

**PERLA COMPAÑIA DE SEGUROS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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**1. Corporate Information**

Perla Compañia De Seguros, Inc. was incorporated in the Philippines and registered with the Securities and Exchange Commission on February 13, 1963. An extension of corporate life for another 50 years was approved by SEC on October 17, 2011. Its primary purpose is to engage in the business and operation of all kinds of insurance at sea, on land, of properties, goods and merchandise, and all forms of transportation and conveyance against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance.

The Company's registered and head office address is located on the 2<sup>nd</sup> Floor, Perla Compañia de Seguros Mansion, 117 Carlos Palanca, Jr. Street, Legaspi Village, Makati City. Its operation is complemented by 16 branches located at major cities across the country.

The financial statements of the Company for the year ended December 31, 2020 (including the comparative figures for the year ended December 31, 2019) were authorized for issue by the Board of Directors on April 14, 2021.

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**2. Basis of Preparation and Presentation**

Statement of Compliance

The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) issued by the Philippine Financial Reporting Standards Council.

Basis of Financial Statement Preparation and Presentation

The accompanying financial statements have been prepared on a historical cost basis except of the following which are carried at fair values:

- Available for sale financial assets
- Land
- Building

The financial statements are presented in Philippine Peso and all values represent absolute amount except as otherwise indicated.

The Company presents its statements of financial position broadly in order of liquidity. An analysis regarding recovery or settlement of assets and liabilities within twelve months after the end of the reporting period (current) is presented in the Note 30.

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**3. Summary of Significant Accounting Policies**

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

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash with original maturities of three months or less that are subject to insignificant risk of changes in value.

Short-term Investments

These are short-term cash investments with original maturities of more than three months but less than one year.

## Financial Instruments

### *Date of Recognition*

Financial assets and financial liabilities are recognized in the statements of financial position of the Company when it becomes a party to the contractual provisions of the instrument.

### *Initial Recognition*

All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of these financial instruments includes transaction costs.

### *Determination of Fair Value*

The fair value for instruments traded in active market at the reporting date is based on their quoted market price. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate techniques or comparison to similar instruments for which market observable prices exists.

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instruments or based on a valuation technique, the Company recognizes the difference between the transaction price and fair value in the statement of comprehensive income unless it qualifies for recognition as some other type of asset.

### *Offsetting of Financial Instruments*

Financial assets and financial liabilities are offset and the net amount 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 asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

### *Classification of Financial Instruments*

The Company classifies financial assets into the following categories, (i) At fair value through profit or loss (FVPL), (ii) Available-for-sale, (iii) Held-to-maturity and (iv) Loans and receivable. The Company classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or liabilities incurred and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

- Financial Assets and Financial Liabilities at FVPL  
Financial assets and financial liabilities at FVPL include financial assets and financial liabilities held for trading and financial assets and financial liabilities designated upon initial recognition as at FVPL. After initial recognition, financial assets and financial liabilities at FVPL are carried at fair value.

Financial asset and financial liability are classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is part of an identified portfolio of financial instruments that the Company manages together and has recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets that is managed and its performance is evaluated on a fair value basis.
- It forms part of a contract containing one or more embedded derivatives.

As of December 31, 2020, and 2019, financial assets under this category amounted to P10,732,072 and P19,809,898, respectively.

- **Available-for-Sale (AFS)**  
AFS are non-derivative financial assets that are either designated on this category or not classified in any of the other categories. Subsequent to initial recognition, AFS assets are carried at fair value in the statement of financial position. Changes in the fair value are recognized directly in equity account as "*Revaluation reserve on AFS financial assets*". Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in equity is included in profit or loss for the period.

As of December 31, 2020, and 2019, financial assets under this category amounted to P321,982,568 and P298,732,900, respectively.

- **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 arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate.

Included under this category are the company's cash and cash equivalents, advances, deposits and security fund.

- **Held-to-Maturity (HTM)**  
HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities wherein the Company has the positive intention and ability to hold to maturity. After initial measurement, HTM assets are carried at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Any changes to the carrying amount of the investment are recognized in statements of income.

As of December 31, 2020, and 2019, financial assets under this category amounted to P705,438,303 and P714,630,606, respectively.

- **Other Financial Liabilities**  
Issued financial instruments or their components, which are not designated as at 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 asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

Included under this category are accounts payable and accrued expenses. Furthermore, the adoption of PFRS 9 does not significantly change the accounting for financial liabilities under PAS 39.

#### *Reclassification of Financial Assets*

A financial asset is reclassified out of the FVPL category when the following conditions are met:

- (i) the financial asset is no longer held for the purpose of selling or repurchasing it the near future; and,
- (ii) there is a rare situation

A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in the statement of income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

#### *Impairment of Financial Assets*

The Company assesses at each end of the reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

##### *(i) Assets carried at amortized cost*

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognized in the profit and loss accounts.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed.

Any subsequent reversal of an impairment loss is recognized in the profit and loss accounts, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

##### *(ii) Assets carried at cost*

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

##### *(iii) Available-for-sale financial assets*

Available-for-sale financial assets are subject to impairment review at each end of the reporting period. Impairment loss is recognized when there is objective evidence such as significant financial difficulty of the issuer/obligor, significant or prolonged decline in market prices and adverse economic indicators that the recoverable amount of an asset is below its carrying amount.

#### *Derecognition of Financial Instruments*

##### *Financial Assets*

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

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party.
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has

neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred the control of the asset.

Where 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 nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

#### *Financial Liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or 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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

#### *Accounting Policies for Insurance and Reinsurance Contracts*

##### *Insurance Contract*

Insurance contract is an agreement under which one party (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 events) adversely affects the policyholder.

##### *Contract Classification*

The Company issues short-term insurance contracts categorized as (i) Casualty, (ii) Property, (iii) Guaranty and (iv) Short - duration life accident insurance.

Casualty insurance contracts protect the assured against the risk of causing them harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. Property insurance contracts mainly compensate the Company's assured for damages suffered to their properties or for the value of property lost. Short-duration accident insurance protects the assured from the consequences of events such as death or disability.

An insurance contract remains in force at the inception date of policy until its maturity regardless of number of claims reported and for as long as the coverage is sufficient.

##### *Insurance Receivables*

These include amounts due to and from agents, brokers and insurance contract holders which comprise the balance of uncollected policy premiums and reinsurance premiums from reinsurers arising from reinsurance contracts measured at amortized cost, using the effective interest method.

##### *Reinsurance*

The Company assumes and cedes (Treaty and Facultative) insurance risk in the normal course of business. Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognized as revenue in the same manner as they would be if the reinsurance were considered as direct business, taking into account the product classification of the reinsured business.

Amounts recoverable from reinsurers that relate to paid and unpaid claims and claim adjustment expenses are classified as assets. Reinsurance receivables and the related liabilities are reported separately.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that

the Company may not receive the amounts due to it under the terms of the contract and that it can be measured reliably  
Reinsurance assets and liabilities are derecognized when the contractual rights are extinguished or expired.

#### *Deferred Acquisition Costs*

Commissions and other expenses directly attributable to the production and renewal of insurance contracts are deferred in proportion to premium revenue recognized. Deferred acquisition costs are amortized over the life of the policy in which it was incurred.

Deferred acquisition costs are reviewed at each reporting date and the carrying value is written down to the recoverable amount.

#### *Reserve for Unearned Premiums and Reinsurance Premiums*

Reserve for unearned premiums is calculated on the following basis:

- (i) Reserves for unearned premium are calculated using the 24<sup>th</sup> method based on gross premiums written. Under the 24<sup>th</sup> method, it is assumed that the average date of issue of all policies written during any one month is the middle of that month.
- (ii) Reserve for unearned premiums on inward treaties is taken up based on the dates the statement is received.

Reserve for reinsurance premium represents the portion of reinsurance premiums ceded computed in the same manner as the reserve for unearned premiums.

The changes in reserve for unearned premiums and reinsurance premiums are reported in the statements of income.

#### *Claim Cost Recognition*

Liabilities for unpaid claim costs and claim adjustment expenses relating to insurance contracts are accrued when insured events occur.

The liabilities for unpaid claims are based on the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claim cost resulting from continuous review process and differences between estimates and payments for claims are recognized as income or expense of the period in which the estimates are changed or payments are made.

Some insurance contracts permit the Company to sell (usually damaged) property acquired in settling a claim. The Company may also have the right to pursue third parties for payment of some or all costs.

Estimates of salvage recoveries are included as a reduction in the measurement of the insurance liability for claims, and salvage property is recognized in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as deduction in the measurement of the insurance liability for claims and are recognized in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

Share in recoveries on claims are evaluated in terms of the estimated realizable values of the salvage recoverable. Recoveries on claims are recognized in profit or loss and expenses in the period the recoveries are determined. Recoverable amounts are presented as part of Reinsurance assets.

#### *Options and Guarantees*

Options and guarantees within insurance are treated as derivative financial instruments which are closely related to the host insurance contracts and are therefore not separated subsequently.

### Investment Properties

Investment properties consist of properties that are held to earn rentals or for capital appreciation or both and that is not occupied by the company. Investment properties are initially measured at cost, including transaction costs.

After initial recognition, investment property is carried on October 4, 2017 at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. The Company reviews these valuations annually.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Investment property is derecognized when either it has been disposed of, or when the investment property is permanently withdrawn or sold and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

### Property and Equipment

Property and equipment are initially recognized at cost including the costs to get the property ready for its intended use. Subsequent to initial recognition, property and equipment, except land and building are carried at cost less accumulated depreciation and impairment losses, if any. Depreciation is computed on a straight-line method over the estimated useful lives of the depreciable assets as follows:

Building & condominium units	50 years
Furniture, fixtures and office equipment	5-10 years
Transportation equipment	5 years

Land and condominium unit are carried at revalued amounts. Any revaluation increase arising on the revaluation of such property and equipment is recognized in other comprehensive income and is credited to "*Revaluation reserve on Land and Building – net of tax*". Upon disposal, any revaluation increment relating to land being sold is transferred to retained earnings. Revaluation increment on building is absorbed to retained earnings through depreciation of the condominium unit.

An asset's residual value, useful life and depreciation method are reviewed periodically to ensure that the period, residual value and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Expenditures for additions, major improvements and renewals are capitalized while minor repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses are removed from the accounts and any resulting gain or loss is reflected in the statement of comprehensive income for the period.

When the carrying amount of an asset is greater than its estimated recoverable amount, the cost is written down immediately to its recoverable amount. Fully depreciated assets are retained in the accounts until they are no longer in use.

### Impairment of Non-financial Assets

The Company's investment properties and property and equipment are subject to impairment testing. All other individual asset or cash generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less cost to sell and value in use, based on an internal

discounted cash flow evaluation. Impairment loss is charged pro-rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indication that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

#### Insurance Claims Payable

Liabilities for claims is calculated as the sum of Outstanding claims reserve, Claims handling expense, and Incurred but not reported claims (IBNR), with Margin for Adverse Deviation (MfAD). At end of each reporting period, liability adequacy tests are performed, to ensure the adequacy of liabilities for claims. In performing the test for premium liabilities, the Unearned Risk Reserve (URR) is compared to the Unearned Premium Reserve (UPR). If the URR is greater than the UPR, the excess is set up as an additional premium liability on top of the UPR.

In calculating IBNR, the following primary reserving methodologies were applied in the valuation process

- Chain ladder or Loss Development Triangles Method
- Bornhuetter-Ferguson method.
- Expected Loss Ratio Method

The Actuary determines the appropriateness of the methodology considering the characteristics of the data available. The Actuary also assesses the reliability of the expected loss ratios by obtaining estimates from various sources, such as underwriters, the business plan, pricing actuaries, market statistics, or from a historic view of profitability and loss ratios. In valuing the claims liabilities, the Actuary also considers other factors such as, but not limited to, varying expense structure in run-off situations, large losses arising from significant past events, operational changes in claims management, underwriting changes such as business mix and premium rate changes, changes in reinsurance program, changes in claims handling process, and external conditions.

