



## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
Liberty Insurance Corporation  
119 JCSO Building  
Dela Rosa corner C. Palanca, Jr. Sts.  
Legaspi Village, Makati City

### Report on the Audit of the Financial Statements

#### *Opinion*

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

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

#### *Basis for Opinion*

We conducted our audit in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits 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.

#### *Other Matter*

The financial statements of the Company as at and for the year ended December 31, 2019 were audited by another auditor, whose report dated May 27, 2020 expressed an unmodified opinion on those statements.

#### *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 the PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



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

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

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

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

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

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



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

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes and licenses in Note 27 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 Liberty Insurance Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**REYES TACANDONG & Co.**

  
PAMELA ANN P. ESCUADRO

Partner

CPA Certificate No. 128829

Tax Identification No. 216-321-918-000

BOA Accreditation No. 4782; Valid until August 15, 2021

SEC Accreditation No. 128829-SEC Group A

Issued March 23, 2021

Valid for Financial Periods 2020 to 2024

IC Accreditation No. 128829-IC

Issued February 22, 2021

Valid for Financial Periods 2020 to 2024

BIR Accreditation No. 08-005144-013-2020

Valid until January 1, 2023

PTR No. 8534282

Issued January 5, 2021, Makati City

March 24, 2021

Makati City, Metro Manila

**LIBERTY INSURANCE CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2020**  
**(With Comparative Figures for 2019)**

|  |      | <b>December 31</b>    |                |
|--|------|-----------------------|----------------|
|  | Note | <b>2020</b>           | 2019           |
| <b>ASSETS</b>  |      |                       |                |
| Cash and cash equivalents                              | 4    | <b>₱87,950,008</b>    | ₱144,845,851   |
| Short-term investments                                 | 5    | <b>298,600,064</b>    | 150,383,556    |
| Insurance and other receivables                        | 6    | <b>148,429,548</b>    | 213,578,308    |
| Financial asset investments:                           | 7    |                       |                |
| Held-to-maturity (HTM) investments                     |      | <b>286,338,431</b>    | 230,984,694    |
| Investment at fair value through profit or loss (FVPL) |      | <b>75,816,819</b>     | 26,621,240     |
| Available-for-sale (AFS) investments                   |      | <b>27,323,380</b>     | 22,380,258     |
| Deferred acquisition costs                             | 8    | <b>57,693,890</b>     | 61,742,262     |
| Reinsurance assets                                     | 9    | <b>27,759,211</b>     | 27,571,166     |
| Investment properties                                  | 10   | <b>135,830,176</b>    | 135,865,858    |
| Property and equipment                                 | 11   | <b>26,662,501</b>     | 30,210,362     |
| Net retirement asset                                   | 22   | <b>16,880,056</b>     | 15,929,454     |
| Other assets   | 12   | <b>8,478,532</b>      | 8,907,111      |
|  |      | <b>₱1,197,762,616</b> | ₱1,069,020,120 |
| <b>LIABILITIES AND EQUITY</b>                          |      |                       |                |
| <b>Liabilities</b>                                     |      |                       |                |
| Insurance contract liabilities                         | 13   | <b>₱284,373,890</b>   | ₱294,047,049   |
| Insurance payables                                     | 14   | <b>30,757,912</b>     | 12,541,363     |
| Deferred reinsurance commissions                       | 8    | <b>5,559,927</b>      | 6,885,822      |
| Accounts and other payables                            | 15   | <b>56,348,470</b>     | 56,304,985     |
| Lease liabilities                                      | 24   | <b>616,578</b>        | 1,954,825      |
| Net deferred tax liabilities                           | 23   | <b>10,405,684</b>     | 8,696,933      |
| Income tax payable                                     |      | <b>35,115,878</b>     | 29,315,064     |
| Total Liabilities                                      |      | <b>423,178,339</b>    | 409,746,041    |
| <b>Equity</b>  |      |                       |                |
| Capital stock  | 17   | <b>356,687,600</b>    | 281,687,600    |
| Additional paid-in capital                             |      | <b>2,239</b>          | 2,239          |
| Retained earnings                                      | 17   | <b>429,518,198</b>    | 389,509,325    |
| Other components of equity:                            |      |                       |                |
| Remeasurement loss on net pension asset                | 22   | <b>(11,305,677)</b>   | (11,598,175)   |
| Revaluation reserve on AFS investments                 | 7    | <b>(318,083)</b>      | (326,910)      |
| Total Equity   |      | <b>774,584,277</b>    | 659,274,079    |
|  |      | <b>₱1,197,762,616</b> | ₱1,069,020,120 |

*See accompanying Notes to the Financial Statements.*

**LIBERTY INSURANCE CORPORATION**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(With Comparative Figures for 2019)**

|   | Note | 2020                 | 2019          |
|---|------|----------------------|---------------|
| <b>REVENUE</b>  |      |                      |               |
| Gross earned premiums on insurance contracts  | 18   | <b>₱521,296,503</b>  | ₱512,409,793  |
| Reinsurers' share of gross earned premiums on insurance contracts   | 18   | <b>(115,396,392)</b> | (103,041,989) |
| Net earned premiums   |      | <b>405,900,111</b>   | 409,367,804   |
| Investment and other income   | 21   | <b>29,104,678</b>    | 25,191,129    |
| Commission income   | 8    | <b>12,869,878</b>    | 13,014,540    |
| Other underwriting income   | 21   | <b>21,014,624</b>    | 28,672,014    |
|   |      | <b>468,889,291</b>   | 476,245,487   |
| <b>BENEFITS, CLAIMS AND EXPENSES</b>  |      |                      |               |
| Net insurance benefits and claims   | 19   | <b>59,403,717</b>    | 80,699,758    |
| Commission expense  | 8    | <b>118,373,145</b>   | 115,566,148   |
| Operating expenses  | 20   | <b>129,755,328</b>   | 134,620,271   |
| Impairment loss   | 7    | <b>1,051,705</b>     | 4,031,763     |
| Interest expense  | 24   | <b>79,884</b>        | 176,103       |
| Other underwriting expenses   |      | <b>2,430,526</b>     | 2,603,219     |
|   |      | <b>311,094,305</b>   | 337,697,262   |
| <b>INCOME BEFORE INCOME TAX</b>   |      | <b>157,794,986</b>   | 138,548,225   |
| <b>INCOME TAX EXPENSE</b>   | 23   |                      |               |
| Current   |      | <b>37,524,854</b>    | 32,592,618    |
| Final   |      | <b>3,677,864</b>     | 2,961,131     |
| Deferred  |      | <b>1,583,395</b>     | 2,854,475     |
|   |      | <b>42,786,113</b>    | 38,408,224    |
| <b>NET INCOME</b>   |      | <b>115,008,873</b>   | 100,140,001   |
| <b>OTHER COMPREHENSIVE INCOME</b>   |      |                      |               |
| <i>To be reclassified to profit or loss when realized –</i>   |      |                      |               |
| Net change in revaluation reserve on AFS investments  | 7    | <b>8,827</b>         | 25,713        |
| <i>Not to be reclassified to profit or loss –</i>   |      |                      |               |
| Remeasurement gain (loss) on net pension asset - net of tax effect of ₱0.1 million in 2020 (₱0.9 million in 2019) | 22   | <b>292,498</b>       | (2,045,539)   |
|   |      | <b>301,325</b>       | (2,019,826)   |
| <b>TOTAL COMPREHENSIVE INCOME</b>   |      | <b>₱115,310,198</b>  | ₱98,120,175   |

See accompanying Notes to the Financial Statements.

**LIBERTY INSURANCE CORPORATION**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(With Comparative Figures for 2019)**

|   | Note | 2020                | 2019         |
|---|------|---------------------|--------------|
| <b>CAPITAL STOCK</b>                                    |      |                     |              |
|   | 17   |                     |              |
| Balance at beginning of year                            |      | <b>₱281,687,600</b> | ₱281,686,600 |
| Issuances from:   |      |                     |              |
| Stock dividends   |      | <b>75,000,000</b>   | –            |
| Receipt of subscription receivable                      |      | –                   | 1,000        |
| Balance at end of year                                  |      | <b>356,687,600</b>  | 281,687,600  |
| <b>ADDITIONAL PAID-IN CAPITAL</b>                       |      |                     |              |
|   |      | <b>2,239</b>        | 2,239        |
| <b>RETAINED EARNINGS</b>                                |      |                     |              |
|   | 17   |                     |              |
| Balance at beginning of year                            |      | <b>389,509,325</b>  | 289,369,324  |
| Net income  |      | <b>115,008,873</b>  | 100,140,001  |
| Stock dividends   |      | <b>(75,000,000)</b> | –            |
| Balance at end of year                                  |      | <b>429,518,198</b>  | 389,509,325  |
| <b>OTHER COMPONENTS OF EQUITY</b>                       |      |                     |              |
| <b>Remeasurement loss on net retirement asset</b>       |      |                     |              |
|   | 22   |                     |              |
| Balance at beginning of year                            |      | <b>(11,598,175)</b> | (9,552,636)  |
| Other comprehensive income (loss)                       |      | <b>292,498</b>      | (2,045,539)  |
| Balance at end of year                                  |      | <b>(11,305,677)</b> | (11,598,175) |
| <b>Cumulative fair value changes on AFS investments</b> |      |                     |              |
|   | 7    |                     |              |
| Balance at beginning of year                            |      | <b>(326,910)</b>    | (352,623)    |
| Other comprehensive income                              |      | <b>8,827</b>        | 25,713       |
| Balance at end of year                                  |      | <b>(318,083)</b>    | (326,910)    |
|   |      | <b>(11,623,760)</b> | (11,925,085) |
|   |      | <b>₱774,584,277</b> | ₱659,274,079 |

*See accompanying Notes to the Financial Statements.*

**LIBERTY INSURANCE CORPORATION**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(With Comparative Figures for 2019)**

|  | Note | 2020                | 2019         |
|--|------|---------------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>        |      |                     |              |
| Income before income tax                           |      | <b>₱157,794,986</b> | ₱138,548,225 |
| Adjustments for:                                   |      |                     |              |
| Interest income                                    | 21   | <b>(19,008,138)</b> | (15,581,101) |
| Depreciation and amortization                      | 11   | <b>9,884,055</b>    | 9,696,324    |
| Loss (gain) on sale of:                            |      |                     |              |
| Investment property                                | 21   | <b>(7,762,318)</b>  | (2,417,430)  |
| AFS investments                                    | 21   | <b>77,951</b>       | (3,796,462)  |
| Net retirement benefit expense                     | 22   | <b>5,562,253</b>    | 2,705,457    |
| Dividend income                                    | 21   | <b>(2,411,693)</b>  | (2,434,697)  |
| Impairment loss on AFS investments                 | 7    | <b>1,051,705</b>    | 4,031,763    |
| Interest expense on lease liabilities              | 24   | <b>79,884</b>       | 176,103      |
| Fair value gain on investments at FVPL             | 7    | <b>(56,362)</b>     | (961,439)    |
| Loss on sale of property and equipment             | 21   | <b>55,882</b>       | –            |
| Operating income before changes in working capital |      | <b>145,268,205</b>  | 129,966,743  |
| Decrease (increase) in:                            |      |                     |              |
| Insurance and other receivables                    |      | <b>65,148,760</b>   | (19,831,818) |
| Reinsurance assets                                 |      | <b>(188,045)</b>    | 9,620,971    |
| Deferred acquisition costs                         |      | <b>4,048,372</b>    | (9,000,135)  |
| Other assets                                       |      | <b>428,579</b>      | 112,167      |
| Increase (decrease) in:                            |      |                     |              |
| Insurance contract liabilities                     |      | <b>(9,673,159)</b>  | 31,309,160   |
| Insurance payables                                 |      | <b>18,216,549</b>   | (4,191,124)  |
| Accounts and other payables                        |      | <b>43,485</b>       | 11,155,018   |
| Deferred reinsurance commissions                   |      | <b>(1,325,895)</b>  | (297,447)    |
| Net cash generated from operations                 |      | <b>221,966,851</b>  | 148,843,535  |
| Income tax paid                                    |      | <b>(31,724,040)</b> | (27,419,483) |
| Contributions paid                                 | 22   | <b>(6,095,000)</b>  | (6,120,000)  |
| Net cash provided by operating activities          |      | <b>184,147,811</b>  | 115,304,052  |

(Forward)

|   | Note | 2020                 | 2019          |
|---|------|----------------------|---------------|
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                 |      |                      |               |
| Interest received   |      | <b>₱12,113,660</b>   | ₱2,502,916    |
| Dividend received   |      | <b>2,411,693</b>     | 2,415,793     |
| Proceeds from disposal or maturities of:                    |      |                      |               |
| Short-term investments                                      |      | <b>150,383,556</b>   | 120,758,795   |
| AFS financial assets  |      | <b>56,063,264</b>    | 96,368,421    |
| HTM investments   |      | <b>13,000,000</b>    | 3,804,524     |
| Investment property   |      | <b>7,798,000</b>     | 54,574        |
| Investment in financial assets at FVPL                      |      | <b>1,012,500</b>     | 2,677,700     |
| Property and equipment                                      |      | <b>717,157</b>       | 5,000,000     |
| Acquisitions of:  |      |                      |               |
| Short-term investment                                       |      | <b>(295,004,042)</b> | (150,383,556) |
| HTM investments   |      | <b>(68,733,145)</b>  | (34,211,300)  |
| AFS investments   |      | <b>(62,127,216)</b>  | (72,402,942)  |
| Investment at FVPL  |      | <b>(50,151,717)</b>  | (1,118,301)   |
| Property and equipment                                      |      | <b>(7,109,233)</b>   | (15,819,087)  |
| Net cash used in investing activities                       |      | <b>(239,625,523)</b> | (40,352,463)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                 |      |                      |               |
| Payment of principal portion of lease liabilities           |      | <b>(1,418,131)</b>   | (2,000,402)   |
| Proceeds from issuance of shares                            |      | -                    | 1,000         |
| Net cash used in financing activities                       |      | <b>(1,418,131)</b>   | (1,999,402)   |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> |      |                      |               |
|   |      | <b>(56,895,843)</b>  | 72,952,187    |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>       |      |                      |               |
|   |      | <b>144,845,851</b>   | 71,893,664    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>             |      |                      |               |
|   | 4    | <b>₱87,950,008</b>   | ₱144,845,851  |

See accompanying Notes to the Financial Statements.



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**LIBERTY INSURANCE CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**  
**(With Comparative Information for 2019)**

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**1. Corporate Information**

Liberty Insurance Corporation (the Company) was incorporated and registered in the Philippine Securities and Exchange Commission (SEC) on December 11, 1953. On November 10, 2003, the Company renewed its registration with SEC to extend its corporate life for another fifty years. However, as prescribed by the Revised Corporation Code of the Philippines, effective February 23, 2019, the Company shall have perpetual existence.

