PERLA COMPAÑIA DE SEGUROS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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 2nd 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, 2021 and 2020 were authorized for issue by the Board of Directors on March 30, 2022.

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. It also includes pronouncement issued by SEC.

Basis of Financial Statement Preparation and Presentation
The accompanying financial statements have been prepared on a historical cost basis except for following which are carried at fair values:

- Fair value through profit or loss
- Available for sale financial assets
- Land and building included under property and equipment
- Condominium unit included under investment property

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.

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.

Current versus non-current classification
The Company presents assets and liabilities in the statements of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading; ·
- Expected to be realized within twelve months after the end of the reporting period; or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the end of the reporting period.

The Company classifies all other assets as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the end of the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the end of the reporting period.

The Company classifies all other liabilities as non-current.

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 inconsistently 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, 2021, and 2020, financial assets under this category amounted to P16,134,770 and P10,732,072, 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, 2021, and 2020, financial assets under this category amounted to P386,571,131 and P321,982,568, 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, 2021, and 2020, financial assets under this category amounted to P663,891,554 and P705,438,303, respectively.
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- 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.

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 it 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 24th method based on gross premiums written. Under the 24th 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 exists 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. Revenue is measured at the transaction price which the entity expects to be entitled in exchange for a good or service. 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 24th 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.

4. Changes in Accounting Standards and Disclosures

New Accounting Standards and Amendments to Existing Standards Effective as of January 1, 2021
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments to PFRS effective beginning January 1, 2021. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Unless otherwise indicated, adoption of these new standards did not have an impact on the financial statements of the Company.

Amendments to PFRS 16, *Leases – COVID-19-Related Rent Concessions Beyond June 30, 2021*
The amendment provides 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, 2022; 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 is effective for annual reporting periods beginning on or after April 1, 2021. Early adoption is permitted. The Company adopted the amendments beginning April 1, 2021. As there are no rent concessions granted to the Company as a lessee, these amendments had no impact on the financial statements.

Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4 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

- 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

The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply retrospectively. These amendments had no impact on the financial statements of the Company.

New Accounting Standard, Amendments to Existing Standards and Interpretations Effective Subsequent to December 31, 2021
The standards, amendments and interpretations which have been issued but not yet effective as at December 31, 2021 are disclosed below. Except as otherwise indicated, the Company does not expect the adoption of the applicable new and amended PFRS to have a significant impact on its financial position or performance.

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.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and must be applied prospectively.

Amendments to PAS 16, *Property, Plant and Equipment – Proceeds before Intended Use*
The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before the asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2 *Inventories.*

The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

For the sale of items that are not part of a Company's ordinary activities, the amendments require the company to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of comprehensive income. This disclosure is not required if such proceeds and costs are presented separately in the statement of comprehensive income.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The amendments are not expected to have significant impact on the Company's financial statements.

Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contract: Cost of Fulfilling a Contract*

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts.

The amendments are effective for annual periods beginning on or after January 1, 2022. The amendments are not expected to have significant impact on the Company's financial statements.

Annual Improvements to PFRSs (2018-2020 cycle)

The Annual Improvements to PFRSs (2018-2020 cycle) are effective for annual periods beginning or after January 1, 2022 and are not expected to have a significant impact on the Company's financial statements.

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards, Subsidiary as a first-time adopter*
  The amendment permits a subsidiary that applies paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to PFRSs.

- PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*
  The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of PFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

- PFRS 16, *Leases, Lease incentives illustrative example*
  The amendment to Illustrative Example 13 accompanying PFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- PAS 41, *Agriculture, Taxation in fair value measurements*
  The amendment removes the requirement in paragraph 22 of PAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in PFRS 13.

Effective beginning on or after January 1, 2023

Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).
An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023. The amendments are not expected to have a material impact on the Company.

Amendments to PAS 8, *Definition of Accounting Estimates*
The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*
The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

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

The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Company.

Effective beginning on or after January 1, 2024

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, Presentation of Financial Statements, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. However, in November 2021, the International Accounting Standards Board (IASB) tentatively decided to defer the effective date to no earlier than January 1, 2024. The Company is currently assessing the impact the amendments will have on current practice.

Effective beginning on or after January 1, 2025

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.

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, 2021 and 2020 is as follows:

	2021	2020
Fair value through profit or loss	**P 16,134,770**	P 10,732,072
Available-for-sale	**386,571,131**	321,982,568
Held-to-maturity	**663,891,554**	705,438,303

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.

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Investment property, as of December 31, 2021 and 2020, amounted to P26,228,000.

Owner-occupied properties, net of accumulated depreciation and impairment losses amounted to P140,343,915 and P142,262,321 in 2021 and 2020, 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, 2021, and 2020 the appraised value of the Company's Investment property account amounted to P26,228,000.

As of December 31, 2021, and 2020 the Company's property and equipment measured at appraised value has a carrying value of P140,343,915 and P142,262,321, respectively. (see Note 13)

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 2021 and 2020.

