possibility that the cost of the events will differ from those expected.

*Development Risk*

The possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategies and guidelines.

The business of the Company comprises short term nonlife insurance contracts. For nonlife insurance contracts, claims are often affected by natural disasters, calamities, terrorist attacks, and the like events.

These risks currently do not vary significantly in relation to the location of the risk insured by the Company whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Company has an objective to control and minimize insurance risk, to reduce volatility of operating profits and to maintain adequate solvency margins. The Company manages insurance risk through the mechanisms in the next page.

The use and maintenance of sufficient management records that provide up to date, accurate and reliable data on risk exposure by industry segment, geographical location, type of coverage at any point in time; deviations from set exposure limits; industry developments and changes in regulatory provisions.

Underwriting guidelines are issued for concluding insurance contracts both for direct insurance and treaty and facultative insurance acceptances.

Timely and judicious claims handling procedures are followed to investigate and adjust reported claims thereby preventing settlement of dubious or fraudulent claims.

Risk mitigation is accomplished by imposing deductibles on policies, placing of reinsurance business with reinsurers which offer the best security for limiting the Company's exposure to large claims and uncompensated risks.

Diversification of insurance coverage is achieved by including on the Company's underwriting portfolio various types of risks in different industry segments, geographical locations, and policy terms and conditions to reduce the potential overall impact of adverse losses in a specific risk.

There has been no change to the Company's exposure to insurance risk or the manner in which it manages and measure risk since the prior financial year.

The Company principally issued the following types of general insurance contracts:

| | | **2020** | | |
|---|---|---|---|---|
| | ***Note*** | **Gross Claims Liabilities** | **Reinsurer's Share of Claims Liabilities** | **Net Claims Liabilities** |
| Fire and special risk | | **P1,830,090** | **P1,743,725** | **P86,365** |
| Motor car | | **2,361,036** | **2,234,882** | **126,154** |
| Marine cargo | | **72,855** | **72,855** | **-** |
| Casualty | | **20,629** | **19,520** | **1,109** |
| Erection and machineries | | **15,035** | **15,035** | **-** |
| Personal accident | | **14,517** | **13,436** | **1,081** |
| | *11* | **P4,314,162** | **P4,099,453** | **P214,709** |

| | Note | 2019 Gross Claims Liabilities | 2019 Reinsurer's Share of Claims Liabilities | 2019 Net Claims Liabilities |
|---|---|---|---|---|
| Fire and special risk | | P4,601,637 | P4,308,077 | P293,560 |
| Motor car | | 2,156,527 | 123,099 | 2,033,428 |
| Marine cargo | | 686,515 | 583,183 | 103,332 |
| Casualty | | 26,003 | 23,766 | 2,237 |
| Erection and machineries | | 68,953 | 68,953 | - |
| Personal accident | | 14,516 | 12,355 | 2,161 |
| | *11* | P7,554,151 | P5,119,433 | P2,434,718 |

Terms and Conditions

The major classes of general insurance written by the Company include fire and special risks, motor car, marine cargo, personal accident, casualty, and engineering. Risks under these policies usually cover a 12-month duration.

For general insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and IBNR) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date.

The provisions are refined quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

The measurement process primarily includes projection of future claim costs. In certain cases, where there is a lack of reliable historical data on which to estimate claims development, relevant benchmarks of similar business are used in developing claims estimates. Claim provisions are separately analyzed by class of business. In addition, larger claims are usually assessed separately by loss adjusters. The claims projection assumptions are generally intended to provide a best estimate of the most likely or expected outcome.

Assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. Loss development factors are established by analyzing prior years' claims data and deriving the claims development trend by class of business.

Sensitivities

The insurance claims provision is sensitive to the above key assumptions. Because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim provisions are not known with certainty at the reporting dates.

Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessments of the ultimate liabilities are recognized in subsequent financial statements.

The table below indicates the impact of changes in certain key assumption in respect of general insurance business while other assumptions remain unchanged.

| | | **Change in Assumption** | **Impact on Net Insurance Contract Liabilities ('000)** | **Impact on Income before Income Tax ('000)** |
|---|---|---|---|---|
| **2020** | Average claim cost | **49% decrease** | **P2,094** | **P2,094** |
| 2019 | Average claim cost | 70% decrease | 16,939 | (16,939) |

*Claims Development Table*

The following tables reflect the cumulative incurred claims, including both claims notified and claims IBNR for each successive accident year at each reporting date, together with the cumulative payments to date:

**Gross Insurance Contract Liabilities for 2020**

| **Accident Year** | ***Note*** | 2011 and Prior Years | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | **2020** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Accident year | | P90,598,651 | P42,540,501 | P25,818,451 | P22,070,961 | P26,328,131 | P14,657,115 | P15,947,144 | P4,237,812 | P3,676,094 | **P5,732,325** | **P5,732,325** |
| One year later | | 92,859,078 | 40,048,578 | 25,093,091 | 17,191,668 | 28,335,479 | 15,719,896 | 13,748,603 | 4,172,060 | 3,195,463 | **-** | **3,195,463** |
| Two years later | | 66,554,303 | 38,573,717 | 21,165,574 | 17,508,797 | 26,999,817 | 15,494,811 | 13,454,375 | 3,017,256 | - | **-** | **3,017,256** |
| Three years later | | 66,524,713 | 38,377,949 | 17,647,158 | 17,171,403 | 26,897,078 | 15,500,333 | 14,506,656 | - | - | **-** | **14,506,656** |
| Four years later | | 65,463,854 | 37,965,834 | 18,267,574 | 17,563,403 | 26,898,750 | 13,980,612 | - | - | - | **-** | **13,980,612** |
| Five years later | | 64,927,603 | 38,080,980 | 18,267,574 | 17,725,699 | 26,362,599 | - | - | - | - | **-** | **26,362,599** |
| Six years later | | 64,906,396 | 38,532,660 | 21,360,881 | 16,157,248 | - | - | - | - | - | **-** | **16,157,248** |
| Seven years later | | 64,464,504 | 38,047,687 | 17,070,792 | - | - | - | - | - | - | **-** | **17,070,792** |
| Eight years later | | 64,464,504 | 38,702,480 | - | - | - | - | - | - | - | **-** | **38,702,480** |
| Nine years later | | 69,858,761 | - | - | - | - | - | - | - | - | **-** | **69,858,761** |
| Current estimate cumulative claims | | 69,858,761 | 38,702,480 | 17,070,792 | 16,157,248 | 26,362,599 | 13,980,612 | 14,506,656 | 3,017,256 | 3,195,463 | **5,732,325** | **208,584,192** |
| Cumulative payments to date | | (67,846,067) | (38,702,480) | (15,965,673) | (16,157,248) | (26,362,599) | (13,497,632) | (14,473,113) | (2,968,551) | (3,175,372) | **(5,121,295)** | **(204,270,030)** |
| **Gross insurance contract liabilities recognized in the statements of financial position** | *11* | P2,012,694 | P - | P1,105,119 | P - | P - | P482,980 | P33,543 | P48,705 | P20,091 | **P611,030** | **P4,314,162** |

**Net Insurance Contract Liabilities for 2020**

| **Accident Year** | ***Note*** | 2011 and Prior Years | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | **2020** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Accident year | | P42,548,734 | P11,692,376 | P12,263,043 | P3,551,340 | P 23,518,877 | P14,253,899 | P11,567,454 | P2,675,846 | P2,972,094 | **P3,003,817** | **P3,003,817** |
| One year later | | 44,669,618 | 11,772,847 | 12,979,215 | 10,681,095 | 24,295,424 | 14,765,540 | 11,686,243 | 2,480,212 | 3,082,216 | **-** | **3,082,216** |
| Two years later | | 44,272,466 | 10,506,971 | 13,164,316 | 10,515,725 | 24,204,448 | 14,400,886 | 11,415,891 | 2,410,929 | - | **-** | **2,410,929** |
| Three years later | | 44,302,456 | 11,184,277 | 12,987,994 | 9,925,488 | 23,979,467 | 14,386,699 | 13,541,137 | - | - | **-** | **13,541,137** |
| Four years later | | 44,368,099 | 10,554,258 | 12,979,215 | 9,892,206 | 24,183,662 | 11,625,171 | - | - | - | **-** | **11,625,171** |
| Five years later | | 44,342,124 | 10,506,972 | 12,980,897 | 9,889,968 | 24,067,885 | - | - | - | - | **-** | **24,067,885** |
| Six years later | | 44,425,529 | 10,509,574 | 13,143,837 | 9,724,313 | - | - | - | - | - | **-** | **9,724,313** |
| Seven years later | | 44,400,918 | 10,509,328 | 12,453,299 | - | - | - | - | - | - | **-** | **12,453,299** |
| Eight years later | | 44,400,918 | 11,097,824 | - | - | - | - | - | - | - | **-** | **11,097,824** |
| Nine years later | | 44,400,918 | - | - | - | - | - | - | - | - | **-** | **44,400,918** |
| Current estimate cumulative claims | | 44,400,918 | 11,097,824 | 12,453,299 | 9,724,313 | 24,067,885 | 11,625,171 | 13,541,137 | 2,410,929 | 3,082,216 | **3,003,817** | **135,407,509** |
| Cumulative payments to date | | (44,400,918) | (11,097,824) | (12,453,299) | (9,724,313) | (24,067,885) | (11,625,171) | (13,524,612) | (2,397,566) | (3,026,784) | **(2,874,428)** | **(135,192,800)** |
| **Net insurance contract liabilities recognized in the statements of financial position** | *11* | P - | P - | P - | P - | P - | P - | P16,525 | P13,363 | P55,432 | **P129,389** | **P214,709** |