The Company is a member of Jose Cojuangco and Sons Group of Companies.

The Company is engaged in the business of non-life insurance which includes fire, motor car, marine insurance, personal accident insurance and miscellaneous casualty that are permitted to be sold by nonlife insurance company in the Philippines.

On December 7, 2018, the Insurance Commission (IC) renewed the Company's license to operate as an Insurance Company with Certificate of Authority No. 2019/11-R valid until December 31, 2021.

On April 24, 2019, the Company's Board of Directors (BOD) approved the increase in its authorized capital stock from ₱300.0 million divided into 3.0 million common shares at ₱100 par value to ₱600.0 million divided into 6.0 million common shares at ₱100 par value a share. The application for the increase on authorized capital stock was approved by SEC on December 16, 2020.

Of the approved increase in authorized capital stock, ₱75.0 million divided into 750,000 common shares were subscribed and paid by way of stock dividend (see Note 17).

The registered office address of the Company is 119 JCSO Building Dela Rosa corner C. Palanca, JR. Sts., Legaspi Village, Makati City, Philippines.

**Status of Operations**

The COVID-19 pandemic which broke out in early 2020 resulted to nationwide mandated lockdowns and negatively impacted the Philippine economy. Management, however, believes that with the Company's strong financial position it can readily meet its maturing obligations and continue as a going concern.

**Authorization and Approval for Issuance of the Financial Statements**

The accompanying financial statements as at and for the year then ended December 31, 2020 were approved and authorized for issue by the BOD on March 24, 2021.

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## 2. Summary of Significant Accounting Policies

### **Basis of Preparation**

The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) issued by the Philippine Financial Reporting Standards Council and adopted by SEC. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from the International Financial Reporting Interpretations Committee (IFRIC) and SEC provisions.

### **Measurement Bases**

The financial statements are presented in Philippine Peso (Peso), which is the Company's functional and presentation currency. All amounts are rounded to the nearest Peso unless otherwise stated.

The financial statements have been prepared on the historical cost basis of accounting, except for financial assets at FVPL and AFS investments which are stated at fair value and net pension asset which is measured at the fair value of plan assets (FVPA) less present value of the defined benefit obligation (PVBO). Historical cost is generally based on the fair value of the consideration given in exchange for an asset and fair value of the consideration received in exchange for incurring a liability.

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 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 market 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; and

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

For the purpose of fair value disclosures, the 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.

Further information about the assumptions made in measuring fair value is included in the following notes:

- Note 7 - Financial Assets
- Note 10 - Investment Properties
- Note 25 - Insurance and Financial Risk Management Objectives and Capital Management

#### **Adoption of Amended PFRS**

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PFRS effective for annual periods beginning on or after January 1, 2020:

- Amendments to References to the Conceptual Framework in PFRS – The amendments include new concepts affecting measurement, presentation and disclosure and derecognition; improved definitions and guidance-in particular the definition of an asset and a liability; and clarifications in important areas, such as the roles of stewardship, prudence, measurement uncertainty and substance over form in financial reporting.
- Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material* – The amendments clarify the definition of “material” and how it should be applied by companies in making materiality judgments. The amendments ensure that the new definition is consistent across all PFRS standards. Based on the new definition, an information is “material” if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Under prevailing circumstances, the adoption of the foregoing amended PFRS did not have any material effect on the financial statements. Additional disclosures have been included in the notes to financial statements, as applicable.

#### **New and Amended PFRS Issued Not Yet Effective**

Relevant new and amended PFRS, which are not yet effective as at December 31, 2020 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2022:

- Amendments to PFRS 3, *Reference to Conceptual Framework* – The amendments replace the reference of PFRS 3 from the 1989 Framework to the current 2018 Conceptual Framework. The amendment included an exception that specifies that, for some types of liabilities and contingent liabilities, an entity applying PFRS 3 should refer to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, or IFRIC 21, *Levies*, instead of the Conceptual Framework. The requirement would ensure that the liabilities recognized in a business combination would remain the same as those recognized applying the current requirements in PFRS 3. The amendment also added an explicit statement that contingent assets acquired in a business combination should not be recognized by an acquirer. The amendments should be applied prospectively.

- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds Before Intended Use* – The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for its intended use. Instead, the proceeds and related costs from such items shall be recognized in profit or loss. The amendments 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 an entity first applies the amendment.
- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract* – The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling a contract comprises both the incremental costs of fulfilling that contract and an allocation of costs directly related to contract activities. The amendments apply to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other components of equity. Accordingly, the comparatives are not restated. Earlier application is permitted.
- Amendments to PFRS 9, *Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities* – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognize a financial liability (i.e. whether the terms of a new or modified financial liability is 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 the lender on the other's behalf. The amendments apply 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 amendments. Earlier application is permitted.

Effective for annual periods beginning on or after January 1, 2023 -

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current* – The amendments clarify the requirements for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also specify and clarify the following: (i) an entity's right to defer settlement must exist at the end of the reporting period, (ii) the classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement, (iii) how lending conditions affect classification, and (iv) requirements for classifying liabilities where an entity will or may settle by issuing its own equity instruments. The amendments must be applied retrospectively. Earlier application is permitted.

Effective for annual periods beginning on or after January 1, 2025 -

- PFRS 17, *Insurance Contracts* – This standard will replace PFRS 4, *Insurance Contracts*. It requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. An amendment to the standard was issued to (i) reduce costs of transition by simplifying some requirements of the standard, (ii) make financial performance easier to explain, and (iii) ease transition by deferring the effectivity of the standard from 2021 to 2023 and by providing additional relief to reduce the effort required when applying PFRS 17 for the first time.

In response to the challenges brought by the Covid-19 pandemic, the IC issued Circular Letter 2020-062, *Amendment of Section 1 of Circular Letter No. 2018-69, Deferral of IFRS 17 Implementation*, which provides a two year deferral on the implementation of the standard from the 2023 effectivity date. Therefore, all life and nonlife insurance companies in the Philippines shall adopt PFRS 17 for annual periods beginning on or after January 1, 2025.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is expected to have material effects, although not yet quantified, on the financial statements of the Company. Additional disclosures will be included in the notes to financial statements, as applicable.

#### **Current and Noncurrent Classification**

The Company presents assets and liabilities in the statement of financial position based on liquidity.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when it is:

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

The Company classifies all other liabilities as noncurrent.

#### **Financial Instruments**

The Company applied the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*, issued in September 2016. The temporary exemption permits entities whose activities are predominantly connected with insurance to continue applying PAS 39 rather than PFRS 9 until the effectivity of the new insurance standards beginning January 1, 2025, based on Circular Letter 2020-062, *Amendment of Section 1 of Circular Letter No. 2018-69, Deferral of IFRS 17 Implementation* issued by the IC.

Based on the assessment made by the Management, the Company qualifies for the deferral of application of PFRS 9 since its activities are predominantly connected with insurance. Accordingly, the Company deferred the adoption of PFRS 9 and has continued to apply PAS 39.

To comply with the disclosure requirements of the amendments to PFRS 4, the table below presents the comparison of the classification of the Company's financial assets as at December 31, 2020 under PAS 39 and PFRS 9. The carrying amounts of these financial assets under PAS 39 remain unchanged under PFRS 9.

| Financial Assets                | Classification under PAS 39 | Classification under PFRS 9   |
|---------------------------------|-----------------------------|---|
| Cash and cash equivalents       | Loans and receivables       | Financial assets at amortized cost  |
| Short-term investments          | Loans and receivables       | Financial assets at amortized cost  |
| Insurance and other receivables | Loans and receivables       | Financial assets at amortized cost  |
| HTM investments                 | HTM investments             | Financial assets at amortized cost  |
| Financial assets at FVPL        | Held for trading            | Financial assets at FVPL  |
| AFS financial assets            | AFS financial assets        | Financial assets at fair value through other comprehensive income (FVOCI) |

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

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

*Initial Recognition and Measurement.* Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at FVPL, includes transaction cost.

*Classification.* Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual agreement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expenses or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

The Company classifies its financial assets into the following categories: financial assets at FVPL, HTM investments, AFS investments, and insurance and other receivables. 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 financial instruments at initial recognition, and where allowed and appropriate, re-evaluates the designation at each reporting date.

*Financial Assets and Financial Liabilities at FVPL.* This category consists of financial assets that are held for trading or financial instruments designated by management as at FVPL on initial recognition.

After initial measurement, financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value, with any changes in fair value recognized in profit or loss.

Financial assets or financial liabilities that are not held for trading but are classified under the FVPL category are allowed to be designated by management on initial recognition in this category when any of the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the asset or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be bifurcated.

The Company's financial assets at FVPL consist of traded equity securities and investments in mutual fund (see Note 7). The Company has no financial liabilities at FVPL as at December 31, 2020 (and 2019).

*HTM Investments.* HTM investments are nonderivative financial assets that are quoted in the market, with fixed or determinable payments and fixed maturities for which the Company's management has the positive intention and ability to hold to maturity. HTM investments are subsequently measured at amortized cost less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included as part of "Interest income" lodged in "Investment and other income (loss)" account in the statement of comprehensive income. Gains and losses are recognized in profit or loss when the HTM investments are derecognized. Any impairment loss is recognized in profit or loss.

Where the Company sells or reclassifies other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified at fair value as AFS financial assets. The Company would then be unable to categorize financial instruments as HTM investments for the next two (2) years in the financial statements.

HTM investments are included in current assets if maturity is within twelve months from the reporting date. Otherwise, these are classified as noncurrent assets.

The Company's HTM investments consist of investments in government and corporate debt securities (see Note 7).

*AFS Investments.* AFS investments are nonderivative financial assets that are either designated in this category or do not qualify to be classified as financial assets at FVPL, HTM investments or insurance and other receivables. Financial assets may be designated at initial recognition as AFS investments if these are purchased indefinitely and may be sold in response to liquidity requirements or change in market conditions.

After the initial measurement, AFS investments are carried at fair value in the statement of financial position. Changes in the fair value of AFS investments are reported as part of OCI and accounted for in equity under "Revaluation reserve on AFS investments" account, until the investment is derecognized or the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in profit or loss.

When the fair value of AFS investments cannot be measured reliably because of lack of reliable estimates of unobservable inputs such as in case of unquoted equity instruments, these financial assets are allowed to be carried as cost less impairment, if any.

Dividends earned on holding AFS investments are recognized in the profit or loss when the right to receive payment has been established. The loss arising from impairment of such securities is recognized as impairment loss in profit or loss.

When AFS investments are derecognized, the cumulative gain or loss previously recognized in OCI and previously reported in equity is transferred to profit or loss. Where the Company holds more than one investment in the same security, these are deemed to be disposed of on a weighted average basis.

AFS investments are included in current assets if it is expected to be realized or disposed of within 12 months from the end of the reporting year. Otherwise, these are classified as noncurrent assets.

The Company's AFS investments include investments in equity securities (see Note 7).

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

After initial measurement, insurance and other receivables are carried at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). Insurance and other receivables that are perpetual and that have either a fixed or a market-based variable rate of interest are measured at cost. Gains and losses are recognized in the statement of comprehensive income when the insurance and other receivables are derecognized or impaired, as well as through the amortization process.

Insurance and other receivables are included in current assets if maturity is within twelve months from the reporting date. Otherwise, these are classified as noncurrent assets.

This category includes cash and cash equivalents, short-term investments, insurance and other receivables (see Notes 4, 5, 6 and 7).

*Cash and Cash Equivalents.* Cash includes cash on hand and in banks. Cash equivalents pertain to short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value. Cash and cash equivalents are measured at face amount.



*Short-term Investments.* Short-term investments are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three months but less than one year from dates of placement. These earn interests at the respective short-term investment rates.

*Insurance Receivables.* Insurance receivables are recognized on policy inception dates and measured on initial recognition at fair value of consideration receivable for the period of coverage. Subsequent to initial recognition, insurance receivables are measured at amortized cost less any allowance for impairment. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment losses are recognized in profit or loss.

*Other Financial Liabilities.* Financial liabilities which are not held for trading or are not designated at FVPL are classified as financial liabilities carried at amortized cost 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 settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Other financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized and through the amortization process.

This category includes claims payable under “Insurance contract liabilities” account, insurance payables, accounts and other payables (excluding payable to government agencies) and lease liabilities (see Notes 13, 14, 15 and 24).

*Lease Liability.* Lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the Company’s incremental borrowing rate. Lease payments included in the measurement of a lease liability comprise the fixed payments, including in-substance fixed payments, variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date, amounts expected to be payable by the lessee under residual value guarantees and the exercise price under a purchase option that the Company is reasonably certain to exercise; lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option; and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

Lease liability is subsequently measured at amortized cost. Interest on the lease liability and any variable lease payments not included in the measurement of lease liability are recognized in profit or loss unless these are capitalized as costs of another asset. Variable lease payments not included in the measurement of the lease liability are recognized in profit or loss when the event or condition that triggers those payments occurs.

If there is a change in the lease term or if there is a change in the assessment of an option to purchase the underlying asset, the lease liability is remeasured using a revised discount rate considering the revised lease payments on the basis of the revised lease term or reflecting the change in amounts payable under the purchase option. The lease liability is also remeasured using the revised lease payments if there is a change in the amounts expected to be payable under a residual value guarantee or a change in future lease payments resulting from a change in an index or a rate used to determine those payments.

Lease liability is classified in the statement of financial position as current liabilities when it is expected to be paid for no more than 12 months after the financial year. Otherwise, lease liability is classified as noncurrent liabilities.

### **Impairment of Financial Assets**

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence includes observable data that comes to the attention of the Company about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that borrower will enter bankruptcy or other financial reorganization.

*Insurance and Other Receivables.* 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 it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated. 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 of 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 discounted at the assets' effective interest rate. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset shall be reduced directly or through the use of an allowance account. The amount of loss shall be recognized in 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 reduced by adjusting the allowance account. 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.

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

*AFS Financial Assets Carried at Fair Value.* In case of equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. When there is evidence of impairment, the cumulative loss which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss is removed from OCI and recognized in profit or loss. Recovery of impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in OCI.

The Company treats “significant” generally as 20% or more and “prolonged” as greater than six (6) months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be appropriate also when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, changes in technology and operational and financing cash flows.

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

*AFS Financial Assets Carried at Cost.* If there is an objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be measured reliably, the amount of the loss is measured as the difference between that asset’s carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

### **Derecognition of Financial Assets and Financial Liabilities**

*Financial Asset.* A financial asset, or where applicable, a part of a financial asset or part of a group of similar financial assets is derecognized when:

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

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

financial asset and the maximum amount of consideration that the Company could be required to repay.