To ensure sufficiency of reserves, the Actuary conducts a back-testing exercise by comparing actual and expected experience based on previous valuations. Claim liabilities also include MfAD to allow for inherent uncertainty of the best estimate.

#### Premium Reserves

Premium reserves refer to all future claim payments arising from future events after the valuation date that are insured under unexpired policies, as well as expenses for policy management and claims settlement, and is computed as the higher of the UPR and URR at a designated level of confidence, on both gross and net of reinsurance basis.

UPR is the reserve for that portion of the premium received which is attributable to a period of risk falling beyond the valuation date, and is recognized as revenue over the period of the policy using the 24th method. URR is an estimate of the total liability (including expenses), at a designated level of confidence, in respect of the risk after the valuation date of policies written prior to that date including expenses for policy management and claims settlement costs. In estimating URR, the Company adopted the loss ratio approach by multiplying the UPR with loss ratios adjusted by taking into account all potential future payments including but not limited to future claims payments, retrocession costs, unallocated loss adjustment expense and ongoing policy administration costs arising from the unearned portion of premium collected. A computation is performed to determine whether the URR required is greater or less than the UPR. If the URR is greater, then the difference should be booked as an additional reserve on top of the UPR.

#### Accounts Payable and Accrued Expenses

Accounts payables are liabilities for supplies or services that have been received or provided and have been invoiced or formally agreed with the supplier. Accounts payables are non-interest bearing and are stated at their original invoice amount since the effect of discounting is immaterial.



Accruals are liabilities for goods or services that have been received or provided but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees.

#### Equity

Share capital is determined at par value of shares that have been issued.

Contributed surplus represent additional contribution of stockholders to the Company in compliance with the requirement of the Insurance Commission.

Retained earnings include all current and prior period results of operations as disclosed in the Statements of Income.

Revaluation reserve comprises changes in fair value due to revaluation of AFS, land and building, net of deferred income tax.

In accordance with Section 195 of the Insurance Code, dividend declaration or distribution from accumulated profits remaining on hand can only be made after retaining unimpaired the following:

- The entire paid-up capital stock;
- The margin of solvency required;
- The legal reserve fund required; and
- A sum sufficient to pay all net losses reported or in the course of settlement and all liabilities for expenses and taxes.

#### Revenue Recognition

Revenue is recognized only when the Company satisfies a performance obligation by transferring control of the promised services to the customer. The following specific revenue recognition criteria must also be met before revenue is recognized.

#### Premiums

Premiums from short duration insurance contracts are recognized as revenue over the period of the contracts using the 24<sup>th</sup> method. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting periods are accounted for as “*Reserve for Unearned Premiums*” and presented in the liability section of the statement of financial position. The reinsurance premiums ceded that pertains to the unexpired period as at reporting dates are accounted for as “*Reserve for reinsurance premium*” and lodge under “*Reinsurance assets*” account in the statements of financial position. The net changes in these accounts between reporting dates are credited or charged against income for the year.

#### Commission

Reinsurance commissions are recognized as revenue over the period of the contracts. The portion of commissions that relates to the unexpired periods of the policies at the reporting date is accounted for as “*Deferred commission income*” in the liabilities section of the statement of financial position.

#### Interest Income

Interest income from bank deposits, special savings account and held-to-maturity investment is recognized as interest accrues taking into account the effective yield on the related asset.

#### Dividend Income

Dividend income is recognized when the right to receive dividends is established.

#### Rental Income

Rental income is recognized on a straight-line basis over the term of the lease.

#### Realized Gains and Losses

Realized gains and losses on the sale of property and equipment are calculated as the difference between net sales proceeds and the net book value. Realized gains and losses on the sale of AFS financial assets are calculated as the difference between net sales proceeds

and the original cost net of accumulated impairment losses. Realized gains and losses are recognized in profit or loss when the sale transaction occurred.

#### Cost and Expense Recognition

##### *Claims*

Claims and claims adjustments expenses relating to insurance contracts are accrued when insured events occur.

Claims expenses (including those incurred but not reported) are based on the estimated ultimate cost of settling these claims. The method of determining such estimates and establishing reserve are continually reviewed and updated. Changes in estimates of claims cost resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense in the period the estimates are made.

Share in recoveries of claim are evaluated in terms of the estimated realizable values of the salvage or recoveries. Recoveries on settled claims are recognized in profit or loss in the period the recoveries are determined. Recoveries on the unsettled claims are recorded as reinsurance recoverable on losses shown as part of reinsurance assets.

##### *Acquisition Cost*

Cost that vary with and primarily related to the acquisition of new and renewal insurance contracts such as commissions, certain underwriting, and policy issue cost and inspection fees are deferred and charged to expense in proportion to the premium revenue recognized. Unamortized acquisition costs are shown in the statement of financial position as deferred acquisition cost.

##### *Reinsurance Commission*

Commissions paid to cedants are deferred and are included in deferred acquisition cost, subject to the same amortization method.

##### *Expense Recognition*

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

##### *Claims and Losses*

Gross benefits and claims consist of benefits and claims paid to policyholders, which include changes in the valuation of insurance contract liabilities, except for changes in the provision for unearned premiums which are included in the net earned premiums. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered. General insurance claims are recorded on the basis of notifications received.

##### *Commission Expense*

Commissions incurred from insurance contracts are recognized as expense over the period of the contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at reporting date is accounted for as 'Deferred acquisition costs' and presented in the asset section of the statement of financial position.

##### *Other Expenses*

Other underwriting expenses, operating expenses and interest expense, except for lease agreements, are recognized as expense as they are incurred.

#### Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in PFRS 16.

## *As a Lessee*

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset of the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payment that depends on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual guarantee; and
- The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company used a number of practical expedients when applying PFRS 16 to leases previously classified as operating leases under PAS 17. In particular, the Company:

- Did not recognized right-of-use assets and liabilities for leases for which the lease term ends within 12 months from the date of initial application;
- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight when determining the lease term.

#### *Short-term Leases and Leases of Low-value Assets*

The Company has elected not to recognize right-of-use assets and lease liabilities for the leases of low-value assets and short-term leases. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### *As a Lessor*

When the Company acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Company made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease is a finance lease; if not, then it was an operating lease. As part of this assessment, the Company considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

Leases where the Company does not transfer substantially all of the risks and rewards of ownership of the asset are classified as operating leases. Rental income is recognized on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

#### *Income Taxes*

Current tax liabilities are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantially enacted as at the end of the reporting period.

Deferred tax assets and liabilities are recognized using the balance sheet liability method on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences and the carry-forward of unused tax losses to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax liabilities are recognized for all taxable differences between the tax basis of the liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rates expected to apply to the periods when the asset is realized or the liability is settled.

The carrying amount of deferred tax asset is reviewed at each end of the reporting period 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 tax assets to be utilized.

Deferred taxes relating to items recognized directly in equity are reported in other comprehensive income and not in the statement of income.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the statement of income. Only changes in deferred tax assets or liabilities that relate to a change in value of asset or liabilities are charged or credited directly to equity.

#### *Retirement Benefit Cost*

The Company has a contributory type of retirement benefit plan.

It provides a benefit equal to the total amount standing to the credit of employee which shall consist of the accumulated value of contributions made by the company (5% of monthly salary) including all income thereto, net of administrative fees and expenses. Contributions to the plan are reported in the Statement of Income.

#### Foreign Currency Transactions and Translations

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (*the functional currency*). The financial statements are presented in Philippine Peso, the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency at exchange rates prevailing at the time of transaction. Foreign currency gains and losses resulting from settlement of such transaction and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

#### Related Party Transactions

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The related party transactions are recognized based on transfer of resources or obligations between related parties, regardless of whether a price is charged.

#### Provisions

Provisions are recognized when present obligation will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example legal disputes for onerous contract.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at end of the reporting period, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain, as a separate asset at an amount not exceeding the balance of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligation as a whole. In addition, long term provisions are discounted at their present values, where time value of money is material.

Provisions are reviewed at each end of the reporting period and adjusted to reflect the current best estimate.

In those cases, where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent asset, hence, are not recognized in the financial statements.

#### Contingent Assets and Liabilities

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

#### Events after End of the Reporting Period

Post year-end events that provide additional information about the Company's financial position at the end of the reporting period (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.

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#### **4. Changes in Accounting Standards and Disclosures**

The accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial years, except for the PFRS, amended PFRS and

improvements to PFRS which were adopted as of January 1, 2020. Unless otherwise stated, the new standards and amendments did not have any material impact to the Company.

*Amendments to PFRS 3, Business Combinations – Definition of a Business*

The amendments to PFRS 3 clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

*Amendments to PFRS 7, Financial Instruments: Disclosures, PFRS 9, Financial Instruments, and PAS 39, Financial Instruments: Recognition and Measurement – Interest Rate Benchmark Reform*

The amendments to PFRS 9 and PAS 39 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The Company does not have any interest rate hedge relationships.

*Amendments to PFRS 16, Leases – Covid-19-Related Rent Concessions*

The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- the rent concession is a direct consequence of COVID-19;
- the change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendment, issued on May 28, 2020, is effective June 1, 2020 but, to ensure the relief is available when needed most, lessees can apply the amendment immediately in any financial statements – interim or annual – not yet authorized for issue. The Company adopted the amendment on its effective date.

The Company will continue to monitor future rent concessions that will fall within the scope of this amendment and assess its impact on the Company's financial position and operations, when applicable.

*Amendments to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence 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 that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

*Effective subsequent to December 31, 2020*

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

*Effective beginning on or after January 1, 2021*

*Amendments to PFRS 4, PFRS 7, PFRS 9, and PFRS 16 – Interest Rate Benchmark Reform – Phase 2*

The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

- practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform;
- relief from discontinuing hedging relationships; and
- relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The Company shall also disclose information about:

- the nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
- their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

*Effective beginning on or after January 1, 2022*

*Amendments to PFRS 3, Reference to the Conceptual Framework*

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The amendments added an exception to the recognition principle of PFRS 3, Business Combinations, to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, Provisions, Contingent Liabilities and Contingent Assets, or Philippine IFRIC 21, Levies, if incurred separately. At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

*Amendments to PAS 16, Property, Plant and Equipment – Proceeds before Intended Use*

The amendments prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the Company first applies the amendment.

*Amendments to PAS 37, Onerous Contracts – Costs of Fulfilling a Contract*

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments must be applied to contracts for which the Company has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

*Annual Improvements to PFRSs 2018-2020 Cycle*

- Amendment to PFRS 1, First-time Adoption of Philippine Financial Reporting Standards – Subsidiary as a First-Time Adopter The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation

differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

- Amendments to PFRS 9, Fees in the '10 per cent' Test for Derecognition of Financial Liabilities The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.
- Amendments to PAS 41, Agriculture – Taxation in Fair Value Measurements The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

*Effective beginning on or after January 1, 2023*

*Amendments to PAS 1, Presentation of Financial Statements – Classification of Liabilities as Current or Non-current*

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

The amendments clarify:

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

*PFRS 17, Insurance Contracts*

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, Insurance Contracts. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

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

The core of PFRS 17 is the general model, supplemented by:

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



### *Interpretation with Deferred Effective Date*

#### *Amendments to PFRS 10, Financial Statements, and PAS 28, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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## **5. Summary of Significant Accounting Judgments and Estimates**

The Company makes estimates and assumptions that affect the reported amounts of the assets and liabilities within the next financial year. 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

The following judgments were applied which have the most significant effect on the amounts recognized in the financial statements.

#### *Determination of functional currency*

The Company has determined that its functional currency is the Philippine peso which is the currency of the primary economic environment in which the Company operates.

#### *Classification of investments*

In classifying its investments, the Company follows the guidance of PAS 39. In making the judgment, the Company evaluates its intention, marketability of the instrument and its ability to hold the investments until maturity.

