



SECURITIES AND EXCHANGE COMMISSION

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SEC Registration No.: 0000015940

Company Name: PGA SOMPO INSURANCE CORPORATION

Industry Classification: J68200

Company Type: Stock Corporation

Document Information

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Period Covered: December 31, 2020

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COVER SHEET

for AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

P	G	A		S	O	M	P	O		I	N	S	U	R	A	N	C	E		
C	O	R	P	O	R	A	T	I	O	N										

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

5	T	H		F	L	O	O	R		C	O	R	I	N	T	H	I	A	N		P	L	A	Z	A		
B	U	I	L	D	I	N	G		1	2	1		P	A	S	E	O		D	E		R	O	X	A	S	
L	E	G	A	Z	P	I		V	I	L	L	A	G	E		M	A	K	A	T	I		C	I	T	Y	

Form Type

A	F	S		
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Department requiring the report

I	C	T	D
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Secondary License Type, If Applicable

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COMPANY INFORMATION

Company's email Address

compliance@pgasompo.com

Company's Telephone Number

(632) 8811-3417

Mobile Number

09985510308

No. of Stockholders

15

Annual Meeting (Month / Day)

25th Day of April of Each Year

Fiscal Year (Month / Day)

December 31st

CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Marcos C. Delin

Email Address

mdelin@pgasompo.com

Telephone Number/s

(632) 8811-3417

Mobile Number

09399052554

CONTACT PERSON'S ADDRESS

5th Floor Corinthian Plaza, 121 Paseo de Roxas Legaspi Village, Makati City 1229 Philippines
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NOTE 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **PGA SOMPO INSURANCE CORPORATION (formerly PGA Sampo Japan Insurance Inc.)**, is primarily responsible for all information and representations contained in the financial statements for the year ended **December 31, 2020**. The financial statements have been prepared in conformity with **Generally Accepted Accounting Principles** and **Philippine Financial Reporting Standards** and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the company's audit committee and to its external auditor:

- i. All significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process and report financial data;
- ii. Material weaknesses in the internal audit controls; and
- iii. Any fraud that involves management or other employees who exercise significant roles in internal control.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

SyCip Gorres Velayo & Co. (Ernst & Young), the independent auditors and appointed by the stockholders has examined the financial statements of the company in accordance with **Generally Accepted Auditing Standards** in the Philippines, and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and Stockholders of the Company.



ROBERT COYIUTO, JR.
Chairman of the Board



FUMHIKO HARADA
President/Chief Executive Officer



MARIA ROSALINA T. COYIUTO
Senior Vice-President/Chief Finance Officer

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
PGA Sampo Insurance Corporation
5th Floor Corinthian Plaza Building
121 Paseo de Roxas, Legaspi Village
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PGA Sampo Insurance Corporation (the Company), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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



Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

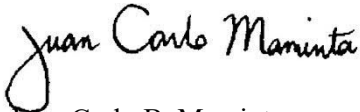
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 29 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of PGA Sampo Insurance Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Juan Carlo B. Maminta
Partner

CPA Certificate No. 115260

Accreditation No. 115260-SEC (Group A)

Valid to cover audit of 2020 to 2024

financial statements of SEC covered institutions

Tax Identification No. 210-320-399

BIR Accreditation No. 08-001998-132-2020,

November 27, 2020, valid until November 26, 2023

PTR No. 8534323, January 4, 2021, Makati City

April 29, 2021



PGA SOMPO INSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2020	2019
ASSETS		
Cash and cash equivalents (Note 4)	₱316,272,486	₱485,242,332
Short-term investments (Note 4)	581,223,713	383,260,111
Insurance receivables - net (Note 5)	762,098,425	644,308,145
Financial assets (Notes 6)		
Financial assets at fair value through profit or loss	40,677,626	93,434,247
Available-for-sale financial assets	88,701,172	97,221,415
Held-to-maturity financial assets	554,866,443	305,126,934
Loans and receivables	104,292,584	96,318,888
Reinsurance assets (Notes 7 and 11)	1,290,485,887	1,999,933,582
Deferred acquisition costs (Note 8)	65,071,993	65,092,175
Property and equipment - net (Note 9)	34,195,970	40,293,286
Deferred tax assets - net (Note 19)	18,477,338	11,897,408
Other assets (Note 10)	49,333,768	43,490,855
TOTAL ASSETS	₱3,905,697,405	₱4,265,619,378
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 11 and 21)	₱1,406,655,317	₱2,116,432,278
Insurance payables (Notes 12)	876,561,959	586,835,537
Accounts payable and accrued expenses (Note 13)	150,092,759	191,573,330
Deferred reinsurance commissions (Note 8)	164,398,510	169,005,260
Lease liabilities (Note 25)	14,024,550	19,858,426
Net pension benefit obligation (Note 14)	9,339,812	5,910,702
Total liabilities	2,621,072,907	3,089,615,533
Equity		
Capital stock - ₱100 par value (Notes 21 and 24)		
Authorized - 15,000,000 shares		
Issued and outstanding - 9,500,000 shares	950,000,000	950,000,000
Contributed surplus	4,666,000	4,666,000
Revaluation reserve on available-for-sale financial assets (Note 6)	51,654,918	58,975,160
Remeasurements on defined benefit plan (Note 14)	(7,408,109)	(5,740,981)
Retained earnings	285,711,689	168,103,666
Total equity	1,284,624,498	1,176,003,845
TOTAL LIABILITIES AND EQUITY	₱3,905,697,405	₱4,265,619,378

See accompanying Notes to Financial Statements.



PGA SOMPO INSURANCE CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31	
	2020	2019
Gross premiums earned (Note 15)	₱2,269,086,003	₱2,105,221,190
Reinsurers' share of gross premiums earned (Note 15)	2,207,021,569	2,021,430,268
Net premiums earned (Notes 11, 15 and 23)	62,064,434	83,790,922
Commission income (Note 8)	361,775,293	357,183,179
Investment and other income - net (Note 16)	48,520,321	48,492,693
Other income	410,295,614	405,675,872
Total income	472,360,048	489,466,794
Gross insurance contract benefits and claims paid (Note 17)	936,465,029	813,999,167
Reinsurers' share of gross insurance contract benefits and claims paid (Note 17)	(906,037,135)	(791,372,146)
Gross change in insurance contract liabilities (Note 17)	(846,601,944)	(558,891,146)
Reinsurers' share of gross change in insurance contract liabilities (Note 17)	846,172,173	578,682,834
Net insurance contract benefits and claims (Notes 11 and 17)	29,998,123	42,418,709
Commission expense (Note 8)	144,637,257	198,169,056
General expenses (Note 18)	86,643,047	101,636,828
Foreign currency exchange losses	28,201,700	17,409,449
Interest expense (Notes 12 and 25)	11,210,477	5,780,899
Other expenses	270,692,481	322,996,232
Total insurance contract and other expenses	300,690,604	365,414,941
INCOME BEFORE INCOME TAX	171,669,444	124,051,853
PROVISION FOR INCOME TAX (Note 19)	51,061,421	33,554,255
NET INCOME	₱120,608,023	₱90,497,598

See accompanying Notes to Financial Statements.



PGA SOMPO INSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2020	2019
NET INCOME	₱120,608,023	₱90,497,598
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>		
Changes in the fair values of available-for-sale financial assets, net of tax (Note 6)	(7,320,242)	8,479,896
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:</i>		
Remeasurement losses on defined benefit plan, net of tax (Note 14)	(1,667,128)	(2,881,204)
Total other comprehensive income	(8,987,370)	5,598,692
TOTAL COMPREHENSIVE INCOME	₱111,620,653	₱96,096,290

See accompanying Notes to Financial Statements.



PGA SOMPO INSURANCE CORPORATION
STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Notes 21 and 24)	Contributed Surplus	Revaluation Reserve on Available-for-sale Financial Assets (Note 6)	Remeasurement on Defined Benefit Plan (Note 14)	Retained Earnings	Total
At January 1, 2020	₱950,000,000	₱4,666,000	₱58,975,160	(₱5,740,981)	₱168,103,666	₱1,176,003,845
Stock issuance cost	–	–	–	–	(3,000,000)	(3,000,000)
Net income for the year	–	–	–	–	120,608,023	120,608,023
Other comprehensive loss	–	–	(7,320,242)	(1,667,128)	–	(8,987,370)
Total comprehensive income for the year	–	–	(7,320,242)	(1,667,128)	120,608,023	111,620,653
At December 31, 2020	₱950,000,000	₱4,666,000	₱51,654,918	(₱7,408,109)	₱285,711,689	₱1,284,624,498
At January 1, 2019	₱650,000,000	₱4,666,000	₱50,495,264	(₱2,859,777)	₱77,606,068	₱779,907,555
Issuances during the year	300,000,000	–	–	–	–	300,000,000
Net income for the year	–	–	–	–	90,497,598	90,497,598
Other comprehensive income	–	–	8,479,896	(2,881,204)	–	5,598,692
Total comprehensive income for the year	–	–	8,479,896	(2,881,204)	90,497,598	96,096,290
At December 31, 2019	₱950,000,000	₱4,666,000	₱58,975,160	(₱5,740,981)	₱168,103,666	₱1,176,003,845

See accompanying Notes to Financial Statements.



PGA SOMPO INSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱171,669,444	₱124,051,853
Adjustments for:		
Interest income (Note 16)	(44,763,430)	(40,171,124)
Provision for credit and impairment losses (Note 5)	7,057,359	6,751,506
Foreign currency exchange losses	28,201,700	17,409,449
Fair value gains on financial assets at fair value through profit or loss (Notes 6 and 16)	(428,344)	(4,108,433)
Depreciation and amortization (Notes 9 and 18)	14,233,035	9,163,530
Dividend income (Note 16)	(2,695)	(373,384)
Interest expense	11,210,477	5,780,899
Retirement expense (Note 14)	3,047,499	1,604,036
Gain on sale of property and equipment (Note 9)	(263,789)	(436,071)
Operating income before working capital changes	189,961,256	119,672,261
Changes in assets and liabilities:		
Decrease (increase) in:		
Reinsurance assets	709,447,695	661,340,942
Insurance receivables	(152,504,891)	38,047,640
Loans and receivables	(6,724,308)	19,912,527
Deferred acquisition costs	20,182	(2,946,981)
Other assets	(49,509,745)	(26,566,722)
Increase (decrease) in:		
Insurance payables	289,726,422	(317,989,922)
Insurance contract liabilities	(709,776,961)	(656,817,090)
Accounts payable and accrued expenses	(45,386,348)	109,987,849
Deferred reinsurance commissions	(4,606,750)	52,318,438
Net cash provided by (used in) operations	220,646,552	(3,041,058)
Interest received	46,449,084	37,736,160
Pension benefits paid	(2,000,000)	(5,000,000)
Dividends received	2,695	373,384
Interest paid	(11,210,476)	(5,066,303)
Net cash provided by operating activities	253,887,855	25,002,183
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal and maturities of:		
Short-term investments (Note 4)	435,424,181	609,990,396
Financial Assets at FVPL (Note 6)	53,184,965	39,094,069
HTM financial assets (Note 6)	—	53,511,419
Property and equipment (Note 9)	597,706	436,071
Acquisitions of:		
Short-term investments (Note 4)	(633,932,231)	(586,213,394)
HTM financial assets (Note 6)	(252,674,551)	(137,206,639)
Property and equipment (Note 9)	(6,252,162)	(12,545,090)
Software (Note 10)	(10,371,733)	(12,017,217)
Net cash used in investing activities	(414,023,825)	(44,950,385)

(Forward)



	Years Ended December 31	
	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of principal portion of lease liabilities (Note 25)	(₱5,833,876)	(₱3,880,165)
Issuance of capital stock (Note 24)	–	300,000,000
Stock issuance cost (Note 24)	(3,000,000)	–
Net cash provided by financing activities	(8,833,876)	296,119,835
NET DECREASE IN CASH AND CASH EQUIVALENTS	(168,969,846)	276,171,633
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF YEAR	485,242,332	209,070,699
CASH AND CASH EQUIVALENTS		
AT END OF YEAR (Note 4)	₱316,272,486	₱485,242,332

See accompanying Notes to Financial Statements



PGA SOMPO INSURANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

PGA Sompo Insurance Corporation (the Company) is a joint venture of two of Asia's leading nonlife insurance organizations, Prudential Guarantee and Assurance Incorporated (PGAI) (through its major shareholders) and Sompo Japan Nipponkoa Holdings, Inc. The Company is engaged in the business and operation of all kinds of insurance on sea, land and air, on properties, goods and merchandise, on transportation or conveyance, against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance.

The Company was registered with the Securities and Exchange Commission (SEC) on September 25, 1959. On July 6, 2009, it was approved by at least a majority of the Board of Directors (BOD) and the stockholders owning and representing at least two-thirds (2/3) of the outstanding capital stock, that the Articles of Incorporation of the Company will be amended to extend the existence of the Company for another fifty (50) years from its original expiry date. The SEC approved the Amended Articles of Incorporation on September 8, 2009. On February 20, 2019, Republic Act No. 1132, otherwise known as the "Revised Corporation Code of the Philippines" or "RCC", was signed into law by President Rodrigo Duterte. The RCC took effect on February 23, 2019. The corporate term of a corporation with certificate of incorporation issued prior to the effectivity of the RCC and which continue to exist, shall be deemed perpetual upon the effectivity of the RCC, without any action on the part of the corporation. As of February 23, 2019, the Company is deemed to have selected a perpetual term.