*Financial Liability.* A financial liability is derecognized from the statement of financial position when the obligation under the financial liability is discharged, cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Company could raise debt with similar terms and conditions in the market. The difference between the carrying amount of the original liability and fair value of the new liability is recognized in the statement of comprehensive income.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

#### **Offsetting of Financial Assets and Liabilities**

Financial assets and 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

#### **Other Current Assets**

This account includes prepayments, documentary stamp tax and security funds which are stated at face value.

*Prepayments.* These are expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to expense as these are consumed in operations or expire with the passage of time.

Prepayments are classified in the statement of financial position as current asset when it is expected to be realized for no more than 12 months after the financial year. Otherwise, prepayments are classified as noncurrent assets.

#### **Deferred Acquisition Costs**

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

Subsequent to initial recognition, these costs are amortized using the 24th method. Amortization of deferred acquisition costs is recognized in profit or loss. The unamortized acquisition costs are presented as "Deferred acquisition costs" account in the statement of financial position.

### **Investment Properties**

Investment properties pertain to parcels of land which are held for capital appreciation. These are carried at cost, including transaction costs, less any impairment losses.

Investment properties are measured initially at cost. Cost includes the acquisition cost of the investment properties plus incidental costs incurred to effect the transfer of title of the investment property and other necessary expenses incurred in its acquisition.

Expenditures incurred after the investment properties have put into operations, such as repairs and maintenance costs, are charged to operations in the year in which the costs are incurred.

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

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the end of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by the commencement of owner-occupation or commencement of development with a view to sell.

### **Property and Equipment**

Property and equipment, which includes ROU assets, are stated at cost less accumulated depreciation and amortization and any impairment losses.

The initial cost of property and equipment comprises its purchase price, including import duties and nonrefundable taxes, and any direct costs attributable in bringing the asset to its working condition and location for its intended use.

ROU asset represents a lessee's right to use an underlying asset for the lease term. The Company recognizes its ROU assets for all leases, except for leases with lease terms of 12 months or less (short-term leases) and leases for which the underlying asset is of low value in which case the lease payments associated with those leases are recognized as expense on a straight-line basis.

ROU assets are recognized at the commencement date of the lease and are measured at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of the ROU asset shall comprise the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs incurred and an estimation of costs to be incurred by the Company in dismantling and removing the underlying asset.

Expenditures incurred after the assets have been put into operations, such as repairs and maintenance, are normally charged to profit or loss in the year the cost 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 assets.

Depreciation and amortization commence when the property and equipment is in its location or condition capable of being operated in the manner intended by management. Depreciation and amortization ceases at the earlier of the date that the property and equipment is classified as held-for-sale and the date the property and equipment is derecognized.

Depreciation and amortization is computed using the straight-line method of property and equipment based on the estimated useful lives of the assets as follows:

| <u>Asset type</u>                        | <u>Number of Years</u>                 |
|--|--|
| Leasehold improvements                   | 10 or lease term, whichever is shorter |
| Transportation equipment                 | 5                                      |
| Computer equipment                       | 5                                      |
| Office furniture, fixtures and equipment | 5                                      |
| ROU assets                               | 10 or lease term, whichever is shorter |

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

Fully depreciated or amortized property and equipment are retained in the accounts until these are no longer in use and no further charge for depreciation and amortization is made in respect of those property and equipment.

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the property and equipment is derecognized.

When items of property and equipment are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization and any impairment loss are removed from the accounts and any resulting gain or loss is charged to the profit or loss.

#### **Impairment of Nonfinancial Assets**

At each reporting date, nonfinancial assets are reviewed to determine whether there is any indication that these nonfinancial assets may be impaired. If there is an indication of possible impairment, the recoverable amount of any asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in the statement of comprehensive income. The recoverable amount of an asset is the greater of its value in use or its fair value less cost to sell. Value in use is the present value of future cash flows expected to be derived from an asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss

is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in profit or loss.

### **Insurance Contracts**

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

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 the period, unless all rights and obligations are extinguished or expired. Investment contracts can however be reclassified as insurance contracts after inception if the insurance risk becomes significant.

*Reinsurance.* The Company cedes insurance risk in the normal course of business. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

Reinsurance assets are reviewed for impairment at each end of the reporting period or more frequently when an indication of impairment arises. Reinsurance assets are impaired only if there is objective evidence that the Company may not receive all amounts due under the terms of the contract and that this can be measured reliably. If such evidence exists, impairment loss is recognized in profit or loss.

Premiums and claims on assumed reinsurance are recognized in profit or loss 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 reinsurance contract.

Reinsurance recoverable on paid losses on businesses ceded are offset against insurance payable to reinsurers which is customary in the industry.

### **Insurance Contract 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 unearned premiums. The change in the provision for unearned premiums is recognized in profit or loss in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

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

*Liability Adequacy Test.* At each reporting date, liability adequacy test is performed, to ensure adequacy of insurance contract liabilities, net of deferred acquisition costs. In performing the test, current best estimates of future cash flows, claims handling and policy administration are used. Any inadequacy is immediately recognized in profit or loss by establishing an unexpired risk provision for losses arising from the liability adequacy tests. The provision for unearned premium is increased to the extent that the future claims and expenses in respect of current insurance contract exceed future premium plus the current provision for unearned premiums.

#### **Benefits and Claims**

Benefits and claims consist of benefits and claims paid to policyholders, which includes changes in valuation of insurance contract liabilities, except for gross changes in the provision for unearned premiums which are recorded in premium income. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. General insurance claims are recorded on the basis of notifications received.

Net insurance benefits and claims represent gross insurance contract benefits and claims and gross change in insurance contract liabilities less reinsurer's share.

#### **Equity**

*Capital Stock.* Capital stock is measured at par value for all shares issued and outstanding.

*Additional Paid-in Capital.* Additional paid-in capital includes any premium received in the issuances of capital stock.

*Retained Earnings.* Retained earnings represent the cumulative balance of the Company's net income, net of any dividend declaration.

Stock dividends are recognized as stock dividends distributable and deducted from equity in the period in which the dividends are approved by the BOD. In cases when stock dividends are declared in conjunction with the application for increase in authorized capital stock, stock dividends are effective upon approval by the SEC.

Dividends for the period that are approved after the end of the financial reporting date are dealt with as an event after the reporting date.

*Remeasurement Loss on Net Pension Asset.* This account pertains to accumulated remeasurement gains and losses on net pension asset, which were not recognized in profit or loss. These income and expenses when earned or incurred for the period are classified as other comprehensive income or loss and presented after net income in the statement of comprehensive income.



*Revaluation Reserve on AFS Investments.* This account pertains to cumulative unrealized fair value changes of AFS investments, which are to be reclassified to profit or loss when realized. These income and expenses, when earned or incurred for the period, are classified as other comprehensive income and presented after net income in the statement of comprehensive income.

### **Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The following specific recognition criteria must also be met before revenue is recognized.

*Premium Revenue.* Gross insurance written premiums comprise the total premiums receivable for the whole period covered provided by contracts entered into during the accounting period and 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 from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24<sup>th</sup> method. The portion of premiums written that relate to the unexpired periods of the policies at reporting date are accounted for as provisions for unearned premiums and included as part of "insurance contract liabilities" in the statement of financial position. The net changes in these accounts during the year are recognized in profit or loss for the year.

Insurance receivables are recognized when due and measured at the original invoice amount, less allowance for uncollectible amount. Insurance receivables are derecognized following the derecognition criteria of financial assets.

*Commission Income.* Reinsurance commissions are recognized as revenue over the period of the contracts using the 24<sup>th</sup> method. The portion of the commissions that relates to the unexpired periods of the policies at the reporting date is presented as "Deferred reinsurance commissions" in the statement of financial position.

*Interest Income.* Interest income is recognized as it accrues, taking into account the effective yield on the asset.

*Dividend Income.* Dividend income is recognized when the right to receive dividends has been established.

*Other Income.* Other income is recognized when the earning process is complete and the flow of economic benefit is reasonably assured.

### **Expense Recognition**

Expenses are recognized in the statement of comprehensive income upon consumption of goods, utilization of services or at the date these are incurred.

*Benefits and Claims.* Benefits and claims consist of benefits and claims to policyholders, which includes the valuation of insurance contract liabilities, except for gross changes in the provision for premiums which are recorded in premium income. It further includes internal and external handling cost that are directly related to the processing and settlement of claims. General insurance claims are recorded on the basis of notifications received.

Net insurance benefits and claims represent gross insurance contract benefits and claims and gross change in insurance contract liabilities less reinsurer's share.

*Operating Expenses.* Operating expenses constitute costs of administrating the business and costs incurred in advertising and promotions. These are expensed when incurred.

*Commission Expense.* Commissions are recognized as expense over the period of the contracts using the 24<sup>th</sup> method. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as "Deferred acquisition costs" in the asset section of the statement of financial position.

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

### **Employee Benefits**

*Short-term Benefits.* The Company provides short-term benefits to its employees in the form of basic salary, 13th month pay, bonuses, leave credits, employer's share on government contributions and other short-term benefits.

Short-term employee benefit liabilities are measured on an undiscounted basis and are expensed as the related service is provided.

*Retirement Benefits.* The Company has a funded, noncontributory defined benefit plan covering all qualified employees. The retirement expense is determined using the projected unit credit method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Company recognizes service costs, comprising of current service costs and net interest expense or income in the statement of comprehensive income. Net interest is calculated by applying the discount rate to the net retirement liability or plan asset. Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment and the date that the Company recognizes restructuring related costs.

Remeasurements, comprising actuarial gains and losses and return on plan assets, are recognized immediately in OCI in the year in which these arise. Remeasurements are not reclassified to profit or loss in subsequent years.

The net retirement asset is the aggregate of the present value of the retirement liability reduced by the fair value of plan assets on which the liabilities are to be settled directly. The present value of the retirement liability is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Plan assets are assets that are held in trust and managed by a trustee bank. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. The fair value of the plan assets is based on the 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.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

#### **Related Party Transactions and Relationships**

Related party transactions consist of transfers of resources, services or obligations between the Company and its related parties, regardless of whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes (a) individuals who, owning directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company (b) associates and (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on legal form.

#### **Value-added Tax (VAT)**

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

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

The net amount of VAT payable to the taxation authority is included as part of "Payable to government agencies" line item under "Accounts and other payables" account in the statement of financial position.

#### **Income Tax**

*Current Tax.* Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rate and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

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

Deferred tax is recognized in statement of comprehensive income except to the extent of items recognized as OCI or items directly recognized in equity.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable income will allow the deferred tax assets to be recovered.

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 future taxable income will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

*Offsetting.* Current tax assets and current tax liabilities are offset, or deferred tax assets and deferred tax liabilities are offset if, and only if, an enforceable right exists to set off the amounts and it can be demonstrated without undue cost or effort that the Company plans either to settle on a net basis or to realize the asset and settle the liability simultaneously.

### **Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that a transfer of economic benefits will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the amount expected to be required to settle the obligation using a pre-tax rate that reflects market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

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

### **Contingencies**

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

### **Events after the Reporting Date**

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

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### 3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements requires management to exercise judgments, make estimates and use assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as at the reporting date. Actual results could differ from these estimates and assumptions used, and the effect of any change in estimates will be adjusted in the financial statements when these become reasonably determinable.

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

The Company believes the following represent a summary of these significant judgments, estimates, assumptions and related impact and associated risks in the financial statements.

#### **Judgments**

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

*Identification of Product Classification.* The Company has determined that the policies it issues have significant insurance risk and therefore meets the definition of an insurance contract and are accounted for as such. Insurance contracts are those contracts when the Company has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future 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 also transfer financial risk.

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

The Company's financial assets include cash in banks and cash equivalents, short-term investments, insurance receivables, financial assets at FVPL, HTM investments, AFS investments and insurance and other receivables. The Company's financial liabilities include premiums due to insurance liabilities, accounts and other payables (excluding payable to government agencies) and lease liability.

*Assessing the Distinction between Investment Properties and Property and Equipment.* The Company determines whether a property qualifies as investment property or property and equipment. In making its judgment, the Company considers whether the property is held for administrative purposes or is held for capital appreciation and to earn rentals, in which case the property shall be classified as property and equipment or investment property, respectively, as the case may be. The Company considers each property separately in making its judgment.

*Classifying for Lease Commitments - Company as a Lessee.* The Company is a lessee under non-cancellable operating leases covering offices and service centers. For the Company's non-cancellable lease, the Company recognizes ROU assets and lease liabilities measured at the present value of lease payments to be made over the lease term using the Company's incremental borrowing rate. The Company availed exemption for short-term leases with term of 12 months or less. Accordingly, lease payments on the short-term lease are recognized as expense on a straight-line basis over the lease term.

ROU assets arising from lease of office and service centers amounted to ₱0.6 million as at December 31, 2020 (₱1.9 million as at December 31, 2019) (see Note 11). Lease liabilities amounted to ₱0.6 million as at December 31, 2020 (₱2.0 million as at December 31, 2019) (see Note 24).

Rent expense on short-term lease amounted to ₱16.7 million in 2020 (₱13.6 million in 2019) (see Note 24).

*Determining Appropriate Rate to Discount the Lease Payments.* Significant judgment was exercised by the Company in determining the discount rate to be used in calculating the present value of ROU assets and lease liabilities. The discount rate is represented by the incremental borrowing rate, which is the Bloomberg Valuation (BVAL) rate.

#### **Estimates and Assumptions**

The key estimates and 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 in the succeeding paragraphs.

*Estimating the Claims Liability Arising from Insurance Contracts.* For non-life insurance contracts, estimates have been made both for the expected ultimate costs 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 IBNR provision of the Company has been calculated using standard actuarial projection techniques using past development patterns to determine the expected future development and project the claim amounts for each accident year to its ultimate value. A number of different valuation methodologies have been adopted, each with their own strengths and blended them together which include incurred chain ladder/development approach, paid chain ladder/development method, the Bornheutter-Ferguson incurred approach and the Bornheutter-Ferguson paid approach. At each reporting date, prior year claims estimates are reassessed for adequacy and changed made are charged to provision.

The main assumptions underlying the estimation of the claims provision is that a Company's past claims development experience can be used to project future claims development and hence, ultimate claims costs. Historical claims development is mainly analyzed by accident years, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserve at the face value of loss adjustor 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 and loss ratio. Instead, the assumptions used are those implicit in the historic claims development data on which projections are based.

The total carrying value of provision for outstanding claims and IBNR amounted to ₱36.4 million as at December 31, 2020 (₱32.4 million as at December 31, 2019) (see Note 13).