The classification of investments as at December 31, 2020 and 2019 is as follows:

	<b>2020</b>	2019
Fair value through profit or loss	<b>P 10,732,072</b>	P 19,809,898
Available-for-sale	<b>321,982,568</b>	298,732,900
Held-to-maturity	<b>705,438,303</b>	714,630,606

#### *Distinction between investment properties and owner-occupied properties*

The Company determines whether a property qualifies as investment property. If an insignificant portion is leased out under the operating lease, the property is treated as Property and equipment. If the property is not occupied and is held to earn it is treated as Investment property.

Investment property, as of December 31, 2020 and 2019, amounted to P26,228,000.

Owner-occupied properties, net of accumulated depreciation and impairment losses amounted to P 142,262,321 and P145,393,297 in 2020 and 2019, respectively.

#### *Determining the lease term*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option.

Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate).
- Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

#### *Determining the appraised value of investment property and property and equipment*

The Company determines the appraised value of its investment property and condominium unit through the use of an independent appraiser.

An appraiser values the property through the use of *market approach*. In this approach, the value of the condominium unit was based on sales and listings of comparable properties registered within the vicinity. The technique of this approach requires adjustments of comparable property by reducing reasonable comparative sales and listings to a common denominator. This was done by establishing the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as bases of comparison are situated within the immediate vicinity of the subject property.

As of December 31, 2020, and 2019 the appraised value of the Company's Investment property account both amounted to P26,228,000.

As of December 31, 2020, and 2019 the Company's property and equipment measured at appraised value has a carrying value of P 142,262,321 and P145,393,297, respectively. (see Note 12 )

#### Estimates

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

#### *Determination of fair value of financial assets and liabilities*

The fair value for assets and liabilities traded in active market at the reporting date is based on their quoted market price. For all other assets and liabilities not listed in an active market, the fair value is determined by using appropriate techniques or comparison to similar instruments for which market observable prices exists.

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instruments or based on a valuation technique, the Group recognizes the difference between the transaction price and fair value in the statements of income unless it qualifies for recognition as some other type of asset.

#### *Estimating allowance for impairment of financial assets*

The Company maintains allowance for probable loss at a level considered adequate to provide for potential uncollectible accounts. The level of allowance for doubtful accounts is evaluated by management on the basis of factors affecting collectability of the financial assets. In addition, a review of the accounts designed to identify accounts to be provided with allowance, is made on a continuing basis.

No provision for impairment of AFS financial asset was recognized in 2020 and 2019.

#### *Estimating useful lives of property and equipment*

The Company reviews annually the estimated useful lives of property and equipment, based on the period on which the assets are expected to be available for use. It is possible that future results of operation could be materially affected by changes in these estimates. A

reduction in the estimated useful lives of property and equipment would increase recorded depreciation and decrease the related asset account.

Property and equipment, net of accumulated depreciation and impairment losses, amounted to P142,262,321 and P145,393,297, as at December 31, 2020 and 2019, respectively. (See Note 13).

*Deferred tax asset*

The Company reviews the carrying amounts of deferred tax asset at each reporting date and reduces the deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax asset as at December 31, 2020 and 2019 amounted to P6,154,126 and P5,374,458, respectively. (See Note 29)

*Impairment of non-financial assets*

The Company assesses the impairment of its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant under performance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the assets; and
- significant negative industry or economic trends.

As of December 31, 2020, and 2019, there were no impairment losses recognized in the statement of income.

No impairment losses were provided for property and equipment and investment property in 2020 and 2019 because management believes that the carrying values approximate their fair values.

*Valuation of insurance contract liabilities*

Estimates have to be made at the reporting date for both the expected ultimate cost of both claims reported and claims IBNR. It can take a significant period of time before the ultimate claim cost can be established with certainty and for some types of policies, IBNR claims form the majority of the claims provision. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are charged to profit or loss.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques such as Chain Ladder method and Bornhuetter-Ferguson method based on paid and reported claims information.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed 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. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

As at December 31, 2020 and 2019, the carrying values of provision for IBNR amounted to P10,994,179 and P10,540,756, respectively (Note 18).

## 6. Fair Value Measurement

### (i) Financial instruments

The fair value of financial instruments and their carrying amounts is as follows:

	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
<b>Category of financial instruments</b>				
FVPL	P 10,732,072	P 10,732,072	P 19,809,898	P 19,809,898
AFS	321,982,568	321,982,568	298,732,900	298,732,900
HTM	705,438,303	715,891,751	714,630,606	714,630,606
Loans and receivable				
Cash and cash equivalents	85,453,158	85,453,158	63,447,238	63,447,238
Short-term investments	60,126,578	60,126,578	59,798,005	59,798,005
Insurance and reinsurance balances receivable	11,144,338	11,144,338	22,103,998	22,103,998
Other receivables	590,421	590,421	1,124,366	1,124,366
Other financial liabilities				
Insurance claims payable	42,739,576	42,739,576	52,552,627	52,552,627
Accounts payable and accrued expenses	50,157,923	50,157,923	46,708,956	46,708,956
Reinsurance liabilities	6,348,697	6,348,697	7,560,452	7,560,452

The fair value hierarchy of the Company's financial instruments are summarized in the tables below.

	2020			
	Fair value	Level 1	Level 2	Level 3
<b>Financial instruments measured at fair value</b>				
FVPL				
Treasury bills	P 10,732,072	P 10,732,072	P -	P -
AFS				
Equity securities	147,444,082	147,444,082	-	-
Proprietary membership shares	570,000	-	570,000	-
Unit Investment Trust Funds	97,563,029	-	97,563,029	-
Investment Management Funds	76,405,457	-	76,405,457	-
<b>Financial instruments for which fair value is disclosed</b>				
HTM				
Government securities	319,030,741	319,030,741	-	-
Corporate securities	396,861,010	396,861,010	-	-
Loans Receivable				
Cash and cash equivalents	85,453,158	-	85,453,158	-
Short-term investments	60,126,578	-	60,126,578	-
Insurance and reinsurance balances receivable	11,144,338	-	-	11,144,338
Other receivables	590,421	-	-	590,421
Other financial liabilities				
Insurance claims payable	42,739,576	-	-	42,739,576
Accounts payable and accrued expenses	50,157,923	-	-	50,157,923
Reinsurance liabilities	6,348,697	-	-	6,348,697

	Fair value	Level 1	Level 2	Level 3
<b>Financial instruments measured at fair value</b>				
FVPL				
Treasury bills	P 19,809,898	P 19,809,898	P -	P -
AFS				
Equity securities	133,778,519	133,778,519	-	-
Proprietary membership shares	570,000	-	570,000	-
Unit Investment Trust Funds	82,511,061	-	82,511,061	-
Investment Management Funds	81,873,320	-	81,873,320	-
<b>Financial instruments for which fair value is disclosed</b>				
HTM				
Government securities	398,307,562	398,307,562	-	-
Corporate securities	316,323,044	316,323,044	-	-
Loans Receivable				
Cash and cash equivalents	63,447,238	-	63,447,238	-
Short-term investments	59,798,005	-	59,798,005	-
Insurance and reinsurance balances receivable	22,103,998	-	-	22,103,998
Other receivables	1,124,366	-	-	1,124,366
Other financial liabilities				
Insurance claims payable	52,552,627	-	-	52,552,627
Accounts payable and accrued expenses	46,708,956	-	-	46,708,956
Reinsurance liabilities	7,560,452	-	-	7,560,452

The company measures fair value of financial assets and liabilities using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- **Level 1**  
Inputs are quoted in active market for identical assets or liabilities that the entity can access at the measurement date.  
  
Included in Level 1 category are assets and liabilities that are measured in whole or in part by reference to published quotes in an active market.  
  
A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.
- **Level 2**  
Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- **Level 3**  
Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Fair values were determined as follows:

- *Cash and cash equivalents, short-term investments*– the fair values are approximately the carrying amounts short-term nature.

- *Quoted debt securities (government and corporate)* – the fair values were determined from the published references from Philippine Dealing System or third-party information.
- *Quoted equity securities* - the fair values were determined from the published prices from Philippine Stock Exchange.
- *Non-quoted AFS investment* – valuation technique using significant observable inputs. Where valuation technique is not representative of fair values, the acquisition cost is used as fair value.
- *Pooled funds* – The fair value was determined via Net Asset Value per share/units. These are calculated by dividing the fair value of net assets over the total number of shares/units issued.
- *Receivables, deposits and other financial liabilities* - Due to their short duration, the carrying amounts of Receivables, deposits and other financial liabilities in the statement of financial position are considered to be reasonable approximation of their fair values.

(ii) *Non-Financial Assets*

Investment Property

On October 4, 2017, the Company's investment property was appraised by an independent firm of appraiser. The appraisal resulted to the recognition of unrealized gain on fair value adjustment of investment property of P24,946,936. Fair value is determined using the Market approach under the level 3 of the fair value hierarchy. The highest and best use of these properties is commercial, its current use.

The description of valuation techniques and inputs used in determining the fair value of investment property is as follows:

<u>Property location</u>	<u>Property description</u>		
88 Corporate Center Condominium Unit	Fair value	P	26,228,000
	Adjustment factors:		
	Time		+10%
	Size		-10%
	Location		-5% to +10%
	Improvements		+10%
	Amenities		-5% to +10%
	Bargain allowance		-10% to -5%

Management believes that the fair value as of December 31, 2020 does not materially differ from last appraisal made.

Land and Building (included under Property and Equipment)

On various dates during October 2017, the Company's Land, Building and Condominium unit was appraised by an independent firm of appraiser. The appraisal resulted to the recognition of additional unrealized gain on fair value adjustment of investment property of P12,925,285. Fair value is determined using the Market approach under the level 3 of the fair value hierarchy. The highest and best use of these properties is commercial, its current use.

The description of valuation techniques and inputs used in determining the fair value of investment property is as follows:

<b>Property location</b>	<b>Property description</b>		<b>Observable Inputs</b>
Makati City	Condominium Unit	Fair value	P 55,429,000
		Adjustment factors:	
		Time	+10%
		Unit Area/Size	-10%
		Location	-5% to +10%
		Finishes	+10%
		Feature/Amenities	-5% to +10%
		Bargain allowance	-5% to -10%
Bacolod City	Land and Building	Fair value	6,842,000
		Adjustment factors:	
		Unit Area/Size	+5%
		Location	-5% to -15%
		Neighborhood	-5%
		Zoning	+5%
Cebu City	Land and Building	Fair value	56,689,000
		Adjustment factors:	
		Size	-5%
		Location	-5% to +15%
		Neighborhood	-5% to +10%
		Improvement	-10%
Cagayan de Oro	Land and Building	Fair value	14,144,000
		Adjustment factors:	
		Size	+5%
		Location	-5% to +10%
		Neighborhood	-5%
		Corner influence	+5%
San Pablo City	Land and Building	Fair value	4,150,000
		Adjustment factors:	
		Size	+5%
		Location	-10% to +10%
		Neighborhood	+10%
		Potential use	-5% to +10%
Dumaguete City	Land and Building	Fair value	13,745,000
		Adjustment factors:	
		Size	-5%
		Location	-5% to +10%
		Neighborhood	+5%
Zamboanga City	Land and Building	Fair value	6,995,000
		Adjustment factors:	
		Size	+5%
		Location	-5% to -20%
General Santos City	Land and Building	Fair value	9,718,000
		Adjustment factors:	
		Location	+10%
		Zoning	+5%
Dagupan City	Land and Building	Fair value	6,523,000
		Adjustment factors:	
		Location	-5% to +10%
		Size	-5% to 5%
		Neighborhood	+10%
Pagadian City	Land and Building	Fair value	16,993,000
		Adjustment factors:	
		Location	-30% to -15%
		Size	-10% to -5%
		Neighborhood	-10%

The assigned value for land and building was estimated using the Market Approach, which is based on sales and listings of comparable property registered within the vicinity that considered factors such as locations, size and shape of the properties.

The revaluation of these properties resulted to the following increase in values:

Land	P	58,368,624
Buildings		51,619,682

Had the land and buildings been carried at cost, it carrying amount would amount to P9,813,681 in 2020 and 2019. The equivalent depreciation of revaluation reserve in buildings are transferred to retained earnings annually. As of December 31, 2020, and 2019, the balance of revaluation reserve on buildings amounted to P103,697,440 and P105,639,244 respectively, net of deferred tax effect.