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 P140,343,915 and P142,262,321, as at December 31, 2021 and 2020, 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, 2021 and 2020 amounted to P2,411,324 and P6,154,126, 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, 2021, and 2020, there were no impairment losses recognized in the statement of income.

No impairment losses were provided for property and equipment and investment property in 2021 and 2020 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, 2021 and 2020, the carrying values of provision for IBNR amounted to P6,983,654 and P10,994,179, respectively (Note 18).

6. Fair Value Measurement

(i) Financial instruments

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

	2021		2020	
	Carrying value	**Fair value**	Carrying value	Fair value
Category of financial instruments				
FVPL	**P 16,134,770**	**P 16,134,770**	P 10,732,072	P 10,732,072
AFS	**386,571,131**	**386,571,131**	321,982,568	321,982,568
HTM	**663,891,554**	**671,713,778**	705,438,303	715,891,751
Loans and receivable				
Cash and cash equivalents	**125,401,935**	**125,401,935**	85,338,158	85,453,158
Short-term investments	**45,246,746**	**45,246,746**	60,126,578	60,126,578
Insurance and reinsurance balances receivable	**11,494,593**	**11,494,593**	11,144,338	11,144,338
Other receivables	**658,382**	**658,382**	590,421	590,421
Other financial liabilities				
Insurance claims payable	**31,840,707**	**31,840,707**	42,739,576	42,739,576
Accounts payable and accrued expenses	**15,589,888**	**15,589,888**	28,371,572	28,371,572
Reinsurance liabilities	**5,085,684**	**5,085,684**	6,348,697	6,348,697

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

	2021			
	Fair value	Level 1	Level 2	Level 3
Financial instruments measured at fair value				
FVPL				
Treasury bills	P 16,134,770	P 16,134,770	P -	P -
AFS				
Equity securities	191,367,137	191,367,137	-	-
Proprietary membership shares	570,000	-	570,000	-
Unit investment trust funds	116,196,202	-	116,196,202	-
Investment management funds	78,437,792	-	78,437,792	-
Financial instruments for which fair value is disclosed				
HTM				
Government securities	352,741,955	352,741,955	-	-
Corporate securities	318,971,823	318,971,823	-	-
Loans Receivable				
Cash and cash equivalents	125,401,935	-	125,401,935	-
Short-term investments	45,246,746	-	45,246,746	-
Insurance and reinsurance balances receivable	11,494,593	-	-	11,494,593
Other receivables	658,382	-	-	658,382
Other financial liabilities				
Insurance claims payable	31,840,707	-	-	31,840,707
Accounts payable and accrued expenses	15,589,888	-	-	- 15,589,888
Reinsurance liabilities	5,085,684	-	-	5,085,684

	2020			
	Fair value	Level 1	Level 2	Level 3
Financial instruments measured at fair value				
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	-
Financial instruments for which fair value is disclosed				
HTM				
Government securities	319,030,741	319,030,741	-	-
Corporate securities	386,407,562	386,407,562	-	-
Loans Receivable				
Cash and cash equivalents	85,338,158	-	85,338,158	-
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	28,371,572	-	-	28,371,572
Reinsurance liabilities	6,348,697	-	-	6,348,697

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:

Property location	Property description			
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, 2021 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 property and equipment 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:

Property location	Property description			Observable Inputs
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.

Had the land and buildings been carried at cost, it carrying amount would amount to P9,813,681 in 2021 and 2020. The equivalent depreciation of revaluation reserve in buildings are transferred to retained earnings annually. As of December 31, 2021, and 2020, the balance of revaluation reserve on land and buildings amounted to P106,800,752 and P103,697,440 respectively, net of deferred tax effect.

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, 2021 and 2020 is as follows:

	2021			2020		
(000 omitted)	**Gross**	**Share of Reinsurer**	**Net Liability**	Gross	Share of Reinsurer	Net Liability
Motor car	**P 29,531**	**P -**	**P 29,531**	P 36,736	P 258	P 36,478
Fire	**1,518**	**477**	**1,041**	4,896	158	4,738
Marine	**118**	**118**	**-**	654	12	642
Personal accident	**674**	**89**	**585**	454	-	454
	P 31,841	**P 684**	**P 31,157**	P 42,740	P 428	P 42,312

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, 2021 and 2020.

	2021	2020
Cash and cash equivalents and short-term investments*	**P 170,648,681**	P 145,464,736
Financial assets		
FVPL	**16,134,770**	10,732,072
AFS	**386,571,131**	321,982,568
HTM	**663,891,554**	705,438,303
Insurance balance receivable	**10,139,054**	9,284,924
Reinsurance assets	**684,016**	428,221
Accrued investment income	**4,561,542**	5,484,365
Other assets	**1,303,030**	590,421
	P 1,253,933,778	P 1,199,405,610