On August 14, 2014, it was approved by at least a majority of the BOD and by the vote of the stockholders owning or representing at least two-thirds (2/3) of the outstanding capital stock that the Articles of Incorporation of the Company will be amended to change the corporate name from PGA Sompo Japan Insurance, Inc. to PGA Sompo Insurance Corporation. The SEC approved the Amended Articles of Incorporation on January 12, 2015.

The registered office address of the Company is 5th Floor Corinthian Plaza Building, 121 Paseo de Roxas, Legaspi Village, Makati City.

The accompanying financial statements were approved and authorized for issue by the BOD of the Company on April 29, 2021.

2. Summary of Significant Accounting Policies

Basis of Preparation

The financial statements have been prepared using the historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets that have been measured at fair value.

The accompanying financial statements are presented in Philippine Peso (₱), which is also the Company's functional currency. All amounts are rounded off to the nearest peso values, unless otherwise indicated.

Statement of Compliance

The accompanying financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).



Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new accounting pronouncements starting January 1, 2020. The adoption of these pronouncements did not have any significant impact on the Company's financial position or performance.

- Conceptual Framework for Financial Reporting issued on March 29, 2018
- Amendments to PFRS 3, *Business Combinations - Definition of a Business*
- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material*
- Amendments to PFRS 16, *Leases, COVID-19-related Rent Concessions*

Product Classification

Insurance contracts

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts

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

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

Foreign Currency Transactions and Translations

Transactions in foreign currencies are initially recorded in the functional currency of the Company at the foreign exchange rates prevailing at the respective date of transactions. Monetary assets and liabilities denominated in foreign currencies are translated using the functional currency rate of exchange ruling at the reporting date and are not subsequently restated. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

All foreign exchange differences are taken to profit or loss, except where it relates to available-for-sale financial assets which gains or losses are recognized directly in other comprehensive income (OCI). In this case, the gain or loss is then recognized net of the exchange component in the other comprehensive income.



Fair Value Measurement

The Company measures financial assets at FVPL and AFS financial assets at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 22.

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

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

- *Level 1* - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- *Level 2* - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- *Level 3* - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly-liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and are subject to an insignificant risk of changes in value.

Short-term Investments

Short-term investments are short-term placements with maturities of more than three months but less than one year from the date of acquisition. These earn interest at the respective short-term investment rates.



Insurance Receivables

Insurance receivables are recognized on policy inception dates and measured on initial recognition at the fair value of the consideration receivable for the period of coverage. Subsequent to initial recognition, insurance receivables are measured at amortized cost. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss. Insurance receivables are derecognized under the derecognition criteria of financial assets.

Financial Instruments

Date of recognition

Financial instruments are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Initial recognition of financial instruments

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in the case of a liability). Except for financial instruments at FVPL, the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets, loans and receivables and held to maturity (HTM) financial assets. 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 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 end of the reporting period.

As of December 31, 2020 and 2019, the Company's financial instruments are in the nature of financial assets at FVPL, AFS financial assets, loans and receivables, HTM financial assets and other financial liabilities.

Financial assets at FVPL

This category consists of financial assets that are held for trading or designated by management as at FVPL on initial recognition. Derivative instruments, except those covered by hedge accounting relationships, are classified under this category.

Financial assets may be designated at initial recognition as at FVPL if the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or (b) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (c) the financial asset contains an embedded derivative that would need to be separately recorded.

Financial assets at FVPL are recorded in the statement of financial position at fair value, with changes in the fair value recorded in profit or loss. Interest earned or incurred is recorded in interest income or interest expense, respectively, while dividend income is recorded when the right to receive the payment has been established.

The Company's financial assets at FVPL as of December 31, 2020 and 2019 consist of treasury bills and notes denominated in Philippine Peso which were designated as at FVPL upon initial recognition.



AFS financial assets

AFS financial assets are those which are designated as such or do not qualify to be classified as designated as FVPL, HTM or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value.

The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in statement of income. Interest earned on holding AFS debt securities are recorded as interest income under "Investment and other income" account in the statement of income using the EIR.

Dividends earned on holding AFS equity securities are recognized in profit or loss when the right to receive the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as "Revaluation reserve on available-for-sale financial assets" in the equity section of the statement of financial position. The losses arising from impairment are charged to profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in profit or loss.

Where the Company holds more than one investment in the same security, the cost used is determined using the weighted average method.

The Company's AFS financial assets as of December 31, 2020 and 2019 consist of club shares and quoted equity securities which are not held for trading.

HTM financial assets

HTM financial assets are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities which the Company's management has the positive intention and ability to hold to maturity. Where the Company sells other than an insignificant amount of HTM financial assets before their maturity, the entire category would be tainted and reclassified as AFS investments unless for sales or reclassifications that:

- are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

Once tainted, the Company is not permitted to classify any of its financial assets as HTM financial assets for the next two fiscal years after the year of reclassification.

After initial measurement, these investments are subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. Gains and losses are recognized in profit or loss in the statement of income when the HTM financial assets are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized as "Provision for credit and impairment losses" in profit or loss in the statement of income under "General expenses".



Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS or FVPL. This accounting policy relates to the statement of financial position captions “Cash and cash equivalents”, “Short-term investments”, “Insurance receivables” and “Loans and receivables”.

After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate (EIR) method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and fees that are integral part of EIR. The amortization is recorded as part of interest income under “Investment and other income” in the statements of income. The loss arising from impairment of such loans and receivables are recognized in profit or loss.

Other financial liabilities

Issued financial instruments or their components, which are not designated 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 its own equity shares.

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

This accounting policy applies principally to the Company’s “Insurance payables” and “Accounts payable and accrued expenses”.

Impairment of Financial Assets

The Company assesses at each end of the reporting period whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial asset is deemed to be impaired, if and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event), and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

AFS financial assets

In case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in equity - is removed from equity and recognized in the statements of income. Impairment losses on equity investments are not reversed through the statement of profit or loss. Increases in fair value after impairment are recognized directly in OCI.



In case of debt instruments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recognized in profit or loss. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

HTM financial assets

The Company assesses at each statement of financial position date whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted using the financial asset's original EIR. If a financial asset carried at amortized cost has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. Impairment loss is recognized in statement of income.

Loans and receivables

For loans and receivables carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original EIR. Time value is generally not considered when the effect of discounting is not material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against the statement of profit or loss. If, in a subsequent period, the amount of the estimated impairment loss decreases because of 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 profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as past-due status and term.



Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Derecognition of Financial Assets and Liabilities

Financial assets

Financial assets (or where applicable a part of a financial asset or part of a group of a similar financial assets) are derecognized when: (a) the rights to receive cash flows from the asset have expired; (b) 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 under a pass-through arrangement; or (c) the Company has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its right 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 the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

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

Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent recoverable loss balances due from insurance and reinsurance companies and the deferred reinsurance premiums. Recoverable amounts are estimated in a manner consistent with the claims provision and in accordance with the reinsurance contracts.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract, and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment is recorded in the statements of income.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

The Company also assumes reinsurance risk in the normal course of business. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.



Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights have expired, are extinguished or when the contract is transferred to another party.

When the Company enters into a proportional treaty reinsurance agreement for ceding out its insurance business, the Company initially recognizes a liability at transaction price. Subsequent to initial recognition, the portion of the amount initially recognized as a liability, which is presented as “Insurance payables” in the liabilities section of the statement of financial position, will be withheld and recognized as funds held for reinsurers and included also as part of the “Insurance payables” in the liabilities section of the statement of financial position.

Deferred Acquisition Costs (DAC)

Commission and other acquisition costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts are deferred and charged to expense in proportion to the premium revenue recognized. These costs are amortized on a straight-line basis using the 24th method over the life of the contract. Amortization is charged against profit or loss. The unamortized acquisition costs are shown in the assets section of the statement of financial position as “Deferred acquisition costs”. All other acquisition costs are recognized as incurred.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment is charged against the statement of profit or loss. The DAC is also considered in the liability adequacy test for each end of the reporting period.

Property and Equipment

All items of property and equipment, which include owner-occupied properties, are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of the property and equipment comprises its purchase price, nonrefundable taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, are normally charged against income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of the related property and equipment.

It is the Company’s policy to classify right-of-use assets as part of property and equipment. The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.



Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. Right-of-use assets are subject to impairment.

Depreciation is provided on a straight-line basis over the estimated useful lives of the individually significant components of property and equipment. Leasehold improvements are amortized over the shorter of the related lease term or the estimated useful life.

The estimated useful lives of the individually significant components of property and equipment follow:

	Years
Office furniture, fixtures and equipment	5 years
Leasehold improvements	5 years or term of the lease, whichever period is shorter
Transportation equipment	5 years
Computer equipment	5 to 10 years
Right-of-use assets	3 years

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset, which is calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the statement of profit or loss in the year the asset is derecognized.

Computer Software

Costs associated with the acquisition of computer software are capitalized only if the asset can be reliably measured, will generate future economic benefits, and there is an ability to use or sell the asset.

Computer software is carried at cost less accumulated amortization. All computer software components are amortized over ten (10) years. Amortization commences when the asset is available for use or when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Company.

Impairment of Nonfinancial Assets

At each end of the reporting period, the Company assesses whether there is any indication that its nonfinancial assets (e.g., property and equipment) may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.



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

For nonfinancial assets excluding goodwill, an assessment is made at each end of the reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining estimated useful life.

Creditable Withholding Taxes (CWTs)

Creditable withholding taxes pertain to the taxes paid by the Company withheld by its counterparty for the payment of its expenses and other purchases. These CWTs are initially recorded at cost as an asset under "Other assets" account.

At each end of the tax reporting deadline, these CWTs may either be offset against future tax income payable or be claimed as a refund from the taxation authorities at the option of the Company. If these CWTs are claimed as a refund, these will be recorded as a receivable under "Loans and receivables" account.

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

Value-Added Tax (VAT)

The input Value-Added Tax (VAT) pertains to the 12% indirect tax paid by the Company in the course of the Company's trade or business on local purchase of goods or services.

Output VAT pertains to the 12% tax due on the sale of insurance policies and other goods or services by the Company.

Insurance Contracts Liabilities

Provision for unearned premiums

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

Claims provisions and incurred but not reported (IBNR) losses

Provision for claims reported and claims incurred but not reported (IBNR) are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be



experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period.

The liability is not discounted for the time value of money and includes provision for IBNR losses. The IBNR is calculated at the reporting date using a range of actuarial projection techniques such as but not limited to the chain ladder method, expected loss ratio method and Bornheutter-Ferguson method. The liability is derecognized when the contract is discharged, cancelled or has expired.

Liability adequacy test

At each reporting date, liability adequacy tests are performed, to ensure the adequacy of insurance contract liabilities, net of related DAC assets. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged to profit or loss by establishing an unexpired risk provision for losses arising from the liability adequacy tests. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

Net Pension Benefit Obligation

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

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

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

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

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



Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Equity

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

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

Retained earnings include all the accumulated earnings of the Company less dividends declared.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits associated with the transaction will flow to the Company and the revenue can be reliably measured.

The Company follows a five-step model to account for revenue arising from contracts with customers. The five-step model is as follows:

- a. Identify the contract(s) with a customer
- b. Identify the performance obligations in the contract
- c. Determine the transaction price
- d. Allocate the transaction price to the performance obligation in the contract
- e. Recognize revenue when (or as) the entity satisfies a performance obligation

Revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company exercises its judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized within the scope of PFRS 15:

Other income

Other income is recognized in the profit or loss as it accrues when there is reasonable degree of certainty as to its collectability. This includes income charged to related parties for administrative services.



Revenues outside the scope of PFRS 15

Premium income

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

Premiums are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written and assumed that relate to the unexpired periods of the policies as of reporting date are accounted for as provision for unearned premiums and presented in the liabilities section of the statement of financial position under “Insurance contract liabilities” account. The related reinsurance premiums that pertain to the unexpired periods at reporting date are accounted for as deferred reinsurance premiums which are presented in the assets section of the statement of financial position under “Reinsurance assets”. The net changes in these accounts between reporting dates are charged against or credited to profit or loss for the year.

Commission income

Commissions are recognized as revenue over the period of contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at the reporting date is accounted for as “Deferred reinsurance commissions” and presented in the liabilities section of the statement of financial position.

Interest income

Interest income is recognized in profit or loss as it accrues, taking into account the effective yield of the asset. Interest income includes the amortization of any discount or premium using the effective interest rate method.

Dividend income

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

Benefits and Claims

Gross benefits and claims consists of benefits and claims paid to policyholders as well as changes in the gross valuation of “Insurance contract liabilities”, except for gross changes in the provision for unearned premiums which are included in net premiums earned. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect to salvage and subrogation are also considered and are offset against the related claim. General insurance claims are recorded in the basis of notifications received.

Other Expenses

General expenses and interest expense are recognized in profit or loss as they are incurred.

Leases

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets.

(a) *Right-of-use (ROU) assets*

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and.



The Company presents right-of-use of assets in “Property and equipment” and subjects it to impairment in line with the Company’s policy on impairment of non-financial asset.