*Determining the Fair Value of Financial Assets at FVPL and AFS Investments.* PFRS requires that certain financial instruments be carried at fair value, which requires the use of accounting judgment and estimates. While significant components of fair value measurement are determined using verifiable objective evidence, the timing and amount of changes in fair value would differ with the valuation methodology used. Any change in the fair value of these financial instruments would directly affect the statement of comprehensive income and the statement of changes in equity.

The carrying amount of financial assets at FVPL and AFS investments measured at fair value amounted to ₱75.8 million and ₱27.3 million, respectively, as at December 31, 2020 (₱26.6 million and ₱22.4 million, respectively, as at December 31, 2019) (see Note 7).

*Assessing the Impairment Losses on AFS Investments.* The Company treats AFS investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” and “prolonged” requires judgment. The Company treats “significant” generally as 20% or more of the original cost of investment, and “prolonged,” as greater than six months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows.

Impairment losses recognized on the Company’s AFS investments amounted to ₱1.1 million in 2020 (₱4.0 million in 2019) (see Note 7). The carrying amount of AFS investments amounted to ₱27.3 million as at December 31, 2020 (₱22.4 million as at December 31, 2019) (see Note 7).

*Assessing the Impairment Losses on HTM Investments.* The Company determines impairment of HTM investments based on its evaluation of the presence of objective evidence of impairment which includes observable data that comes to the attention of the Company such as but not limited to significant financial difficulty of the counterparty or the probability that the borrower will enter bankruptcy or other financial re-organization. In addition to the individual impairment assessment which takes into consideration the credit risk characteristics such as borrower type, payment history and past due status.

No impairment loss was recognized in 2020 (and 2019). The carrying amount of HTM investments amounted to ₱286.3 million as at December 31, 2020 (₱231.0 million as at December 31, 2019) (see Note 7).

*Assessing the Impairment Losses on Insurance Receivables.* The Company maintains an allowance for impairment losses on receivables at a level considered adequate to provide for potential losses. The level of this allowance is determined by management using specific and collective impairment tests. The Company performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment losses.

The Company assesses specifically the significant receivables based on factors that affect its collectability. These factors include, but are not limited to, the length of the Company’s relationship with the customer, the counterparties payment behavior and known market factors. The Company identifies and provides for specific accounts that are doubtful of collection and reviews the age and status of the remaining receivables and establishes a provision considering, among others, historical collection and write-off experience.

The Company conducts impairment tests at a collective level for receivables that are not individually significant and for those that were already specifically tested but with no impairment losses determined. For collective impairment testing purposes, receivables are grouped according to their risks characteristics. The loss rate applied to each risk group to compute for the required allowance for impairment losses is determined based on the risk group's default or past due migration and loss history. Management's judgment is required in choosing the risk characteristics used in grouping the receivables as well as in selecting the periods over which the past due migration and loss history shall be obtained. In computing the loss rates for each group, management also makes certain assumptions over the available data on past due migration and loss history of the risk group that these reflect current relevant economic circumstances. Adjustments on the loss rates are made as deemed necessary by management to ensure that the loss rates properly reflect the incurred loss on the risks groups as of reporting date.

The amount and timing of recorded expenses for any year would differ if the Company made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

No provision for impairment losses recognized on insurance receivables in 2020 (and 2019). Amounts written-off amounted to ₱0.2 million in 2020 (nil in 2019). The carrying amount of insurance receivables amounted to ₱138.2 million as at December 31, 2020 (₱203.6 million as at December 31, 2019). Allowance for impairment losses amounted to nil as at December 31, 2020 (₱0.2 million as at December 31, 2019), respectively (see Note 6).

No provision for impairment loss on insurance and other receivables was recognized in 2020 (and 2019). The carrying amount of insurance and other receivables amounted to ₱10.2 million as at December 31, 2020 and (₱10.0 million as at December 31, 2019). Allowance for impairment losses amounted to nil as at December 31, 2020 (and 2019) (see Note 6).

*Estimating the Useful Lives of Property and Equipment.* The Company estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Company reviews annually the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental changes and anticipated use of the depreciable property and equipment.

The carrying amount of property and equipment amounted to ₱26.7 million as at December 31, 2020 (₱30.2 million as at December 31, 2019) (see Note 11).

*Assessing the Impairment Losses on Nonfinancial Assets.* The Company assesses impairment of its investment property and property and equipment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The factors that the Company considered important which could trigger an impairment review include the following:

- Significant changes or planned changes in the use of the assets;
- Significant under-performance of the business; and
- Significant negative industry or economic trends.



Whenever the carrying amount of property and equipment exceeds its recoverable amount, an impairment loss is recognized. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. 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 a measurement date. The estimated cash flows are projected using growth rate based on historical experience and business plans and are discounted using pretax discount rate that reflects the current assessment of the time value of money and the risks specific to the asset. Recoverable amount is estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

There were no impairment indicators on its investment properties and property and equipment in 2020 (and 2019). Accordingly, no impairment loss was recognized. The carrying amount of investment property and property and equipment amounted to ₱135.8 million and ₱26.7 million, respectively, as at December 31, 2020 (₱135.9 million and ₱30.2 million, respectively, as at December 31, 2019) (see Note 10 and 11).

*Determining the Net Retirement Asset and Retirement Expense.* The determination of the net retirement asset and retirement expense is dependent on management's selection of certain assumptions used by actuaries in calculating such amounts.

The assumptions for determining retirement expense are described in the Note 22 and include, among others, discount rate and expected rate of salary increase. Actual results that differ from certain assumptions are accumulated and are recognized as part of equity. While management believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in management assumptions may materially affect the retirement liability.

Retirement expense amounted to ₱5.6 million in 2020 (and ₱2.7 million in 2019). Net retirement asset amounted to ₱16.9 million as at December 31, 2020 (and ₱15.9 million as at December 31, 2019) (see Note 22).

*Assessing the Realizability of Deferred Tax Assets.* The Company reviews the carrying amounts of deferred tax assets at each financial reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be utilized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

The Company's recognized deferred tax assets offset against deferred tax liabilities amounted to ₱12.0 million as at December 31, 2020 (and ₱14.6 million as at December 31, 2019) (see Note 23).

*Assessing Provisions and Evaluating Contingencies.* Provisions can be distinguished from other liabilities because there is uncertainty about the timing and amount of settlement. The most common provisions recorded by the Company arise from obligations in relation to unasserted claims. Contingent liabilities of the Company are not recognized but disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

The recognition and measurement of provisions and contingencies require the Company to make significant estimates with regard to the probability (if the event is more likely than not to occur) that an outflow of resources will be required to settle the obligation and make assumptions whether a reliable estimate can be made of the amount of the obligation.

Moreover, the Company's accounting policy requires recognition of the best estimate of the amount that would be required to settle an obligation and the estimate may be based on information that produces a range of amounts.

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#### 4. Cash and Cash Equivalents

This account consists of:

|                       | 2020               | 2019         |
|-----------------------|--------------------|--------------|
| Cash on hand          | <b>₱690,000</b>    | ₱690,000     |
| Cash in banks         | <b>87,260,008</b>  | 79,511,361   |
| Short-term placements | –                  | 64,644,490   |
|                       | <b>₱87,950,008</b> | ₱144,845,851 |

Cash in banks earns interest at the prevailing bank deposit rates.

Short-term placements are made in varying periods with maturity of up to 90 days, depending on the immediate cash requirements of the Company, and earn interest at 3.1% in 2020 (and 2019).

Interest income earned from cash and cash equivalents amounted to ₱0.4 million in 2020 (₱0.6 million in 2019) (see Note 21).

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#### 5. Short-term Investments

Short-term investments amounting to ₱298.6 million in 2020 (₱150.4 million in 2019) are government securities and time deposits made for varying periods with maturities of more than three months but less than one year and with interest rates ranging from 1.3% to 3.9% in 2020 (3.1% to 5.9% in 2019).

Interest income earned on short-term investments amounted to ₱4.9 million in 2020 (₱2.5 million in 2019) (see Note 21).

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#### 6. Insurance and Other Receivables

This account consists of:

|                       | 2020                | 2019         |
|-----------------------|---------------------|--------------|
| Insurance receivables | <b>₱138,244,014</b> | ₱203,628,036 |
| Other receivables     | <b>10,185,534</b>   | 9,950,272    |
|                       | <b>₱148,429,548</b> | ₱213,578,308 |

### **Insurance Receivables**

Insurance receivables consist of:

|  | 2020                | 2019         |
|--|---------------------|--------------|
| Premium receivables                    | <b>₱116,183,983</b> | ₱179,439,354 |
| Reinsurance recoverable on paid losses | <b>10,820,404</b>   | 13,876,174   |
| Premiums due from ceding companies     | <b>10,063,381</b>   | 9,453,511    |
| Funds held by ceding companies         | <b>1,176,246</b>    | 1,071,780    |
|  | <b>138,244,014</b>  | 203,840,819  |
| Less allowance for impairment losses   | -                   | (212,783)    |
|  | <b>₱138,244,014</b> | ₱203,628,036 |

Premium receivables arise from unpaid premiums from policyholders and intermediaries. Normal credit term of these receivables is 30 days.

Reinsurance recoverable on paid losses represents the share of reinsurance companies for the claims paid by the Company to the insured.

Premiums due from ceding companies are premiums receivable for assumed business from other insurance and reinsurance companies.

Funds held by ceding companies pertain to amounts withheld by ceding companies as collateral for possible reinsurance payments.

The balances and movements in allowance for impairment losses on insurance receivables follow:

|                              | 2020             | 2019     |
|------------------------------|------------------|----------|
| Balance at beginning of year | <b>₱212,783</b>  | ₱212,783 |
| Write-off                    | <b>(212,783)</b> | -        |
| Balance at end of year       | <b>₱-</b>        | ₱212,783 |

### **Other Receivables**

Other receivables consist of:

|                            | 2020               | 2019       |
|----------------------------|--------------------|------------|
| Receivables from employees | <b>₱7,914,612</b>  | ₱7,603,896 |
| Accrued interest income    | <b>2,143,150</b>   | 1,928,976  |
| Accrued dividend income    | <b>127,772</b>     | 417,400    |
|                            | <b>₱10,185,534</b> | ₱9,950,272 |

Receivables from employees include interest bearing advances settled through salary deductions. Interest income from this advances amounted to ₱0.6 million in 2020 (₱0.8 million in 2019) (see Note 21).

## 7. Financial Asset Investments

This account consists of:

|                     | 2020                | 2019         |
|---------------------|---------------------|--------------|
| HTM investments     | <b>₱286,338,431</b> | ₱230,984,694 |
| Investments at FVPL | <b>75,816,819</b>   | 26,621,240   |
| AFS investments     | <b>27,323,380</b>   | 22,380,258   |
|                     | <b>₱389,478,630</b> | ₱279,986,192 |

### HTM Investments

HTM investments pertains to investments in corporate retail treasury bonds and Peso-denominated government debt securities broken down as follows:

|                  | 2020                | 2019         |
|------------------|---------------------|--------------|
| Government bonds | <b>₱189,338,431</b> | ₱162,984,694 |
| Corporate bonds  | <b>97,000,000</b>   | 68,000,000   |
|                  | <b>₱286,338,431</b> | ₱230,984,694 |

HTM investments earn interest ranging from 2.5% to 7.8% per annum in 2020 (3.3% to 7.8% in 2019). Interest income earned from these investments amounted to ₱13.0 million in 2020 (₱11.6 million in 2019) (see Note 21).

Movements of the HTM investments are as follows:

|                              | 2020                | 2019         |
|------------------------------|---------------------|--------------|
| Balance at beginning of year | <b>₱230,984,694</b> | ₱200,879,990 |
| Additions                    | <b>68,733,145</b>   | 34,211,300   |
| Maturities                   | <b>(13,000,000)</b> | (5,000,000)  |
| Amortization                 | <b>(379,408)</b>    | 893,404      |
| Balance at end of year       | <b>₱286,338,431</b> | ₱230,984,694 |

Maturity profile of the above investments is as follows:

|                               | 2020                | 2019         |
|-------------------------------|---------------------|--------------|
| Within one year               | <b>₱58,000,000</b>  | ₱13,000,000  |
| One to five years             | <b>190,000,000</b>  | 164,500,000  |
| More than five years          | <b>37,211,300</b>   | 52,211,300   |
|                               | <b>285,211,300</b>  | 229,711,300  |
| Unamortized transaction costs | <b>1,127,131</b>    | 1,273,394    |
|                               | <b>₱286,338,431</b> | ₱230,984,694 |

In compliance with the capital investment requirement under Section 209 of the Amended Insurance Code, certain government debt securities earmarked as security for the benefit of policyholders and creditors of the Company are deposited with the Bureau of Treasury (BOT) under the Registry of Scripless Securities (RoSS) system.

The face value of these earmarked government debt securities and its related amortized costs amounted to ₱189.3 million and ₱188.2 million, respectively, as at December 31, 2020 (₱162.6 million and ₱161.7 million, respectively, as at December 31, 2019).

**Investments at FVPL**

Investments at FVPL pertains to publicly traded preferred equity instruments acquired for the purposes of selling in the near future and investment in mutual funds.

Investments at FVPL consists of:

|                         | 2020               | 2019        |
|-------------------------|--------------------|-------------|
| Preferred equity shares | <b>₱65,640,102</b> | ₱26,621,240 |
| Mutual fund             | <b>10,176,717</b>  | -           |
|                         | <b>₱75,816,819</b> | ₱26,621,240 |

The fair values of these investments are based on published closing rates from active markets, which are categorized as Level 1.

Fair value gain recognized on these investments amounted to ₱0.1 million in 2020 (₱1.0 million in 2019) (see Note 21).

Movements in this account are as follows:

|                                       | Note | 2020               | 2019        |
|---------------------------------------|------|--------------------|-------------|
| Balance at beginning of year          |      | <b>₱26,621,240</b> | ₱28,346,024 |
| Additions                             |      | <b>50,151,717</b>  | 1,118,301   |
| Disposal                              |      | <b>(1,012,500)</b> | (3,804,524) |
| Unrealized gain on fair value changes | 21   | <b>56,362</b>      | 961,439     |
| Balance at end of year                |      | <b>₱75,816,819</b> | ₱26,621,240 |

Dividends earned from investments at FVPL amounted to ₱1.6 million in 2020 (₱1.6 million in 2019) (see Note 21).

**AFS Investments**

AFS investments pertains to publicly traded equity shares measured at fair value and equity shares measured at cost.