**Excludes cash on hand of P113,000 in 2021 and P115,000 in 2020.*

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

	As of December 31, 2021				
	Neither past due nor impaired		Past due		
	High grade	Standard grade	but not impaired	Past due & impaired	Total
Cash and cash equivalents (including short-term investments)*	**P 162,275,884**	**P 8,372,797**	**P -**	**P -**	**P 170,648,681**
Financial assets					
FVPL	**16,134,770**	**-**	**-**	**-**	**16,134,770**
AFS	**386,001,131**	**570,000**	**-**	**-**	**386,571,131**
HTM	**663,891,554**	**-**	**-**	**-**	**663,891,554**
Insurance balances receivable	**-**	**9,259,858**	**-**	**879,196**	**10,139,054**
Reinsurance assets	**-**	**-**	**684,016**	**-**	**684,016**
Accrued investment income	**4,561,542**	**-**	**-**	**-**	**4,561,542**
Other assets	**414,668**	**243,714**	**-**	**644,648**	**1,303,030**
	P 1,233,279,549	**P 18,446,369**	**P 684,016**	**P 1,523,844**	**P 1,253,933,778**

Excludes cash on hand of P113,000

	As of December 31, 2020				
	Neither past due nor impaired		Past due		
	High grade	Standard grade	but not impaired	Past due & impaired	Total
Cash and cash equivalents (including short-term investments)*	P 136,936,748	P 8,527,988	P -	P -	P 145,464,736
Financial assets					
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 1,180,398,634	P 18,578,755	P 428,221	-	P 1,199,405,610

**Excludes cash on hand of P115,000*

The credit quality of financial assets is as follows:

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, 2021 and 2020 are presented below:

	Contractual maturities			
2021 (In thousand)	**< 1 year**	**> 1 year < 5 years**	**>5 years**	**Total**
Financial assets that are :				
Cash and cash equivalents (including short-term investments)*	**P 170,649**	**P -**	**P -**	**P 170,649**
FVPL	**16,135**	**-**	**-**	**16,135**
HTM	**175,043**	**383,168**	**105,680**	**663,891**
Insurance balances receivable	**9,260**	**-**	**-**	**9,260**
Reinsurance assets	**684**	**-**	**-**	**684**
Accrued investment income	**4,562**	**-**	**-**	**4,562**
Advances to employees	**79**	**-**	**-**	**79**
Deposits	**1,084**	**-**	**-**	**1,084**
Financial liabilities:				
Accounts payable and accrued expenses	**15,590**	**-**	**-**	**15,590**
Reinsurance liabilities	**5,086**	**-**	**-**	**5,086**

2020 (In thousand)	Contractual maturities < 1 year	> 1 year < 5 years	>5 years	Total
Cash and cash equivalents (including short-term investments)*	P 145,465	P -	P -	P 145,465
FVPL	10,732	-	-	10,732
HTM	135,006	462,601	107,831	705,438
Insurance balances receivable	9,285	-	-	9,285
Reinsurance assets	428	-	-	428
Accrued investment income	5,484	-	-	5,484
Advances to employees	100	-	-	100
Deposits	350	-	-	350
Financial liabilities:				
Accounts payable and accrued expenses	28,372	-	-	28,372
Reinsurance liabilities	6,349	-	-	6,349

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, 2021 and 2020 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:

	2021		2020	
	Phil. Peso	**US $**	Phil. Peso	US $
Cash, cash equivalents and short-term investments	**P 21,409,421**	**$ 421,661**	P 10,757,052	$ 223,998
AFS investments	**19,032,379**	**374,845**	19,032,379	396,318
Accrued investment income	**38,541**	**759**	38,541	803
	P 40,480,341	**$ 797,265**	P 29,827,972	$ 621,119

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	**2021**	**+ 0.60 million**	**+ 1.39 million**
-2		**- 0.60 million**	**- 1.39 million**
+2	2020	+ 0.32 million	+ 1.11 million
-2		- 0.32 million	- 1.11 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:

		As of December 31, 2021		
		Due in		
	Interest rate	**< 1 year**	**> 1 year but <5 years**	**> 5 years**
Financial assets that are:				
Cash, cash equivalents and short-term investments*	**0.250% to 0.625%**	**P 170,648,681**	**P -**	**P -**
FVPL	**1.58% to 1.85%**	**16,134,770**	**-**	**-**
HTM	**2.38% to 6.94%**	**175,043,056**	**383,167,856**	**105,680,642**

		As of December 31, 2020		
		Due in		
	Interest rate	< 1 year	> 1 year but <5 years	> 5 years
Financial assets that are:				
Cash, cash equivalents and short-term investments*	0.375% to 0.625%	P 145,464,736	P -	P -
FVPL	1.58% - 1.85%	10,732,072	-	-
HTM	2.38% to 6.94%	135,006,206	462,600,998	107,831,099

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
2021	**+ 200**	**P**	**16,165,461**
	- 200		**(16,165,461)**
2020	+ 200	P	16,486,332
	- 200		(16,486,332)

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 P15.86 million in 2021 and P14.47 million in 2020. 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, 2021 and 2020.