| | | Gross Insurance Contract Liabilities for 2019 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Accident Year | *Note* | 2010 and Prior Years | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total |
| Accident year | | P72,464,492 | P18,134,159 | P42,540,501 | P25,818,451 | P22,070,961 | P26,328,131 | P14,657,115 | P15,947,144 | P4,237,812 | P3,676,094 | P3,676,094 |
| One year later | | 74,394,079 | 18,464,999 | 40,048,578 | 25,093,091 | 17,191,668 | 28,335,479 | 15,719,896 | 13,748,603 | 4,172,060 | - | 4,172,060 |
| Two years later | | 48,455,868 | 18,098,435 | 38,573,717 | 21,165,574 | 17,508,797 | 26,999,817 | 15,494,811 | 13,454,375 | - | - | 13,454,375 |
| Three years later | | 48,452,894 | 18,071,819 | 38,377,949 | 17,647,158 | 17,171,403 | 26,897,078 | 15,500,333 | - | - | - | 15,500,333 |
| Four years later | | 47,292,918 | 18,170,936 | 37,965,834 | 18,267,574 | 17,563,403 | 26,898,750 | - | - | - | - | 26,898,750 |
| Five years later | | 47,211,476 | 17,716,127 | 38,080,980 | 18,267,574 | 17,725,699 | - | - | - | - | - | 17,725,699 |
| Six years later | | 47,102,693 | 17,803,703 | 38,532,660 | 21,360,881 | - | - | - | - | - | - | 21,360,881 |
| Seven years later | | 47,079,012 | 17,385,492 | 38,047,687 | - | - | - | - | - | - | - | 38,047,687 |
| Eight years later | | 47,079,012 | 17,385,492 | - | - | - | - | - | - | - | - | 17,385,492 |
| Nine years later | | 47,079,012 | - | - | - | - | - | - | - | - | - | 47,079,012 |
| Current estimate cumulative claims | | 47,079,012 | 17,385,492 | 38,047,687 | 21,360,881 | 17,725,699 | 26,898,750 | 15,500,333 | 13,454,375 | 4,172,060 | 3,676,094 | 205,300,383 |
| Cumulative payments to date | | (47,074,152) | (17,390,351) | (38,047,687) | (17,642,721) | (16,219,699) | (26,659,649) | (15,017,353) | (12,813,512) | (4,100,006) | (2,781,102) | (197,746,232) |
| Gross insurance contract liabilities recognized in the statements of financial position | *11* | P4,860 | (P4,859) | P - | P3,718,160 | P1,506,000 | P239,101 | P482,980 | P640,863 | P72,054 | P894,992 | P7,554,151 |

| | | Net Insurance Contract Liabilities for 2019 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Accident Year | *Note* | 2010 and Prior Years | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total |
| Accident year | | P29,134,998 | P13,413,736 | P11,692,376 | P12,263,043 | P3,551,340 | P23,518,877 | P14,253,899 | P11,567,454 | P2,675,846 | P2,972,004 | P2,972,004 |
| One year later | | 30,531,072 | 14,138,546 | 11,772,847 | 12,979,215 | 10,681,095 | 24,295,424 | 14,765,540 | 11,686,243 | 2,480,212 | - | 2,480,212 |
| Two years later | | 30,264,748 | 14,007,718 | 10,506,971 | 13,164,316 | 10,515,725 | 24,204,448 | 14,400,886 | 11,415,891 | - | - | 11,415,891 |
| Three years later | | 30,253,034 | 14,049,422 | 11,184,277 | 12,987,994 | 9,925,488 | 23,979,467 | 14,386,699 | - | - | - | 14,386,699 |
| Four years later | | 30,377,054 | 13,991,045 | 10,554,258 | 12,979,215 | 9,892,206 | 24,183,662 | - | - | - | - | 24,183,662 |
| Five years later | | 30,353,427 | 13,988,697 | 10,506,972 | 12,980,897 | 9,889,968 | - | - | - | - | - | 9,889,968 |
| Six years later | | 30,376,107 | 14,049,422 | 10,509,574 | 13,143,837 | - | - | - | - | - | - | 13,143,837 |
| Seven years later | | 30,352,426 | 14,048,492 | 10,509,328 | - | - | - | - | - | - | - | 10,509,328 |
| Eight years later | | 30,352,426 | 14,052,952 | - | - | - | - | - | - | - | - | 14,052,952 |
| Nine years later | | 30,347,966 | - | - | - | - | - | - | - | - | - | 30,347,966 |
| Current estimate cumulative claims | | 30,347,966 | 14,052,952 | 10,509,328 | 13,143,837 | 9,889,968 | 24,183,662 | 14,386,699 | 11,415,891 | 2,480,212 | 2,972,004 | 133,382,519 |
| Cumulative payments to date | | (30,347,966) | (14,052,952) | (10,504,868) | (11,875,777) | (9,808,771) | (23,979,716) | (13,903,718) | (11,288,596) | (2,410,929) | (2,774,508) | (130,947,801) |
| Net insurance contract liabilities recognized in the statements of financial position | *11* | P - | P - | P4,460 | P1,268,060 | P81,197 | P203,946 | P482,981 | P127,295 | P69,283 | P197,496 | P2,434,718 |

Financial Risk

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

These risks arise from open positions in interest rate, currency and equity securities, all of which are exposed to general and specific market movements. The risk that the Company primarily faces due to the nature of its investments and liabilities is interest rate risk.

There has been no change to the Company's exposure to financial risk or the manner in which it manages and measure risk since the prior financial year.

Credit Risk

Credit risk is the risk that one party will fail to perform fully its financial obligation which may pertain to risk of default on a loan as well as the risk of a counterparty failing to meet its obligation especially with respect to loss recoveries on reinsurance business.

The Company manages the level of credit risk it accepts through a comprehensive credit risk policy which sets out the following:

- assessment and determination of acceptable and desired credit risk levels for the Company by setting up of exposure limits by each counterparty or group of counterparties, geographical regions, and economic sectors, and specific products;
- right of offset where counterparties are both debtors and creditors;
- imposing collateral and guarantee requirements;
- reporting of credit risk exposures and deviations; and
- monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

Reinsurance of risk is placed with high-rated reinsurers and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews. The Company undertakes significant due diligence with respect to the reinsurers with which it has reinsurance agreements in place. An appropriate number of these reinsurers are utilized and additional protection is sought through information on security for these counterparties. Management performs assessment of creditworthiness of reinsurers to update reinsurance purchase strategies and ascertain suitable allowance for impairment of reinsurance assets.