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## 7. Management of Insurance Risk, Financial Risk and Capital

### Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated.

Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Internally, the Company manages its risks through its underwriting strategy and reinsurance arrangements.

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured events. Reinsurance facilities in force include surplus treaties, catastrophe cover and facultative reinsurance.

### Valuation Standards for Non-life Insurance Companies

On December 28, 2016, IC issued Circular Letter 2016-67 pertinent to valuation standards for non-life insurance policy reserves. The valuation reserve is premised on the following basic assumptions:

- The valuation of policy reserves shall be based on the Company's actual historical experience and/or industry data. The projection of future claims shall be based on the loss development triangles as well as the information gathered from the underwriting and claims department;
- The valuation is to be conducted by an IC-accredited actuary;
- The reserves shall be composed of premiums and claims liabilities both determined using the best estimate assumption, with an appropriate Margin for Adverse Deviation (MfAD) for expected future experience.



- Premium liabilities for each class of business shall be determined as the higher of Unearned Premium Reserve (UPR), calculated using the 24th method and Unexpired Risk Reserve (URR). URR refers to the amount of reserve required to cover future claims, commission and expenses, at a designated level of confidence, that are expected to emerge from an unexpired period cover.
- Claims liabilities shall be calculated as the sum of outstanding claims reserve, claims handling expense and Incurred But Not Reported (IBNR), with MfAD.

The concentration of insurance claims as at December 31, 2020 and 2019 is as follows:

(000 omitted)	2020			2019		
	Gross	Share of Reinsurer	Net Liability	Gross	Share of Reinsurer	Net Liability
<b>Motor car</b>	P 36,736	P 258	P 36,478	P 49,571	P 799	P 48,772
<b>Fire</b>	4,896	158	4,738	383	158	225
<b>Marine</b>	654	12	642	287	13	274
<b>Personal accident</b>	454	-	454	2,312	-	2,312
	<b>P 42,740</b>	<b>P 428</b>	<b>P 42,312</b>	<b>P 52,553</b>	<b>P 970</b>	<b>P 51,583</b>

#### Financial Risk

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not 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 products, 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.

#### Credit Risk

Credit risk is risk due to uncertainty in a counterparty's (also called an obligor) ability to meet its obligation.

Credit risk limit is also used to manage credit exposure which specifies exposure credit limit for each intermediary depending on the size of its portfolio and its ability to meet its obligation based on past experience.

Key areas where the Company is exposed to credit risk are:

- Reinsurers' share of insurance premiums,
- Amounts due from reinsurers on claims already paid,
- Amounts due from insurance contract holders, and
- Amounts due from insurance intermediaries.

#### Exposure

The table below shows the gross maximum exposure to credit risk of the Company as at December 31, 2020 and 2019.

	2020	2019
Cash and cash equivalents and short-term investments*	P 145,464,736	P 123,128,243
Financial assets		
FVPL	10,732,072	19,809,898
AFS	321,982,568	298,732,900
HTM	705,438,303	714,630,606
Insurance balance receivable	9,284,924	18,368,012
Reinsurance assets	428,221	969,697
Accrued investment income	5,484,365	8,669,785
Other assets	590,421	1,124,366
	<b>P 1,199,405,610</b>	<b>P 1,185,433,507</b>

\*Excludes cash on hand of P115,000 in 2020 and P117,000 in 2019.

The Company uses the following risk mitigation policies to reduce credit risks:

- Cash in banks and short-term investments are deposited and placed with reputable commercial and universal banks in the Philippines. Moreover, all bank deposits are automatically covered up to a certain amount from Philippine Deposit Insurance Corporation.
- Financial assets that are HTM are debt securities issued and guaranteed by the Philippine government which are considered risk free. HTM investments are lodge under Philippine Depository & Trust Corporation. Furthermore, prior approval from IC is sought before the Company can invest on these securities.
- The Company's equity investments classified as AFS are mostly stocks belonging to Philippine Stock Exchange Index (PSEi) with regular trading transaction in the Philippine Stock Exchange. Other AFS investment includes government securities in foreign currencies and in Investment Management Accounts.
- Insurance balances of brokers and agents have a maximum age of 90 days. Commissions are released only upon full remittance of premiums. Reinsurance arrangements are placed only with reputable reinsurers at industry acceptable terms.
- Accrued investment income is collectible in subsequent period. Interest proceeds are either rolled over to principal balance or credited to savings account.

*Credit quality*

The credit quality of financial assets is as follows:

		As of December 31, 2020					
		Neither past due nor impaired		Past due		Total	
		High grade	Standard grade	but not impaired	Past due & impaired		
<b>Cash and cash equivalents</b>							
(including short-term investments)*	P	136,936,748	P 8,527,988	P -	P -	P	145,464,736
<b>Financial assets</b>							
FVPL		10,732,072	-	-	-		10,732,072
AFS		321,412,568	570,000	-	-		321,982,568
HTM		705,438,303	-	-	-		705,438,303
Insurance balances receivable			9,284,924				9,284,924
Reinsurance assets		-	-	428,221	-		428,221
Accrued investment income		5,484,365	-	-	-		5,484,365
Other assets		394,578	195,843	-	-		590,421
	P	1,180,398,633	P 18,578,755	P 428,221	P -	P	1,199,405,610

\*Excludes cash on hand of P115,000

		As of December 31, 2019					
		Neither past due nor impaired		Past due		Total	
		High grade	Standard grade	but not impaired	Past due & impaired		
<b>Cash and cash equivalents</b>							
(including short-term investments)*	P	109,366,364	P 13,761,879	P -	P -	P	123,128,243
<b>Financial assets</b>							
FVPL		19,809,898	-	-	-		19,809,898
AFS		297,042,900	570,000	-	1,120,000		298,732,900
HTM		714,630,606	-	-	-		714,630,606
Insurance balances receivable			18,368,012				18,368,012
Reinsurance assets		-	-	969,697	-		969,697
Accrued investment income		8,669,785	-	-	-		8,669,785
Other assets		494,489	629,877	-	-		1,124,366
	P	1,150,014,042	P 33,329,768	P 969,697	P 1,120,000	P	1,185,433,507

\*Excludes cash on hand of P117,000

The following table discusses the methodologies that the Company used to grade financial assets:

Financial asset	Investment grade	Measurement basis
Cash and cash equivalents and Short-term investments	High grade	Cash deposits with universal and commercial banks in the Philippines
	Standard grade	Cash deposits that are not classified as high grade accounts.
Debt securities	High grade	Debt securities issued by the Philippine government which are considered risk free.  Debt securities that are issued by private corporations that possesses the capacity to meet financial obligation.
	Standard grade	Debt securities that are not classified as High grade securities.
Equity securities	High grade	Listed equity securities belonging to PSEi
	Standard grade	Equity securities not belonging to PSEi
Insurance and reinsurance accounts and deposits	High grade	The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits
	Standard grade	Standard grade accounts are active accounts with propensity of deteriorating to mid-range age buckets. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

#### 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; or counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

Liquidity risk is a risk due to uncertain liquidity. An institution may suffer liquidity problem when its credit rating falls. The Company is also exposed to liquidity risk if markets on which it depends on are subject to loss of liquidity.

Contractual maturities of financial assets and liabilities as at December 31, 2020 and 2019 are presented below:

	Contractual maturities			Total
	< 1 year	> 1 year < 5 years	>5 years	
<b>2020 (In thousand)</b>				
<b>Financial assets that are :</b>				
<b>Cash and cash equivalents</b>				
<b>(including short-term investments)*</b>	P	P	P	P
	145,465	-	-	145,465
<b>FVPL</b>	10,732	-	-	10,732
<b>HTM</b>	135,006	462,601	107,831	705,438
<b>Insurance balances receivable</b>	9,285	-	-	9,285
<b>Reinsurance assets</b>	428	-	-	428
<b>Accrued investment income</b>	5,484	-	-	5,484
<b>Advance to employees</b>	100	-	-	100
<b>Deposits</b>	350	-	-	350
<b>Financial liabilities:</b>				
<b>Accounts payable and accrued expenses</b>	50,158	-	-	50,158
<b>Reinsurance liabilities</b>	6,349	-	-	6,349

2019 (In thousand)	Contractual maturities			Total
	< 1 year	> 1 year < 5 years	>5 years	
Cash and cash equivalents (including short-term investments)*	P 123,128	P -	P -	P 123,128
FVPL	19,810	-	-	19,810
HTM	146,520	435,218	132,893	714,631
Insurance balances receivable	18,368	-	-	18,368
Reinsurance assets	970	-	-	970
Accrued investment income	8,670	-	-	8,670
Advance to employees	169	-	-	169
Deposits	815	-	-	815
Financial liabilities:				
Accounts payable and accrued expenses	46,709	-	-	46,709
Reinsurance liabilities	7,560	-	-	7,560

It is unusual for a Company primarily transacting insurance business to predict the requirements of funding with absolute certainty as the theory of probability is applied in insurance contracts to ascertain the likely provision and time period when such liabilities will require settlement. The amount and maturities in respect of insurance liabilities are thus based on management's best estimate and on statistical techniques and past experience.

#### 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.

Market risk is the risk to an institution's financial condition from volatility in the price movements of the assets contained in a portfolio. Market risk represents what the Company would lose from price volatilities. Market risk can be measured as the potential gain or loss in a position or portfolio that is associated with a price movement of a given probability over a specified time horizon.

The Company manages market risk by evenly distributing capital among investment instruments, sectors and geographical areas.

The Company structures the levels of market risk it accepts through a sound market risk policy based on specific guidelines. This policy constitutes certain limits on exposure of investments mostly with top-rated banks, which are selected on the basis of the bank's credit ratings, capitalization and quality servicing being rendered to the Company. Also, the said policy includes diversification benchmarks of investment portfolio to different investment types duly approved by the IC, asset allocation reporting and portfolio limit structure. Moreover, control of relevant market risks can be addressed through compliance reporting of market risk exposures to the IC, regular monitoring and review of the Company's investment performance and upcoming investment opportunities for pertinence and changing environment.

Sensitivity analysis of market risk exposures follows:

#### i. Currency risk

Foreign currency risk pertains to US\$ denominated cash, special savings accounts and AFS investments. No foreign currency forward contracts are outstanding as at December 31, 2020 and 2019 to hedge the foreign currency accounts.

The carrying values of financial assets exposed to currency risk at the end of reporting period are as follows:

	2020		2019	
	Phil. Peso	US \$	Phil. Peso	US \$
Cash, cash equivalents and short-term investments	P 10,757,052	\$ 223,998	P 7,392,362	\$ 145,993
AFS investments	19,032,379	396,318	20,067,562	396,318
Accrued investment income	38,541	803	175,602	3,468
	<b>P 29,827,973</b>	<b>\$ 621,119</b>	<b>P 27,635,526</b>	<b>\$ 545,779</b>

The following table demonstrates the sensitivity to a reasonable change in the US\$ exchange rate, with all other variables held constant, of the Company's income before tax and equity:

Increase/Decrease in Peso to US Dollar Rate		Effect on income before taxes	Effect on equity
+2	2020	+ 0.32 million	+ 1.11 million
-2		- 0.32 million	- 1.11 million
+2	2019	+ 0.21 million	+ 1.00 million
-2		- 0.21 million	- 1.00 million

ii. Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest risk.

The management of interest rate risk involves maintenance of appropriate blend of financial instruments with consideration on the maturity profile of the security. Exposures to interest rate risk comprise the following:

	Interest rate	As of December 31, 2020		
		Due in		
		< 1 year	> 1 year but <5 years	> 5 years
<b>Financial assets that are:</b>				
Cash, cash equivalents and short-term investments*	0.375% to 3%	P 145,464,736	P -	P -
FVPL	3.31% - 6.59%	10,732,072	-	-
HTM	3.80% to 6.94%	135,006,206	462,600,998	107,831,099
<b>As of December 31, 2019</b>				
<b>Due in</b>				
		< 1 year	> 1 year but <5 years	> 5 years
<b>Financial assets that are:</b>				
Cash, cash equivalents and short-term investments*	1.25% - 3.75%	P 123,128,243	P -	P -
FVPL	3.31% - 6.59%	19,809,898	-	-
HTM	3.80% to 6.94%	146,519,514	435,218,374	132,892,718

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate investments). There is no other impact on the Company's equity other than those already affecting the profit and loss.