		2021		2020
Share capital	**P**	**250,000,000**	P	250,000,000
Contributed surplus		**33,000**		33,000
Retained earnings		**913,849,974**		839,611,718
	P	**1,163,882,974**	P	1,089,644,718

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 networth	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, 2020 the Company is in compliance with the required minimum net worth requirements. As of December 31, 2021 the company 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 requried 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, 2021 and 2020 revealed the following:

		2021		2020
Networth	**P**	**1,276,893,573**	P	1,171,274,328
RBC requirement		**134,795,129**		131,727,931
RBC ratio		**947%**		889%

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:

		2021		2020
Cash on hand	**P**	**113,000**	P	115,000
Cash in banks		**42,401,935**		37,318,519
Short-term bank placements		**83,000,000**		48,019,639
Cash and cash equivalents	**P**	**125,514,935**	P	85,453,158
Short-term investments	**P**	**45,246,746**	P	60,126,578

Cash in bank and short-term bank placements earn interest at prevailing bank interest rates. Interest income earned on these deposits amounted to P793,435 in 2021 and P1,884,905 in 2020. (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 0.250% to 0.625% in 2021 and 0.375% to 0.625% in 2020.

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, 2021			
	FVPL	AFS	HTM	Total
Gross carrying value				
Balance at the beginning of year	P 10,732,072	P 323,102,568	P 705,438,303	P 1,039,272,943
Additions	16,134,770	114,577,606	123,410,000	254,122,376
Disposal/Maturity	(11,000,000)	(74,359,740)	(164,674,168)	(250,033,908)
Amortization of premium	267,928	-	(282,581)	(14,653)
Changes in fair value	-	24,370,697	-	24,370,697
Balance at the end of the year	16,134,770	387,691,131	663,891,554	1,067,717,455
Allowance for impairment losses	-	(1,120,000)	-	(1,120,000)
	P 16,134,770	P 386,571,131	P 663,891,554	P 1,066,597,455

	As of December 31, 2020			
	FVPL	AFS	HTM	Total
Gross carrying value				
Balance at the beginning of year	P 19,809,898	P 299,852,900	P 714,630,606	P 1,034,293,404
Additions	10,732,072	75,759,422	164,139,577	250,631,071
Disposal/Maturity	(20,000,000)	(38,902,888)	(173,019,515)	(231,922,403)
Amortization of premium	190,102	-	(312,365)	(122,263)
Changes in fair value	-	(13,606,866)	-	(13,606,866)
Balance at the end of the year	10,732,072	323,102,568	705,438,303	1,039,272,942
Allowance for impairment losses	-	(1,120,000)	-	(1,120,000)
	P 10,732,072	P 321,982,568	P 705,438,303	P 1,038,152,942

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 1.58% to 1.85% per annum for the years 2021 and 2020. 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, 2021 and 2020 the total face value of Tbills which are due 12 months amounted to P16.03 million and P10.82 million, respectively. Due to its relatively short-term nature, the carrying value amounting to P16.13 million in 2021 and to P10.73 million in 2020 approximates the fair value at year-end.

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:

		2021		2020
Listed equity securities				
Common shares	**P**	**143,146,207**	P	79,350,982
Preferred shares		**48,220,930**		68,093,100
Proprietary membership shares		**570,000**		570,000
Unit investment trust funds		**116,196,202**		97,563,029
Investment management funds		**78,437,792**		76,405,457
	P	**386,571,131**	P	321,982,568

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

		2021		2020
Interest	**P**	**2,396,922**	P	865,506
Dividends		**16,292,346**		14,975,483
Realized gain on sale of AFS		**3,300,804**		129,612

The reconciliation of Revaluation reserve are as follows:

		2021		2020
Balance at beginning of year	**P**	**(14,978,093)**	P	(1,448,317)
Fair value gains(losses) taken to:				
Other comprehensive income (OCI)		**24,221,229**		(13,529,776)
Balance at end of year	**P**	**9,243,136**	P	(14,978,093)

Held-to-Maturity (HTM) Investments

Investments classified as HTM are as follows:

		2021		2020
Government securities				
Fixed-rate treasury notes (FXTN)	**P**	**352,741,955**	P	319,030,741
Corporate debts and bonds		**311,149,599**		386,407,562
	P	**663,891,554**	P	705,438,303

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 2.38% to 6.94%.

Interest earned on HTM investments amounted to P39,060,521 in 2021 and P42,642,797 in 2020. (See Note 24)

Realized gain on this investment amounted to nil in 2021 and P20,254 in 2020. (See Note 24)

The maturity profile of this account is presented below:

Due in:		**2021**		2020
One year	**P**	**175,043,056**	P	135,006,206
More than one year but less than five years		**383,167,856**		462,600,998
Beyond five years		**105,680,642**		107,831,099
	P	**663,891,554**	P	705,438,303

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, 2021 and 2020.

10. Insurance Balances Receivable

The breakdown of this account is as follows:

		2021		2020
Due from agents and brokers	**P**	**7,471,930**	P	6,235,067
Due from ceding companies		**1,398,259**		1,938,603
Funds held by ceding companies		**1,268,865**		1,111,254
		10,139,054		9,284,924
Allowance for probable losses		**(879,196)**		-
	P	**9,259,858**	P	9,284,924

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:

		2021		2020
Reserve for reinsurance premium *(see Note 17)*	**P**	**1,550,719**	P	1,431,193
Reinsurance recoverable on unpaid losses *(see Note 18)*		**684,016**		428,221
	P	**2,234,735**	P	1,859,414

As at December 31, 2021 and 2020, management believes that reinsurance assets are fully recoverable and that no impairment loss is necessary.