In respect of investment securities, the Company's investments are subject to the regulatory requirements of the Insurance Code as supervised by the IC which set allowable investment assets, quantitative limits, and other pertinent restrictive provisions, and help mitigate the credit risk on investment assets. Credit risk arising from investment portfolios is addressed by setting authorized assets and limits and checking the level of credit risk related to a specific asset, adequacy of pricing, and returns for current and prospective investments.

The following table provides information regarding the maximum credit risk exposure, net of impairment losses, of the Company as at December 31, 2020 and 2019:

| | *Note* | **2020** | 2019 (As restated - see Note 30) |
|---|---|---|---|
| Cash in banks | | **P770,497,540** | P685,067,271 |
| Insurance receivables: | | | |
| Premiums receivable | *5, 25* | **8,649,481** | 7,667,476 |
| Reinsurance recoverable on paid losses | *5, 25* | **1,762,177** | 2,617,692 |
| Due from ceding companies | *5, 25* | **511,529** | 1,095,829 |
| Funds held by ceding companies | *5, 25* | **636,487** | 4,168,589 |
| HTM investments | *6, 25* | **227,487,734** | 227,835,737 |
| Loans and receivables | *6, 25* | **52,706,677** | 68,668,021 |
| | | **P1,062,251,625** | P997,120,615 |

Carrying amount of all the other financial assets of the Company represents the maximum exposure to credit risk.

The tables below provide information regarding the credit risk exposure of the Company by classifying assets according to the Company's assessment of credit standing of the counterparties, historical dealings and experience with the counterparties, underlying collaterals, if any, and other factors.

| | | **Neither Past Due nor Impaired** | | **2020** | | |
|---|---|---|---|---|---|---|
| | ***Note*** | **High** | **Medium** | **Past Due but not Impaired** | **Impaired** | **Total** |
| Cash in banks | *4* | **P33,164,614** | **P -** | **P -** | **P -** | **P33,164,614** |
| Short-term placements | *4* | **737,332,926** | **-** | **-** | **-** | **737,332,926** |
| Insurance receivables: | | | | | | |
| Premiums receivable | *5, 25* | **3,588,174** | **1,278,671** | **3,782,636** | **2,197,634** | **10,847,115** |
| Reinsurance recoverable on paid losses | *5, 25* | **-** | **63,479** | **1,698,698** | **71,975** | **1,834,152** |
| Due from ceding companies | *5, 25* | **-** | **-** | **2,934,942** | **511,529** | **3,446,471** |
| Funds held by ceding companies | *5, 25* | **524,471** | **-** | **112,016** | **6,527,525** | **7,164,012** |
| HTM Investments | *6, 25* | **227,487,734** | **-** | **-** | **-** | **227,487,734** |
| Loans and receivables | | **52,706,677** | **-** | **-** | **-** | **52,706,677** |
| | | **P1,054,804,596** | **P1,342,150** | **P8,528,292** | **P9,308,663** | **P1,073,983,701** |

| | | Neither Past Due nor Impaired | | 2019 | | |
|---|---|---|---|---|---|---|
| | *Note* | High | Medium | Past Due but not Impaired | Impaired | Total |
| Cash in banks | *4* | P7,792,307 | P - | P - | P - | P7,792,307 |
| Short-term placements | *4* | 677,274,964 | - | - | - | 677,274,964 |
| Insurance receivables: | | | | | | |
| Premiums receivable | *5, 25* | 4,546,706 | 907,532 | 2,213,238 | 2,138,351 | 9,805,827 |
| Reinsurance recoverable on paid losses | *5, 25* | - | 811,312 | 1,806,380 | 71,975 | 2,689,667 |
| Due from ceding companies | *5, 25* | - | - | 1,095,829 | 511,529 | 1,607,358 |
| Funds held by ceding companies | *5, 25* | 367,531 | 1,067,308 | 7,792,969 | 5,092,686 | 9,261,275 |
| HTM Investments | *6, 25* | 227,835,737 | - | - | - | 227,835,737 |
| Loans and receivables | *6, 25* | 76,671,562 | - | - | - | 76,671,562 |
| | | P994,488,807 | P2,786,152 | P12,908,416 | P7,814,541 | P1,012,938,697 |

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

High grade pertains to cash in banks and short-term placements, HTM Investments, insurance receivable, and loans and receivables with high probability of collection.

Medium grade pertains to unquoted financial assets other than cash in banks, short-term placements and receivables from counterparties with average capacity to meet their obligations.

Past due but not impaired pertains to receivables from counterparties with good track records with the Company or those with on-going transactions. Based on past experience, the Company believes that no allowance for impairment is necessary.

Impaired pertains to the allowance for impairment losses that the Company recognizes due to the uncertainty of the collectability of the Company's receivables.

The Company did not have any significant concentration of credit risk with a single counter party or group of counterparties as at December 31, 2020 and 2019. In terms of the type of the financial asset, the credit risk is concentrated in short-term placements and HTM investments since it amounted to P964.82 million (89.84%) and P905.11 (89.35%) of the Company's total financial assets as at December 31, 2020 and 2019, respectively.