AFS investments consists of:

|                | 2020               | 2019        |
|----------------|--------------------|-------------|
| Equity shares: |                    |             |
| At fair value  | <b>₱27,293,380</b> | ₱22,350,258 |
| At cost        | <b>30,000</b>      | 30,000      |
|                | <b>₱27,323,380</b> | ₱22,380,258 |

The fair values of AFS investments are based on published bidding prices from active markets which are categorized under Level 1 of the fair value hierarchy. Proprietary shares with no available published prices in active market are stated at cost.

Movements of AFS investments are as follows:

|                                       | 2020               | 2019               |
|---------------------------------------|--------------------|--------------------|
| Balance at beginning of year          | P22,380,258        | P46,555,325        |
| Additions                             | 62,127,216         | 72,402,942         |
| Disposals                             | (56,063,265)       | (96,368,421)       |
| Unrealized loss on fair value changes | (1,120,829)        | (209,588)          |
| <b>Balance at end of year</b>         | <b>P27,323,380</b> | <b>P22,380,258</b> |

Movements of the cumulative fair value changes on AFS investments are as follows:

|  | 2020              | 2019              |
|--|-------------------|-------------------|
| <b>Balance at beginning of year</b>                          | <b>(P326,910)</b> | <b>(P352,623)</b> |
| <b>Net change in revaluation reserve on AFS investments:</b> |                   |                   |
| Changes in fair value of AFS investments                     | (1,120,829)       | (209,588)         |
| Impairment loss transferred to profit or loss                | 1,051,705         | 4,031,763         |
| Loss (gain) on sale transferred to profit or loss            | 77,951            | (3,796,462)       |
|  | <b>8,827</b>      | <b>25,713</b>     |
| <b>Balance at end of year</b>                                | <b>(P318,083)</b> | <b>(P326,910)</b> |

Dividends earned from AFS investments amounted to P0.8 million in 2020 (P0.8 million in 2019) (see Note 21).

## 8. Deferred Acquisition Costs and Deferred Reinsurance Commissions

### Deferred Acquisition Costs

Movements in this account are as follows:

|                               | 2020               | 2019               |
|-------------------------------|--------------------|--------------------|
| Balance at beginning of year  | P61,742,262        | P52,742,127        |
| Cost deferred                 | 114,324,773        | 124,566,283        |
| Amortization                  | (118,373,145)      | (115,566,148)      |
| <b>Balance at end of year</b> | <b>P57,693,890</b> | <b>P61,742,262</b> |

### Deferred Reinsurance Commissions

Movements in this account are as follows:

|                               | 2020              | 2019              |
|-------------------------------|-------------------|-------------------|
| Balance at beginning of year  | P6,885,822        | P7,183,269        |
| Income deferred               | 11,543,983        | 12,717,093        |
| Amortization                  | (12,869,878)      | (13,014,540)      |
| <b>Balance at end of year</b> | <b>P5,559,927</b> | <b>P6,885,822</b> |

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## 9. Reinsurance Assets

This account consists of:

|  | 2020               | 2019        |
|--|--------------------|-------------|
| Deferred reinsurance premiums            | <b>₱22,328,550</b> | ₱24,397,770 |
| Reinsurance recoverable on unpaid losses | <b>5,430,661</b>   | 3,173,396   |
|  | <b>₱27,759,211</b> | ₱27,571,166 |

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## 10. Investment Properties

Investment properties, which are carried at cost, pertain to parcels of land held for capital appreciation amounting to ₱135.8 million as at December 31, 2020 (₱135.9 million as at December 31, 2019).

Movements in this account are as follows:

|                              | 2020                | 2019         |
|------------------------------|---------------------|--------------|
| Balance at beginning of year | <b>₱135,865,858</b> | ₱136,126,128 |
| Disposals                    | <b>(35,682)</b>     | (260,270)    |
| Balance at end of the year   | <b>₱135,830,176</b> | ₱135,865,858 |

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The Company sold a parcel of land with a carrying cost of ₱35,682 in 2020 (₱260,270 in 2019) which resulted to a gain on sale of land of ₱7.8 million in 2020 (₱2.4 million in 2019) (see Note 21).

No rental income was earned from investment property in 2020 (and 2019). Expenses related to investment property amounted to ₱0.7 million in 2020 (and 2019).

The fair value of investment properties based on a valuation made by an independent appraiser amounted to ₱909.3 million as at December 31, 2020 (₱743.7 million as at December 31, 2019). These are determined using the "market value" approach using observable inputs such as location, size and average selling price per square meter. The fair value was derived from market that reflects the recent transaction prices for similar properties registered within the vicinity.

## 11. Property and Equipment

Movements of property and equipment are as follows:

|  | Note | 2020                   |                          |                    |  |                 | Total              |
|--|------|------------------------|--------------------------|--------------------|--|-----------------|--------------------|
|  |      | Leasehold Improvements | Transportation Equipment | Computer Equipment | Office Furniture, Fixtures and Equipment | ROU Asset       |                    |
| <b>Cost</b>                                      |      |                        |                          |                    |  |                 |                    |
| Balance at beginning of year                     |      | ₱7,342,105             | ₱13,435,250              | ₱28,880,800        | ₱9,687,393                               | ₱3,779,124      | ₱63,124,672        |
| Additions  |      | 533,861                | 1,930,000                | 2,315,551          | 2,329,821                                | -               | 7,109,233          |
| Disposals  |      | (425,129)              | (1,003,000)              | -                  | -  | -               | (1,428,129)        |
| Balance at end of year                           |      | 7,450,837              | 14,362,250               | 31,196,351         | 12,017,214                               | 3,779,124       | 68,805,776         |
| <b>Accumulated Depreciation and Amortization</b> |      |                        |                          |                    |  |                 |                    |
| Balance at beginning of year                     |      | 2,191,165              | 4,490,182                | 19,984,150         | 4,395,668                                | 1,853,145       | 32,914,310         |
| Depreciation and amortization                    | 20   | 751,005                | 2,494,660                | 3,507,962          | 1,767,255                                | 1,363,173       | 9,884,055          |
| Disposals  |      | (257,972)              | (397,118)                | -                  | -  | -               | (655,090)          |
| Balance at end of year                           |      | 2,684,198              | 6,587,724                | 23,492,112         | 6,162,923                                | 3,216,318       | 42,143,275         |
| <b>Carrying Amounts</b>                          |      | <b>₱4,766,639</b>      | <b>₱7,774,526</b>        | <b>₱7,704,239</b>  | <b>₱5,854,291</b>                        | <b>₱562,806</b> | <b>₱26,662,501</b> |

|  | Note | 2019                   |                          |                    |  |                   | Total              |
|--|------|------------------------|--------------------------|--------------------|--|-------------------|--------------------|
|  |      | Leasehold Improvements | Transportation Equipment | Computer Equipment | Office Furniture, Fixtures and Equipment | ROU Asset         |                    |
| <b>Cost</b>                                      |      |                        |                          |                    |  |                   |                    |
| Balance at beginning of year                     |      | ₱4,247,432             | ₱7,947,000               | ₱26,320,110        | ₱6,494,915                               | ₱3,176,603        | ₱48,186,060        |
| Additions  |      | 3,239,772              | 5,488,250                | 3,236,289          | 3,854,776                                | 602,521           | 16,421,608         |
| Disposals  |      | (145,099)              | -                        | (675,599)          | (662,298)                                | -                 | (1,482,996)        |
| Balance at end of year                           |      | 7,342,105              | 13,435,250               | 28,880,800         | 9,687,393                                | 3,779,124         | 63,124,672         |
| <b>Accumulated Depreciation and Amortization</b> |      |                        |                          |                    |  |                   |                    |
| Balance at beginning of year                     |      | 1,595,203              | 2,231,316                | 17,038,415         | 3,781,474                                | -                 | 24,646,408         |
| Depreciation and amortization                    | 20   | 701,733                | 2,258,866                | 3,621,334          | 1,261,246                                | 1,853,145         | 9,696,324          |
| Disposals  |      | (105,771)              | -                        | (675,599)          | (647,052)                                | -                 | (1,428,422)        |
| Balance at end of year                           |      | 2,191,165              | 4,490,182                | 19,984,150         | 4,395,668                                | 1,853,145         | 32,914,310         |
| <b>Carrying Amounts</b>                          |      | <b>₱5,150,940</b>      | <b>₱8,945,068</b>        | <b>₱8,896,650</b>  | <b>₱5,291,725</b>                        | <b>₱1,925,979</b> | <b>₱30,210,362</b> |

On September 2020, the Company sold certain transportation equipment with a carrying amount of ₱0.4 million which resulted to a loss on sale amounting to ₱0.1 million (see Note 21).

The cost of fully depreciated property and equipment still being used in operations amounted to ₱11.4 million as at December 31, 2020 (and 2019).

## 12. Other Assets

This account consists of:

|                            | 2020              | 2019              |
|----------------------------|-------------------|-------------------|
| Prepayments                | ₱6,969,229        | ₱6,937,238        |
| Documentary stamp tax fund | 1,460,864         | 1,921,434         |
| Security fund              | 48,439            | 48,439            |
|                            | <b>₱8,478,532</b> | <b>₱8,907,111</b> |

Prepayments pertain to prepaid taxes, unused office supplies and printed forms which are to be consumed in the Company's operation.



### 13. Insurance Contract Liabilities

Insurance contract liabilities consist of:

|                                 | 2020                           |   |                     |
|---------------------------------|--------------------------------|---|---------------------|
|                                 | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (see Note 9) | Net                 |
| Provision for claims reported   | ₱17,947,573                    | ₱2,339,988                                    | ₱15,607,585         |
| Provision for IBNR              | 18,413,374                     | 3,090,673                                     | 15,322,701          |
| Outstanding claims provision    | 36,360,947                     | 5,430,661                                     | 30,930,286          |
| Provision for unearned premiums | 248,012,943                    | 22,328,550                                    | 225,684,393         |
|                                 | <b>₱284,373,890</b>            | <b>₱27,759,211</b>                            | <b>₱256,614,679</b> |

  

|                                 | 2019                           |   |                     |
|---------------------------------|--------------------------------|---|---------------------|
|                                 | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (see Note 9) | Net                 |
| Provision for claims reported   | ₱11,500,760                    | ₱425,900                                      | ₱11,074,860         |
| Provision for IBNR              | 20,903,965                     | 2,747,496                                     | 18,156,469          |
| Outstanding claims provision    | 32,404,725                     | 3,173,396                                     | 29,231,329          |
| Provision for unearned premiums | 261,642,324                    | 24,397,770                                    | 237,244,554         |
|                                 | <b>₱294,047,049</b>            | <b>₱27,571,166</b>                            | <b>₱266,475,883</b> |

Movements of outstanding claims provision follow:

|                                | Note | 2020                           |                                  |                    |
|--------------------------------|------|--------------------------------|----------------------------------|--------------------|
|                                |      | Insurance Contract Liabilities | Reinsurers' Share of Liabilities | Net                |
| Balance at beginning of year   |      | ₱32,404,725                    | ₱3,173,396                       | ₱29,231,329        |
| Claims incurred                |      | 70,181,483                     | 8,376,556                        | 61,804,927         |
| Claims paid, net of recoveries |      | (63,734,670)                   | (6,462,468)                      | (57,272,202)       |
| Increase (decrease) in IBNR    | 19   | (2,490,591)                    | 343,177                          | (2,833,768)        |
| Balance at end of year         |      | <b>₱36,360,947</b>             | <b>₱5,430,661</b>                | <b>₱30,930,286</b> |

  

|                                | Note | 2019                           |                                  |                    |
|--------------------------------|------|--------------------------------|----------------------------------|--------------------|
|                                |      | Insurance Contract Liabilities | Reinsurers' Share of Liabilities | Net                |
| Balance at beginning of year   |      | ₱36,427,418                    | ₱590,614                         | ₱35,836,804        |
| Claims incurred                |      | 84,288,247                     | 7,842,035                        | 76,446,212         |
| Claims paid, net of recoveries |      | (94,955,310)                   | (7,650,077)                      | (87,305,233)       |
| Increase in IBNR               | 19   | 6,644,370                      | 2,390,824                        | 4,253,546          |
| Balance at end of year         |      | <b>₱32,404,725</b>             | <b>₱3,173,396</b>                | <b>₱29,231,329</b> |

Movements of provision for unearned premiums follow:

| 2020                         |                                      |                                     |               |
|------------------------------|--------------------------------------|-------------------------------------|---------------|
| Note                         | Insurance<br>Contract<br>Liabilities | Reinsurers' Share<br>of Liabilities | Net           |
| Balance at beginning of year | P261,642,324                         | P24,397,770                         | P237,244,554  |
| Premiums written             | 507,667,122                          | 113,327,172                         | 394,339,950   |
| Premiums earned              | 18 (521,296,503)                     | (115,396,392)                       | (405,900,111) |
| Balance at end of year       | P248,012,943                         | P22,328,550                         | P225,684,393  |

| 2019                         |                                   |                                     |               |
|------------------------------|-----------------------------------|-------------------------------------|---------------|
| Note                         | Insurance<br>Contract Liabilities | Reinsurers' Share<br>of Liabilities | Net           |
| Balance at beginning of year | P226,310,471                      | P27,617,341                         | P198,693,130  |
| Premiums written             | 547,741,646                       | 99,822,418                          | 447,919,228   |
| Premiums earned              | 18 (512,409,793)                  | (103,041,989)                       | (409,367,804) |
| Balance at end of year       | P261,642,324                      | P24,397,770                         | P237,244,554  |

#### 14. Insurance Payables

This account consists of:

|  | 2020        | 2019        |
|--|-------------|-------------|
| Due to reinsurers and ceding companies | P26,776,871 | P7,913,798  |
| Funds held for reinsurers              | 3,981,041   | 4,627,565   |
|  | P30,757,912 | P12,541,363 |

#### 15. Accounts and Other Payables

This account consists of:

|                                 | 2020        | 2019        |
|---------------------------------|-------------|-------------|
| Collateral bonds                | P28,315,894 | P20,833,789 |
| Deferred output VAT             | 18,058,958  | 16,146,049  |
| Payables to government agencies | 6,564,935   | 6,766,112   |
| Accrued expenses                | 2,723,579   | 2,947,852   |
| Accounts payable                | 685,104     | 9,611,183   |
|                                 | P56,348,470 | P56,304,985 |

## 16. Related Party Transactions

In the normal course of business, the Company has transactions with its related parties as follows:

| Account          | Relationship | Nature of Transaction | Year | Transactions during the Year | Outstanding Balance |
|------------------|--------------|-----------------------|------|------------------------------|---------------------|
| Accounts Payable | Stockholder  | Rent expense          | 2020 | ₱6,752,456                   | ₱-                  |
|                  |              |                       | 2019 | ₱5,562,234                   | ₱-                  |

Compensation of key management personnel by benefit type is as follows:

|                              | 2020       | 2019       |
|------------------------------|------------|------------|
| Short-term employee benefits | ₱8,184,000 | ₱8,024,000 |
| Post-employment benefits     | 807,600    | 819,444    |
|                              | ₱8,991,600 | ₱8,843,444 |

There are no agreements between the Company and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Company's retirement plan.