Depreciation of ROU asset is presented under “Depreciation and amortization” in the statement of income.

(b) Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expense (unless they are incurred to produce inventories) in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest, presented under “Interest expense”, and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

(c) Short-term leases and low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of office premises (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office equipment that are considered to be of low value (i.e., below ₱250,000). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Income Tax

Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Effective January 1, 2019, the Company periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the 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 liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of the excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against



which the deductible temporary differences and carryforward of MCIT and unused NOLCO can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Movements in the deferred tax assets and liabilities arising from changes in tax rates are charged against or credited to profit or loss for the period.

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

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

Provisions

Provisions are recognized only when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingencies

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 are disclosed when an inflow of economic benefits is probable.

Events after the Reporting Period

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

Standards Issued but not yet Effective

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



Effective beginning on or after January 1, 2021

• Amendments to PFRS 9, 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 Group shall also disclose information about:

- The 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, however, the Group is not required to restate prior periods.

Effective beginning on or after January 1, 2022

Amendments to PFRS 3, Reference to the Conceptual Framework

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. It also clarified that contingent assets do not qualify for recognition at the acquisition date. The Group applies these amendments prospectively for annual reporting periods beginning on or after January 1, 2022.

Amendments to PAS 16, Plant and Equipment: Proceeds before Intended Use

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

The amendment are effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

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

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.



Annual Improvements to PFRSs 2018-2020 Cycle

Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards*,

Subsidiary as a first-time adopter

The amendments permit a subsidiary, joint venture or associate that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition financial liabilities*

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

Effective beginning on or after January 1, 2023

PFRS 17, *Insurance Contracts*

PFRS 17 provides updated information about the obligation, risks and performance of insurance contracts, increases transparency in financial information reported by insurance companies, and introduces consistent accounting for all insurance contracts based on a current measurement model. The standard is effective for annual periods beginning on or after January 1, 2023. Early application is permitted but only if the entity also applies PFRS 9 and PFRS 15.

Amendments to PAS 1, *Classification of Liabilities as Current and Non-Current*

The amendments clarify the following to specify the requirements for classifying liabilities as current or non-current:

- 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.

Deferred effectivity

Amendments to PFRS 10, *Consolidated 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, *Business Combinations*. 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 FRSC postponed the original effective date of January 1, 2016 of the said amendments until the IASB 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.

3. Significant Accounting Judgments and Estimates

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

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

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimates and assumptions, which have the most significant effects on the amounts recognized in the financial statements.

a. Classification of financial assets

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

b. Determination of lease term of contracts with renewal and termination options - Company as a lessee

The Company has several lease contracts that include extension and termination options. The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Company determined that generally, the options to extend or terminate the lease are not included in the determination of the lease term. These optional periods to renew are not enforceable, as the Company cannot enforce the extension of the lease without the agreement from the lessor, and therefore, the Company does not have the right to use the asset beyond the non-cancellable period. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.



Estimates and Assumptions

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

a. Claims liability arising from insurance contracts

For nonlife insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of the IBNR claims at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position claims provision.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as chain ladder, expected loss ratio and Bornheutter-Ferguson methods.

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 analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. 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.

The carrying value of provision for claims reported and loss adjustment expenses amounted to ₱478.11 million and ₱1,324.66 million as of December 31, 2020 and 2019, respectively. Provision for IBNR claims amounted to ₱32.66 million and ₱35.50 million as of December 31, 2020 and 2019, respectively (see Note 11).

b. Estimation of allowance for impairment losses on receivables

The Company maintains an allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the debtor, the debtor's payment behavior and known market forces. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates.

The carrying value of insurance receivables amounted to ₱762.10 million and ₱644.31 million as of December 31, 2020 and 2019, respectively. The allowance for doubtful accounts for insurance receivables amounted to ₱16.30 million and ₱9.24 million as of December 31, 2020 and 2019, respectively (see Note 5).

The carrying value of loans and receivables amounted to ₱104.29 million and ₱96.32 million as of December 31, 2020 and 2019, respectively. The allowance for doubtful accounts for loans and receivables is nil as of December 31, 2020 and 2019 (see Note 6).



c. Recognition of deferred tax assets

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

The carrying value of recognized net deferred tax assets amounted to ₱18.48 million and ₱11.90 million as of December 31, 2020 and 2019, respectively (see Note 19). There are no unrecognized deferred tax assets for December 31, 2020 and 2019.

d. Estimation of pension benefit obligation

The determination of pension obligation and cost of pension is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates.

Due to the long-term nature of this plan, such estimates are subject to significant uncertainty. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the reporting date. In accordance with PAS 19, actual results that differ from the Company's assumptions are recognized immediately in OCI in the period in which they arise. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may affect the pension obligations.

The carrying value of net pension benefit obligation as of December 31, 2020 and 2019 amounted to ₱9.34 million and ₱5.91 million, respectively (see Note 14).

e. Leases - Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs such as market interest rates when available and is required to make certain entity-specific estimates.

The Company's lease liabilities amounted to ₱14.02 million and ₱19.86 million as of December 31, 2020 and 2019, respectively (see Note 25).

f. Contingencies

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



4. Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents

This account consists of:

	2020	2019
Cash on hand	₱45,530	₱40,000
Cash in banks	186,203,956	150,202,332
Cash equivalents	130,023,000	335,000,000
	₱316,272,486	₱485,242,332

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are placed for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the prevailing short-term investments rates ranging from 0.12% to 1.30% and 0.10% to 3.75% in 2020 and 2019, respectively.

Interest income from cash and cash equivalents amounted to ₱3.74 million and ₱5.20 million in 2020 and 2019, respectively (see Note 16).

Short-term investments

The rollforward analysis of this account follows:

	2020	2019
At January 1	₱383,260,111	₱407,317,613
Acquisitions	633,932,231	586,213,394
Maturities	(435,424,181)	(609,990,396)
Foreign exchange losses	(544,448)	(280,500)
At December 31	₱581,223,713	₱383,260,111

Short-term investments pertain to time deposits with terms of more than 90 days but less than 360 days and earn interest at the respective short-term investment rates ranging from 0.15% to 2.25% and 0.75% to 6.00% in 2020 and 2019, respectively.

Interest income amounted to ₱9.76 million and ₱15.80 million in 2020 and 2019, respectively (see Note 16).

Interest accrued from cash and cash equivalents and short-term investments amounted to ₱4.21 million and ₱8.79 million as of December 31, 2020 and 2019, respectively (see Note 6).



5. Insurance Receivables - net

This account consists of:

	2020	2019
Due from policyholders	₱374,903,123	₱293,657,923
Due from ceding companies	318,382,792	300,862,078
Due from co-insurers	-	6,636,663
Reinsurance recoverable on paid losses:		
Facultative reinsurers	76,084,296	46,091,274
Treaty reinsurers	9,024,010	6,298,644
	778,394,221	653,546,582
Less allowance for credit losses	(16,295,796)	(9,238,437)
	₱762,098,425	₱644,308,145

The aging analysis of insurance receivables follows:

	2020						Total
	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 360 days	Over 360 days	
Due from policyholders	₱233,763,843	₱34,859,254	₱20,842,310	₱34,610,406	₱34,540,186	₱16,287,124	₱374,903,123
Due from ceding companies	80,979,745	13,539,024	4,873,970	45,253,027	94,363,730	79,373,296	318,382,792
Reinsurance recoverable on paid losses	5,337,057	6,003,718	1,876,666	15,330,658	15,039,745	41,520,462	85,108,306
	₱320,080,645	₱54,401,996	₱27,592,946	₱95,194,091	₱143,943,661	₱137,180,882	₱778,394,221

	2019						Total
	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 360 days	Over 360 days	
Due from policyholders	₱138,009,044	₱39,132,562	₱25,130,841	₱10,227,315	₱31,609,979	₱49,548,182	₱293,657,923
Due from ceding companies	203,854,480	12,368,432	27,480,998	9,868,095	37,018,825	10,271,248	300,862,078
Due from co-insurers	6,636,663	-	-	-	-	-	6,636,663
Reinsurance recoverable on paid losses	26,080,223	1,116,581	2,018,853	2,049,335	2,810,577	18,314,349	52,389,918
	₱374,580,410	₱52,617,575	₱54,630,692	₱22,144,745	₱71,439,381	₱78,133,779	₱653,546,582

The following is a reconciliation of the changes in allowance for doubtful accounts for insurance receivables:

	Due from policyholder	Due from ceding companies	Reinsurance recoverable on paid losses	Total
At January 1, 2020	₱2,309,279	₱4,869,590	₱2,059,568	₱9,238,437
Impairment during the year	1,135,222	2,745,376	3,176,761	7,057,359
Write-off	-	-	-	-
At December 31, 2020	₱3,444,501	₱7,614,966	₱5,236,329	₱16,295,796
Individual impairment	₱-	₱3,916,999	₱-	₱3,916,999
Collective impairment	3,444,501	3,697,967	5,236,329	12,378,797
	3,444,501	₱7,614,966	₱5,236,329	₱16,295,796



	Due from policyholder	Due from ceding companies	Reinsurance recoverable on paid losses	Total
At January 1, 2019	₱880,327	₱1,606,604	₱-	₱2,486,931
Impairment during the year	1,428,952	3,262,986	2,059,568	6,751,506
Write-off	-	-	-	-
At December 31, 2019	2,309,279	₱4,869,590	₱2,059,568	₱9,238,437
Individual impairment	1,263,726	₱-	₱-	₱1,263,726
Collective impairment	1,045,553	4,869,590	2,059,568	7,974,711
	2,309,279	₱4,869,590	₱2,059,568	₱9,238,437

6. Financial Assets

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

	2020	2019
Financial assets at FVPL	₱40,677,626	₱93,434,247
AFS financial assets	88,701,172	97,221,415
HTM financial assets	554,866,443	305,126,934
Loans and receivables	104,292,584	96,318,888
	₱788,537,825	₱592,101,484

a) Financial Assets at FVPL

The rollforward analysis of financial assets at FVPL follows:

	2020	2019
At January 1	₱93,434,247	₱128,419,883
Fair value gains (losses) (Note 16)	428,344	4,108,433
Maturities/Disposals	(53,184,965)	(39,094,069)
At December 31	₱40,677,626	₱93,434,247

As of December 31, 2020 and 2019, treasury bills and notes classified as financial assets at FVPL with total carrying value amounting to ₱40.68 million and ₱93.43 million, respectively, are deposited with the Insurance Commission (IC) in accordance with the provision of the Insurance Code (the Code) as security for the benefit of policyholders and creditors of the Company. The carrying amounts of these investments are equal to their fair values. The interest rates of these investments range from 3.38% to 7.25%% in 2019 and 2020.

Interest earned from treasury bills and notes classified as financial assets at FVPL amounted to ₱2.40 million and ₱5.18 million in 2020 and in 2019, respectively (see Note 16). Interest accrued from these investments amounted to ₱0.43 million and ₱0.87 million as of December 31, 2020 and 2019, respectively.



b) *AFS financial assets*

This account consists of:

	2020	2019
<i>Quoted securities - at fair value</i>		
Listed equity securities	₱20,701,172	₱21,221,415
Golf club shares	68,000,000	76,000,000
	₱88,701,172	₱97,221,415

The rollforward analysis of AFS financial assets follows:

	2020	2019
At January 1	₱97,221,415	₱87,091,519
Fair value gains (losses)	(8,520,243)	10,129,896
At December 31	₱88,701,172	₱97,221,415

The rollforward analysis of the revaluation reserve of AFS financial assets follows:

	2020	2019
At January 1	₱58,975,160	₱50,495,264
Fair value gains (losses) recognized in OCI, net of tax effect	(7,320,242)	8,479,896
At December 31	₱51,654,918	₱58,975,160

Dividend income from listed equity securities amounted to ₱0.002 million and ₱0.37 million in 2020 and 2019, respectively (see Note 16).

c) *HTM financial assets*

The rollforward analysis of HTM financial assets follows:

	2020	2019
At January 1	₱305,126,934	₱222,196,026
Acquisitions	252,674,551	137,206,639
Maturities	-	(53,511,419)
Amortization of net premium	(2,935,042)	(764,312)
At December 31	₱554,866,443	₱305,126,934

HTM financial assets consist of treasury bills and notes. As of December 31, 2020 and 2019, treasury bills and notes with total carrying value amounting to ₱293.46 million and ₱123.34 million, respectively, are deposited with the Insurance Commission (IC) in accordance with the provision of the Insurance Code (the Code) as security for the benefit of policyholders and creditors of the Company. The interest rates of these investments range from 2.00% to 7.19% and 4.25% to 7.19% in 2020 and 2019, respectively.

The interest earned from HTM investments amounted to ₱25.65 million in 2020 and ₱12.35 million in 2019 (see Note 16).

Interest accrued amounted to ₱4.68 million and ₱1.60 million as of December 31, 2020 and 2019, respectively.



d) *Loans and receivables*

This account consists of:

	2020	2019
Long-term investments	₱50,000,000	₱61,913,173
Accounts receivable	39,089,452	17,326,784
Interest receivables	9,576,713	11,262,366
Miscellaneous deposits	3,020,000	3,020,000
Cash advances	2,298,696	2,248,842
Rental deposits	307,723	547,723
	₱104,292,584	₱96,318,888

Long-term investments are money market placements made for varying periods of more than one year and earned interest ranging from 2.5% to 4.0% in 2020 and 2019. Interest income amounted to ₱3.22 million and ₱1.64 million in 2020 and 2019, respectively (see Note 16). Interest accrued amounted to ₱0.66 million as of December 31, 2020 and 2019.