Liquidity Risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values, counterparty failing on repayment of a contractual obligation, insurance liability falling due for payment earlier than expected, or inability to generate cash inflows as anticipated.

Because of the difficulty in accurately forecasting the amount of claims that the Company will incur and pay, the major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Company addresses its liquidity risk through a liquidity risk policy which sets out the following:

- determining the level of acceptable liquidity risk for the Company;
- specifies minimum proportion of funds to meet emergency calls especially with rspect to claims;
- setting up of contingency funding plans;
- cash flow projections which specify the sources of funding and uses for such funds;
- reporting of conditions which might trigger liquidity risk deviations; and
- review of liquidity risk policy for applicability in relation to market changes, government control and the environment in general.

The table below analyzes financial assets and liabilities, including reinsurance assets and insurance liabilities, of the Company into their relevant maturity group based on the remaining period at the reporting date to their undiscounted contractual maturities or expected repayment dates.

| | | 2020 | | | | |
|---|---|---|---|---|---|---|
| | *Note* | **Within a Year** | **1-3 Years** | **3-5 Years** | **No Term** | **Total** |
| Cash in banks | *4* | **P33,210,634** | **P -** | **P -** | **P -** | **P33,210,634** |
| Insurance receivables | *5, 25* | **13,983,087** | **-** | **-** | **-** | **13,983,087** |
| AFS financial assets | *6, 25* | **-** | **-** | **-** | **4,509,496** | **4,509,496** |
| HTM investments | *6, 25* | **-** | **226,489,103** | **998,630** | **-** | **227,487,733** |
| Loans and receivables | *6, 25* | **52,706,677** | **-** | **-** | **-** | **52,706,677** |
| **Total Financial Assets** | | **99,900,398** | **226,489,103** | **998,630** | **4,509,496** | **331,897,627** |
| Insurance contract liabilities* | | **3,703,132** | **-** | **-** | **-** | **3,703,132** |
| Insurance payables | *12, 25* | **9,901,887** | **-** | **-** | **-** | **9,901,887** |
| Commissions payable | *25* | **1,510,747** | **-** | **-** | **-** | **1,510,747** |
| Other payables | *25* | **3,771,521** | **-** | **-** | **-** | **3,771,521** |
| **Total Financial Liabilities** | | **P18,887,287** | **P -** | **P -** | **P -** | **P18,887,287** |

**excluding IBNR and UPR.*

| | | 2019 | | | | |
|---|---|---|---|---|---|---|
| | *Note* | Within a Year | 1-3 Years | 3-5 Years | No Term | Total |
| Cash in banks | *4* | P7,928,650 | P - | P - | P - | P7,928,650 |
| Insurance receivables | *5, 25* | 15,549,586 | - | - | - | 15,549,586 |
| AFS financial assets | *6, 25* | - | - | - | 5,667,906 | 5,667,906 |
| HTM investments | *6, 25* | - | 225,371,751 | 2,463,986 | - | 227,835,737 |
| Loans and receivables | *6, 25* | 68,668,021 | - | - | - | 68,668,021 |
| Total Financial Assets | | 92,146,257 | 225,371,751 | 2,463,986 | 5,667,906 | 325,649,900 |
| Insurance contract liabilities* | *12, 25* | 7,072,151 | - | - | - | 7,072,151 |
| Insurance payables | *25* | 6,957,757 | - | - | - | 6,957,757 |
| Commissions payable | *25* | 1,090,074 | - | - | - | 1,090,074 |
| Other payables | | 706,856 | - | - | - | 706,856 |
| Total Financial Liabilities | | P15,826,838 | P - | P - | P - | P15,826,838 |

**excluding IBNR and UPR.*

It is unusual for a company primarily transacting insurance business to predict the requirements of funding with absolute certainty as theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement.

The amounts and maturities in respect of insurance liabilities are, thus, based on management's best estimate using information that develops during the course of the loss adjustment process

Market Risk

Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Company manages market risks through a market risk policy that sets out the following:

- acceptable level of market risk for the Company;
- basis used to determine the fair value of financial assets and liabilities;
- asset allocation and portfolio limit structure by type of instrument and geographical area, counterparty or group of counterparties, and industry segments;
- market risk exposures and conditions that might trigger market risk deviations; and

- market risk policy for pertinence in relation to market changes and in the environment.

Currency Risk

The Company's principal transactions are carried out in Philippine Peso and its exposure to foreign exchange risk arises primarily with respect to the US Dollar, as it deals with foreign reinsurers in its settlement of its obligations and receipt of any claim reimbursements.

The Company's financial assets are denominated in the same currency as its insurance liabilities, which mitigate the foreign currency exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than those in which the insurance liabilities are expected to be settled.

The table below summarizes the Company's exposure to foreign currency exchange risk on its cash in banks as at December 31, 2020 and 2019:

| | USD | PHP |
|---|---|---|
| **2020** | **29,018** | **1,393,444** |
| 2019 | 6,344 | 320,754 |

The exchange rates of Philippine Peso to US Dollar were P48.02 and P50.64 per USD 1.00 from Banker's Association of the Philippines, as at December 31, 2020 and 2019, respectively.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of cash).

| | Increase (Decrease) in Exchange Rate | Impact on Income before Tax Increase (Decrease) |
|---|---|---|
| **2020** | **+5%** | **P69,672** |
| | **-5%** | **(69,672)** |
| 2019 | +5% | 16,037 |
| | -5% | (16,037) |

There is no other impact on the Company's equity other than those already affecting the profit and loss.

Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in interest rates.

Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value risk.

The following table shows the information relating to the Company's financial instruments that are exposed to interest rate risk presented by maturity profile.

| | | 2020 | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Maturity | | | | |
| | *Note* | Interest Rates | Within a Year | 2-3 Years | 4-5 Years | Over 5 Years | Total |
| HTM financial assets | *6, 25* | **2.30%-7.125%** | **P99,039,143** | **P127,449,960** | **P998,630** | **P -** | **P227,487,733** |
| Insurance payables | *12, 25* | **5.00%** | **9,901,887** | **-** | **-** | **-** | **9,901,887** |

| | | 2019 | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Maturity | | | | |
| | *Note* | Interest Rates | Within a Year | 2-3 Years | 4-5 Years | Over 5 Years | Total |
| HTM financial assets | *6, 25* | 4.25%-7.25% | P194,664,665 | P30,707,087 | P2,463,986 | P - | P227,835,737 |
| Insurance payables | *12, 25* | 5.00% | 6,957,757 | - | - | - | 6,957,757 |

Price Risk

The Company's price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally AFS equity securities.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plan, limits on investment in each sector and market, and careful and planned use of derivative instruments.

The analysis below is performed for reasonably possible movements in Philippine Stock Exchange index (PSEi) with all other variables held constant, showing the impact on other comprehensive income (that reflects adjustments on changes in fair value of listed AFS equity financial assets).

| | **2020** | |
|---|---|---|
| **Market Indices** | **Change in Variable** | **Impact on Equity Increase (Decrease)** |
| PSEi | **+5.00%** | **P219,207** |
| | **-5.00%** | **(219,207)** |

| | 2019 | |
|---|---|---|
| Market Indices | Change in Variable | Impact on Equity Increase (Decrease) |
| PSEi | +5.00% | P44,550 |
| | -5.00% | (44,550) |

*Deferral of PFRS 9*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39 (effective January 1, 2018): Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

Amendments to PFRS allows insurance entities whose predominant activities at its annual reporting date that immediately precedes April 1, 2016 are to issue contracts within the scope of PFRS 4 an optional temporary exemption from applying PFRS 9 (deferral approach). The Company is qualified for and elected to take the deferral approach as its activities are predominantly connected with insurance since as at December 31, 2015, the Company's total carrying amount of liabilities connected with insurance represents more than 90% of its total liabilities. The Company did not subsequently reassess its eligibility for the temporary exemption from PFRS 9 as there was no change in the Company's activities for the year ended December 31, 2020. Consequently, the Company will continue to apply PAS 39, the existing financial instrument standard until the effectivity date of PFRS 17.

The financial statements have been prepared on a going concern basis using the measurement bases specified by PFRS for each type of asset, liability, income and expense. These financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial assets. The measurement bases are more fully described in the accounting policies that follow.

The following table provides an overview of the fair values as at December 31, 2020 and 2019, and the amounts of change in the fair values during the reporting period separately for financial assets that meet the solely payments of principal and interest (SPPI) criterion (i.e. financial assets with contractual terms that give rise on specified dates to cash flows that are SPPI on the principal amount outstanding, excluding any financial asset that meets the definition of held for trading in PFRS 9, or that is managed and whose performance is evaluated on a fair value basis) and all other financial assets:

| | | **2020** | | | |
|---|---|---|---|---|---|
| | | **Financial Assets that Meet the SPPI Criteria*** | | **All Other Financial Assets** | |
| | ***Note*** | **Fair Value** | **Fair Value Change During the Reporting Period** | **Fair Value** | **Fair Value Change During the Reporting Period** |
| **Asset** | | | | | |
| Cash and cash equivalents | *4, 25* | **P770,543,560** | **P770,543,560** | **P -** | **P -** |
| Insurance receivables - net | | **12,444,635** | **-** | **-** | **-** |
| Financial assets: | | **-** | **-** | **-** | **-** |
| Available-for-sale financial assets | *6, 25* | **-** | **-** | **4,509,496** | **(1,642,725)** |
| Held-to-maturity investments | *6, 25* | **227,487,734** | **-** | **-** | **-** |
| Loans and receivables | | **52,706,677** | **-** | **-** | **-** |
| | | **P1,063,182,606** | **P770,543,560** | **P4,509,496** | **(P1,642,725)** |

** Excluding any financial asset that meets the definition of held for trading in PFRS 9, or that is managed and whose performance is evaluated on a fair value basis.*

| | 2019 | | | |
|---|---|---|---|---|
| | Financial Assets that Meet the SPPI Criteria* | | All Other Financial Assets | |
| | Fair Value | Fair Value Change During the Reporting Period | Fair Value | Fair Value Change During the Reporting Period |
| Asset | | | | |
| Cash and cash equivalents | P685,203,614 | P - | P - | P - |
| Insurance receivables - net | 2,689,667 | - | - | - |
| Financial assets: | - | - | - | - |
| Available-for-sale financial assets | - | - | 5,667,906 | 1,439,045 |
| Held-to-maturity investments | 227,835,737 | - | - | - |
| Loans and receivables | 68,668,021 | - | - | - |
| | P984,397,039 | P - | P5,667,906 | P1,439,045 |

** Excluding any financial asset that meets the definition of held for trading in PFRS 9, or that is managed and whose performance is evaluated on a fair value basis.*

The information about the credit risk exposures for financial assets with contractual terms that meet the SPPI criterion at December 31, 2020 and 2019 is consistent with the credit risk disclosure above under PAS 39.