	Increase/ decrease in basis points	Effect on income before income tax
<b>2020</b>	<b>+ 200</b>	<b>P 16,486,332</b>
	<b>- 200</b>	<b>(16,486,332)</b>
2019	+ 200	P 16,614,770
	- 200	(16,614,770)

### iii. Price risk

The sensitivity analysis for equity risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

Management monitors movements of equity price on a monthly basis by assessing the expected changes in the different portfolio due to parallel movements of a 10% increase or decrease in the Philippine stock exchange index (PSEi).

With all other variables held constant, a 10% movement in the stock exchange would result in an impact on equity of P14.47 million in 2020 and P13.37 million in 2019. This does not affect income since changes in fair value of AFS investments are taken to equity.

### iv. Operational risk

Operational risk is the risk of loss from system failure, human error, fraud or external events. When controls fail to perform, operational risk can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company cannot expect to eliminate all operational risk but initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage risk. Controls include effective segregation of duties, access controls, authorization and reconciliation procedures, staff education and assessment processes. Business risk such as changes in environment, technology and industry are monitored through the Company's strategic planning and budgeting processes.

### Capital management

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Company's activities and externally imposed capital requirements.

The company regards the following as the capital it manages as at December 31, 2020 and 2019.

	2020	2019
Share capital	P 250,000,000	P 250,000,000
Contributed surplus	33,000	33,000
Retained earnings	839,611,718	787,126,410
	<b>P 1,089,644,718</b>	<b>P 1,037,159,410</b>

### Net worth Requirement

Externally imposed capital requirements are set and regulated by the Insurance Commission (IC). The requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximize shareholders value.

Pursuant to IC Circular No. 2015-02-A, dated January 13, 2015 issued on the basis of Republic Act 10607 known as the Revised Insurance code, domestic insurance companies

under the supervision of IC must have a net worth of at least P250 million by December 31, 2013. The minimum net worth of a particular company shall remain unimpaired at all times and shall be increased to the following amounts:

	Minimum networkth	Compliance date
P	550,000,000	December 31, 2016
	900,000,000	December 31, 2019
	1,300,000,000	December 31, 2022

Insurance Memorandum Circular 22-2008 further clarified that the paid-up capital should remain intact and unimpaired at all times, the statements of financial position should show that the net worth is at least equal to the actual paid-up capital.

As at December 31, 2019 the Company is in compliance with the required minimum net worth requirements. As of December 31, 2020 the company the believes that it is in compliant with the requirement net worth even after deducting non-admitted assets identified by the IC.

The statutory net worth is based on Regulatory Accounting Policies and may be determined only after the accounts of the Company have been examined by the IC.

#### *Risk-Based Capital Requirement*

The IC has adopted a three (3) pillar risk-based approach to solvency which comprise the following:

- Quantitative requirements in relation to the calculation of capital requirements and recognition of eligible capital;
- Governance and risk management requirement tht consists of supervisory review process which may include a supervisory adjustment to capital; and
- Disclosure requirement designed to encourage market disepline

The minimum RBC ratio is set at 100% which are required to be maintained at all times. Failure to meet the minimum RBC ratio shall subject the Company to the corresponding regulatory intervention which has been defined at various levels as follows:

- Company Action Event – the RBC is less than 100% but not below 75%, the Company is required to identify the conditions that contributed to the event and will provide corrective actions that company intend to take including future projections of financial position adn analysis of operations.
- Regulatory Action Event – the RBC is less than 75% but not below 50%, the Company is submit an RBC plan and IC will perform an examination of the Company including its RBC plan.
- Authorized and Mandatory Control Event – the RBC is less than 50%, the IC is required to place Company under regulatory control. The Company is placed under the regulatory control of IC.

The RBC ratio is calculated as Total Available Capital divided by the RBC requirement. TAC shall include the (i) paid-up capital, (ii) other capital surplus and (iii) Special surplus funds to the extent authorized by IC.

Internal calculations of RBC ratio as at December 31, 2020 and 2019 revealed the following:

		2020		2019
Networkth	P	1,171,274,328	P	1,141,350,337
RBC requirement		131,727,931		141,554,563
RBC ratio		889%		806%

The computation of RBC is based on the regulatory accounting policy in accordance with the Philippine Insurance Code. The RBC can be determined only after the accounts of the Company have been examined by the IC.

## 8. Cash and Cash Equivalents and Short-term Investments

This account consists of:

	2020		2019	
Cash on hand	P	115,000	P	117,000
Cash in banks		37,318,519		26,830,238
Short-term bank placements		48,019,639		36,500,000
<b>Cash and cash equivalents</b>	<b>P</b>	<b>85,453,158</b>	<b>P</b>	<b>63,447,238</b>
<b>Short-term investments</b>	<b>P</b>	<b>60,126,578</b>	<b>P</b>	<b>59,798,005</b>

Cash in bank and short-term bank deposits earn interest at prevailing bank interest rates. Interest income earned on these deposits amounted to P1,884,905 in 2020 and P2,370,985 in 2019. (See Note 24)

Short-term investments are placed for a period of more than 3 months but not more than 12 months. These investments earn interest at the rate of 0.375% to 3% in 2020 and 1.25% to 3.75% in 2019.

## 9. Financial Assets

The reconciliation of the carrying amounts of financial assets at the beginning and end of the year is as follows:

As of December 31, 2020				
	FVPL	AFS	HTM	Total
<b>Gross carrying value</b>				
Balance at the beginning of year	P 19,809,898	P 298,732,900	P 714,630,606	P 1,033,173,404
Additions	10,732,072	75,759,422	164,139,577	250,631,071
Disposal/Maturity	(19,809,898)	(39,032,500)	(173,019,515)	(231,861,913)
Amortization of premium	-	-	(312,365)	(312,365)
Changes in fair value	-	(13,477,254)	-	(13,477,254)
<b>Balance at the end of the year</b>	<b>10,732,072</b>	<b>321,982,568</b>	<b>705,438,303</b>	<b>1,038,152,943</b>
Allowance for impairment losses	-	-	-	-
	<b>P 10,732,072</b>	<b>P 321,982,568</b>	<b>P 705,438,303</b>	<b>P 1,038,152,943</b>

As of December 31, 2019				
	FVPL	AFS	HTM	Total
<b>Gross carrying value</b>				
Balance at the beginning of year	P 107,729,950	P 283,010,501	P 608,322,429	P 999,062,880
Additions	19,809,898	59,953,830	179,238,840	259,002,568
Disposal/Maturity	(107,729,950)	(47,061,926)	(72,822,441)	(227,614,317)
Amortization of premium	-	-	(108,222)	(108,222)
Changes in fair value	-	3,950,495	-	3,950,495
<b>Balance at the end of the year</b>	<b>19,809,898</b>	<b>299,852,900</b>	<b>714,630,606</b>	<b>1,034,293,404</b>
Allowance for impairment losses	-	(1,120,000)	-	(1,120,000)
	<b>P 19,809,898</b>	<b>P 298,732,900</b>	<b>P 714,630,606</b>	<b>P 1,033,173,404</b>

### Fair value through Profit or Loss (FVPL) Investments

Investments that are designated at FVPL represent Treasury Bills (TBills) issued by the Philippine Government with interest rates ranging from 3.31% to 6.59 per annum for the years 2020 and 2019. TBills comprise a portfolio of financial instruments that are managed for which there is an evidence of recent actual pattern of short-term profit-taking. As December 31, 2020 and 2019 the total face value of TBills which are due 12 months amounted to P10.82 million and P20.14 million, respectively. Due to its relatively short-term nature, the carrying



value amounting to P10.73 million in 2020 and to P19.81 million in 2019 approximates the fair value at year-end.

There is no market gain on this investment in 2020 and 2019.

#### Available-for-sale (AFS) Investments

Investments categorized as AFS includes listed and unlisted equity securities, government securities, investment management funds and unitized investments. These investments are carried at fair values determined using the quoted market prices categorized as level 1 and 2 in the fair value hierarchy. Fair value sources are discussed in Note 6. Unquoted equity securities are carried at cost less allowance for impairment due to the lack of a reliable estimate necessary to calculate fair value.

The breakdown of this account is as follows:

	2020	2019
Listed equity securities		
Common shares	P 79,350,982	P 68,629,244
Preferred Shares	68,093,100	65,149,275
Proprietary membership shares	570,000	570,000
Unit Investment Trust Funds	97,563,029	82,511,061
Investment management funds	76,405,457	81,873,320
	<b>P 321,982,568</b>	<b>P 298,732,900</b>

Income (loss) on these investments reported in the statements of income are as follows:

	2020	2019
Interest	P 865,506	P 3,721,320
Dividends	14,975,483	11,223,434
Realized gain (loss) on sale of AFS	129,612	(5,343,793)

The reconciliation of unrealized fair value gains (losses) on AFS investments are as follows:

	2020	2019
Balance at beginning of year	P (1,448,317)	P (10,699,399)
Fair value gains(losses) taken to:		
Other comprehensive income (OCI)	(13,529,776)	9,251,082
Balance at end of year	<b>P (14,978,093)</b>	<b>P (1,448,317)</b>

#### Held-to-Maturity (HTM) Investments

Investments classified as HTM are as follows:

	2020	2019
Government securities		
Fixed-rate treasury notes (FXTN)	P 319,030,741	P 398,307,562
Corporate debts and bonds	386,407,562	316,323,044
	<b>P 705,438,303</b>	<b>P 714,630,606</b>

Corporate debts and bonds issued by various private corporations are for period ranging from 5 years to 15 years from original issue. These securities are subject to a periodic interest rate of 3.80% to 6.94%.

Interest earned on HTM investments amounted to P42,642,797 in 2020 and P44,726,378 in 2019. (See Note 24)

Mark to market gain on this investment amounted to P20,254 in 2020 and nil in 2019. (See Note 24)

The maturity profile of this account is presented below:

Due in:	2020	2019
One year	P 135,006,206	P 146,519,514
More than one year but less than five years	462,600,998	435,218,374
Beyond five years	107,831,099	132,892,718
	<b>P 705,438,303</b>	<b>P 714,630,606</b>

Pursuant to Section 209 of the Insurance Code, at least 25% of minimum statutory net worth required under Section 194 of the Code must be invested in securities consisting of bonds or other debt instruments issued by the Philippine Government or its instrumentalities. The invested funds shall at all times be maintained free from any lien or encumbrance and shall be deposited with and held by IC for the faithful performance of the Company's obligations under its insurance contracts. This requirement was fully complied by the Company as of December 31, 2020 and 2019.

## 10. Insurance Balances Receivable

The breakdown of this account is as follows:

	2020	2019
Due from agents and brokers	P 6,235,067	P 16,079,554
Due from ceding companies	1,938,603	1,177,204
Funds held by ceding companies	1,111,254	1,111,254
	<b>P 9,284,924</b>	<b>P 18,368,012</b>

Average term of due from brokers and agents is 1-3 months.

Due from ceding companies have an average term of 30 to 90 days. Funds held by ceding companies represent portion of the premium withheld by ceding companies in accordance with reinsurance agreements.

There is no concentration of credit risk with respect to insurance receivables, as the Company has a diverse base of agents, brokers and reinsurers.

Management believes that the carrying values disclosed above are reasonable approximates of their fair values.

## 11. Reinsurance Assets

This account consists of:

	2020	2019
Reserve for reinsurance premium (see Note 17)	P 1,431,193	P 2,766,289
Reinsurance recoverable on unpaid losses (see Note 18)	428,221	969,697
	<b>P 1,859,414</b>	<b>P 3,735,986</b>

As at December 31 2020 and 2019, management believes that reinsurance assets are fully recoverable and that no impairment loss is necessary.