12. Investment Property

As of December 31, 2021 and 2020, 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 P459,597 in 2021 and P2,594,831 in 2020.

13. Property and Equipment - net

The breakdown of this account is as follows:

2021	Land*	Building & condominium units*	Furniture, fixtures & office equipment	Transportation equipment	Total
Costs					
At January 1, 2021	**P 93,243,800**	**P 74,566,972**	**P 15,473,293**	**P 26,824,205**	**P 210,108,270**
Additions	**-**	**-**	**690,593**	**-**	**690,593**
At December 31, 2021	**93,243,800**	**74,566,972**	**16,163,886**	**26,824,205**	**210,798,863**
Accumulated depreciation and and impairment losses					
At January 1, 2021	**17,800**	**26,366,108**	**14,637,836**	**26,824,205**	**67,845,949**
Provisions	**-**	**2,065,751**	**543,248**	**-**	**2,608,999**
At December 31, 2021	**17,800**	**28,431,859**	**15,181,084**	**26,824,205**	**70,454,948**
Net Carrying Value					
At December 31, 2021	**P 93,226,000**	**P 46,135,113**	**P 982,802**	**P -**	**P 140,343,915**

**At appraised value*

2020	Land*	Building & condominium units	Furniture, fixtures & office equipment	Transportation equipment	Total
Costs					
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
Accumulated depreciation and and impairment losses					
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
Net Carrying Value					
At December 31, 2020	P 93,226,000	P 48,200,864	P 835,457	P -	P 142,262,321

**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 P3,963,328 in 2021 and to P3,169,552 in 2020.

Depreciation of property and equipment charged to operations amounted to P2,608,999 in 2021 and P3,183,033 in 2020.

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

Movements of this account during the year are as follows:

2021		**Deferred commision expense**		**Deferred commision income**		**Net DAC**
Balances, beginning	**P**	**15,613,540**	**P**	**428,671**	**P**	**15,184,869**
Net changes in acquisition cost		**(549,969)**		**72,152**		**(622,121)**
	P	**15,063,571**	**P**	**500,823**	**P**	**14,562,748**

2020		Deferred commision expense		Deferred commision income		Net DAC
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)
	P	15,613,540	P	428,671	P	15,184,869

As at December 31, 2021 and 2020, management believes that DAC are fully recoverable and that no impairment loss is necessary.

15. Accrued Investment Income

The sources of this account are as follows:

		2021		2020
Interest				
Cash and cash equivalents	**P**	**140,162**	P	65,939
Debt instruments		**4,087,827**		4,706,741
Short-term investments		**137,573**		175,405
Dividends		**195,980**		536,280
	P	**4,561,542**	P	5,484,365

16. Other Assets

This account consists of:

		2021		2020
Advances to employees	**P**	**78,725**	P	100,154
Deposits and others		**1,084,138**		994,748
Security fund		**140,167**		140,167
		1,303,030		590,421
Allowance for probable losses		**(644,648)**		(644,648)
	P	**658,382**	P	590,421

Advances to employees are cash advances made by the employees.

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:

	2021			2020		
	Direct business	**Ceded**	**Net**	Direct business	Ceded	Net
Balances, Janaury 1	**P 71,709,765**	**P 1,431,193**	**P 70,278,572**	P 100,670,967	P 2,766,289	P 97,904,678
Policies written during the year	**158,163,097**	**5,169,155**	**152,993,942**	156,959,822	2,299,437	154,660,385
Premiums earned during the year	**(164,311,343)**	**(5,049,629)**	**(159,261,714)**	(185,921,024)	(3,634,533)	(182,286,491)
	P 65,561,519	**P 1,550,719**	**P 64,010,800**	P 71,709,765	P 1,431,193	P 70,278,572

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 24th 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, 2021 and 2020 is as follows:

	Gross	
	2021	2020
UPR	**P 65,561,519**	P 71,709,765
URR		
Best estimate of future obligation	**19,182,594**	20,540,467
Maintenance expenses	**16,002,700**	17,569,643
Claims handling expense	**940,277**	319,173
Margin for adverse deviation	**10,548,072**	11,338,179
	46,673,643	49,767,462
Premium Liability (whichever is higher)	**P 65,561,519**	P 71,709,765

	Net	
	2021	2020
UPR	**P 64,010,800**	P 70,278,572
URR		
Best estimate of future obligation	**18,805,533**	20,338,458
Maintenance expenses	**16,002,700**	17,569,643
Claims handling expense	**940,277**	319,173
Margin for adverse deviation	**10,487,266**	11,388,592
	46,235,776	49,615,866
Premium Liability (whichever is higher)	**P 64,010,800**	P 70,278,572

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:

	2021			2020		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Balances, January 1	**P 42,739,576**	**P 428,221**	**P 42,311,355**	P 52,552,627	P 969,697	P 51,582,930
Claims and losses incurred - net of recoveries	**70,961,404**	**255,795**	**70,705,609**	92,824,762	(541,476)	93,366,238
Provision for incurred but not reported claims	**(10,715,764)**	**684,016**	**(11,399,780)**	(14,738,535)	428,221	(15,166,756)
Claims and losses paid - net of recoveries	**(71,144,509)**	**(684,016)**	**(70,460,493)**	(87,899,278)	(428,221)	(87,471,057)
	P 31,840,707	**P 684,016**	**P 31,156,691**	P 42,739,576	P 428,221	P 42,311,355

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, 2021, MfAD is set to 75% for the year ended December 31, 2021 and 2020, respectively.

The actuarial valuation result for claims liabilities as of December 31, 2021 and 2020 is as follows:

	Gross	
	2021	2020
Outstanding claims reserve	**P 21,124,941**	P 24,008,271
Claims handling expense	**523,647**	424,886
IBNR	**6,983,654**	10,994,179
MfAD	**3,208,465**	7,312,240
	P 31,840,707	P 42,739,576

	Net of Reinssurance	
	2021	2020
Outstanding claims reserve	**P 21,124,941**	P 23,580,050
Claims handling expense	**523,647**	424,886
IBNR	**6,436,441**	10,994,179
MfAD	**3,071,661**	7,312,240
	P 31,156,690	P 42,311,355

19. Accounts Payable and Accrued Expenses

This account consists of:

		2021		2020
Accrued and other liabilities	**P**	**13,122,816**	P	9,191,634
Commissions payable		**6,996,245**		17,928,243
Taxes payable		**6,960,850**		20,527,299
Income tax payable		**3,613,209**		2,510,747
	P	**30,693,120**	P	50,157,923

The terms and conditions of these accounts are as follows:

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

Management believes that the carrying amounts are the reasonable approximation of their fair values as at December 31, 2021 and 2020.

20. Reinsurance Liabilities

The movements of this account are as follows:

		As of December 31, 2021				
		Due to reinsurers		**Funds held for reinsurers**		**Total**
Balance at the beginning	**P**	**4,281,717**	**P**	**2,066,980**	**P**	**6,348,697**
Additions		**627,751**		**213,058**		**840,809**
Reductions		**(2,062,241)**		**(41,581)**		**(2,103,822)**
Balance at the end of year	**P**	**2,847,227**	**P**	**2,238,456**	**P**	**5,085,684**

		As of December 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

21. Equity

Share Capital
The Company's capital structure as at December 31, 2021 and 2020 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, 2021 and 2020, 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	Impact on income				Impact on equity			
loss ratio		**2021**		2020		**2021**		2020
+5%	**P**	**2,986,143**	P	3,891,892	**P**	**2,090,300**	P	2,724,324
-5%		**(2,986,143)**		(3,891,892)		**(2,090,300)**		(2,724,324)

Loss development table

Loss development table gross of reinsurer's share of losses and claims for 2021 and 2020 is as follows:

Gross Losses and Claims Payable for 2021

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
2012	P 147,299	P 136,164	P 130,956	P 130,557	P 130,692	P 130,692	P 130,692	P 130,792	P 130,692	P 130,692	P 130,692
2013	137,548	141,271	122,221	122,691	122,791	122,529	123,352	123,252	123,252		123,252
2014	139,185	102,705	105,859	105,788	103,664	103,073	103,046	102,660			102,660
2015	172,952	135,260	132,743	127,188	127,317	127,161	126,377				126,377
2016	167,779	188,341	125,967	112,660	112,063	111,954					111,954
2017	75,448	95,139	94,839	94,425	94,440						94,440
2018	95,298	98,235	89,769	87,854							87,854
2019	66,750	85,462	78,598								78,598
2020	67,760	63,854									63,854
2021	63,125										63,125
Total	63,125	63,854	78,598	87,854	94,440	111,954	126,377	102,660	123,252	130,692	982,804
Provision for IBNR	6,984	-	-	-	-	-	-	-	-	-	6,984
Cumulative payments to date	(38,268)	(63,854)	(78,598)	(87,854)	(94,440)	(111,954)	(126,377)	(102,660)	(123,252)	(130,692)	(957,947)
Liability recognized in the statement of financial position	P 31,841	P -	P -	P -	P -	P -	P -	P -	P -	P -	P 31,841