Accounts receivable includes remittances of advance premiums to ceding companies and advance payment of share on losses to reinsurer ongoing documentation completion.

Cash advances pertain to advances made to officers and employees for costs and expenses to be incurred on behalf of the Company subject to liquidation.

7. **Reinsurance Assets**

This account consists of:

	2020	2019
Reinsurance recoverable on unpaid losses (Note 11)	₱435,499,410	₱1,281,671,582
Deferred reinsurance premiums (Note 11)	854,986,477	718,262,000
	₱1,290,485,887	₱1,999,933,582

8. **Deferred Acquisition Costs and Deferred Reinsurance Commissions**

Deferred Acquisition Costs

The rollforward analysis of this account follows:

	2020	2019
At January 1	₱65,092,175	₱62,145,194
Cost deferred during the year	144,617,075	201,116,037
Amortization during the year	(144,637,257)	(198,169,056)
At December 31	₱65,071,993	₱65,092,175



Deferred Reinsurance Commissions

The rollforward analysis of this account follows:

	2020	2019
At January 1	₱169,005,260	₱116,686,822
Income deferred during the year	357,168,543	409,501,617
Amortization during the year	(361,775,293)	(357,183,179)
At December 31	₱164,398,510	₱169,005,260

9. Property and Equipment - net

The rollforward analysis of this account as of December 31 follows:

	2020					Total
	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Transportatio n Equipment	Computer Equipment	Right-of-use Assets- Building (Note 25)	
Cost						
Balance at beginning of year	₱7,695,674	₱6,066,361	₱14,263,190	₱30,863,647	₱23,023,994	₱81,912,866
Additions	852,472	662,946	1,866,071	2,870,673	-	6,252,162
Disposals	-	-	(1,054,474)	-	-	(1,054,474)
Balance at end of year	8,548,146	6,729,307	15,074,787	33,734,320	23,023,994	87,110,554
Accumulated depreciation						
Balance at beginning of year	6,709,248	4,356,933	6,227,818	20,577,489	3,748,092	41,619,580
Depreciation (Note 18)	456,967	460,904	2,360,623	2,138,553	6,598,514	12,015,561
Disposals	-	-	(720,557)	-	-	(720,557)
Balance at end of year	7,166,215	4,817,837	7,867,884	22,716,042	10,346,606	52,914,584
Net book value						
December 31, 2020	₱1,381,931	₱1,911,470	₱7,206,903	₱11,018,278	₱12,677,388	₱34,195,970
	2019					Total
	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Transportation Equipment	Computer Equipment	Right-of-use Assets- Building (Note 25)	
Cost						
Balance at beginning of year	₱7,521,610	₱4,314,299	₱13,350,734	₱22,530,354	₱-	₱47,716,997
Additions	174,064	1,752,062	2,285,670	8,333,293	23,023,994	35,569,083
Disposals	-	-	(1,373,214)	-	-	(1,373,214)
Balance at end of year	7,695,674	6,066,361	14,263,190	30,863,647	23,023,994	81,912,866
Accumulated depreciation						
Balance at beginning of year	6,335,147	3,194,531	5,338,409	19,495,215	-	34,363,302
Depreciation (Note 18)	374,101	1,162,402	2,262,623	1,082,274	3,748,092	8,629,492
Disposals	-	-	(1,373,214)	-	-	(1,373,214)
Balance at end of year	6,709,248	4,356,933	6,227,818	20,577,489	3,748,092	41,619,580
Net book value						
December 31, 2019	₱986,426	₱1,709,428	₱8,035,372	₱10,286,158	₱19,275,902	₱40,293,286

In 2020 and 2019, the Company disposed of certain assets which resulted to gain (loss) on sale of property and equipment amounting to ₱0.26 million and ₱0.44 million. Cost of fully depreciated



property and equipment still being used amounted to ₱29.39 million and ₱37.14 million as of December 31, 2020 and 2019, respectively.

10. Other Assets

This account consists of:

	2020	2019
Creditable withholding taxes	₱65,782,509	₱81,511,116
Software costs	20,906,314	12,752,055
Documentary stamps fund	12,220,804	1,056,909
Input VAT	4,739,131	2,485,762
Security fund	39,963	39,961
	103,688,721	97,845,803
Allowance for impairment losses	(54,354,953)	(54,354,948)
	₱49,333,768	₱43,490,855

Creditable withholding taxes represent the taxes withheld at source by the policyholders and ceding companies which can be applied against future income tax liability.

Movements in software costs follow:

	2020	2019
Cost		
Balance at beginning of year	₱14,842,525	₱2,825,308
Additions	10,371,733	12,017,217
Balance at end of year	25,214,258	14,842,525
Accumulated Amortization		
Balance at beginning of year	2,090,470	1,556,431
Amortization (Note 18)	2,217,474	534,039
Balance at end of year	4,307,944	2,090,470
Net Book Value at End of Year	₱20,906,314	₱12,752,055

11. Insurance Contract Liabilities and Reinsurance Assets

Analysis of short-term insurance contract liabilities net of reinsurance assets follows:

	2020			2019		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2020	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2019
Provision for claims reported and loss adjustment expenses	₱478,114,855	₱435,499,410	₱42,615,445	₱1,324,656,249	₱1,281,671,582	₱42,984,667
Provision for IBNR claims	32,656,512	-	32,656,512	35,502,216	-	35,502,216
Total provision for claims reported and IBNR claims (Note 21)	510,771,367	435,499,410	75,271,957	1,360,158,465	1,281,671,582	78,486,883
Provision for unearned premiums	895,883,950	854,986,477	40,897,473	756,273,813	718,262,000	38,011,813
Total insurance contract liabilities	₱1,406,655,317	₱1,290,485,887	₱116,169,430	₱2,116,432,278	₱1,999,933,582	₱116,498,696



Provision for claims reported and IBNR claims may be analyzed as follows:

	2020			2019		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2020	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2019
Balance at beginning of year	₱1,360,158,465	₱1,281,671,582	₱78,486,883	₱1,919,049,610	₱1,860,354,416	₱58,695,194
Claims incurred during the year	89,923,635	59,864,963	30,058,672	249,963,778	212,689,312	37,274,466
Increase (decrease) in IBNR claims	(2,845,704)	-	(2,845,704)	5,144,244	-	5,144,244
Claims paid during the year (Note 17)	(936,465,029)	(906,037,135)	(30,427,894)	(813,999,167)	(791,372,146)	(22,627,021)
Balance at end of year	₱510,771,367	₱435,499,410	₱75,271,957	₱1,360,158,465	₱1,281,671,582	₱78,486,883

Provision for unearned premiums may be analyzed as follows:

	2020			2019		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2020	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2019
Balance at beginning of year	₱756,273,813	₱718,262,000	₱38,011,813	₱854,199,758	₱800,920,108	₱53,279,650
New policies written during the year (Note 15)	2,408,696,140	2,343,746,046	64,950,094	2,007,295,245	1,938,772,160	68,523,085
Premiums earned during the year (Note 15)	(2,269,086,003)	(2,207,021,569)	(62,064,434)	(2,105,221,190)	(2,021,430,268)	(83,790,922)
Balance at end of year	₱895,883,950	₱854,986,477	₱40,897,473	₱756,273,813	₱718,262,000	₱38,011,813

12. Insurance payables

This account consists of due to reinsurers and ceding companies amounting to ₱876.56 million and ₱586.84 million as of December 31, 2020 and 2019, respectively.

The rollforward analysis of insurance payables follows:

	2020				2019			
	Due to Policyholders	Due to reinsurers and ceding companies	Funds held for reinsurers	Total	Due to Policyholders	Due to reinsurers and ceding companies	Funds held for reinsurers	Total
At January 1	₱4,376,612	₱152,210,564	₱430,248,361	₱586,835,537	₱6,527,164	₱649,791,741	₱248,506,554	₱904,825,459
Arising during the year (Note 15)	-	2,343,746,047	-	2,343,746,047	-	1,938,772,160	187,451,970	2,126,224,130
Settled	(4,376,612)	(2,049,287,632)	(355,381)	(2,054,019,625)	(2,150,552)	(2,436,353,337)	(5,710,163)	(2,444,214,052)
At December 31	₱-	₱446,668,979	₱429,892,980	₱876,561,959	₱4,376,612	₱152,210,564	₱430,248,361	₱586,835,537

Funds held for reinsurers incurred interest at 3%. The Company recognized an amount of ₱10.39 million and ₱ 5.07 million as 'Interest expense' in the statements of income in 2020 and 2019, respectively.



13. Accounts Payable and Accrued Expenses

This account consists of:

	2020	2019
Output VAT	¥58,678,265	¥26,739,828
Accounts payable	34,544,545	26,400,593
Commission payable	33,727,064	30,760,434
Customers' deposits	10,945,611	17,167,432
Taxes payable	9,817,745	10,009,799
Accrued expenses	2,043,803	3,960,451
Payable to SJII	-	76,221,455
Others	335,726	313,338
	¥150,092,759	¥191,573,330

Commission payable pertains to unpaid commissions on the Company's direct business, payable to agents and brokers, which are due upon the collection of the related premiums receivable.

Payable to Sompo Japan Insurance Inc. (SJII) pertains to cash call on loss recoveries for unpaid claims received in advance from reinsurer.

Output VAT is mainly composed of VAT due from premium income and reinsurance commission earned. Customers' deposits are advanced premium collections from policyholders which will be recognized as premium income starting from the inception of the policies.

Taxes payable consists of taxes and licenses payable, documentary stamps, withholding taxes and other taxes.

Accounts payable and accrued expenses are expected to be settled within twelve (12) months after the end of the reporting period.

14. Net Pension Benefit Obligation

The Company has a funded, noncontributory, defined benefit retirement plan covering substantially all of its employees. Under the existing regulatory framework, Republic Act No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The following tables summarize the components of the "Net pension benefit expense" recognized in the statement of income, under "General expenses" account (see Note 18), "Remeasurements on defined benefit plan" recognized in the statement of comprehensive income, and the unfunded status recognized in the statement of financial position for the retirement plan.

Net pension benefit expense

	2020	2019
Current service cost	¥2,750,782	¥1,325,826
Net interest cost	296,717	278,210
Net benefit expense (Note 18)	¥3,047,499	¥1,604,036



Remeasurement effects to be recognized in OCI

	2020	2019
Actuarial gain (loss):		
Due to change in financial assumption	(₱2,574,812)	(₱2,940,717)
Due to experience	57,388	(1,511,347)
	(2,517,424)	(4,452,064)
Actuarial gain (loss) on plan assets	135,813	336,058
Total losses to be recognized in OCI	(2,381,611)	(4,116,006)
Deferred tax effect	714,483	1,234,802
Total losses to be recognized in OCI, net of tax effect	(₱1,667,128)	(₱2,881,204)

Changes in net pension benefit obligation as of December 31, 2020 and 2019 follow:

	2020		
	Present Value of Pension Obligation	Fair Value of Plan Assets	Net Pension Liability (Asset)
At January 1	₱16,763,979	₱10,853,277	₱5,910,702
Expense recognized in statements of income:			
Current service cost	2,750,782	-	2,750,782
Net interest cost	841,552	544,835	296,717
	3,592,334	544,835	3,047,499
Benefits paid	(1,274,000)	(1,274,000)	-
Contributions	-	2,000,000	(2,000,000)
Remeasurements in OCI:			
Gain on plan asset	-	135,813	(135,813)
Actuarial changes arising from:			
Changes in financial assumptions	2,574,812	-	2,574,812
Experience adjustments	(57,388)	-	(57,388)
	1,243,424	861,813	381,611
At December 31	₱21,599,737	₱12,259,925	₱9,339,812
	2019		
	Present Value of Pension Obligation	Fair Value of Plan Assets	Net Pension Liability (Asset)
At January 1	₱10,512,547	₱6,737,654	₱3,774,893
Expense recognized in statements of income:			
Current service cost	1,325,826	-	1,325,826
Net interest cost	774,775	496,565	278,210
	2,100,601	496,565	1,604,036
Benefits paid	(301,233)	(1,717,000)	1,415,767
Contributions	-	5,000,000	(5,000,000)
Remeasurements in OCI			
Gain on plan asset	-	336,058	(336,058)
Actuarial changes arising from:			
Changes in financial assumptions	2,940,717	-	2,940,717
Due to change in demographic assumption	1,511,347	-	1,511,347
	4,150,831	3,619,058	531,773
At December 31	₱16,763,979	₱10,853,277	₱5,910,702



The distribution of plan assets as of December 31, 2020 and 2019 follows:

	2020	2019
Investments in government securities	₱10,426,339	₱10,047,062
Savings and time deposits	2,595	694,703
Investment in mutual funds	1,747,463	6,002
Accrued interest income	99,191	118,153
	12,275,588	10,865,920
Less trust fund fees payable	15,663	12,643
	₱12,259,925	₱10,853,277

The principal actuarial assumptions used determining pension benefit obligation are as follows:

	2020	2019
Salary increase rate	6.00%	6.00%
Discount rate	3.77%	5.02%

Sensitivity analysis

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

		2020	2019
	Change in variables	Increase (Decrease)	Increase (Decrease)
Discount rate	+0.5%	(₱1,125,827)	(₱664,350)
	-0.5%	1,282,245	747,654
Salary increase rate	+1.0%	2,606,665	1,524,715
	-1.0%	(2,069,455)	(1,228,223)

Maturity profile

Shown below is the maturity analysis of the undiscounted benefits payments as of December 31, 2020:

	2020	2019
Less than one year	₱4,862,114	₱5,642,123
More than one year to five years	6,969,305	5,679,785
More than five years to 10 years	4,703,175	6,189,107
More than 10 years to 15 years	11,655,882	5,461,293
More than 15 years to 20 years	7,142,332	13,269,203
More than 20 years	182,070,229	172,945,293
	₱217,403,037	₱209,186,804

The average duration of the defined benefit obligation at the end of the reporting period is 21 years.