## 12. Investment Property

As of December 31, 2020 and 2019, investment property represents Condominium Unit 2401 of 88 Corporate Center, located at Sedeño St. corner Valero St., Salcedo Village, Makati City with a net leasable area of approximately 220.25 square meters and two (2) parking units.

The Company's investment property is leased out to a third party under terms and conditions mutually agreed upon by the Company and the tenant. Rental income on these properties amounted to P2,594,831 in 2020 and P3,263,867 in 2019.

### 13. Property and Equipment - net

The breakdown of this account is as follows:

2020	Land*	Building & condominium units*	Furniture, fixtures & office equipment	Transportation equipment	Total
<b>Costs</b>					
At January 1, 2020	P 93,243,800	P 74,566,972	P 15,421,236	P 26,824,205	P 210,056,213
Additions	-	-	52,057	-	52,057
At December 31, 2020	93,243,800	74,566,972	15,473,293	26,824,205	210,108,270
<b>Accumulated depreciation and impairment losses</b>					
At January 1, 2020	17,800	24,300,357	13,894,543	26,450,216	64,662,916
Provisions	-	2,065,751	743,293	373,989	3,183,033
At December 31, 2020	17,800	26,366,108	14,637,836	26,824,205	67,845,949
<b>Net Carrying Value</b>					
At December 31, 2020	P 93,226,000	P 48,200,864	P 835,457	P -	P 142,262,321

\*At appraised value

2019	Land*	Building & condominium units	Furniture, fixtures & office equipment	Transportation equipment	Total
<b>Costs</b>					
At January 1, 2019	P 93,243,800	P 74,566,972	P 15,093,066	P 26,824,205	P 209,728,043
Additions	-	-	328,170	-	328,170
At December 31, 2019	93,243,800	74,566,972	15,421,236	26,824,205	210,056,213
<b>Accumulated depreciation and impairment losses</b>					
At January 1, 2019	17,800	22,234,606	13,017,331	26,048,345	61,318,082
Provisions	-	2,065,751	877,212	401,871	3,344,834
At December 31, 2019	17,800	24,300,357	13,894,543	26,450,216	64,662,916
<b>Net Carrying Value</b>					
At December 31, 2019	P 93,226,000	P 50,266,615	P 1,526,693	P 373,989	P 145,393,297

\*At appraised value

Land and buildings are used as branch offices and portion of these buildings are also being leased out to Third parties under operating leases. Rental income on these properties amounted to P3,169,552 in 2020 and to P3,986,771 in 2019.

Depreciation of property and equipment charged to operations amounted to P3,183,033 in 2020 and P3,344,834 in 2019.

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#### 14. Deferred Acquisition Costs (DAC) and Deferred Commission Income (DCI)

Movements of this account during the year are as follows:

	Deferred commission expense	Deferred commission income	Net DAC
<b>2020</b>			
Balances, beginning	P 23,530,916	P 883,579	P 22,647,337
Net changes in acquisition cost	(7,917,376)	(454,908)	(7,462,468)
	<b>P 15,613,540</b>	<b>P 428,671</b>	<b>P 15,184,869</b>
	Deferred commission expense	Deferred commission income	Net DAC
<b>2019</b>			
Balances, beginning	P 21,575,742	P 1,636,550	P 19,939,192
Net changes in acquisition cost	1,955,174	(752,971)	2,708,145
	<b>P 23,530,916</b>	<b>P 883,579</b>	<b>P 22,647,337</b>

As at December 31 2020 and 2019, management believes that DAC are fully recoverable and that no impairment loss is necessary.

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#### 15. Accrued Investment Income

The sources of this account are as follows:

	2020	2019
Interest		
Cash and cash equivalents	P 65,939	P 393,358
Debt instruments	4,706,741	6,056,075
Short-term investments	175,405	1,653,904
Dividends		
Preference shares	536,280	566,448
	<b>P 5,484,365</b>	<b>P 8,669,785</b>

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#### 16. Other Assets

This account consists of:

	2020	2019
Advances to employees	P 100,154	P 169,367
Deposits and others	350,100	814,832
Security fund	140,167	140,167
	<b>P 590,421</b>	<b>P 1,124,366</b>

Advances to employees are cash advances made by the employees to defray their personal expenses.

Deposits, which are carried at cost, are made to secure leasing arrangements and utility services.

Security fund was created under Section 365 of Presidential Decree (PD) No. 612 as amended under PD No. 1640, to be used for payment of claims against insolvent insurance companies. The balances of the fund represent the Company's contribution to the fund. The balance of the fund earns interest at rates determined by the IC annually.

## 17. Reserve for Unearned Premiums

The analysis of this account is as follows:

	2020			2019		
	Direct business	Ceded	Net	Direct business	Ceded	Net
Balances, January 1	P 100,670,967	P 2,766,289	P 97,904,678	P 97,986,666	P 3,549,376	P 94,437,290
Policies written during the year	156,959,822	2,299,437	154,660,385	245,026,647	2,174,129	242,852,518
Premiums earned during the year	(185,921,024)	(3,634,533)	(182,286,491)	(242,342,346)	(2,957,216)	(239,385,130)
	P 71,709,765	P 1,431,193	P 70,278,572	P 100,670,967	P 2,766,289	P 97,904,678

In accordance with IC circular 2016-67, Premium liabilities for each class of business shall be determined as the higher of Unearned Premium Reserve (UPR) and Unexpired Risk Reserve (URR). UPR is calculated using the 24<sup>th</sup> method for all classes of business, on a gross of reinsurance basis. URR is calculated as the best estimate of future obligation, expenses for policy management and claims settlement cost. URR may be estimated as the unearned premium for each class of business multiplied by ultimate loss ratio and adjusted for future expenses.

The actuarial valuation result for premium liabilities as of December 31, 2020 and 2019 is as follows:

	Gross	
	2020	2019
UPR	P 71,709,765	P 100,670,967
URR		
Best estimate of future obligation	P 20,540,467	P 28,326,601
Maintenance expenses	17,569,643	24,476,169
Claims handling expense	319,173	431,544
Margin for adverse deviation	11,338,179	15,875,483
	P 49,767,462	P 69,109,797
Premium Liability (whichever is higher)	P 71,709,765	P 100,670,967

## 18. Insurance Claims Payable

Outstanding claims will become payable and materialize into claims paid when the amounts of insured losses suffered by policyholders were ascertained and agreed, without any contractual maturity date. The timing of future cash outflow arising from the provision is not ascertainable but is likely to fall within 3 years.

The provision is sensitive to many factors such as interpretation of circumstances, judicial decisions, economic conditions, climatic changes and is subject to uncertainties such as:

- Uncertain as to whether an event has occurred which would give rise to a policyholder suffering an insured loss;
- Uncertainty as to the extent of policy coverage and limits applicable; and
- Uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring.

The analysis of this account is shown below:

	2020			2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Balances, January 1	P 52,552,627	P 969,697	P 51,582,930	P 80,804,754	P 428,097	P 80,376,657
Claims and losses incurred - net of recoveries	92,824,762	(541,476)	93,366,238	104,448,331	541,600	103,906,731
Provision for incurred but not reported claims	(14,738,535)	428,221	(15,166,756)	(16,983,430)	969,697	(17,953,127)
Claims and losses paid - net of recoveries	(87,899,278)	(428,221)	(87,471,057)	(115,717,028)	(969,697)	(114,747,331)
	P 42,739,576	P 428,221	P 42,311,355	P 52,552,627	P 969,697	P 51,582,930

In accordance with IC circular 2016-67, claims liabilities for both direct business, assumed treaty and reinsurance business shall be calculated as the sum of outstanding claims reserve, claims handling expense and IBNR.

Claims handling expense was computed on a net insurance basis using the Kittle's Refinement to the Classical Paid-to-Paid Ratio Method that explicitly recognized that claims handling expense is incurred as claims are reported, even if no loss payments are made.

Outstanding claims reserve shall be based on actual claims reported but have not yet been settled at year-end. IBNR is calculated based on the following methods:

1. Chain Ladder or Loss-Development Triangles Method
2. Bornhuetter-Ferguson Method
3. Expected Loss Ratio Method

MfAD is included to allow the inherent uncertainty of the best estimate of the policy reserves and to consider the variability of claims experience with a class of business, the diversification between classes of business and conservatism in the best estimate. As of December 31, 2020, MfAD is set to 75% and 50% for the year ended December 31, 2020 and 2019, respectively.

The actuarial valuation result for claims liabilities as of December 31, 2020 and 2019 is as follows:

	Gross	
	2020	2019
Outstanding claims reserve	P 24,008,271	P 34,214,352
Claims handling expense	424,886	512,430
IBNR	10,994,179	10,540,756
MfAD	7,312,240	7,285,089
	P 42,739,576	P 52,552,627

	Net of Reinsurance	
	2020	2019
Outstanding claims reserve	P 23,580,050	P 33,244,655
Claims handling expense	424,886	512,430
IBNR	10,994,179	10,540,756
MfAD	7,312,240	7,285,089
	P 42,311,355	P 51,582,930

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## 19. Accounts Payable and Accrued Expenses

This account consists of:

	2020		2019	
Taxes payable	P	23,038,046	P	26,757,229
Accrued and other liabilities		9,191,634		2,661,287
Commissions payable		17,928,243		17,290,440
	P	50,157,923	P	46,708,956

The terms and conditions of these accounts are as follows:

- Accrued expenses are liabilities for utilities and services that have been provided with payment terms of 30-90 days.
- Taxes payable consisting of documentary stamp tax, output tax, premium tax and other taxes are usually paid and remitted on the following month.
- Commissions payable are liabilities to brokers and agents for uncollected premiums. The amounts are settled within 12 months.

Management believes that the carrying amounts are the reasonable approximation of their fair values as at December 31, 2020 and 2019

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## 20. Reinsurance Liabilities

The movements of this account are as follows:

	As of Decemembr 31, 2020		
	Due to reinsurers	Funds held for reinsurers	Total
Balance at the beginning	P 5,106,178	P 2,454,274	P 7,560,452
Additions	4,275,479	2,333,876	6,609,355
Reductions	(5,099,940)	(2,721,170)	(7,821,110)
Balance at the end of year	P 4,281,717	P 2,066,980	P 6,348,697

	As of Decemembr 31, 2019		
	Due to reinsurers	Funds held for reinsurers	Total
Balance at the beginning	P 4,307,247	P 2,901,831	P 7,209,078
Additions	7,131,612	2,419,701	9,551,313
Reductions	(6,332,681)	(2,867,258)	(9,199,939)
Balance at the end of year	P 5,106,178	P 2,454,274	P 7,560,452

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## 21. Equity

### *Share Capital*

The Company's capital structure as at December 31, 2020 and 2019 is as follows:

	Shares	Amount
Authorized - P1 par value per share	320,000,000	P 320,000,000
Issued and outstanding	250,000,000	250,000,000

As at December 31, 2020 and 2019, the Company has 15 stockholders owning 100 or more shares each.

## 22. Insurance Contracts – Terms, Assumption and Sensitivities

### *Terms and Conditions*

The major classes of general insurance written by the Company include motor, property, casualty, marine and engineering. Risks under these policies usually cover 12-month duration.

For general insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and IBNR claims) 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 reviewed 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 projections of future claims through the use of historical experience statistics. 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. Claims provisions are separately analyzed by geographical area and class of business. In addition, claims are usually assessed by loss adjusters.

### *Assumptions*

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claims inflation factors, and claim numbers for each accident year. Judgment is used to assess the extent to which external factors such as judicial decisions, climatic changes and government legislation affect the estimates. Other key assumptions include variation in interest and delays in settlement.

### *Sensitivities*

The general insurance claims provision is sensitive to the above key assumptions. The sensitivity to certain variables such as legislative change and uncertainty in the estimation process is impossible to quantify. Furthermore, 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 reporting date. 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.