## 29. Fair Value Measurements

The table below sets forth the carrying values and estimated fair values of financial assets and liabilities recognized as at December 31, 2020 and 2019.

| | | **2020** | | 2019 | |
|---|---|---|---|---|---|
| | ***Note*** | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| **Financial Assets** | | | | | |
| Cash and cash equivalents | *4, 25* | **P770,543,560** | **P770,543,560** | P685,203,614 | P685,203,614 |
| Insurance receivables: | *5* | | | | |
| Premiums receivable | | **10,847,115** | **10,847,115** | 9,805,827 | 9,805,827 |
| Reinsurance recoverable on paid losses | | **1,834,152** | **1,834,152** | 2,689,667 | 2,689,667 |
| Due from ceding companies | | **3,446,471** | **3,446,471** | 1,607,358 | 1,607,358 |
| Funds held by ceding companies | | **7,164,012** | **7,164,012** | 9,261,275 | 9,261,275 |
| AFS financial assets | *6, 25* | **4,509,496** | **4,509,496** | 5,667,906 | 5,667,906 |
| HTM investments | *6, 25* | **227,487,734** | **227,487,734** | 227,835,737 | 227,835,737 |
| Loans and other receivables | *6, 25* | **52,706,677** | **52,706,677** | 68,668,021 | 68,668,021 |
| **Total Financial Assets** | | **1,078,539,217** | **1,078,539,217** | 1,010,739,405 | 1,010,739,405 |
| **Other Financial Liabilities** | | | | | |
| Insurance contract liabilities | *11, 25* | **30,888,278** | **30,888,278** | 25,962,486 | 25,962,486 |
| Insurance payables | *11, 25* | **9,901,887** | **9,901,887** | 6,957,757 | 6,957,757 |
| Commission payable | *25* | **1,510,747** | **1,510,747** | 1,090,074 | 1,090,074 |
| Other payables | *13, 25* | **6,416,440** | **6,416,440** | 1,345,807 | 1,345,807 |
| **Total Other Financial Liabilities** | | **P48,717,352** | **P48,717,352** | P35,356,124 | P35,356,124 |

The carrying amount of financial assets and liabilities of the Company for the years 2020 and 2019 approximate the fair value.

Due to the short-term nature of cash, insurance receivables, loans and other receivables, insurance payables, commission payables and other payables, their carrying values reasonably approximate their fair values at reporting date.

The fair values of financial instruments under AFS and HTM that are actively traded in organized financial markets are determined by reference to quoted market prices at the close of business on the reporting date. For unquoted equity instruments that are not carried at fair value because fair value cannot be reliably determined, these are carried at cost.

Fair Value Hierarchy

The following table provides the fair value hierarchy of the Company's assets as at December 31, 2020 and 2019:

| | 2020 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Assets measured at fair value | | | | |
| AFS financial assets: | | | | |
| Common shares | **P184,140** | **P -** | **P -** | **P184,140** |
| Golf and club shares | **-** | **4,200,000** | **-** | **4,200,000** |
| | **184,140** | **4,200,000** | **-** | **4,384,140** |
| Assets for which fair values are disclosed: | | | | |
| HTM investments | **-** | **227,487,734** | **-** | **227,487,734** |
| | **P184,140** | **P231,687,734** | **P -** | **P231,871,874** |

| | 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets measured at fair value | | | | |
| AFS financial assets: | | | | |
| Common shares | P242,550 | P - | P - | P242,550 |
| Golf and club shares | - | 5,300,000 | - | 5,300,000 |
| | 242,550 | 5,300,000 | - | 5,542,550 |
| Assets for which fair values are disclosed: | | | | |
| HTM investments | - | 227,835,737 | - | 227,835,737 |
| | P242,550 | P233,135,737 | P - | P233,378,287 |

*Nonfinancial Assets*

As at December 31, 2020 and 2019, the fair value of the Company's property and equipment P81.48 million and P86.68 million, respectively, using level 3 inputs. The recurring fair value of nonfinancial assets under level 2 are determined using market data approach (see Note 9).

In 2020 and 2019, there were no transfers between level 1 and level 2 fair value movements, and no transfers into and out of level 3 fair value measurement of the Company's financial and nonfinancial assets.

## 30. Restatements

Adjustments were made to restate the comparative 2019 financial statements due to correction of errors, as follows:

a. *Unsupported Reinsurance Recoverable on Unpaid Losses, Funds Held by Ceding Companies, and CWT*

Prior to 2018, the Company recognized recoverable from reinsurers amounting to P2.39 million, receivable from ceding companies of P4.49 million and tax credits of P2.39 million. However, there were no documents and tax forms supporting the validity of these insurance transactions and tax claim, respectively. As a consequence, the reinsurance recoverable on unpaid losses under "Reinsurance assets", funds held by ceding companies presented as part of "Insurance receivables" and CWT under "Other assets" were overstated by P2.39 million, P5.06 million, and P4.49 million, respectively, while retained earnings was overstated by the collective impact of P11.94 million as at December 31, 2019 and January 1, 2019.