15. Net Premiums Earned

Net premiums earned on insurance contracts are as follows:

	2020	2019
Gross premiums on insurance contracts:		
Direct insurance	₱1,563,066,432	₱1,358,064,174
Assumed reinsurance	845,629,708	649,231,071
Total gross premiums on insurance contracts (Note 11)	2,408,696,140	2,007,295,245
Gross change in provision for unearned premiums	(139,610,137)	97,925,945
Total gross premiums earned on insurance contracts (Note 11)	2,269,086,003	2,105,221,190
Reinsurers' share of gross premiums on insurance contracts:		
Direct insurance	₱1,540,152,148	₱1,346,804,972
Assumed reinsurance	803,593,898	591,967,188
Total reinsurers' share of gross premiums on insurance contracts (Note 11)	2,343,746,046	1,938,772,160
Reinsurers' share of change in provision for unearned premiums	(136,724,477)	82,658,108
Total reinsurers' share of gross premiums earned on insurance contracts (Note 11)	2,207,021,569	2,021,430,268
Net premiums earned (Note 11)	₱62,064,434	₱83,790,922

16. Investment and Other Income - net

Investment and other income consist of the following:

	2020	2019
Interest income:		
Financial assets at FVPL (Note 6)	₱2,395,542	₱5,175,402
HTM financial assets (Note 6)	25,653,172	12,354,944
Cash and cash equivalents (Note 4)	3,738,565	5,198,955
Short-term investments (Note 4)	9,757,986	15,802,653
Long-term investments (Note 6)	3,218,165	1,639,170
Income from SJII	1,153,816	1,450,057
Fair value gains (Note 6)	428,344	4,108,433
Dividend income (Note 6)	2,695	373,384
Miscellaneous	2,172,036	2,389,695
	₱48,520,321	₱48,492,693

Income from SJII pertains to reimbursements from Sompo Japan Insurance Inc. for its share of the Company's general expenses at a mark-up (Note 23).

Miscellaneous income consists mainly of referral fees, gain or loss on sale of property and equipment, intervention fee and other miscellaneous income.



17. Net Insurance Contract Benefits and Claims

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

	2020	2019
Insurance contract benefits and claims paid:		
Direct insurance	₱122,354,066	₱526,465,922
Assumed reinsurance		287,533,245
Total insurance contract benefits and claims paid (Note 11)	₱936,465,029	₱813,999,167

Reinsurers' share of gross insurance contract benefits and claims paid consist of the following:

	2020	2019
Reinsurers' share of insurance contract benefits and claims paid:		
Direct insurance	₱126,498,487	₱390,794,253
Assumed reinsurance	779,538,648	400,577,893
Total reinsurers' share of insurance contract benefits and claims paid (Note 11)	₱906,037,135	₱791,372,146

Gross change in insurance contract liabilities:

	2020	2019
Change in provision for claims reported:		
Direct insurance	₱40,238,031	(₱387,747,271)
Assumed reinsurance	(883,994,271)	(176,288,119)
Change in provision for IBNR claims	(2,845,704)	5,144,244
Total gross change in insurance contract liabilities (Note 11)	(846,601,944)	(558,891,146)

Reinsurers' share of gross change in insurance contract liabilities:

	2020	2019
Reinsurers' share of gross change in outstanding claims provisions:		
Direct insurance	(₱78,907,065)	(₱390,060,057)
Assumed reinsurance	(767,265,108)	(188,622,777)
Total reinsurers' share of gross change in insurance contract liabilities (Note 11)	(₱846,172,173)	(₱578,682,834)



18. General Expenses

This account consists of:

	2020	2019
Salaries and benefits (Notes 14 and 23)	₱33,778,534	₱35,532,382
Depreciation and amortization (Note 9)	14,233,035	9,163,530
Service fees	8,507,666	12,199,439
Professional fees	7,651,639	9,215,106
Provision for credit and impairment losses (Note 5)	7,057,359	6,751,506
Communication, light and water	3,646,005	3,793,185
Net pension benefit expense (Note 14)	3,047,499	1,604,036
Maintenance and repairs	2,551,646	4,874,004
Entertainment, amusement and recreation	1,409,809	3,257,154
Transportation	1,066,105	3,607,114
Rent (Notes 23 and 25)	652,751	2,535,711
Taxes, licenses and fees (Note 29)	253,792	3,121,867
Others	2,787,207	5,981,794
	₱86,643,047	₱101,636,828

Others includes SSS, HDMF and other contribution, stationary and supplies, insurance expense, advertisements, training expense and other expenses.

19. Income Tax

Current tax regulations provide that the RCIT rate shall be 30.00% and that interest allowed as a deductible expense is reduced by 33.00% of interest income subjected to final tax.

An Optional Standard Deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT.

Current tax regulations also provide for a Minimum Corporate Income Tax (MCIT) of 2.00% on modified gross income and allow a NOLCO. The MCIT is imposed on the fourth taxable year from commencement of the Company's business operations. The MCIT and NOLCO may be applied against the Company's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

Relevant tax updates

Revenue Regulations No. 25-2020

On September 30, 2020, the Bureau of Internal Revenue (BIR) has issued Revenue Regulations (RR) No. 25-2020 to implement Section 4 of Republic Act No. 11494, otherwise known as "Bayanihan to Recover as One Act", allowing qualified businesses or enterprises which incurred net operating loss for taxable years 2020 and 2021 to carry over the same as a deduction from its gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

CREATE Bill

The Corporate Recovery and Tax Incentives for Enterprise (CREATE) bill aims to reduce the corporate income tax rate from 30% to 25% starting July 2020 and to rationalize the current fiscal incentives.



On February 3, 2021, the Bicameral Conference Committee approved the reconciled version of the CREATE Bill of the House of Representatives and the Senate. On March 26, 2021, the bill was signed by the President for it to become a law.

As of December 31, 2020 and 2019, the Company does not have NOLCO and MCIT.

The provision for income tax consists of:

	2020	2019
RCIT	₱46,869,317	₱34,405,810
Final	8,857,552	7,252,456
Deferred	(4,665,448)	(8,104,011)
	₱51,061,421	₱33,554,255

The components of net deferred tax assets follow:

	2020	2019
Deferred tax assets:		
Provision for IBNR claims	₱9,796,954	₱10,650,665
Unrealized foreign currency exchange loss	8,458,016	5,178,846
Allowance for doubtful accounts	4,888,737	2,771,531
Retirement Liability	2,801,944	1,773,214
Unamortized past service cost	1,592,539	2,013,395
Lease liabilities	404,148	174,757
Total deferred tax assets	27,942,338	22,562,408
Deferred tax liabilities:		
Revaluation of AFS financial assets	9,465,000	10,665,000
Total deferred tax liabilities	9,465,000	10,665,000
Net deferred tax assets	₱18,477,338	₱11,897,408

Movements in net deferred tax assets comprise of:

	2020	2019
At beginning of the year	₱11,897,408	₱4,208,595
Amounts credited to statements of income	4,665,446	8,104,011
Amount charged against statements of comprehensive income	1,914,484	(415,198)
At end of the year	₱18,477,338	₱11,897,408

The reconciliation of provision for income tax computed at the statutory corporate income tax rate to provision for income tax shown in the statements of income follows:

	2020	2019
Income at statutory income tax rate	27.50%	30.00%
Tax effects of:		
Interest income subjected to final tax	(2.01)	(3.87)
Dividend income	-	(0.09)
Nondeductible expenses	2.07	1.01
Provision for income tax	27.56%	27.05%



20. Contingencies

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material effect on its results and financial position and results of operation.

21. Management of Capital, Insurance and Financial Risks

Governance Framework

The Company, pursuant to Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code of the Philippines submitted to the (IC) the general disclosure requirement with respect to its operations. It includes capitalization, shareholders of record, board composition and size including qualifications, mission and responsibilities of the board, management accountability, internal control and operational risk management. It likewise declares its public accountability and transparency in financial reporting in compliance with the good governance requirements.

Regulatory Framework

Regulators are interested in protecting the rights of the policyholders and maintain close vigil to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains appropriate solvency position to meet liabilities arising from claims and that the risk levels are at acceptable levels.

The operations of the Company are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g. minimum statutory net worth requirements and risk-based capital requirements).

Capital Management Framework

The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders.

The Company reviews the capital requirements through monthly computation of the statutory net worth and the RBC which is regularly communicated to the major shareholders. With this procedure, shareholders are forewarned in anticipation of the IC requirements of additional capital infusion. Shareholders are well updated with these externally imposed capital requirements since these are being discussed during annual BOD meeting. Evidently they have shown their commitment to comply with this regulation, same as prior years when they willingly infused additional cash as the need arises.

Minimum Statutory Net worth

On August 15, 2013, the President of the Philippines approved Republic Act No. 10607, otherwise known as the “New Insurance Code” which provides the new capitalization requirements for all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022.



On January 13, 2015, the IC issued the Circular Letter (CL) No. 2015-02-A which provides for the clarification of minimum capital requirements under Sections 194, 197, 200 and 289 of the New Insurance Code. The said circular supersedes the Department Order Nos. 27-06 and 15-2012 and CL Nos. 22-2008 and 26-2008. The following presents the amount of required net worth and the schedule of compliance per New Insurance Code:

<u>Net worth</u>	<u>Compliance Date</u>
₱250,000,000	June 30, 2013
550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

The minimum net worth requirement must remain unimpaired for the continuance of the license.

As of December 31, 2020 and 2019, the Company's estimated statutory net worth amounted to ₱1,183.76 million and ₱1,077.91 million, respectively.

Risk-based Capital Requirements

Insurance Memorandum Circular (IMC) No. 7-2006 provides for the RBC framework for the non-life insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risks. Every nonlife insurance company is annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall include the Company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part only to the extent authorized by the IC.

In 2016, the IC issued CL No. 2016-68, Amended Risk-Based Capital (RBC2) Framework, pursuant to Section 437 of the Amended Insurance Code. The RBC ratio shall be calculated as Total Available Capital (TAC) divided by the RBC requirement. TAC is the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits and determinations. Tier 1 Capital represents capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis (e.g. Capital Stock, Statutory Deposit, Capital Stock Subscribed, Contributed Surplus, etc.). Tier 2 Capital does not have the same high quality characteristics of Tier 1 capital, but can provide an additional buffer to the insurer (e.g. Reserve for Appraisal Increment - Property and Equipment, Remeasurement Gains (Losses) on Retirement Pension Asset (Obligation), etc.). Tier 2 Capital shall not exceed 50% of Tier I Capital. The minimum RBC ratio is set at 100%. All insurance companies are required to maintain the minimum RBC ratio and not fail the Trend test.

Pursuant to IC CL No. 2017-15, Regulatory Requirements and Actions for the New Regulatory Framework, effective January 1, 2017, non-life insurance companies are required to maintain minimum RBC2 requirement as prescribed under IC CL No. 2016-68. Under the RBC2 Framework, the RBC ratio shall be calculated as total available capital divided by the RBC2 requirement.



As at December 31, 2020 and 2019, the estimated amounts of non-admitted assets, as defined under the insurance regulations, which are included in the statements of financial position are as follows:

	2020	2019
Premiums receivable	₱32,096,720	₱91,385,476
Property and equipment at net book value	10,500,307	9,021,800
Other assets	48,847,020	30,649,211
	₱91,444,047	₱131,056,487

The following table shows how the RBC ratio as of December 31, 2020 and 2019 was determined by the Company:

	2020	2019
Net worth	₱1,183,764,419	₱1,077,913,401
RBC requirement	193,452,136	251,004,728
RBC Ratio	611.92%	429.44%

Net worth computation is based on the IC's RBC2 components.

The final RBC ratio can be determined only after the accounts of the Company have been examined by IC.

If an insurance company failed to meet the minimum statutory net worth requirements and risk-based capital requirements, the IC is authorized to suspend or revoke all certificates of authority granted to such companies, its officers and agents, and no new business shall be done by and for such company until its authority is restored by the IC.

Insurance Risk

The risk under insurance contract is the possibility of occurrence of insured event and uncertainty of the amount and timing of the resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments will exceed the carrying amount of insurance contract liabilities. This is influenced by the frequency of claims, severity of claims and actual benefits paid that are greater than originally estimated.