Since certain proportional reinsurance facilities are in place, the Company's net exposure is minimal. The Company considers that the liability recognized in the statement of financial position is adequate. However, actual experience will differ from the expected outcome. Sensitivity test are set out below, showing the impact on profit and loss and equity.

% change in loss ratio	Impact on income				Impact on equity			
		2020		2019		2020		2019
+5%	P	3,891,892	P	4,302,467	P	2,724,324	P	3,011,727
-5%		(3,891,892)		(4,302,467)		(2,724,324)		(3,011,727)



Loss development table

Loss development table gross of reinsurer's share of losses and claims for 2020 and 2019 is as follows:

Gross Losses and Claims Payable for 2020												
Accident Year	One year later	Two years later	Three years later	Four years later	Five years later	Six years later	Seven years later	Eight years later	Nine years later	Ten Years later	Current estimate of cumulative	
2011	P 74,390	P 107,512	P 105,943	P 105,608	P 107,020	P 105,287	P 105,286	P 105,182	P 105,182	P 105,182	P 105,182	
2012	147,299	136,164	130,956	130,557	130,692	130,692	130,692	130,792	130,692	-	130,692	
2013	137,548	141,271	122,221	122,691	122,791	122,529	123,352	123,252	-	-	123,252	
2014	138,185	102,705	105,859	105,788	103,664	103,073	103,046	-	-	-	103,046	
2015	172,952	135,260	132,643	127,188	127,317	127,161	-	-	-	-	127,161	
2016	167,779	188,341	125,970	112,660	112,063	-	-	-	-	-	112,063	
2017	75,448	95,139	94,839	94,425	-	-	-	-	-	-	94,425	
2018	95,298	98,235	89,769	-	-	-	-	-	-	-	89,769	
2019	66,750	85,462	-	-	-	-	-	-	-	-	85,462	
2020	67,761	-	-	-	-	-	-	-	-	-	67,761	
Total	67,761	85,462	89,769	94,425	112,063	127,161	103,046	123,252	130,692	105,182	1,038,813	
Provision for IBNR	-	-	-	-	-	-	-	-	-	-	18,731	
Cumulative payments to date	(55,872)	(77,122)	(87,835)	(93,859)	(111,954)	(126,377)	(102,660)	(123,252)	(130,692)	(105,182)	(1,014,805)	
Liability recognized in the statement of financial position	P 11,889	P 8,340	P 1,934	P 566	P 109	P 784	P 386	P -	P -	P -	P 42,739	

Net Losses Claims Payable for 2020												
Accident Year	One year	Two years	Three	Four years	Five years	Six years	Seven	Eight years	Nine years	Ten Years	Current estimate	
2011	P 102,076	P 105,351	P 103,781	P 103,478	P 104,890	P 103,897	P 103,897	P 103,792	P 103,892	P 103,792	P 103,792	
2012	127,121	112,736	107,528	107,129	107,045	107,045	107,045	107,045	107,045	-	107,045	
2013	135,884	137,506	116,652	117,055	117,155	116,892	117,716	117,616	-	-	117,616	
2014	138,028	101,537	104,150	104,078	101,955	101,635	101,337	-	-	-	101,337	
2015	171,980	132,750	130,233	124,678	124,817	124,651	-	-	-	-	124,651	
2016	167,464	188,026	125,652	112,345	111,748	-	-	-	-	-	111,748	
2017	72,604	92,294	91,994	91,581	-	-	-	-	-	-	91,581	
2018	95,169	98,106	89,640	-	-	-	-	-	-	-	89,640	
2019	66,804	85,460	-	-	-	-	-	-	-	-	85,460	
2020	67,760	-	-	-	-	-	-	-	-	-	67,760	
Total	67,760	85,460	89,640	91,581	111,748	124,651	101,337	117,616	107,045	103,792	1,000,630	
Provision for IBNR	-	-	-	-	-	-	-	-	-	-	18,731	
Cumulative payments to date	(55,872)	(77,119)	(87,706)	(91,015)	(111,639)	(124,025)	(101,221)	(117,616)	(107,045)	(103,792)	(977,050)	
Liability recognized in the statement of financial position	P 11,888	P 8,341	P 1,934	P 566	P 109	P 626	P 116	P -	P -	P -	P 42,311	

Gross Losses and Claims Payable for 2019

Accident year	One year later	Two years later	Three years later	Four years later	Five years later	Six years later	Seven years later	Eight years later	Nine years later	Ten Years later	Current estimate of cumulative claims
2010	P 90,942	P 77,096	P 74,704	P 74,783	P 74,643	P 74,653	P 75,353	P 75,253	P 75,113	P 75,898	P 75,898
2011	103,767	107,512	105,943	105,608	107,020	105,287	105,287	105,182	105,182	-	105,182
2012	147,299	136,164	130,956	130,557	130,692	130,692	130,692	130,792	-	-	130,792
2013	137,548	141,271	122,221	122,691	122,791	122,529	123,352	-	-	-	123,352
2014	139,185	102,705	105,859	105,788	103,664	103,073	-	-	-	-	103,073
2015	172,952	135,260	132,743	127,188	127,317	-	-	-	-	-	127,317
2016	167,779	188,341	126,166	112,660	-	-	-	-	-	-	112,660
2017	75,448	95,139	94,839	-	-	-	-	-	-	-	94,839
2018	95,298	98,235	-	-	-	-	-	-	-	-	98,235
2019	66,750	-	-	-	-	-	-	-	-	-	66,750
Total	66,750	98,235	94,839	112,660	127,317	103,073	123,352	130,792	105,182	75,898	1,038,098
Provision for IBNR	795	(10,174)	31,184	5,314	-	-	-	-	-	-	27,119
Cumulative payments to date	(56,802)	(87,096)	(93,840)	(111,650)	(126,377)	(102,660)	(123,252)	(130,692)	(105,182)	(75,113)	(1,012,664)
Liability recognized in the statement of financial position	P 10,743	P 965	P 32,183	P 6,324	P 940	P 413	P 100	P 100	P -	P 785	P 52,553

Net Losses Claims Payable for 2019

Accident year	One year later	Two years later	Three years later	Four years later	Five years later	Six years later	Seven years later	Eight years later	Nine years later	Ten Years later	Current estimate of cumulative claims
2000	P 89,344	P 76,323	P 73,932	P 74,011	P 73,870	P 73,880	P 74,511	P 74,411	P 74,271	P 75,055	P 75,055
2011	102,076	105,351	103,781	103,478	104,890	103,897	103,897	103,792	103,892	-	103,892
2012	127,121	112,736	107,528	107,129	107,045	107,045	107,045	107,045	-	-	107,045
2013	135,884	137,506	116,652	117,055	117,155	116,892	117,715	-	-	-	117,715
2014	138,028	101,537	104,150	104,078	101,955	101,634	-	-	-	-	101,634
2015	171,980	132,750	130,233	124,678	124,817	-	-	-	-	-	124,817
2016	167,464	188,026	125,851	112,345	-	-	-	-	-	-	112,345
2017	72,604	92,294	91,994	-	-	-	-	-	-	-	91,994
2018	95,298	98,106	-	-	-	-	-	-	-	-	98,106
2019	66,209	-	-	-	-	-	-	-	-	-	66,209
Total	66,209	98,106	91,994	112,345	124,817	101,634	117,715	107,045	103,892	75,055	998,812
Provision for IBNR	785	(10,174)	31,184	5,314	-	-	-	-	-	-	27,109
Cumulative payments to date	(56,792)	(86,967)	(90,995)	(111,335)	(124,024)	(101,221)	(117,616)	(107,045)	(103,792)	(74,271)	(974,058)
Liability recognized in the statement of financial position	P 10,202	P 965	P 32,183	P 6,324	P 793	P 413	P 99	P -	P 100	P 784	P 51,863

## 23. Premiums

Analysis of premiums is as follows:

2020	Direct			Net premiums	
	Business	Assumed	Total	Ceded	Retained
Premiums written	P 156,959,822	P 2,299,437	P 159,259,259	P 6,578,138	P 152,681,121
Changes in unexpired risk	29,480,676	(519,474)	28,961,202	1,335,096	27,626,106
Net	P 186,440,498	P 1,779,963	P 188,220,461	P 7,913,234	P 180,307,227

2019	Direct			Net premiums	
	Business	Assumed	Total	Ceded	Retained
Premiums written	P 245,026,647	P 2,174,129	P 247,200,776	P 8,971,416	P 238,229,360
Changes in unexpired risk	(3,035,892)	351,591	(2,684,301)	783,087	(3,467,388)
Net	P 241,990,755	P 2,525,720	P 244,516,475	P 9,754,503	P 234,761,972

## 24. Interest and Other Investment Income

Other investment income consists of:

	2020	2019
Dividend income (see Note 9)	P 14,975,483	P 11,223,434
Rental income (see Notes 12 and 13)	5,764,383	7,250,638
Gain (Loss) on foreign exchange	(3,404,023)	2,325,462
Realized gain on sale of held-to-maturity (see Note 9)	20,254	-
Realized gain(loss) on sale of available-for-sale investments (see Note 9)	129,612	(5,343,793)
	P 17,485,709	P 15,455,741

Sources of interest income are as follows:

	2020	2019
Cash, cash equivalents (see Note 8)	P 1,884,905	P 2,370,985
Other debt instruments		
Available-for-sale debt securities (see Note 9)	865,506	3,721,320
Held-to-maturity debt securities (see Note 9)	42,642,797	44,726,378
	P 45,393,208	P 50,818,683

## 25. Claims, Losses and Adjustment Expenses

Analysis of claims, losses and adjustment expenses paid is as follows:

	For the year ended December 31, 2020					
	Direct	Assumed	Total	Recoveries	Net	
Claims and losses	P 86,243,570	P 252,549	P 86,496,119	P (428,221)	P 86,067,898	
Loss adjustment expenses	1,403,159	-	1,403,159	-	1,403,159	
	P 87,646,729	P 252,549	P 87,899,278	P (428,221)	P 87,471,057	

For the year ended December 31, 2019

	Direct	Assumed	Total	Recoveries	Net
Claims and losses	P 113,955,676	P 1,431,771	P 115,387,447	P (969,697)	P 114,417,750
Loss adjustment expenses	329,581	-	329,581	-	329,581
	P 114,285,257	P 1,431,771	P 115,717,028	P (969,697)	P 114,747,331

## 26. Commission Expense and Commission Income

The composition of this account is as follows:

	2020		2019	
	Commission expense	Commission income	Commission expense	Commission income
Direct business	P 46,330,458	P -	P 63,110,979	P -
Reinsurance business	363,042	2,295,528	817,790	4,356,545
Total	46,693,500	2,295,528	63,928,769	4,356,545
Increase/(Decrease) in DAC/DCI (see Note 14)	7,917,376	454,908	(1,955,174)	752,971
	P 54,610,876	P 2,750,436	P 61,973,595	P 5,109,516

Standard commission rate for direct and reinsurance business ranges from 5% to 37.5%.

## 27. General and Administrative Expenses

General and administrative expenses consist of:

	2020	2019
Salaries and allowances	P 22,815,789	P 34,477,896
Other employee benefits	8,425,649	3,233,185
Depreciation (See Note 13)	3,183,033	3,344,834
Taxes and licenses	2,993,678	2,253,057
Professional fees	2,571,462	3,668,902
Association and pool dues	1,951,638	1,648,222
Rental and other occupancy costs	1,878,037	2,533,041
Transportation	1,509,314	2,395,369
Repairs and maintenance	1,153,361	1,343,110
Communication and postage	868,165	1,074,930
Supplies	674,533	950,690
Representation and entertainment	555,703	1,218,592
Advertising	249,288	778,619
Professional development	68,224	1,128,985
Miscellaneous	1,306,859	2,314,888
	P 50,204,733	P 62,364,320

The Company's miscellaneous expense in 2020 significantly represents authentication fees while in 2019 it significantly represents payment on labor dispute with a former employee of the Company and messengerial and janitorial services rendered to the Company.