Net Losses Claims Payable for 2021

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
2012	P 127,926	P 136,164	P 130,956	P 130,557	P 130,692	P 130,692	P 130,692	P 130,692	P 130,692	P 130,692	P 130,692
2013	135,949	141,122	122,105	122,691	122,791	122,529	123,352	123,252	123,252		123,252
2014	139,185	102,705	105,588	105,517	103,394	103,073	102,776	102,660			102,660
2015	171,995	135,102	132,586	127,031	127,170	127,003	126,377				126,377
2016	167,779	188,341	125,967	112,660	112,063	111,954					111,954
2017	75,448	95,139	94,839	94,425	94,440						94,440
2018	95,298	98,235	89,769	87,854							87,854
2019	66,569	85,462	78,598								78,598
2020	67,760	61,680									61,680
2021	63,125										63,125
Total	63,125	61,680	78,598	87,854	94,440	111,954	126,377	102,660	123,252	130,692	980,630
Provision for IBNR	6,436	-	-	-	-	-	-	-	-	-	6,436
Cumulative payments to date	(38,268)	(61,680)	(78,598)	(87,854)	(94,440)	(111,954)	(126,377)	(102,660)	(123,252)	(130,692)	(955,773)
Liability recognized in the statement of financial position	P 31,293	P -	P -	P -	P -	P -	P -	P -	P -	P -	P 31,293

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 claims
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 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
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

23. Premiums

Analysis of premiums is as follows:

2021		Direct Business		Assumed		Total		Ceded		Net premiums Retained
Premiums written	P	158,163,097	P	5,169,155	P	163,332,252	P	7,598,066	P	155,734,186
Changes in unexpired risk		7,128,191		(979,944)		6,148,247		(119,526)		6,267,773
Net	P	165,291,288	P	4,189,211	P	169,480,499	P	7,478,540	P	162,001,959

2020		Direct Business		Assumed		Total		Ceded		Net premiums 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

24. Interest and Other Investment Income

Other investment income consists of:

		2021		2020
Dividend income (*see Note 9*)	**P**	**16,292,346**	P	14,975,483
Rental income *(see Notes 12 and 13)*		**4,422,925**		5,764,383
Realized gain on sale of available-for-sale investments *(see Note 9)*		**3,300,804**		129,612
Gain (Loss) on foreign exchange		**2,070,867**		(3,404,023)
Realized gain on sale of held-to-maturity *(see Note 9)*		**-**		20,254
Miscellaneous Income		**1,755**		-
	P	**26,088,697**	P	17,485,709

Sources of interest income are as follows:

		2021		2020
Cash, cash equivalents (see *N*ote 8)	**P**	**793,435**	P	1,884,905
Other debt instruments				
Available-for-sale debt securities *(see Note 9)*		**2,396,922**		865,506
Held-to-maturity debt securities *(see Note 9)*		**39,060,521**		42,642,797
	P	**42,250,878**	P	45,393,208

25. Claims, Losses and Adjustment Expenses

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

	For the year ended December 31, 2021									
		Direct		**Assumed**		**Total**		**Recoveries**		**Net**
Claims and losses	**P**	**69,992,979**	**P**	**693,771**	**P**	**70,686,750**	**P**	**(684,016)**	**P**	**70,002,734**
Loss adjustment expenses		**457,759**		**-**		**457,759**		**-**		**457,759**
	P	**70,450,738**	**P**	**693,771**	**P**	**71,144,509**	**P**	**(684,016)**	**P**	**70,460,493**

	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

26. Commission Expense and Commission Income

The composition of this account is as follows:

	2021		2020	
	Commision expense	Commission income	Commision expense	Commission income
Direct business	P 44,404,170	P -	P 46,330,458	P -
Reinsurance business	1,048,233	2,798,339	363,042	2,295,528
Total	45,452,403	2,798,339	46,693,500	2,295,528
Increase/(Decrease) in DAC/DCI *(see Note 14)*	549,969	(72,152)	7,917,376	454,908
	P 46,002,372	P 2,726,187	P 54,610,876	P 2,750,436

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:

	2021	2020
Salaries and allowances	P 29,668,797	P 29,371,903
Professional fees	2,888,177	2,571,462
Depreciation *(See Note 13)*	2,608,999	3,183,033
Association and pool dues	2,089,974	1,951,638
Rental and other occupancy costs	2,042,873	1,878,037
Other employee benefits	2,008,330	1,869,535
Transportation	1,520,239	1,509,314
Repairs and maintenance	1,365,009	1,153,361
Taxes and licenses	1,355,323	2,993,678
Supplies	975,769	674,533
Provision for probable losses	879,196	-
Communication and postage	838,546	868,165
Advertising	614,343	249,288
Representation and entertainment	273,682	555,703
Professional development	22,347	68,224
Miscellaneous expense	1,879,985	1,306,859
	P 51,031,589	P 50,204,733

Miscellaneous expense represents payments of advertisements and other marketing related expenses and printing of policy forms.

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 P2,120,313 in 2021 and P253,919 in 2020.