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

The majority of reinsurance business ceded is placed on a quota share basis with retention limits. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statement of financial position as reinsurance assets.

Although the Company has reinsurance agreements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.



The business of the Company mainly comprises of short-term nonlife insurance contracts.

The Company principally issues the following types of general insurance contracts: fire, engineering, marine, motor car, personal accident, general accident and bonds.

The table below sets out the concentration of the claims provisions as of December 31, 2020 and 2019 by type of contract (see Note 11).

	Gross	Reinsurers' Share	Net 2020	Gross	Reinsurers' Share	Net 2019
Property	₱392,350,831	₱339,360,854	₱52,989,977	₱1,270,976,472	₱1,212,564,468	₱58,412,004
Marine	14,024,102	10,993,214	3,030,888	49,167,218	47,166,088	2,001,130
General Accident	68,168,523	64,794,236	3,374,287	15,827,271	10,455,988	5,371,283
Motor	5,988,465	21,734	5,966,731	3,709,942	–	3,709,942
Personal Accident	935,447	37,262	898,185	718,644	119,775	598,869
Medical	8,743,371	–	8,743,371	8,081,965	–	8,081,965
Casualty	20,560,628	20,292,110	268,518	11,676,953	11,365,263	311,690
	₱510,771,367	₱435,499,410	₱75,271,957	₱1,360,158,465	₱1,281,671,582	₱78,486,883

The most significant risk arises from climate changes and natural disasters and terrorist activities. These risks vary significantly in relation to the location of the risk insured by the Company, type of risks insured and, in respect of commercial and business interruption by industry.

The Company also enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The Company also has limited its exposure level by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events. The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a predetermined maximum amount based on the Company's risk appetite as decided by management.

Assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claims 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 and government legislation affect the estimates.

Other key assumptions include delays in settlement and changes in foreign currency exchange rates.

Sensitivities

In insurance, as a rule, there may be claims filed in the current year that would attach policies issued in the previous years. This in effect makes claims provisions highly sensitive as represented by the table below. Other unpredictable circumstances, like legislative uncertainties, make it impossible to quantify claims. Also, due to delays arising between occurrence of claims and their subsequent reporting to and settlement by the Company, the outstanding claim provisions cannot be ascertained with confidence at the reporting date. As a result, the final liabilities will change as a result of succeeding developments. Differences from recomputation of the final liabilities are taken up in subsequent year's financial statements.



The table below shows the impact of changes in certain important assumptions in general insurance business while other assumptions remain unchanged. The interrelation of these assumptions will have an important impact in the computation of the final liabilities. But these assumption changes should be done on an individual basis to show the effect on the claims liabilities.

Sensitivity analysis as of December 31, 2020 and 2019 follows:

2020				
	Change in assumption	Impact on gross insurance contract liabilities	Impact on net insurance contract liabilities	Impact on income before income tax
Average claim costs	33% decrease	(₱170,484,093)	(₱25,124,101)	₱25,124,101
Average number of claims	9% decrease	(435,812)	(64,225)	64,225

2019				
	Change in assumption	Impact on gross insurance contract liabilities	Impact on net insurance contract liabilities	Impact on income before income tax
Average claim costs	35% decrease	(₱474,652,079)	(₱27,389,428)	₱ 27,389,428
Average number of claims	11% increase	155,871,702	8,994,455	(8,994,455)



Claims Development Table

The following tables reflect the cumulative incurred claims, including both claims notified and IBNR claims for each successive accident year at each reporting date, together with cumulative payments to date (see Note 11).

Gross insurance contract liabilities for 2020

Accident year	2011 and prior	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Estimate of ultimate claims costs:											
At the end of accident year	₱1,351,295,216	₱188,839,808	₱199,101,904	₱113,943,504	₱71,441,553	₱283,120,944	₱3,145,859,844	₱600,749,241	₱565,122,050	₱215,064,391	₱215,064,391
One year later	2,083,766,298	335,518,056	272,812,278	106,927,612	77,883,222	334,647,638	3,358,559,929	539,268,090	520,332,184	–	520,332,184
Two years later	2,208,298,355	397,181,911	252,577,638	99,911,720	68,066,983	321,287,769	3,232,797,096	546,682,238	–	–	546,682,238
Three years later	2,251,157,108	670,013,028	232,342,999	97,800,182	67,744,569	209,226,828	3,152,564,187	–	–	–	3,152,564,187
Four years later	2,261,718,479	670,029,466	216,927,629	95,237,344	67,802,172	200,892,844	–	–	–	–	200,892,844
Five years later	2,261,179,753	673,448,309	218,963,594	95,237,344	67,802,172	–	–	–	–	–	67,802,172
Six years later	2,261,258,778	673,695,691	218,961,161	95,237,344	–	–	–	–	–	–	95,237,344
Seven years later	2,261,213,719	673,683,787	218,961,161	–	–	–	–	–	–	–	218,961,161
Eight years later	2,261,061,887	673,769,588	–	–	–	–	–	–	–	–	673,769,588
Nine years later	2,264,940,554	–	–	–	–	–	–	–	–	–	2,264,940,554
Current estimate of cumulative claims	2,264,940,554	673,769,588	218,961,161	95,237,344	67,802,172	200,892,844	3,152,564,187	546,682,238	520,332,184	215,064,391	7,956,246,663
Cumulative payments to date	2,264,872,006	673,167,633	218,961,161	95,235,908	67,799,898	179,058,786	3,134,153,370	520,764,526	272,971,231	51,147,289	7,478,131,808
Liability recognized in the statement of financial position (Note 11)	₱68,548	₱601,955	₱–	₱1,436	₱2,274	₱21,834,058	₱18,410,817	₱25,917,712	₱247,360,953	₱163,917,102	₱478,114,855

Net insurance contract liabilities for 2020

Accident year	2011 and prior	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Estimate of ultimate claims costs:											
At the end of accident year	₱85,316,269	₱4,849,821	₱20,520,072	₱113,658,947	₱4,059,626	₱12,191,187	₱74,950,568	₱40,915,488	₱57,197,288	₱26,919,207	₱26,919,207
One year later	117,421,387	533,789	94,230,447	113,809,732	5,489,125	9,523,147	80,001,632	38,753,932	55,106,728	–	55,106,728
Two years later	125,376,960	62,197,645	94,153,327	113,960,517	4,904,346	16,570,727	79,775,023	44,952,847	–	–	44,952,847
Three years later	75,018,035	335,061,691	94,076,207	115,113,409	5,003,062	17,284,462	79,521,940	–	–	–	79,521,940
Four years later	76,230,998	335,111,058	93,308,639	114,646,873	5,048,271	17,390,256	–	–	–	–	17,390,256
Five years later	75,753,089	334,949,668	93,437,559	114,646,873	5,048,271	–	–	–	–	–	5,048,271
Six years later	75,755,789	334,950,975	98,337,559	114,646,873	–	–	–	–	–	–	114,646,873
Seven years later	75,790,097	334,949,360	98,337,559	–	–	–	–	–	–	–	98,337,559
Eight years later	75,622,691	334,959,400	–	–	–	–	–	–	–	–	334,959,400
Nine years later	52,092,705	–	–	–	–	–	–	–	–	–	52,092,705
Current estimate of cumulative claims	52,092,705	334,959,400	98,337,559	114,646,873	5,048,271	17,390,256	79,521,940	44,952,847	55,106,728	26,919,207	828,975,787
Cumulative payments to date	52,082,754	334,931,631	98,337,559	114,645,437	5,048,269	17,383,883	75,983,084	43,831,285	36,685,876	7,430,563	786,360,342
Liability recognized in the statement of financial position (Note 11)	₱9,951	₱27,769	₱–	₱1,436	₱2	₱6,373	₱3,538,856	₱1,121,562	₱18,420,852	₱19,488,644	₱42,615,445



Gross insurance contract liabilities for 2019

Gross Insurance Contract Liabilities											
Accident year	2010 and prior	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claims costs:											
At the end of accident year	₱1,244,794,768	₱106,500,448	₱188,839,808	₱199,101,904	₱113,943,504	₱71,441,553	₱283,120,944	₱3,145,859,844	₱600,749,241	₱565,122,050	₱565,122,050
One year later	1,900,679,048	183,087,250	335,518,056	272,812,278	106,927,612	77,883,222	334,647,638	3,358,559,929	539,268,090	–	539,268,090
Two years later	2,018,559,343	189,739,012	397,181,911	252,577,638	99,911,720	68,066,983	321,287,769	3,232,797,096	–	–	3,232,797,096
Three years later	2,061,860,751	189,296,357	670,013,028	232,342,999	97,800,182	67,744,569	209,226,828	–	–	–	209,226,828
Four years later	2,072,432,734	189,285,745	670,029,466	216,927,629	95,237,344	67,802,172	–	–	–	–	67,802,172
Five years later	2,071,910,620	189,269,133	673,448,309	218,963,594	95,237,344	–	–	–	–	–	95,237,344
Six years later	2,072,017,773	189,241,005	673,695,691	218,961,161	–	–	–	–	–	–	218,961,161
Seven years later	2,072,004,063	189,209,656	673,683,787	–	–	–	–	–	–	–	673,683,787
Eight years later	2,071,852,231	189,209,656	–	–	–	–	–	–	–	–	189,209,656
Nine years later	2,074,183,179	–	–	–	–	–	–	–	–	–	2,074,183,179
Current estimate of cumulative claims	2,074,183,179	189,209,656	673,683,787	218,961,161	95,237,344	67,802,172	209,226,828	3,232,797,096	539,268,090	565,122,050	7,865,491,363
Cumulative payments to date	2,074,125,023	189,199,264	673,061,035	218,961,161	95,235,908	67,799,898	170,069,486	2,455,180,118	453,269,303	143,933,918	6,540,835,114
Liability recognized in the statement of financial position	₱58,156	₱10,392	₱622,752	₱–	₱1,436	₱2,274	₱39,157,342	₱777,616,978	₱85,998,787	₱421,188,132	₱1,324,656,249

Net insurance contract liabilities for 2019

Net Insurance Contract Liabilities											
Accident year	2010 and prior	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claims costs:											
At the end of accident year	80,989,153	4,327,116	4,849,821	20,520,072	113,658,947	4,059,626	12,191,187	74,950,568	40,915,488	57,197,288	57,197,288
One year later	111,152,948	6,268,439	533,789	94,230,447	113,809,732	5,489,125	9,523,147	80,001,632	38,753,932	–	38,753,932
Two years later	114,509,160	10,867,800	62,197,645	94,153,327	113,960,517	4,904,346	16,570,727	79,775,023	–	–	79,775,023
Three years later	64,592,890	10,425,145	335,061,691	94,076,207	115,113,409	5,003,062	17,284,462	–	–	–	17,284,462
Four years later	65,800,086	10,430,912	335,111,058	93,308,639	114,646,873	5,048,271	–	–	–	–	5,048,271
Five years later	65,322,409	10,430,680	334,949,668	93,437,559	114,646,873	–	–	–	–	–	114,646,873
Six years later	65,337,764	10,418,025	334,950,975	98,337,559	–	–	–	–	–	–	98,337,559
Seven years later	65,366,861	10,423,236	334,949,360	–	–	–	–	–	–	–	334,949,360
Eight years later	65,205,755	10,416,936	–	–	–	–	–	–	–	–	10,416,936
Nine years later	41,675,746	–	–	–	–	–	–	–	–	–	41,675,746
Current estimate of cumulative claims	41,675,746	10,416,936	334,949,360	98,337,559	114,646,873	5,048,271	17,284,462	79,775,023	38,753,932	57,197,288	798,085,450
Cumulative payments to date	41,665,795	10,416,936	334,919,991	98,337,559	114,645,437	5,048,269	17,278,025	75,011,202	35,400,461	22,377,108	755,100,783
Liability recognized in the statement of financial position	₱9,951	₱–	₱29,369	₱–	₱1,436	₱2	₱6,437	₱4,763,821	₱3,353,471	₱34,820,180	₱42,984,667



The Company aims to maintain strong reserves in respect of its insurance business in order to protect against adverse future claims experience and development. As claims develop and the ultimate costs of claims become more certain, adverse claims experiences are eliminated which results in the release of reserves from earlier accident years. In order to maintain strong reserves, the Company transfers much of this release to current accident year reserves when the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims.

Financial Risk

The Company is exposed to financial risk through its financial assets and financial liabilities. In particular, the key financial risk is that the proceeds from its financial assets 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 a risk due to uncertainty in a counterparty's ability to meet its obligation.

Prior to extending credit, the Company manages its credit risk by assessing credit quality of its counterparty.

Another method by which the Company manages its credit risk exposure is through credit analysis. This is a process of assessing the credit quality of a counterparty, which is a process that entails judgment.

The credit policy group reviews all information about the counterparty which may include its statements of financial position, statements of income and other market information. The nature of the obligation is likewise considered. Based upon this analysis, the credit analyst assigns the counterparty a credit rating to determine whether or not credit may be provided.

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

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

	2020	2019
Cash and cash equivalents (excluding cash on hand)	₱316,226,956	₱485,202,332
Short-term investments	581,223,713	383,260,111
Insurance receivables - net	762,098,425	644,308,145
Financial assets at FVPL	40,677,625	93,434,247
HTM financial assets	554,866,443	305,126,934
Loans and receivables - net	104,292,584	96,318,888
Reinsurance recoverable on unpaid losses	435,499,410	1,281,671,582
	₱2,794,885,156	₱3,289,322,239



The Company does not hold any collateral held as security and other credit enhancements on its financial assets as of December 31, 2020 and 2019. Therefore, the Company's maximum exposure to credit risk is equal to the carrying amount of its financial assets as of December 31, 2020 and 2019.