## 28. Retirement Benefit Cost

The Company maintains a funded retirement plan, which is a defined contribution type, covering all regular employees. The Company periodically contributes to the plan at 5% of employees' monthly salary. After rendering a service of at least 10 years, the amount payable to the retiring employee is his/her contribution, net of administrative fees and expenses plus all income thereto. The plan is administered by a bank-trustee. At regular intervals, an actuarial valuation is made to determine if the retirement benefits due to the employee is not below the framework of Republic Act 7641, otherwise known as "Retirement Pay Law".

Contribution to the plan amounted to P253,919 in 2020 and P1,239,255 in 2019.

As at December 31, 2020 and 2019, the distribution of the plan is as follows:

	2020	2019
Equity securities	9.44%	27%
Debt securities	80.56%	46%
Cash and cash equivalents	10%	27%
Loans and receivables	0%	0%
	<b>100%</b>	<b>100%</b>

## 29. Income Taxes

The major components of provision for income tax for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Current		
Regular	P 3,968,039	P 12,806,490
Final	7,163,522	8,249,750
Deferred	1,732,017	4,030,124
	<b>P 12,863,578</b>	<b>P 25,086,364</b>

The reconciliation of tax on pretax income computed at the applicable statutory rates to tax expense is as follows:

	2020	2019
Statutory income tax	P 18,984,941	P 28,727,598
Adjustments for:		
Income subject to final tax	(9,925,878)	(11,872,967)
Non-deductible expenses	2,072,498	4,201,609
Effect of deferred income tax	1,732,017	4,030,124
Actual provision for income tax	<b>P 12,863,578</b>	<b>P 25,086,364</b>

Significant component of Company's deferred tax assets and liabilities recognized in the financial statements is as follows:

	2020	2019
<b>Deferred tax assets</b>		
Claims and losses incurred but not reported	P 5,619,392	P 4,839,724
Allowance for impairment of financial assets	336,000	336,000
Allowance for impairment of receivables	198,734	198,734
	<b>P 6,154,126</b>	<b>P 5,374,458</b>
<b>Deferred tax liabilities</b>		
Deferred acquisition cost - net	P 9,305,886	P 6,794,201
Unrealized foreign exchange gain	1,900,509	1,900,509
Unrealized gain on fair value change of investment property	1,496,816	1,496,816
Revaluation surplus on:		
Land and building	27,915,748	28,039,693
AFS	842,134	885,330
	<b>P 41,461,093</b>	<b>P 39,116,549</b>

The movements of deferred tax assets and liabilities are as follows:

	As of December 31, 2020					
	Beginning	Changes taken to		Equity	Ending	
		Profit and loss				
Deferred tax assets	P 5,374,458	P 779,668	P -	P 6,154,126		
Deferred tax liabilities	(39,116,549)	(2,511,685)	167,141	(41,461,093)		
	P (33,742,091)	P (1,732,017)	P 167,141	P (35,306,967)		

*Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*

On February 1, 2021, the Bicameral Conference Committee, approved the House Bill No. 4157 and Senate Bill No.1357 (the CREATE) which seeks to reduce the corporate income tax rates and to rationalize the current fiscal incentives by making it time-bound, targeted and performance-based. CREATE pursues to dynamically fight the effects of COVID-19 and help businesses to recover as quickly as possible.

Among the reforms provided under CREATE Act are the following:

- i. Reduction in current income tax rate effective July 1, 2020 as follows:
  - Those with assets amounting to P100 million and below, and with taxable income equivalent to P5 million and below will be subjected to a 20% tax rate.
  - Those with assets above P100 million or those with taxable income amounting to more than P5 million will be subjected to a 25% tax rate.
- ii. Effective July 1, 2020 until June 30, 2023, the MCIT rate shall be one percent (1%)

In accordance with PAS 12- Income taxes, if a bill is passed into law after the reporting date but before the issuance of the audited financial statements, it is treated as a non-adjusting event, hence the Company still applied the 30% statutory tax rate in the calculation of income taxes.

Had the new income tax rate been applied in the accompanying financial statements, the effect is :

	Increase(decrease)
Deferred tax assets	P (129,945)
Deferred tax liabilities	(418,614)
Other Assets (Creditable Withholding Tax)	(330,670)
Income tax expense:	
Current	(330,670)
Deferred	(288,669)

### 30. Other Significant Matters

*Contingencies*

In the normal course of business, the Company may become defendant in lawsuits involving settlement of insurance claims. The Company recognized adequate provisions in its books to cover possible losses that may be incurred on these claims. In the opinion of management, liabilities arising from these claims, if any, will not have material effect on the Company's financial position and will have no material impact in the financial statements, taken as a whole.

*Operating leases*

Company as lessor

Portion of the company's provincial branches are leased out to third parties. Future minimum rentals receivable under the operating leases as at December 31, 2020 and 2019 are as follows:

	2020	2019
Within one year	P 6,267,832	P 6,386,632
More than one year but less than five years	17,731,020	14,812,126
	<b>P 23,998,851</b>	<b>P 21,198,758</b>

Company as a lessee

The company enters into a rent agreement for the lease of certain provincial branches. Lease contract covers a period of 1 year, renewable at the option of both parties. Rent expense charged to operations amounted to P226,859 in 2020 and P312,414 in 2019.

*Related party transactions*

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The related party transactions are recognized based on transfer of resources or obligations between related parties, regardless of whether a price is charged.

Related party transaction consists of compensation to key management personnel as follows:

	2020	2019
Compensation and benefits	P 5,909,202	P 7,985,292
Retirement benefits	240,000	398,187
	<b>P 6,149,202</b>	<b>P 8,383,479</b>

*Current and non-current distinction*

The Company's current assets and current liabilities are presented below:

	2020	2019
<b>Current assets</b>		
Cash and cash equivalents	P 85,453,158	P 63,447,238
Short-term investments	60,126,578	59,798,005
FVPL	10,732,072	19,809,898
HTM	135,006,206	146,519,514
Insurance and reinsurance assets	11,144,338	22,103,998
Accrued investment income	5,484,365	8,669,785
Deferred acquisition costs	15,613,540	23,530,916
	<b>P 323,560,257</b>	<b>P 343,879,354</b>
<b>Current liabilities</b>		
Accounts payable and accrued expenses	P 49,906,367	P 46,708,956
Reinsurance liabilities	6,348,697	7,560,452
Insurance claims payable	42,739,576	52,552,627
Reserve for unearned premiums	71,709,765	100,670,967
Deferred commission income	428,671	883,579
	<b>P 171,133,076</b>	<b>P 208,376,581</b>

Applying PFRS 9 *Financial Instruments* with PFRS 4 *Insurance Contracts* (Amendments to IFRS 4)

*Qualifying for temporary exemption from PFRS 9*

The Company applied the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4 *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts* issued in September 2016. The temporary exemption permits entities whose activities are predominantly connected with insurance to continue applying PAS 39 rather than PFRS 9 for annual periods beginning before January 1, 2022.

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

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

The predominance assessment is performed using the carrying amounts of liabilities reported on the statement of financial position at the annual reporting December 31, 2017. Applying the requirements, the Company performed the predominance assessment using the Company's statement of financial position as of December 31, 2017.

The Company concluded that it qualified for the temporary exemption from PFRS 9 because its activities are predominantly connected with insurance. As at December 31, 2017, the Company's gross liabilities arising from contracts within the scope of PFRS 4 represented 81% of the total carrying amount of all its liabilities, and the Company did not engage into any significant activities not connected with insurance. Since December 31, 2017, there has been no change in the activities of the Company that requires reassessment of the use of the temporary exemption.

*Fair value disclosures*

The table below presents an analysis of the fair value of classes of financial assets as of December 31, 2020, as well as the corresponding change in fair value for the year ended December 31, 2020. In the table, the amortized costs of cash and cash equivalents and short-term receivables have been used as reasonable approximations to fair value. The financial assets are divided into two categories:

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



	SPPI financial assets		Other financial assets	
	Fair value	Fair value change	Fair value	Fair value change
Cash, cash equivalents and short-term investments	P 145,464,736	P -	P -	P -
FVPL	-	-	10,732,072	-
AFS	-	-	321,982,568	13,477,254
HTM	715,891,751	10,453,448	-	-
Insurance balance receivable				
Direct assumed accounts	9,284,924	-	-	-
Reinsurance assets	428,221	-	-	-
Accrued investment income	5,484,364	-	-	-
Other assets	590,421	-	-	-
	<u>P 877,144,417</u>	<u>P 10,453,448</u>	<u>P 332,714,640</u>	<u>P 13,477,254</u>

\*excluding cash on hand

#### *Credit Risk Disclosures*

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

		High grade	Standard grade	Past due but not impaired
Cash and cash equivalents (including short-term investments)*	P	136,936,748	P 8,527,988	P -
Financial assets				
HTM		705,438,303	-	-
Insurance balances receivable			9,284,924	
Reinsurance assets		-	-	428,221
Accrued investment income		5,484,364	-	-
Other assets		394,578	195,842	-
	<u>P</u>	<u>848,253,993</u>	<u>P 18,008,754</u>	<u>P 428,221</u>

\*excluding cash on hand

The following table provides information on the fair value and carrying amount under PAS 39 for those SPPI assets other than low credit risk as determined by the Company. The carrying amounts are measured in accordance with PAS 39. For assets measured at amortized cost, the carrying amount shown is before any allowance for impairment loss.

	Fair value	Carrying amount
Cash, Cash equivalents and short-term investments	P 145,464,736	P 145,464,736
HTM	715,891,751	705,438,303
Insurance balances receivable		
Direct assumed accounts	9,284,924	9,284,924
Reinsurance assets	428,221	428,221
Accrued investment income	5,484,365	5,484,365
Other assets	590,421	590,421
	<u>P 877,144,418</u>	<u>P 866,690,970</u>

\*excluding cash on hand

#### Effect of Covid-19 Pandemic

On March 11, 2020, the World Health Organization declared a global pandemic as a result of increasing number of COVID-19 cases worldwide. This was followed by the President of

Philippines' issuance of Presidential Proclamation Order No. 929 declaring a State of Calamity in the Country from the COVID-19 outbreak.

Different quarantine classifications were imposed nationwide which resulted to disruptions in business and economic activities and their impact on business continue to evolve. Internally, the Company continues to adapt to these including implementation of the following:

- Work-from-home arrangement for certain office personnel; Online meetings and discussions with officers and employees;
- Use of mobile banking and online platforms for certain financial transactions;

Considering the evolving nature of this outbreak, the Company continues to monitor the situation and will take further actions as necessary and appropriate in response to these economic disruptions and other consequences.

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### 31. Supplementary Information required under Revenue Regulation 15-2010

The Bureau of Internal Revenue (BIR) issued Revenue Regulation 15-2010 which requires additional tax information to be disclosed in the Notes to Financial Statements. The following information covering the calendar year ended December 31, 2020 is presented in compliance thereto.

- The details of VAT output tax declared in the Company's 2020 VAT returns and their related accounts are as follows:

	Amount subject to VAT	Output tax
Premiums	P 154,792,033	P 18,575,044
Commission	1,851,669	222,200
Rental income	5,764,383	691,726
	P 162,408,085	P 19,488,970

- The VAT input tax claimed is broken down as follows:

Balance at the beginning of the year	P	-
Current year' domestic purchases/payments for:		
Goods		792,254
Services		2,772,081
Applied against output tax		(3,564,335)
	P	-

- The premium tax on personal accident insurance paid and accrued amounted to P8,423
- The documentary stamp tax paid/accrued for insurance policies is P18,800,000
- The amounts of withholding tax payments, by category are as follows:

Tax on compensation and benefits	P	1,755,470
Expanded withholding tax		3,345,423

- As at December 31, 2020 the Company has no pending tax cases within and outside the administration of the BIR.

- The details of taxes and licenses presented under administrative expenses in the Company's statements of income are as follows:

Local business taxes	P	1,275,690
Real estate tax		726,525
Fringe benefit tax		138
Community tax certificate		10,500
Others		980,825
	P	2,993,678