Salary advances to key management personnel included under "Receivable from employees" amounted to ₱7.9 million as of December 31, 2020 (₱7.6 million as of December 31, 2019) (see Note 6). These are interest-bearing, due and demandable, unsecured and not impaired.

The Company paid directors' fee amounting to ₱1.3 million in 2020 (₱1.7 million in 2019) (see Note 20).

## 17. Equity

### Capital Stock

Movements in capital stock are as follows:

|                                       | 2020             |              | 2019             |              |
|---------------------------------------|------------------|--------------|------------------|--------------|
|                                       | Number of Stocks | Amount       | Number of Stocks | Amount       |
| <b>Authorized - ₱100 par value</b>    |                  |              |                  |              |
| Balance at beginning of year          | 3,000,000        | ₱300,000,000 | 3,000,000        | ₱300,000,000 |
| Additions                             | 3,000,000        | 300,000,000  | -                | -            |
| Balance at end of year                | 6,000,000        | ₱600,000,000 | 3,000,000        | ₱300,000,000 |
| <b>Issued and outstanding</b>         |                  |              |                  |              |
| Balance at beginning of year          | 2,816,876        | ₱281,687,600 | 2,816,866        | ₱281,686,600 |
| Issuances on:                         |                  |              |                  |              |
| Stock dividends                       | 750,000          | 75,000,000   | -                | -            |
| Receipts from subscription receivable | -                | -            | 10               | 1,000        |
| Balance at end of year                | 3,566,876        | ₱356,687,600 | 2,816,876        | ₱281,687,600 |

In 2019, the Company received cash amounting to ₱1,000 from a stockholder as payment for subscription and subsequently issued 10 shares of capital stock.

On April 24, 2019, the Company's BOD approved the increase in its authorized capital stock from ₱300.0 million divided into 3.0 million common shares at ₱100 par value to ₱600.0 million divided into 6.0 million common shares at ₱100 par value a share. The application for the increase on authorized capital stock was approved by SEC on December 16, 2020.

Of the approved increase in authorized capital stock, ₱75.0 million divided into 750,000 common shares were subscribed and paid by way of stock dividend, payable to stockholders of records as of May 17, 2019.

### **Retained Earnings**

Under the Revised Corporation Code of the Philippines, stock corporations are generally prohibited from retaining surplus profits in excess of 100% of their paid up capital.

As at December 31, 2020, the Company's unappropriated retained earnings amounting to ₱429.5 million is in excess of its paid-up capital. The retention of excess retained earnings is mainly due to the compliance requirements to the IC for minimum statutory net worth.

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### **18. Net Insurance Premiums Earned**

Gross insurance premiums earned on insurance contracts follow:

|   | Note | 2020                | 2019         |
|---|------|---------------------|--------------|
| Gross premiums on insurance contracts:          |      |                     |              |
| Direct insurance                                |      | <b>₱503,088,534</b> | ₱535,350,882 |
| Assumed reinsurance                             |      | <b>4,578,587</b>    | 12,390,764   |
| Total gross premium on insurance contracts      |      | <b>507,667,121</b>  | 547,741,646  |
| Gross change in provision for unearned premiums |      | <b>13,629,382</b>   | (35,331,853) |
| Gross premiums earned                           | 13   | <b>₱521,296,503</b> | ₱512,409,793 |

Reinsurers' share of gross premiums earned on insurance contracts follow:

|   | Note | 2020                | 2019         |
|---|------|---------------------|--------------|
| Reinsurers' share of gross premiums on direct insurance contracts       |      | <b>₱113,327,171</b> | ₱99,822,418  |
| Reinsurers' share of gross change in provision for unearned premiums    |      | <b>2,069,221</b>    | 3,219,571    |
| Total reinsurer's share of gross premiums earned on insurance contracts | 13   | <b>₱115,396,392</b> | ₱103,041,989 |

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19. **Net Insurance Benefits and Claims**

This account consists of:

|   | <b>2020</b>        | 2019         |
|---|--------------------|--------------|
| Gross insurance contract benefits and claims                      | <b>₱63,702,043</b> | ₱90,932,617  |
| Reinsurers' share of gross insurance contract benefits and claims | <b>(4,298,326)</b> | (10,232,859) |
| <b>Net insurance benefits and claims</b>                          | <b>₱59,403,717</b> | ₱80,699,758  |

Gross insurance benefits and claims consist of the following:

|   | Note | <b>2020</b>        | 2019         |
|---|------|--------------------|--------------|
| Insurance contract benefits and claims paid |      | <b>₱59,745,821</b> | ₱94,955,310  |
| Gross change in:                            |      |                    |              |
| Claims payable                              |      | <b>6,446,813</b>   | (10,667,063) |
| Provision for IBNR                          | 13   | <b>(2,490,591)</b> | 6,644,370    |
| <b>Gross insurance</b>                      |      | <b>₱63,702,043</b> | ₱90,932,617  |

Reinsurers' share of gross insurance contract benefits and claims:

|   | Note | <b>2020</b>       | 2019        |
|---|------|-------------------|-------------|
| Reinsurers' share of gross insurance contract benefits and claims on direct insurance contracts |      | <b>₱2,041,061</b> | ₱7,650,077  |
| Reinsurers' share of gross change in:   |      |                   |             |
| Claims payable  |      | <b>1,914,088</b>  | 191,958     |
| Provision for IBNR  | 13   | <b>343,177</b>    | 2,390,824   |
| <b>Total reinsurer's share of gross premiums earned on insurance contracts</b>                  |      | <b>₱4,298,326</b> | ₱10,232,859 |

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## 20. Operating Expenses

This account consists of:

|   | Note | 2020                | 2019         |
|---|------|---------------------|--------------|
| Salaries and employee benefits          |      | <b>₱69,871,899</b>  | ₱76,359,635  |
| Rent                                    | 24   | <b>16,675,256</b>   | 13,624,382   |
| Depreciation and amortization           | 11   | <b>9,884,055</b>    | 9,696,324    |
| Professional fees                       |      | <b>5,909,811</b>    | 6,058,806    |
| Net retirement benefit                  | 22   | <b>5,562,253</b>    | 2,705,457    |
| Printing and office supplies            |      | <b>2,849,462</b>    | 3,305,389    |
| Taxes, licenses and fees                |      | <b>2,412,585</b>    | 2,382,665    |
| Outside services                        |      | <b>2,154,806</b>    | 2,127,935    |
| Communication and postage               |      | <b>2,049,223</b>    | 2,280,708    |
| Repairs and maintenance                 |      | <b>1,972,330</b>    | 1,960,437    |
| Light and water                         |      | <b>1,429,439</b>    | 1,339,981    |
| Transportation and travel               |      | <b>1,333,138</b>    | 2,459,658    |
| Directors' fees                         | 16   | <b>1,310,000</b>    | 1,700,000    |
| Entertainment, amusement and recreation |      | <b>1,183,981</b>    | 1,447,764    |
| Association dues                        |      | <b>1,078,794</b>    | 811,662      |
| Professional and technical development  |      | <b>893,003</b>      | 1,515,621    |
| Insurance                               |      | <b>290,905</b>      | 261,311      |
| Advertising                             |      | <b>217,555</b>      | 666,726      |
| Donation and contributions              |      | <b>70,000</b>       | 60,000       |
| Miscellaneous                           |      | <b>2,606,833</b>    | 3,855,810    |
|   |      | <b>₱129,755,328</b> | ₱134,620,271 |

## 21. Investment and Other Underwriting Income

Investment and Other Income consists of:

|  | Note | 2020               | 2019        |
|--|------|--------------------|-------------|
| Interest income:                       |      |                    |             |
| HTM investments                        | 7    | <b>₱13,033,916</b> | ₱11,648,486 |
| Short-term investments                 | 5    | <b>4,930,561</b>   | 2,520,637   |
| Receivable from employees              | 6    | <b>618,818</b>     | 768,116     |
| Cash and cash equivalents              | 4    | <b>424,843</b>     | 643,862     |
| Gain (loss) on sale of:                |      |                    |             |
| Investment properties                  | 10   | <b>7,762,318</b>   | 2,417,430   |
| AFS investments                        | 7    | <b>(77,951)</b>    | 3,796,462   |
| Dividend income:                       |      |                    |             |
| Investments at FVPL                    | 7    | <b>1,654,555</b>   | 1,669,598   |
| AFS investments                        | 7    | <b>757,138</b>     | 765,099     |
| Fair value gain on investments at FVPL | 7    | <b>56,362</b>      | 961,439     |
| Loss on sale of property and equipment | 11   | <b>(55,882)</b>    | –           |
|  |      | <b>₱29,104,678</b> | ₱25,191,129 |

Other underwriting income pertains to income from various sources including the Company's share in insurance pool. The Company' recognized other underwriting income amounting to ₱21.0 million in 2020 (₱28.7 million in 2019).

## 22. Retirement Benefits

The Company has a funded, tax qualified, noncontributory and defined benefit retirement plan covering all of its qualified employees. The benefits are based on the years of service and compensation on the last year of employment.

The Company's annual contribution to the plan consists principally of payments which covers the current service cost for the year and the required funding relative to the guaranteed minimum benefits as applicable. The funds are administered by a trustee bank under the supervision of the Board of Trustees (BOT) of the plan which delegates the implementation of the investment policy to an Investment Committee. These funds are subject to the investment objectives and guidelines established by the Investment Committee and rules and regulations issued by Bangko Sentral ng Pilipinas covering assets under trust and fiduciary agreements. The Investment Committee is responsible for the investment strategy of the plan.

The latest actuarial valuation date of the Company's retirement plan is as at December 31, 2020.

Net retirement benefit expense recognized in the statement of comprehensive income and presented under "Operating expenses" consists of (see Note 20):

|                      | 2020              | 2019        |
|----------------------|-------------------|-------------|
| Current service cost | <b>₱6,422,444</b> | ₱3,878,677  |
| Net interest benefit | <b>(860,191)</b>  | (1,173,220) |
|                      | <b>₱5,562,253</b> | ₱2,705,457  |

Net retirement asset recognized in the statement of financial position follows:

|  | 2020                | 2019         |
|--|---------------------|--------------|
| Fair value of retirement plan assets         | <b>₱92,662,085</b>  | ₱80,564,547  |
| Present value of defined benefit obligations | <b>(75,782,029)</b> | (64,635,093) |
|  | <b>₱16,880,056</b>  | ₱15,929,454  |

Changes in fair value of retirement plan assets are as follows:

|                                   | 2020               | 2019        |
|-----------------------------------|--------------------|-------------|
| Balance at beginning of year      | <b>₱80,564,547</b> | ₱64,020,762 |
| Contributions                     | <b>6,095,000</b>   | 6,120,000   |
| Interest income                   | <b>4,350,486</b>   | 4,865,578   |
| Benefits paid                     | <b>(3,101,851)</b> | (503,966)   |
| Remeasurement gain on plan assets | <b>4,753,903</b>   | 6,062,173   |
| Balance at end of year            | <b>₱92,662,085</b> | ₱80,564,547 |

Changes in present value of defined benefits obligation are as follows:

|   | 2020               | 2019        |
|---|--------------------|-------------|
| Balance at beginning of year                      | <b>₱64,635,093</b> | ₱48,583,652 |
| Current service cost                              | <b>6,422,444</b>   | 3,878,677   |
| Interest cost                                     | <b>3,490,295</b>   | 3,692,358   |
| Benefits paid                                     | <b>(3,101,851)</b> | (503,966)   |
| Remeasurement loss on defined benefits obligation | <b>4,336,048</b>   | 8,984,372   |
| Balance at end of year                            | <b>₱75,782,029</b> | ₱64,635,093 |

The cumulative remeasurement gain (loss) on net retirement asset recognized in OCI as at December 31 follows:

|                        | 2020                                |                      |                      |
|------------------------|-------------------------------------|----------------------|----------------------|
|                        | Cumulative<br>Remeasurement<br>Loss | Deferred Tax         | Net                  |
|                        | Balance at beginning of year        | <b>(₱16,568,822)</b> | <b>(₱4,970,647)</b>  |
| Remeasurement gain     | <b>417,855</b>                      | <b>125,357</b>       | <b>292,498</b>       |
| Balance at end of year | <b>(₱16,150,967)</b>                | <b>(₱4,845,290)</b>  | <b>(₱11,305,677)</b> |

  

|                        | 2019                                |                      |                      |
|------------------------|-------------------------------------|----------------------|----------------------|
|                        | Cumulative<br>Remeasurement<br>Loss | Deferred Tax         | Net                  |
|                        | Balance at beginning of year        | <b>(₱13,646,623)</b> | <b>(₱4,093,987)</b>  |
| Remeasurement loss     | <b>(2,922,199)</b>                  | <b>(876,660)</b>     | <b>(2,045,539)</b>   |
| Balance at end of year | <b>(₱16,568,822)</b>                | <b>(₱4,970,647)</b>  | <b>(₱11,598,175)</b> |

Expected contribution of the Company in 2021 amounted to ₱9.0 million.



The major categories of plan assets as at December 31, 2020 (and 2019) are as follows:

|                    | 2020               | 2019        |
|--------------------|--------------------|-------------|
| Debt instrument    | P91,592,126        | P79,438,391 |
| Receivables        | 1,173,867          | 1,238,380   |
| Investment in UITF | 23,398             | -           |
| Cash               | 91                 | 166         |
|                    | <b>92,789,482</b>  | 80,676,937  |
| Trust fee payable  | <b>(127,397)</b>   | (112,390)   |
|                    | <b>P92,662,085</b> | P80,564,547 |

The plan exposes the Company to the following risks:

- *Salary risk* - any increase in the retirement plan participants' salary will increase the retirement plan's liability.
- *Longevity risk* - any increase in the plan participants' life expectancy will increase the retirement plan's liability.
- *Interest rate risk* - a decrease in the bond interest rate will increase the present value of the retirement liability. However, partially counterbalanced by an increase in the return on the plan assets.
- *Investment risk* - if the actual return on plan assets is below the discount rate used in calculating the present value of the retirement liability, a plan deficit will arise. However, the compositions of plan assets are balanced enough not to expose the Company to significant concentrations of investment risk.