Offsetting of financial assets and financial liabilities

The Company has entered into inward and outward reinsurance with various counterparties. The Company, however, has no intention to net settle or to gross settle the accounts simultaneously. Also, the enforceability of netting upon default is contingent on a future event, and so the offsetting criteria under PAS 32 are not met. Consequently, the gross amount of the 'Due from ceding companies' and 'Due to ceding companies' are presented separately in the Company's statement of financial position.

The table below provides information regarding the credit quality of the Company by classifying assets according to the Company's credit ratings of counterparties as of December 31, 2019 and 2018.

December 31, 2020

	Neither past due nor impaired			Past due but not impaired	Impaired	Total
	High grade	Medium grade	Low grade			
Cash and cash equivalents (excluding cash on hand)	₱316,226,956	₱-	₱-	₱-	₱-	₱316,226,956
Short-term investments	581,223,713	-	-	-	-	581,223,713
Insurance receivables	292,604,334	93,175,456	-	376,318,635	16,295,796	778,394,222
Financial assets at FVPL	40,677,626	-	-	-	-	40,677,626
AFS financial assets	88,701,172	-	-	-	-	88,701,172
HTM financial assets	554,866,443	-	-	-	-	554,866,443
Loans and receivables	59,576,713	44,715,871	-	-	-	104,292,584
Reinsurance recoverable on unpaid losses	267,656,109	167,843,300	-	-	-	435,499,410
	₱2,201,553,066	₱305,734,628	₱-	₱376,318,635	₱16,295,796	₱2,899,882,125

December 31, 2019

	Neither past due nor impaired			Past due but not impaired	Impaired	Total
	High grade	Medium grade	Low grade			
Cash and cash equivalents (excluding cash on hand)	₱485,202,332	₱-	₱-	₱-	₱-	₱485,202,332
Short-term investments	383,260,111	-	-	-	-	383,260,111
Insurance receivables	271,912,767	200,677,474	-	171,717,904	9,238,437	653,546,582
Financial assets at FVPL	93,434,247	-	-	-	-	93,434,247
AFS financial assets	97,221,415	-	-	-	-	97,221,415
HTM financial assets	305,126,934	-	-	-	-	305,126,934
Loans and receivables	73,175,539	23,143,349	-	-	-	96,318,888
Reinsurance recoverable on unpaid losses	-	1,281,671,582	-	-	-	1,281,671,582
	₱1,709,333,345	₱1,505,492,405	₱-	₱171,717,904	₱9,238,437	₱3,395,782,091

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

Cash and cash equivalents, short-term investments, financial assets at FVPL, HTM financial assets and AFS financial assets - Based on the nature of counterparty. High grade pertains to cash, cash equivalents deposited or invested in local banks belonging to the top 10 rankings, short-term investments, financial assets FVPL, AFS financial assets and HTM financial assets with counterparties having a strong capacity to meet its obligation.



Insurance receivables and loans and receivables - High grade pertains to receivables from counterparties with strong capacity to meet its obligation and has no default in payment history; medium grade pertains to receivables from counter parties with average capacity to meet its obligation; and low grade pertains to receivables from counterparties with high probability of default.

The aging analysis of financial assets that are impaired and past due but not impaired follows:

	2020			
	Past due but not impaired		Impaired	Total
	91 to 120 days	121 days beyond		
Due from policyholders	₱34,610,406	₱50,827,310	₱3,444,500	₱88,882,216
Due from ceding companies	45,253,027	173,737,027	7,614,966	226,605,020
Reinsurance recoverable on paid losses	15,330,658	56,560,207	5,236,330	77,127,195
	₱95,194,091	₱281,124,544	₱16,295,796	₱392,614,431

	2019			
	Past due but not impaired		Impaired	Total
	91 to 120 days	121 days beyond		
Due from policyholders	₱10,227,315	₱81,158,161	₱2,309,278	₱93,694,754
Due from ceding companies	9,868,095	47,290,073	4,869,590	62,027,758
Reinsurance recoverable on paid losses	2,049,335	21,124,926	2,059,568	25,233,829
	₱22,144,745	₱149,573,160	₱9,238,436	₱180,956,341

Credit risk disclosure under the Amendments to PFRS 4

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

December 31, 2020

SPPI financial asset	Investment grade	Non-investment grade:	Unrated	Total
		Satisfactory		
Cash and cash equivalents	₱316,226,956	₱-	₱-	₱316,226,956
Short-term investments	581,223,713	-	-	581,223,713
AFS financial assets	88,701,172	-	-	88,701,172
HTM financial assets	554,866,443	-	-	554,866,443
Loans and receivables	59,576,713	44,715,871	-	104,292,584

December 31, 2019

SPPI financial asset	Investment grade	Non-investment grade:	Unrated	Total
		Satisfactory		
Cash and cash equivalents	₱485,202,332	₱-	₱-	₱485,202,332
Short-term investments	383,260,111	-	-	383,260,111
AFS financial assets	97,221,415	-	-	97,221,415
HTM financial assets	305,126,934	-	-	305,126,934
Loans and receivables	73,175,539	23,143,349	-	96,318,888



Liquidity Risk

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

The Company monitors its cash position on a daily basis by preparing a cash report wherein the disbursements and collections are monitored. This report helps the Company in determining periods where it has excess cash or cash short fall.

The table below analyzes financial assets and liabilities of the Company into their relevant maturity groups based on the remaining period at the reporting dates to their contractual maturities or expected repayment dates as of December 31, 2020 and 2019.

	2020			Total
	Up to a year	1-5 years	No term	
Cash and cash equivalents* (excluding cash on hand)	₱130,078,592	₱–	₱186,249,486	₱316,328,078
Short-term investments*	584,014,162	–	–	584,014,162
Insurance receivables	641,213,338	137,180,883	–	778,394,221
Financial assets at FVPL	40,677,626	–	–	40,677,626
HTM financial assets*	24,620,007	611,462,338	–	636,082,345
AFS financial assets	–	–	88,701,172	88,701,172
Loans and receivables*	46,315,871	56,400,000	–	102,715,871
Reinsurance recoverable on unpaid losses	–	435,499,410	–	435,499,410
Total financial assets	1,466,919,596	1,240,542,631	274,950,658	2,982,412,885
Insurance payables**	622,762,469	264,192,130	–	886,954,599
Accounts payable and accrued expenses	70,651,140	–	–	70,651,140
Provision for claims reported and IBNR claims	510,771,367	–	–	510,771,367
Total financial liabilities	₱1,204,184,976	₱264,192,130	₱–	₱1,468,377,106

*includes accrued interest receivable and future interest

**includes accrued interest payable

	2019			Total
	Up to a year	1-5 years	No term	
Cash and cash equivalents* (excluding cash on hand)	₱335,688,467	₱–	₱150,202,332	₱485,890,799
Short-term investments*	386,153,267	–	–	386,153,267
Insurance receivables	566,174,366	78,133,779	–	644,308,145
Financial assets at FVPL	93,434,247	–	–	93,434,247
HTM financial assets*	14,135,000	324,115,000	–	338,250,000
AFS financial assets	–	–	97,221,415	97,221,415
Loans and receivables*	67,632,751	–	–	67,632,751
Reinsurance recoverable on unpaid losses	–	1,281,671,582	–	1,281,671,582
Total financial assets	1,463,218,098	1,683,920,361	247,423,747	3,394,562,206
Insurance payables	523,515,507	68,386,333	–	591,901,840
Accounts payable and accrued expenses	137,656,272	–	–	137,656,272
Provision for claims reported and IBNR claims	1,360,158,465	–	–	1,360,158,465
Total financial liabilities	₱2,021,330,244	₱68,386,333	₱–	₱2,089,716,577

*includes accrued interest receivable and future interest



Market Risk

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

The Company manages market risk exposures by setting up limits structures and by promulgating specific investment guidelines and strategies. The Company also invests in financial institutions with acceptable ratings from domestic and international credit rating agencies or at least within the top 15 ranking in case of banks. The Company also ensures that its investments comply with the guidelines and requirements set out by the IC.

a. Currency risk

The Company's principal transactions are carried out in Philippine Peso and its exposure to foreign exchange risk arises primarily with respect to US Dollar and Japanese Yen transactions and balances.

The table below summarizes the Company's exposure to foreign currency exchange rate risks as of December 31, 2020 and 2019 by categorizing assets and liabilities by major currencies.

	2020		2019	
	U.S. Dollar	Japanese Yen	U.S. Dollar	Japanese Yen
Cash and cash equivalents	USD5,520,914	¥57,909,612	USD1,851,029	¥5,491,096
Short-term investments	4,024,800	–	1,700,000	–
Insurance receivables	4,904,990	25,928,770	7,298,137	36,495,872
Insurance payables	(7,186,860)	(35,685,251)	(7,806,215)	(27,961,477)
Insurance contract liabilities	(110,072)	(3,949,721)	(19,004,933)	(411,668)
	USD7,153,771	¥44,203,409	(USD15,961,982)	¥13,613,823
Philippine peso equivalent	₱343,545,542	₱20,461,758	(₱808,234,971)	₱6,301,839

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar and Japanese Yen exchange rates, with all other variables held constant, of the Company's profit before tax.

December 31, 2020

	Change in rate	Impact on income before tax
		Increase (decrease)
US Dollar	+3.71%	₱12,748,410
Japanese Yen	+9.16%	1,874,150
US Dollar	-3.71%	(12,748,410)
Japanese Yen	-9.16%	(1,874,150)

December 31, 2019

	Change in rate	Impact on income before tax
		Increase (decrease)
US Dollar	+4.84%	(₱39,082,137)
Japanese Yen	+7.24%	456,010
US Dollar	-4.84%	39,082,137
Japanese Yen	-7.24%	(456,010)

There is no impact on equity other than those already affecting the net income.



b. *Fair value interest rate risk*

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in interest rates. The Company's FVPL financial assets bear fixed interest rates and therefore the Company is exposed to fair value interest rate risk but not to cash flow interest rate risk.

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

	Interest Rates	Up to a year	1-5 years	Over 5 years	Total
Financial assets at FVPL					
2020	3.38% to 7.25%	₱20,281,488	₱20,396,138	₱-	₱40,677,626
2019	3.38% to 7.25%	₱53,184,964	₱40,249,283	₱-	₱93,434,247

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on revaluing fixed rate FVPL financial assets.

The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

	Change in variables	Impact on income before tax Increase (decrease)
December 31, 2020		
	+100 basis points	(₱206,572)
	-100 basis points	208,835
December 31, 2019		
	+100 basis points	(₱709,187)
	-100 basis points	721,698

There is no impact on the Company's equity other than those already affecting net income.

c. *Price risk*

The Company's price risk exposure at year-end relates to financial assets and liabilities whose values will fluctuate as a result changes in market prices, principally AFS equity securities. As of December 31, 2020 and 2019, the Company's AFS equity securities pertain to investment in club shares and quoted equity securities.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity (that reflects changes in fair value of available-for-sale financial assets).

	2020	
	Change in variables	Impact on equity Increase (decrease)
PSEi	+21.30%	₱3,817,506
	-21.30%	(3,817,506)



	2019	
	Change in variables	Impact on equity Increase (decrease)
PSEi	+14.84%	₱1,464,307
	-14.84%	(1,464,307)

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on golf club shares (that reflects changes in fair value of available-for-sale financial assets).

	2020	
	Change in variables	Impact on equity Increase (decrease)
Price share	+28.61%	₱19,456,099
	-28.61%	(19,456,099)

	2019	
	Change in variables	Impact on equity Increase (decrease)
Price share	+88.51%	₱67,270,872
	-88.51%	(67,270,872)

22. Fair Value of Financial Assets and Liabilities

Fair values of financial assets and liabilities are estimated as follows:

Cash and cash equivalents, short-term investments, insurance receivables, insurance payables and accounts payable and accrued expenses - Due to the short-term nature of the instruments, the fair values approximate the carrying amounts as of the reporting date.

Financial assets at FVPL and AFS financial assets - Fair values are generally based on quoted market prices.

Long-term investments - Fair values are estimated using the present value technique, which links the future amounts to a present amount using a risk-free rate plus credit spread as the discount rate. This valuation technique captures estimate of future cash flows, time value of money as represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows and other factors that market participants would take into account in the circumstances.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.



	2020			Total
	Level 1	Level 2	Level 3	
AFS Financial Assets				
Listed equity securities	₱20,701,172	₱–	₱–	₱20,701,172
Club shares	68,000,000	–	–	68,000,000
Financial assets at FVPL				
Government debt securities	40,677,626	–	–	40,677,626
HTM financial assets	584,486,622	–	–	584,486,622
Long-term investment	–	–	41,900,844	41,900,844
	₱713,865,420	₱–	₱41,900,844	₱755,766,264

	2019			Total
	Level 1	Level 2	Level 3	
AFS Financial Assets				
Listed equity securities	₱21,221,415	₱–	₱–	₱21,221,415
Club shares	76,000,000	–	–	76,000,000
Financial assets at FVPL				
Government debt securities	93,434,247	–	–	93,434,247
HTM financial assets	314,335,343	–	–	314,335,343
Long-term investment	–	–	61,913,173	61,913,173
	₱504,991,005	₱–	₱61,913,173	₱566,904,178

There were also no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The significant unobservable input used in the fair value measurement of the Company's long-term investment is current incremental lending rate of 1.50%. Significant increases (decreases) in discount rate would result in a significantly lower (higher) fair value of long-term investments.