As at December 31, 2021 and 2020, the distribution of the plan is as follows:

	2021	2020
Equity securities	**14%**	9%
Debt securities	**71%**	81%
Cash and cash equivalents	**14%**	10%
Loans and receivables	**1%**	0%
	100%	100%

29. Income Taxes

The major components of provision for income tax for the years ended December 31, 2021 and 2020 are as follows:

		2021		2020
Current				
Regular	**P**	**4,524,366**	P	3,968,039
Final		**6,809,380**		7,163,522
Deferred		**(7,195,347)**		1,732,017
	P	**4,138,399**	P	12,863,578

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

		2021		2020
Statutory income tax	**P**	**19,077,726**	P	18,984,941
Adjustment due to change in tax rate		**(330,670)**		-
Adjustments for:				
Income subjected to final tax		**(15,466,071)**		(9,925,878)
Non-deductible expenses		**857,414**		3,804,515
Actual provision for income tax	**P**	**4,138,399**	P	12,863,578

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

		2021		2020
Deferred tax assets				
Claims and losses incurred but not reported	**P**	**1,745,913**	P	5,619,392
Allowance for impairment of financial assets		**280,000**		336,000
Allowance for impairment of receivables		**385,411**		198,734
		2,411,324		6,154,126
Deferred tax liabilities				
Deferred acquisition cost - net		**-**		9,305,886
Unrealized foreign exchange gain		**517,716**		1,900,509
Unrealized gain on fair value change of investment property		**1,247,346**		1,496,816
Revaluation surplus on:				
Land and building		**22,746,686**		27,915,748
AFS		**-**		842,134
		24,511,748		41,461,093
Net Deferred tax liabilities	**P**	**22,100,424**	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.

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, 2021 and 2020 are as follows:

		2021		2020
Within one year	**P**	**6,220,499**	P	6,267,832
More than one year but less than five years		**18,673,831**		17,731,020
	P	**24,894,330**	P	23,998,852

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 P248,464 in 2021 and P226,859 in 2020.

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:

		2021		2020
Compensation and benefits	**P**	**5,910,500**	P	5,909,202
Retirement benefits		**240,000**		240,000
	P	**6,150,500**	P	6,149,202

Current and non-current distinction
The Company's current assets and current liabilities are presented below:

		2021		2020
Current assets				
Cash and cash equivalents	**P**	**125,514,935**	P	85,453,158
Short-term investments		**45,246,746**		60,126,578
FVPL		**16,134,770**		10,732,072
HTM		**175,043,206**		135,006,206
Insurance and reinsurance assets		**11,494,593**		11,144,338
Accrued investment income		**4,561,542**		5,484,365
Deferred acquisition costs		**15,063,571**		15,613,540
	P	**393,059,363**	P	323,560,257
Current liabilities				
Accounts payable and accrued expenses	**P**	**30,693,120**	P	50,157,923
Reinsurance liabilities		**5,085,684**		6,348,697
Insurance claims payable		**31,840,707**		42,739,576
Reserve for unearned premiums		**65,561,519**		71,709,765
Deferred commission income		**500,823**		428,671
	P	**133,681,853**	P	171,384,632

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, 2021, as well as the corresponding change in fair value for the year ended December 31, 2021. 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 170,648,681	P -	P -	P -
FVPL	-	-	10,732,072	-
AFS	-	-	386,571,131	-
HTM	671,713,778	7,822,224	-	-
Insurance balance receivable				
Direct assumed accounts	9,259,858	-	-	-
Reinsurance assets	684,016	-	-	-
Accrued investment income	4,561,542	-	-	-
Other assets	658,382	-	-	-
	P 857,526,257	P 7,822,224	P 397,303,203	P -

*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 162,275,884	P 8,372,797	P -
Financial assets			
HTM	663,891,554	-	-
Insurance balances receivable		9,259,858	
Reinsurance assets	-	-	684,016
Accrued investment income	4,561,542	-	-
Other assets	414,668	243,712	-
	P 831,143,648	P 17,876,367	P 684,016

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	170,648,681	P	170,648,681
HTM		671,713,778		663,891,554
Insurance balances receivable				
Direct assumed accounts		9,259,858		9,259,858
Reinsurance assets		684,016		684,016
Accrued investment income		4,561,542		4,561,542
Other assets		658,382		658,382
	P	857,526,257	P	849,704,033

**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 some office personnel; Online meetings and discussions with officers and employees;
- Use of mobile banking and online platforms for 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.

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, 2021 is presented in compliance thereto.

- The details of VAT output tax declared in the Company's 2021 VAT returns and their related accounts are as follows:

		Amount subject to VAT		Output tax
Premiums	P	145,518,297	P	17,462,196
Commission		1,776,877		213,225
Rental income		3,407,784		408,934
	P	150,702,958	P	18,084,355

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

Balance at the beginnning of the year	P	-
Current year' domestic purchases/payments for:		
Goods		1,115,115
Services		2,813,919
Applied against output tax		(3,929,034)
	P	-

- The premium tax on personal accident insurance paid and accrued amounted to P9,555.

- The documentary stamp tax paid/accrued for insurance policies is P20,150,000

- The amounts of withholding tax payments, by category are as follows:

Tax on compensation and benefits	P	1,773,376
Expanded withholding tax		3,674,991

- As at December 31, 2021 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:

Realty Property Tax	P	757,766
Company Certificate of Authority		224,220
Supervision Fee		176,750
Fire Service Tax		64,129
Land and Building Tax		50,080
Annual Statement		40,400
Community Tax Certificate		10,500
Business License Renewal		7,905
Corporate Tax		3,771
Others		19,802
	P	1,355,323