The principal assumptions used to determine the net retirement liability are as follows:

|  | 2020     | 2019     |
|--|----------|----------|
| Discount rates                               | 4.0%     | 7.6%     |
| Salary increase rate                         | 8.0%     | 8.0%     |
| Average remaining working lives of employees | 13 years | 13 years |

Sensitivity analysis based on reasonably possible changes of the assumptions on net retirement liability as at December 31, 2020 are as follows:

|                      | Change in Assumption | Effect on Net Retirement Liability | Present Value of Net Retirement Liability |
|----------------------|----------------------|------------------------------------|---|
| Discount rate        | +1.0%                | P5,899,795                         | P69,882,234                               |
|                      | -1.0%                | (7,106,086)                        | 82,888,115                                |
| Salary increase rate | +1.0%                | (6,404,992)                        | 82,187,021                                |
|                      | -1.0%                | 5,466,074                          | 70,315,955                                |

The schedule below presents a projection of benefit payments expected to be paid out of the retirement fund.

| Period                    | Amount              |
|---------------------------|---------------------|
| Between one to five years | ₱36,088,078         |
| Between six and ten years | 29,883,434          |
| Between ten to 15 years   | 52,084,594          |
| Over 15 years             | 292,752,873         |
|                           | <b>₱410,808,979</b> |

The weighted average duration of the net retirement liability is 13 years.

### 23. Income Taxes

The Company's current income tax expense represents regular corporate income tax in 2020 (and 2019).

The Company's net deferred tax liabilities relate to the tax effect on the following temporary differences:

|  | 2020                 | 2019         |
|--|----------------------|--------------|
| Deferred tax assets on:                |                      |              |
| Unamortized past service cost          | <b>₱5,621,745</b>    | ₱6,619,696   |
| Provision for IBNR losses              | <b>4,596,810</b>     | 2,065,747    |
| Deferred reinsurance commissions       | <b>1,667,978</b>     | 5,846,651    |
| Allowance for doubtful accounts        | <b>63,835</b>        | 63,835       |
| ROU asset in excess of lease liability | <b>16,132</b>        | 8,654        |
|  | <b>11,966,500</b>    | 14,604,583   |
| Deferred tax liabilities on:           |                      |              |
| Deferred acquisition costs             | <b>17,308,167</b>    | 18,522,679   |
| Net retirement asset                   | <b>5,064,017</b>     | 4,778,837    |
|  | <b>22,372,184</b>    | 23,301,516   |
| Net deferred tax liabilities           | <b>(₱10,405,684)</b> | (₱8,696,933) |

The components of net deferred tax expense as reported in the statement of comprehensive income are recognized in the following:

|                   | 2020              | 2019       |
|-------------------|-------------------|------------|
| In profit or loss | <b>₱1,583,395</b> | ₱2,854,475 |
| In OCI            | <b>(125,357)</b>  | 876,660    |
|                   | <b>₱1,458,038</b> | ₱3,731,135 |

The reconciliation of provision for income tax computed at statutory income tax rate to the provision for income tax as shown in the statement of comprehensive income follows:

|   | 2020               | 2019        |
|---|--------------------|-------------|
| Income tax expense at statutory income tax rate         | <b>₱47,338,496</b> | ₱41,564,468 |
| Income tax effects of:                                  |                    |             |
| Income already subjected to capital gains tax           | <b>(2,311,931)</b> | (725,229)   |
| Difference of final tax rate against statutory tax rate | <b>(1,838,932)</b> | (1,482,765) |
| Dividend income exempt from income tax                  | <b>(723,508)</b>   | (730,409)   |
| Impairment loss on AFS investments                      | <b>315,512</b>     | 1,209,530   |
| Loss (gain) on sale of AFS investments                  | <b>23,385</b>      | (1,138,939) |
| Fair value gain on investments at FVPL                  | <b>(16,909)</b>    | (288,432)   |
|   | <b>₱42,786,113</b> | ₱38,408,224 |

On March 26, 2021, the Corporate Recovery and Tax Incentives for Enterprises (“CREATE”) was approved and signed into law by the country’s President. Under the CREATE, the regular corporate income tax (RCIT) of domestic corporations was revised from 30% to 25% or 20% depending on the amount of total assets or total amount of taxable income. In addition, the minimum corporate income tax (MCIT) was changed from 2% to 1% of gross income for a period of three (3) years. The changes in the income tax rates shall retrospectively become effective beginning July 1, 2020.

However, the income tax rates used in preparing the financial statements as at and for the year ended December 31, 2020 are 30% and 2% for RCIT and MCIT, respectively.

The table below summarizes the financial impact of the change in income tax rate to the Company’s financial statements had the CREATE been substantively enacted as at December 31, 2020:

|  | Audited Balances<br>(Based on Old<br>Income Tax Rate) | Balances<br>Using Revised<br>Income Tax Rate | Differences |
|--|---|--|-------------|
| Deferred tax liability   | ₱10,405,684   | ₱8,671,404                                   | ₱1,734,280  |
| Cumulative net remeasurement gain<br>on net retirement liability | 11,305,677  | 11,284,784                                   | 20,893      |
| Income tax payable   | 35,118,878  | 31,988,806                                   | 3,130,072   |
| Retained earnings  | 429,518,198   | 434,358,657                                  | (4,840,459) |
| Income tax expense - current                                     | 37,524,854  | 34,397,782                                   | 3,127,072   |
| Income tax expense - deferred                                    | 1,583,395   | 1,319,496                                    | 263,899     |
| Remeasurement gain   | 292,498   | 313,391                                      | (20,893)    |
| Total comprehensive income                                       | 115,310,198   | 120,171,550                                  | (4,861,352) |

## 24. Commitments and Contingencies

### Lease Commitments

#### *Long-term Lease Commitments*

The Company, as a lessee, has entered into lease agreements covering its office spaces and service centers used in its operations. Lease of office spaces generally have lease terms ranging from two to three years. Generally, the Company is restricted from assigning and subleasing the leased assets and some contracts require the Company to maintain certain financial ratios.

### Short-term Lease Commitments

The Company has leases covering its office spaces with lease terms of twelve months or less and also leases of office equipment with low value. The Company applies the “short-term lease” and “lease of low-value assets” recognition exemptions under PFRS 16 for these leases.

The movements of lease liabilities are as follows:

|                                 | 2020               | 2019        |
|---------------------------------|--------------------|-------------|
| Balance as at beginning of year | <b>₱1,954,825</b>  | ₱3,176,603  |
| Additions                       | –                  | 602,521     |
| Interest expense                | <b>79,884</b>      | 176,103     |
| Payments                        | <b>(1,418,131)</b> | (2,000,402) |
| Balance at end of year          | <b>616,578</b>     | 1,954,825   |
| Current portion                 | <b>616,578</b>     | 1,338,247   |
| Noncurrent portion              | <b>₱–</b>          | ₱616,578    |

The following are the amounts recognized in profit or loss under “Operating Expenses” (see Note 20):

|   | Note | 2020               | 2019        |
|---|------|--------------------|-------------|
| Rent expense on short-term lease            | 20   | <b>₱16,675,256</b> | ₱13,624,382 |
| Amortization expense of right-of-use assets | 11   | <b>1,363,173</b>   | 1,853,145   |
| Interest expense on lease liabilities       |      | <b>79,884</b>      | 176,103     |
|   |      | <b>₱18,118,313</b> | ₱15,653,630 |

Future minimum payments on lease liabilities are as follows:

|   | 2020            | 2019       |
|---|-----------------|------------|
| Within one year                             | <b>₱616,578</b> | ₱1,338,247 |
| After one year but not more than five years | –               | 616,578    |
|   | <b>₱616,578</b> | ₱1,954,825 |

### **Contingencies**

Various legal actions and claims are pending or may be assessed in the future against the Company from litigations and claims incident to the ordinary course of business. The management believes that the ultimate liability for these lawsuits, claims, and tax assessments, if any, would not be material in relation to the financial position and operating results of the Company.

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## 25. Insurance and Financial Risk Management Objectives and Capital Management

### **Insurance Risk**

The risk under an insurance contract is the risk that an insured event will occur, including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This is influenced by the frequency of claims, severity of claims, when actual benefits paid are greater than originally estimated and subsequent development of long-term claims.

The following tables set out the concentration of the claims liabilities by the type of contract as at December 31.

| <b>2020</b>     |   |   |                    |
|-----------------|---|---|--------------------|
|                 | <b>Insurance<br/>Contract Liabilities</b> | <b>Reinsurers'<br/>Share of Liabilities</b> | <b>Net</b>         |
| <b>Motor</b>    | <b>₱10,926,140</b>                        | <b>₱68,785</b>                              | <b>₱10,857,355</b> |
| <b>Fire</b>     | <b>5,384,735</b>                          | <b>2,259,859</b>                            | <b>3,124,876</b>   |
| <b>Casualty</b> | <b>1,267,988</b>                          | <b>11,344</b>                               | <b>1,256,644</b>   |
| <b>Marine</b>   | <b>368,710</b>                            | <b>–</b>                                    | <b>368,710</b>     |
|                 | <b>₱17,947,573</b>                        | <b>₱2,339,988</b>                           | <b>₱15,607,585</b> |

  

| <b>2019</b>       |   |   |             |
|-------------------|---|---|-------------|
|                   | <b>Insurance<br/>Contract Liabilities</b> | <b>Reinsurers'<br/>Share of Liabilities</b> | <b>Net</b>  |
| Motor             | ₱6,015,449                                | ₱–  | ₱6,015,449  |
| Fire              | 4,106,487                                 | –   | 4,106,487   |
| Casualty          | 1,368,824                                 | 420,900                                     | 947,924     |
| Personal accident | 10,000                                    | 5,000                                       | 5,000       |
|                   | ₱11,500,760                               | ₱425,900                                    | ₱11,074,860 |

For general insurance contracts, the most significant risks which arise from motor are car accidents, carnapping, weather disturbances, natural disasters and terrorist activities. These risks vary significantly in relation to the location of the risk insured by the Company and the types of risks insured.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diverse portfolio is less likely to be affected by across the board changes in any subset of the portfolio.

The variability of risks is also improved by careful selection and implementation of underwriting strategies, strict claims review policies to assess all new and ongoing claims, as well as the investigation of possible fraudulent claims. 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 impact the Company negatively.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements. The purpose of these underwriting and insurance strategies is to limit exposure to catastrophes to a predetermined maximum amount based on the Company's premiums retained.

The majority of reinsurance business ceded is placed on a surplus and excess-of-loss basis with retention limits varying by the product line and territory. 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 arrangements, it is not relieved of its direct obligations to its policyholders. Thus, a credit exposure exists with respect to the 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 a single reinsurance contract. There is no single counterparty exposure that exceeds 5% of the total reinsurance assets at the reporting date.

### **Financial Risk Management Objectives**

The Company's principal financial instruments consist of cash in banks, short-term placements, short-term investments, HTM investments, AFS investments and investments at FVPL. The Company also has various other financial assets and liabilities such as insurance and other receivables, insurance contract liabilities, insurance payables, accounts and other payables (excluding statutory liabilities) and lease liability which arise directly from its operations. Financial assets investments arise from the Company's investing activities.

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, foreign currency risk and equity price risk. The Company's BOD and management review and approve the policies for managing each of the risks summarized below.

*Credit Risk.* Credit risk is a risk that the Company will incur financial loss when its counterparties fail to discharge their contractual obligations. The Company deals with reputable banks to limit this risk.

The table below shows the credit risk exposure of the Company's financial assets as at December 31, 2020 (and 2019).

|   | <b>2020</b>         | 2019         |
|---|---------------------|--------------|
| Cash in banks and short-term placements | <b>₱87,260,008</b>  | ₱144,155,851 |
| Short-term investments                  | <b>298,600,064</b>  | 150,383,556  |
| Insurance and other receivables         | <b>148,429,548</b>  | 213,578,308  |
| HTM investments                         | <b>286,338,431</b>  | 230,984,694  |
|   | <b>₱820,628,051</b> | ₱739,102,409 |

The tables below show the credit quality of financial assets as at December 31, 2020 (and 2019).

|   | 2020                         |                    |                    |                           |                    |                   |           | Total               |
|---|------------------------------|--------------------|--------------------|---------------------------|--------------------|-------------------|-----------|---------------------|
|   | Neither past due or impaired |                    |                    | Past due but not impaired |                    |                   |           |                     |
|   | High Grade                   | Substandard Grade  | Standard Grade     | Over 30 Days              | Over 90 Days       | Over 180 Days     | Impaired  |                     |
| Cash in banks and short-term placements | ₱87,260,008                  | ₱-                 | ₱-                 | ₱-                        | ₱-                 | ₱-                | ₱-        | ₱87,260,008         |
| Short-term investments                  | 298,600,064                  | -                  | -                  | -                         | -                  | -                 | -         | 298,600,064         |
| Insurance and other receivables         | 53,551,094                   | 44,957,586         | 38,396,571         | -                         | 10,518,433         | 1,005,864         | -         | 148,429,548         |
| HTM investments                         | 286,338,431                  | -                  | -                  | -                         | -                  | -                 | -         | 286,338,431         |
|   | <b>₱725,749,597</b>          | <b>₱44,957,586</b> | <b>₱38,396,571</b> | <b>₱-</b>                 | <b>₱10,518,433</b> | <b>₱1,005,864</b> | <b>₱-</b> | <b>₱820,628,051</b> |

|                                    | 2019                         |                    |                   |                           |                    |               |           | Total               |
|------------------------------------|------------------------------|--------------------|-------------------|---------------------------|--------------------|---------------|-----------|---------------------|
|                                    | Neither past due or impaired |                    |                   | Past due but not impaired |                    |               |           |                     |
|                                    | High Grade                   | Substandard Grade  | Standard Grade    | Over 30 Days              | Over 90 Days       | Over 180 Days | Impaired  |                     |
| Cash in banks and cash equivalents | ₱144,155,851                 | ₱-                 | ₱-                | ₱-                        | ₱-                 | ₱-            | ₱-        | ₱144,155,851        |
| Short-term investments             | 150,383,556                  | -                  | -                 | -                         | -                  | -             | -         | 150,383,556         |
| Insurance and other receivables    | 180,871,658                  | 16,861,835         | 5,978,299         | -                         | 10,079,299         | -             | -         | 213,791,091         |
| HTM investments                    | 230,984,694                  | -                  | -                 | -                         | -                  | -             | -         | 230,984,694         |
|                                    | <b>₱706,395,759</b>          | <b>₱16,861,835</b> | <b>₱5,978,299</b> | <b>₱-</b>                 | <b>₱10,079,299</b> | <b>₱-</b>     | <b>₱-</b> | <b>₱739,315,192</b> |

Cash in banks, short-term placements and short-term investments are classified as high grade since these are deposited in reputable banks with good credit rating and low probability of insolvency.