Fair value disclosure under the Amendments to PFRS 4

The table below presents an analysis of the fair value of classes of financial assets of the Company as of December 31, 2020 and 2019, as well as the corresponding change in fair value for the years then ended.

The financial assets are divided into two categories:

- Assets for which their 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).

December 31, 2020

Financial asset	SPPI financial assets		Other financial assets	
	Fair value	Fair value change	Fair value	Fair value change
Cash and cash equivalents*	₱316,226,956	₱–	₱–	₱–
Short-term investments*	581,223,713	–	–	–
AFS financial assets	–	–	88,701,172	(8,520,243)
Financial assets fair value through profit or loss	–	–	40,677,626	428,344
HTM financial assets	584,486,622	29,620,179	–	–
Loans and receivables*	104,292,584	–	–	–

*Amortized cost of these financial assets has been used as a reasonable approximation of fair value



December 31, 2019

Financial asset	SPPI financial assets		Other financial assets	
	Fair value	Fair value change	Fair value	Fair value change
Cash and cash equivalents*	₱485,242,332	₱-	₱-	₱-
Short-term investments*	383,260,111	-	-	-
AFS financial assets	-	-	97,221,415	10,129,896
Financial assets fair value through profit or loss	-	-	93,434,247	4,108,433
HTM financial assets	314,335,343	9,208,409	-	-
Loans and receivables*	96,318,888	-	-	-

*Amortized cost of these financial assets has been used as a reasonable approximation of fair value

23. Related Party Transactions

The sales to and purchases from related parties are made at normal market prices. Outstanding balances as of year-end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended December 31, 2020 and 2019, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Significant transactions with related parties include the following:

- The Company enters into several reinsurance transactions with its related parties in the normal course of business.

Transactions during the year and outstanding balances as of year-end are as follows:

	2020			
	Amount	Outstanding balance	Terms	Conditions
PGAI (Common control)				
Sublease agreement	₱6,848,171	₱-	On demand; Non-interest bearing	Unsecured; No impairment
Premiums assumed (net of RI commission expense)	490,124,530	140,145,283	On demand; Non-interest bearing	Unsecured; With impairment
Premiums ceded (net of RI commission earned)	36,667,976	46,708,223	-	-
Losses recoverable (ceded business)	9,990,325	35,671,272	On demand; Non-interest bearing	Unsecured; No impairment
Service agreement	270,000	-	On demand; Non-interest bearing	Unsecured; No impairment
Sompo Japan Insurance Inc. (Venturer)				
Premium ceded (net of RI commission earned)	505,362,714	198,563,646	On demand; Non-interest bearing	Unsecured; No impairment
Losses recoverable (ceded business)	256,646,200	17,663,489	-	-
Cost allocation with 5%-10% mark-up	16,172,570	3,135,497	On demand; Non-interest bearing	Unsecured; No impairment



	2019			
	Amount	Outstanding balance	Terms	Conditions
PGAI (Common control)				
Sublease agreement	₱6,848,171	₱-	On demand; Non-interest bearing	Unsecured; No impairment
Premiums assumed (net of RI commission expense)	244,627,969	132,280,958	On demand; Non-interest bearing	Unsecured; No impairment
Premiums ceded (net of RI commission earned)	36,296,727	51,109,557	-	-
Losses recoverable (ceded business)	400,577,893	30,151,911	On demand; Non-interest bearing	Unsecured; No impairment
Service agreement	790,843	790,843	On demand; Non-interest bearing	Unsecured; No impairment
Sompo Japan Insurance Inc. (Venturer)				
Premium ceded (net of RI commission earned)	582,229,154	46,273,298	On demand; Non-interest bearing	Unsecured; No impairment
Cost allocation with 5%-10% mark-up	16,783,661	5,396,019	On demand; Non-interest bearing	Unsecured; No impairment
(1) Sublease agreement with PGAI is renewable at each calendar year. This includes payment for office and parking space rent, association dues and utilities.				
(2) Service agreement with PGAI pertains to salaries of PGAI employees who are seconded to the Company.				
(3) The Company bills Sompo Japan Insurance, Inc. for administrative services.				

- b. Key management personnel of the Company include executive and non-executive directors and senior management. The salaries of key management personnel amounted to ₱21.96 million and ₱21.19 million in 2020 and 2019, respectively.

24. Equity

The Company's capital stock consists of:

	2020		2019	
	Shares	Amount	Shares	Amount
Authorized - ₱100 par value	15,000,000	₱1,500,000,000	15,000,000	₱1,500,000,000
Issued and outstanding:				
Beginning	9,500,000	950,000,000	6,500,000	650,000,000
Issuances during the year	-	-	3,000,000	300,000,000
Ending	9,500,000	₱950,000,000	9,500,000	₱950,000,000

On November 20, 2019, the Board of Directors approved the issuance of 3,000,000 shares at par amounting to ₱300 million from the Company's unissued capital stock. The additional shares were fully subscribed and paid as of December 31, 2019.

On April 22, 2020, the Company paid the related documentary stamp tax for the issuance of additional shares amounting to ₱3.00 million. The Company recorded the payment as a reduction on contributed surplus.



25. Leases

Company as a Lessee

The Company entered into a three (3) year lease contract with Prudential Guarantee and Assurance, Inc., for the lease of its office space from June 1, 2019 to May 31, 2022 on such terms and conditions mutually accepted by both parties and bears annual rent increase of 5.00%.

The estimated minimum future annual rentals payable under non-cancellable leases follow:

	2020	2019
Within one year	₱7,383,273	₱6,984,298
After one year but not more than five years	7,700,188	15,033,701
	₱15,083,461	₱22,017,999

Lease Liabilities

The carrying amount of lease liabilities follow:

	2020	2019
Balance at beginning of year	₱19,858,426	₱-
Additions	-	23,023,994
Interest expense	817,836	714,597
Payments	(6,651,712)	(3,880,165)
	₱14,024,550	₱19,858,426

The following are the amounts recognized in statement of income:

	2020	2019
Depreciation expense of right-of-use assets included in property and equipment (Note 9)	₱6,598,514	₱3,748,092
Interest expense on lease liabilities	817,836	714,597
Expenses relating to short-term leases (Note 18)	652,751	2,535,711
Total amount recognized in statement of income	₱8,069,101	₱6,998,400

26. Current and Non-current Classification

The Company's classification of its accounts is as follows:

	2020			2019		
	Current	Non-current	Total	Current	Non-current	Total
Assets						
Cash and cash equivalents	₱316,272,486	₱-	₱316,272,486	₱485,242,332	₱-	₱485,242,332
Short-term investments	581,223,713	-	581,223,713	383,260,111	-	383,260,111
Insurance receivables - net	762,098,425	-	762,098,425	644,308,145	-	644,308,145
Financial assets						
Financial assets at fair value through profit or loss	40,677,626	-	40,677,626	93,434,247	-	93,434,247
Available-for-sale financial assets	-	88,701,172	88,701,172	-	97,221,415	97,221,415
Held-to-maturity financial assets	3,910,143	550,956,300	554,866,443	303,253,987	1,872,947	305,126,934
Loans and receivables	54,292,584	50,000,000	104,292,584	34,405,715	61,913,173	96,318,888
Reinsurance assets	1,290,485,887	-	1,290,485,887	1,999,933,582	-	1,999,933,582
Deferred acquisition costs	65,071,993	-	65,071,993	65,092,175	-	65,092,175
Property and equipment - net	-	34,195,970	34,195,970	-	40,293,286	40,293,286
Deferred tax assets - net	-	18,477,338	18,477,338	-	11,897,408	11,897,408
Other assets	28,427,454	20,906,314	49,333,768	30,738,799	12,752,056	43,490,855
Total assets	₱3,142,460,311	₱763,237,094	₱3,905,697,405	₱4,039,669,093	₱225,950,285	₱4,265,619,378



	2020			2019		
	Current	Non-current	Total	Current	Non-current	Total
Liabilities						
Insurance contract liabilities	₱1,406,655,317	₱-	₱1,406,655,317	₱2,116,432,278	₱-	₱2,116,432,278
Insurance payables	876,561,959	-	876,561,959	586,835,537	-	586,835,537
Accounts payable and accrued expenses	150,092,759	-	150,092,759	191,573,330	-	191,573,330
Deferred reinsurance commissions	164,398,510	-	164,398,510	169,005,260	-	169,005,260
Lease liabilities	6,595,969	7,428,581	14,024,550	5,833,876	14,024,550	19,858,426
Net pension benefit obligation	-	9,339,812	9,339,812	-	5,910,702	5,910,702
Total liabilities	₱2,604,304,514	₱16,768,393	₱2,621,072,907	₱3,069,680,281	₱19,935,252	₱3,089,615,533

27. Note to Statement of Cash Flows

Significant non-cash investing transaction of the Company includes the increase in AFS financial assets due to mark-to-market valuation.

Presented below is the supplemental information on the Company's lease liability arising from financing activities (Note 25):

	2020	2019
Balance at beginning of year	₱19,858,426	₱-
Payments	(6,651,712)	(3,880,165)
Non-cash changes:		
Additions	-	23,023,994
Interest expense	817,836	714,597
	₱14,024,550	₱19,858,426

28. Events after the Reporting Period

President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Company:

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding ₱5.00 million and with total assets not exceeding ₱100.00 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.
- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.
- Imposition of improperly accumulated earnings tax (IAET) is repealed.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2011 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020



continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

Applying the provisions of the CREATE Act, the Company would have been subjected to lower regular corporate income tax rate of 25% effective July 1, 2020.

- Based on the provisions of Revenue Regulations (RR) No. 5-2021 dated April 8, 2021 issued by the BIR, the prorated CIT rate of the Company for CY2020 is 27.5%. This will result in lower provision for current income tax for the year ended December 31, 2020 and lower income tax payable as of December 31, 2020, amounting to ₱3.91 and nil, respectively. The reduced amounts will be reflected in the Company's 2020 annual income tax return. However, for financial reporting purposes, the changes will only be recognized in the 2021 financial statements.
- This will result in lower deferred tax assets amounting to ₱2.33 million. This reduction will be recognized in the 2021 financial statements.

29. Supplementary information required under Revenue Regulations 15-2010

In compliance with the requirements set forth by RR No. 15-2010, hereunder are the information on taxes and license fees paid or accrued during the taxable year.

a. Output Value Added Tax (VAT)

The Company is a VAT-registered company with VAT output tax declaration of ₱160.64 million for the year based on the total amount received, both on premiums and commissions, amounting to ₱1,338.68 million and VAT input tax declaration of ₱19.95 million for the year based on the amount of purchases of ₱166.27 million.

The Company has zero-rated and exempt receipts for the year amounting to ₱404.49 million and ₱21.37 million respectively.

The amount of VAT input taxes claimed are broken down as follows:

Balance at January 1	₱2,485,762
Current year's domestic purchases/payments for:	
Goods other than for resale	19,951,825
<u>Total Input VAT claimed during the year</u>	<u>(17,698,456)</u>
<u>Balance at December 31</u>	<u>₱4,739,131</u>

Documentary Stamp Tax (DST)

The DST paid on insurance policies amounted to ₱189.84 million.



b. Other Taxes and Licenses

Details of other taxes, local and national, follow:

Local:

Municipal tax	₱19,040
Community tax certificate	2,570

National:

Documentary stamp tax	–
Miscellaneous	232,182

Total	₱253,792
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c. Other taxes paid are:

Fire service tax	₱16,189,286
Premium tax	429,253
	₱16,618,539

d. Withholding Taxes

The amount of withholding taxes paid/accrued for the year amounted to:

Withholding taxes on compensation and benefits	₱4,181,323
Expanded withholding taxes	10,964,900
Final withholding taxes	–
	₱15,146,223

e. Tax assessment

On September 22, 2015, the Company received final tax assessment notice from the Bureau of Internal Revenue (BIR) covering taxable year 2009. The Company appealed the case to the BIR dated October 22, 2015. Tax assessments amounted to ₱102.50 million.

As of June 30, 2016, the BIR performed a thorough evaluation of the documents submitted and recomputed the deficiency internal revenue taxes which amounted to ₱101.03 million. The Company escalated the case to the Court of Tax Appeals (CTA).

On August 8, 2018 the court decided to cancel all tax deficiencies and administrative penalties for the taxable year 2009 amounting ₱101.03 million.

The BIR submitted Motion for Reconsideration dated August 30, 2019. The CTA Special First Division in its Resolution dated November 29, 2019 denied for lack of merit the BIR's Motion for Reconsideration.

On December 18, 2019, the BIR filed a Petition for Review before the CTA En Banc appealing the decision of the CTA Special First Division. The Court referred the case for mediation, however, parties were not able to agree on compromise.

On October 29, 2020, the Court submitted the case for decision.