*b. Incorrect Gross Earned Premiums on Insurance Contracts*

In 2020, the Company recognized gross earned premium of P3.56 million pertaining to policies with effective date of 2019. As a result, the gross earned premium, premiums receivable under "Insurance receivables" and retained earnings as at December 31, 2019 were understated by such amount.

*c. Revaluation of Property and Equipment at Fair Value*

The Company did not recognize the fair value of its properties carried at appraised value as at December 31, 2019. The fair value of the properties increased by P37.44 million from 2016, the last revaluation. Thus, property and equipment, revaluation reserve on property and equipment and deferred tax liability were understated by P37.44 million, P26.21 million and P11.23 million, respectively, as at December 31, 2019.

Summary of Quantitative Impact

The table below shows the summary of the impact of the restatements in the statement of financial position as at January 1, 2019.

| | *Note* | As Previously Reported | Adjustments | As Restated |
|---|---|---|---|---|
| **Statement of Financial Position** | | | | |
| Insurance receivables - net | *30a* | P13,759,894 | (P5,059,218) | P8,700,676 |
| Reinsurance assets | *30a* | 5,282,073 | (2,392,127) | 2,889,946 |
| Other assets | *30a* | 23,139,778 | (4,485,352) | 18,654,426 |
| Deficit | *30a* | (115,731,648) | (11,936,697) | (127,668,345) |

The impact of the correction of prior period errors on the statements of financial position, profit or loss and other comprehensive income, and cash flows for the year ended December 31, 2019 is as follows:

| | *Note* | As Previously Reported | Adjustments | As Restated |
|---|---|---|---|---|
| **Statement of Financial Position** | | | | |
| Insurance receivables - net | *5, 25, 30a* | P17,045,993 | (P1,496,407) | P15,549,586 |
| Other assets | *10, 25, 30a* | 22,344,196 | (4,485,352) | 17,858,844 |
| Reinsurance assets, | *7, 25, 30a* | 9,878,489 | (2,392,127) | 7,486,362 |
| Property and equipment - net | *9, 25, 30c* | 49,518,187 | 37,444,484 | 86,962,671 |
| Revaluation reserve on property and equipment | *9, 30c* | 29,749,359 | 26,211,139 | 55,960,498 |
| Deferred tax liability - net | *30c* | 13,487,975 | 11,233,345 | 24,721,320 |
| Deficit | *22, 30a, 30b* | (144,232,653) | (8,373,886) | (152,606,539) |
| **Statement of Profit or Loss and Other Comprehensive Loss** | | | | |
| Gross earned premiums on insurance contracts | *15, 30b* | P11,385,339 | P3,562,812 | P14,948,151 |
| **Overall Impact on Total Comprehensive Income** | | P11,385,339 | P3,562,812 | P14,948,151 |
| **Statement of Cash Flows** | | | | |
| Loss before income tax expense | | (P27,109,034) | P810,896 | (P26,298,138) |
| Insurance receivables - net | | (3,286,099) | (3,562,811) | (6,848,910) |
| Other assets | | (584,826) | 2,751,915 | 2,167,089 |
| **Overall Impact on Net Cash Provided by Operating Activities** | | (P30,979,959) | P - | (P30,979,959) |

## 31. Supplementary Information Required Under Revenue Regulation No. 15-2010 of the Bureau of Internal Revenue (BIR)

In addition to the disclosure mandated under PFRSs, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the separate financial statements, certain supplementary information for the taxable year. The amounts relating to such supplementary information may not necessarily be the same with those amounts disclosed in the separate financial statements which were prepared in accordance with PFRSs. Following are the tax information/disclosures required for the taxable year ended December 31, 2020:

### A. VAT

| | Amount |
|---|---|
| 1. Output VAT | |
| Basis of the Output VAT: | |
| Vatable receipts | **P19,671,805** |
| Exempt receipts | **1,017,706** |
| Zero rated receipts | **-** |
| Total vatable receipts | **P19,671,805** |
| 2. Input VAT | |
| Beginning of the year | **P1,065,448** |
| Current year's domestic purchases: | |
| a. Goods for resale/manufacture or further processing | **-** |
| b. Goods other than for resale or manufacture | **196,510** |
| c. Services lodged under other accounts | **1,964,320** |
| d. Importation of goods other than capital goods | **-** |
| Input tax deferred on capital goods exceeding P1 million | **-** |
| Claims for tax credit/refund and other adjustments | **-** |
| Input VAT on services lodged under other accounts | **-** |
| Total Input VAT claimed during the year | **(524,151)** |
| Balance at the end of the year | **P2,702,127** |

### B. Withholding Taxes

| | Amount |
|---|---|
| Expanded withholding taxes | **P354,783** |
| Final withholding taxes | **2,000** |
| | **P356,783** |

### C. All Other Taxes (Local and National)

| | Amount |
|---|---|
| ***Other taxes paid during the year recognized as "Taxes and licenses" account under Expenses*** | |
| Business tax | **P128,451** |
| BIR annual registration | **2,000** |
| Others | **3,353,327** |
| | **P3,483,778** |

**D. Tax Assessments and Tax Cases**

In 2020, the Company settled a final amount of tax assessment of P3.03 million covering payments for taxes due for taxable year 2017. Further, the Company received in October 2019 the Letter of Authority for the taxable year 2018. As of date, the tax audit is still on-going.

Information on amounts of custom duties, tariff fees, excise taxes and documentary stamp taxes is not applicable since there are no transactions that the Company would be subjected to these taxes in 2020.