HTM and AFS investments are assessed as high grade since these include investment in government treasury bonds and investment in equity securities of companies having good financial condition and operating in an industry which has potential growth.

High grade receivables pertain to those receivables from counterparties that consistently pay before the maturity date. Standard grade includes receivables that are collected on their due dates even without an effort from the Company to follow them up while receivables which are collected on their due dates provided that the Company made a persistent effort to collect them are included under substandard grade receivables.

The Company has no significant concentration of credit risk in relation to its financial assets.

*Liquidity Risk.* Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet commitments from financial instruments.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of internally generated funds. The Company manages its liquid funds through cash planning, using historical figures and experiences as well as reasonable forecasts for its collections and disbursements.

The tables below summarize the maturity profile of the Company's financial liabilities as at December 31 based on contractual undiscounted payments:

|                              | 2020          |              |              |              | Total       |
|------------------------------|---------------|--------------|--------------|--------------|-------------|
|                              | Within 1 Year | 1 to 3 Years | 3 to 5 Years | Over 5 Years |             |
| Insurance payables           | ₱30,757,912   | ₱-           | ₱-           | ₱-           | ₱30,757,912 |
| Accounts and other payables* | 31,724,577    | -            | -            | -            | 31,724,577  |
| Lease liabilities            | 616,578       | -            | -            | -            | 616,578     |
|                              | ₱63,099,067   | ₱-           | ₱-           | ₱-           | ₱63,099,067 |

\*excluding payables to government agencies and deferred output VAT aggregating to ₱24.6 million.

|                              | 2019          |              |              |              | Total       |
|------------------------------|---------------|--------------|--------------|--------------|-------------|
|                              | Within 1 Year | 1 to 3 Years | 3 to 5 Years | Over 5 Years |             |
| Insurance payables           | ₱12,541,363   | ₱-           | ₱-           | ₱-           | ₱12,541,363 |
| Accounts and other payables* | 33,392,824    | -            | -            | -            | 33,392,824  |
| Lease liabilities            | 1,338,247     | 616,578      | -            | -            | 1,954,825   |
|                              | ₱47,272,434   | ₱616,578     | ₱-           | ₱-           | ₱47,889,012 |

\*excluding payables to government agencies and deferred output VAT aggregating to ₱22.9 million.

*Equity Price Risk.* The Company's price risk exposure at year-end relates to financial instruments whose values will fluctuate as a result of changes in market prices, principally, AFS investments. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factor specific to individual instruments or their issuers or factors affecting all instruments traded in the market. The changes in the fair values of the quoted shares are not significant to the Company's financial statements.

### **Capital Management**

The primary objective of the Company's capital management is to ensure that it complies with the IC requirements. The Company manages its capital structure and makes adjustments whenever there are changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies and process in 2020 (and 2019).

On August 5, 2013, the President of the Philippines approved the Republic Act No. 10607 to be known as “The Insurance Code” (the Code) which provides the new capitalization requirements of all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required net worth and the schedule of compliance:

| <b>Minimum Net Worth</b> | <b>Compliance Date</b> |
|--------------------------|------------------------|
| ₱900,000,000             | December 31, 2019      |
| 1,300,000,000            | December 31, 2022      |

On January 13, 2015, the IC issued 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 minimum net worth requirements must remain unimpaired for the continuance of the license.

Pursuant to Section 202 of the Code, the estimated amount of admitted assets as at December 31, 2020 and the actual admitted assets as at December 31, 2019 follows:

|  | <b>2020<br/>(Estimated)</b> | 2019<br>(Actual) |
|--|-----------------------------|------------------|
| Total assets   | <b>₱1,197,762,616</b>       | ₱1,069,020,120   |
| Additional admitted assets from increase in fair value<br>of investment properties | <b>717,639,524</b>          | 563,368,042      |
| Non admitted assets  | <b>(27,831,422)</b>         | (53,659,236)     |
| <b>Total admitted assets</b>   | <b>₱1,887,570,718</b>       | ₱1,578,728,926   |

Details of the Company’s admitted assets follow:

|                                 | <b>2020<br/>(Estimated)</b> | 2019<br>(Actual) |
|---------------------------------|-----------------------------|------------------|
| Cash and cash equivalents       | <b>₱87,950,008</b>          | ₱86,865,583      |
| Short-term investments          | <b>298,600,064</b>          | 150,383,556      |
| Insurance and other receivables | <b>147,423,684</b>          | 197,796,510      |
| Financial asset investments     | <b>389,478,630</b>          | 324,606,750      |
| Investment properties           | <b>853,469,700</b>          | 699,233,900      |
| Other assets                    | <b>110,648,632</b>          | 119,842,627      |
|                                 | <b>₱1,887,570,718</b>       | ₱1,578,728,926   |

The Company’s estimated net worth as at December 31, 2020 and the actual net worth as at December 31, 2019 based on the examination of IC follows:

|  | <b>2020<br/>(Estimated)</b> | 2019<br>(Actual) |
|--|-----------------------------|------------------|
| Total admitted assets                    | <b>₱1,887,570,718</b>       | ₱1,578,728,926   |
| Total liabilities                        | <b>423,178,340</b>          | 400,480,812      |
| Net worth                                | <b>1,464,392,378</b>        | 1,178,248,114    |
| Less: Net worth requirements             | <b>900,000,000</b>          | 900,000,000      |
| <b>Excess over net worth requirement</b> | <b>₱564,392,378</b>         | ₱278,248,114     |



As at December 31, 2020 (and 2019), the Company is compliant with the minimum statutory net worth requirements of the IC.

**Risk-Based Capital (RBC) Requirements**

The RBC ratio shall be computed 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 shall form part of the net worth only to the extent authorized by the IC. The RBC requirement is the ratio of the number of insurers which are able to meet the corresponding RBC Hurdle Rate requirement for a given year to the total number of insurers in the industry.

CL No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework*, prescribes that all insurance companies must satisfy the minimum statutory RBC ratio of 100% and not fail the Trend Test as stated under Section 3 of this Circular. The RBC ratio of an insurance company shall be equal to the Total Available Capital divided by the RBC requirement.

The following table shows how the RBC ratio as at December 31, 2020 (and 2019) was determined by the Company based on its internal calculations:

|                         | 2020                  | 2019         |
|-------------------------|-----------------------|--------------|
| Total available capital | <b>₱1,124,608,258</b> | ₱852,957,295 |
| RBC requirement         | <b>264,404,620</b>    | 240,088,187  |
| RBC ratio               | <b>425%</b>           | 355%         |

The final amount of the RBC ratio as at December 31, 2020 can be determined only after the accounts of the Company have been examined by IC specifically for the determination of admitted and non-admitted assets as defined under the Code.

CL No. 2016-65, *Financial Reporting Framework under Section 189 of the Amended Insurance Code (Republic Act No. 10607)*, prescribes the new financial reporting framework (FRF) that will be used for the statutory quarterly and annual reporting. This also includes rules and regulations concerning Titles III and IV of Chapter III of the Code and all other accounts not discussed in the Code but are used in accounting of insurance and reinsurance companies.

CL No. 2016-67, *Valuation Standards for Non-Life Insurance Policy Reserves*, prescribes the new valuation methodology for the non-life insurance companies. Non-life insurance companies will be changing the basis of valuation of their non-life insurance reserves. In addition to the unearned premium reserves, the concept of unexpired risk reserves is also included in the calculation of the premium liability. The IBNR reserves will now be computed using actuarial projection techniques such as but not limited to the chain ladder method, expected loss ratio method, and Bornheutter-Ferguson method. A margin for the adverse deviation is estimated based on standard projection techniques or combination of such techniques, such as but not limited to Mack method, Bootstrapping Method, Stochastic Chain Ladder Method to bring the actuarial estimate of the Policy Liabilities at the 75<sup>th</sup> percentile level of sufficiency. Discount rates to be used shall be current risk-free rates. The rates shall exactly match the duration of the policy and the currency of the cash flows and shall be prescribed by the IC.

CL No. 2016-69, implementation requirements for FRF, valuation standards for insurance policy reserves and new risk-based capital framework provides that the level of sufficiency for the RBC 2 Framework shall be at 95% level in 2017, 97.50% in 2018, 99.50% in 2019.

The new regulatory requirements under CL Nos. 2016-65, 2016-67, 2016-68, and 2016-69 took effect on January 1, 2017.

## 26. Fair Value of Financial Instruments

The table below presents a comparison by category of carrying amounts and fair values of all the Company's financial instruments that are carried in the financial statements as at December 31, 2020 (and 2019):

|                                 | 2020                |                     | 2019            |              |
|---------------------------------|---------------------|---------------------|-----------------|--------------|
|                                 | Carrying Amount     | Fair Value          | Carrying Amount | Fair Value   |
| <b>Financial Assets</b>         |                     |                     |                 |              |
| Cash and cash equivalents       | <b>₱87,260,008</b>  | <b>₱87,260,008</b>  | ₱144,845,851    | ₱144,845,851 |
| Short-term investments          | <b>298,600,064</b>  | <b>298,600,064</b>  | 150,383,556     | 150,383,556  |
| Insurance and other receivables | <b>148,429,548</b>  | <b>148,429,548</b>  | 213,578,308     | 213,578,308  |
| HTM investments                 | <b>286,338,431</b>  | <b>305,255,185</b>  | 230,984,694     | 242,851,103  |
| Investments at FVPL             | <b>75,816,819</b>   | <b>75,816,819</b>   | 26,621,240      | 26,621,240   |
| AFS investments                 | <b>27,323,380</b>   | <b>27,323,380</b>   | 22,380,258      | 22,380,258   |
|                                 | <b>₱923,768,250</b> | <b>₱942,685,004</b> | ₱788,793,907    | ₱800,660,316 |
| <b>Financial Liabilities</b>    |                     |                     |                 |              |
| Premiums due to reinsurers      | <b>₱30,757,912</b>  | <b>₱30,757,912</b>  | ₱12,541,364     | ₱12,541,364  |
| Accounts and other payables*    | <b>31,724,577</b>   | <b>31,724,577</b>   | 33,392,824      | 33,392,824   |
| Lease liability                 | <b>2,726,572</b>    | <b>2,726,572</b>    | 1,954,825       | 1,954,825    |
|                                 | <b>₱65,209,061</b>  | <b>₱65,209,061</b>  | ₱47,889,013     | ₱47,889,013  |

\*excluding payables to government agencies and deferred output VAT aggregating to ₱24.6 million in 2020 (₱22.9 million in 2019)

*Cash and Cash Equivalents, Short-term Investments, Insurance and Other Receivables, Premiums Due to Reinsurers and Accounts and Other Payables.* The carrying amounts of these instruments approximate their fair values due to their short-term maturities.

*HTM investments, Investments at FVPL and AFS investments.* The fair values were determined based on Level 1 in which the inputs are based on quoted prices in active markets.

*Lease Liability.* The fair value of lease liability is the discounted values of expected future cash flows using the applicable market rate as at reporting date.

### **Fair Value Hierarchy**

For the year ended December 31, 2020 (and 2019), there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

## 27. Supplementary Information Required by the Bureau of Internal Revenue

### **Revenue Regulations No. 15-2010**

The information for the year 2020 required by the regulations is presented below.

#### **Output VAT**

The Company's output VAT declared for the year ended December 31, 2020 are as follows:

|                         | Net Receipts | Output VAT  |
|-------------------------|--------------|-------------|
| Revenues subject to VAT | ₱548,615,079 | ₱65,833,809 |

Output VAT is based on gross receipts while the amount of revenue presented in the statement of comprehensive income is based on accrual method.

#### **Input VAT**

The Company's input VAT claimed for the year ended December 31, 2020 are as follows:

|   |            |
|---|------------|
| Balance at beginning of year                  | ₱-         |
| Current year's domestic purchases of goods    | -          |
| Current year's domestic purchases of services | 24,590,024 |
| Allowable input VAT                           | 24,590,024 |
| Applied against output VAT                    | 24,590,024 |
| Balance at end of year                        | ₱-         |

Total VAT payments in 2020 amounted to ₱39.6 million. Outstanding balance of net output VAT payable is included under "Payables to government agencies" line item under "Accounts and other payables" account.

#### **All Other Local and National Taxes**

The Company's local and national taxes for the year ended December 31, 2020 consist of:

|                              |            |
|------------------------------|------------|
| Local business permits       | ₱1,509,294 |
| Insurance commission fees    | 121,200    |
| Annual VAT registration fees | 14,500     |
| Others                       | 767,591    |
|                              | ₱2,412,585 |

The above local and national taxes are classified under "Taxes and licenses" account under the "Operating expenses" in the statement of comprehensive income.

#### **Withholding Taxes**

Withholding taxes paid, accrued and/or withheld by the Company for the year ended December 31, 2020 consist of:

|                                   | Paid        | Accrued    | Total       |
|-----------------------------------|-------------|------------|-------------|
| Withholding taxes on compensation | ₱5,542,119  | ₱345,075   | ₱5,887,194  |
| Expanded withholding taxes        | 10,437,862  | 1,456,181  | 11,894,043  |
|                                   | ₱15,979,981 | ₱1,801,256 | ₱17,781,237 |

**Documentary Stamp Tax (DST)**

The Company paid/accrued DST on insurance policies amounting to ₱62.9 million from earned premiums of ₱503.0 million as of December 31, 2020.

**Tax Assessment and Case**

The Company has no pending tax assessment and tax case as at and for the year ended December 31, 2020.



**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE  
BUREAU OF INTERNAL REVENUE**

The Stockholders and the Board of Directors  
Liberty Insurance Corporation  
119 JCSO Building  
Dela Rosa corner C. Palanca, Jr. Sts.  
Legaspi Village, Makati City

We have audited the accompanying financial statements of Liberty Insurance Corporation (the Company) as at and for the year then ended December 31, 2020, on which we have rendered our report dated March 24, 2021.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Company.

**REYES TACANDONG & Co.**

*Pamela Ann P. Escudro*

PAMELA ANN P. ESCUADRO

Partner

CPA Certificate No. 128829

Tax Identification No. 216-321-918-000

BOA Accreditation No. 4782; Valid until August 15, 2021

SEC Accreditation No. 128829-SEC Group A

Issued March 23, 2021

Valid for Financial Periods 2020 to 2024

IC Accreditation No. 128829-IC

Issued February 22, 2021

Valid for Financial Periods 2020 to 2024

BIR Accreditation No. 08-005144-013-2020

Valid until January 1, 2023

PTR No. 8534282

Issued January 5, 2021, Makati City

March 24, 2021

Makati City, Metro Manila