



## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS


The management of **LIBERTY INSURANCE CORPORATION** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein for the years ended December 31, 2021 and 2020, in accordance with the prescribed financial reporting framework indicated therein, 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.

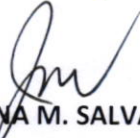
The Board of Directors is responsible in overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

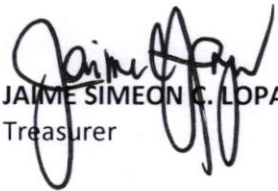
Reyes Tacandong & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



**FERNANDO C. COJUANGCO**  
Chairman of the Board



**JOSEFINA M. SALVADOR**  
President & Chief Operating Officer



**JAIMÉ SIMEÓN C. LOPA**  
Treasurer

Signed this 11th day of April, 2022



## 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

### *Opinion*

We have audited the accompanying financial statements of Liberty Insurance Corporation (the Company), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with the Philippine Financial Reporting Standards (PFRS).

### *Basis for Opinion*

We conducted our audits 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.

### *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.

BUREAU OF INTERNAL REVENUE  
LARGE TAXPAYERS SERVICE  
LARGE TAXPAYERS ASSISTANCE DIVISION

Date **MAY 16 2022** TSIS

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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.

TRANSACTIONS AND EVENTS  
LARGE TAXPAYERS SERVICE  
LARGE TAXPAYERS ASSISTANCE DIVISION

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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.

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 April 13, 2024

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. 8851713

Issued January 3, 2022, Makati City

March 30, 2022

Makati City, Metro Manila

BUREAU OF INTERNAL REVENUE  
LARGE TAXPAYERS SERVICE  
LARGE TAXPAYERS ASSISTANCE DIVISION

Date **MAY 16 2022** TSIS

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**LIBERTY INSURANCE CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**

		December 31	
	Note	2021	2020
<b>ASSETS</b>			
Cash	4	<b>₱55,957,063</b>	₱87,950,008
Short-term investments	5	<b>426,152,389</b>	298,600,064
Insurance and other receivables	6	<b>130,034,285</b>	148,429,548
Financial asset investments:	7		
Held-to-maturity (HTM) investments		<b>441,263,609</b>	286,338,431
Available-for-sale (AFS) investments		<b>66,510,086</b>	27,323,380
Investments at fair value through profit or loss (FVPL)		<b>55,139,393</b>	75,816,819
Deferred acquisition costs	8	<b>61,400,010</b>	57,693,890
Reinsurance assets	9	<b>32,473,990</b>	27,759,211
Investment properties	10	<b>135,794,558</b>	135,830,176
Property and equipment	11	<b>26,578,638</b>	26,662,501
Net retirement asset	22	<b>14,365,965</b>	16,880,056
Other assets	12	<b>5,962,879</b>	8,478,532
		<b>₱1,451,632,865</b>	₱1,197,762,616
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Insurance contract liabilities	13	<b>₱331,593,689</b>	₱284,373,890
Insurance payables	14	<b>22,667,865</b>	30,757,912
Deferred reinsurance commissions	8	<b>5,960,572</b>	5,559,927
Accounts and other payables	15	<b>92,089,845</b>	56,348,470
Income tax payable		<b>40,170,354</b>	35,115,878
Lease liabilities	24	-	616,578
Net deferred tax liabilities	23	<b>9,744,737</b>	10,405,684
Total Liabilities		<b>502,227,062</b>	423,178,339
<b>Equity</b>			
Capital stock	17	<b>356,687,600</b>	356,687,600
Additional paid-in capital		<b>2,239</b>	2,239
Retained earnings	17	<b>603,172,576</b>	429,518,198
Other components of equity:			
Cumulative remeasurement loss on net retirement asset	22	<b>(15,606,028)</b>	(11,305,677)
Cumulative fair value changes on AFS investments	7	<b>5,149,416</b>	(318,083)
Total Equity		<b>949,405,803</b>	774,584,277
		<b>₱1,451,632,865</b>	₱1,197,762,616

See accompanying Notes to the Financial Statements.

BUREAU OF INTERNAL REVENUE  
LARGE TAXPAYERS SERVICE  
LARGE TAXPAYERS ASSISTANCE DIVISION

Date **MAY 16 2022** TSIS

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**LIBERTY INSURANCE CORPORATION**  
**STATEMENTS OF COMPREHENSIVE INCOME**

	Note	Years Ended December 31	
		2021	2020
<b>REVENUE</b>			
Gross premiums earned on insurance contracts	18	<b>₱569,735,835</b>	₱521,296,503
Reinsurers' share of gross premiums earned on insurance contracts	18	<b>(121,669,838)</b>	(115,396,392)
Net insurance premiums earned		<b>448,065,997</b>	405,900,111
Investment and other income	21	<b>39,281,559</b>	29,104,678
Commission income	8	<b>13,882,190</b>	12,869,878
Other underwriting income	21	<b>32,026,353</b>	21,014,624
		<b>533,256,099</b>	468,889,291
<b>BENEFITS, CLAIMS AND EXPENSES</b>			
Net insurance benefits and claims	19	<b>53,556,068</b>	59,403,717
Commission expense	8	<b>123,373,173</b>	118,373,145
Operating expenses	20	<b>134,952,824</b>	129,755,328
Impairment loss on AFS investments	7	<b>963,641</b>	1,051,705
Interest expense	24	<b>21,309</b>	79,884
Other underwriting expenses		<b>3,530,050</b>	2,430,526
		<b>316,397,065</b>	311,094,305
<b>INCOME BEFORE INCOME TAX</b>		<b>216,859,034</b>	157,794,986
<b>INCOME TAX EXPENSE (BENEFIT)</b>	23		
Current		<b>39,458,756</b>	37,524,854
Final		<b>4,050,128</b>	3,677,864
Deferred		<b>(304,228)</b>	1,583,395
		<b>43,204,656</b>	42,786,113
<b>NET INCOME</b>		<b>173,654,378</b>	115,008,873
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>To be reclassified to profit or loss when realized –</i>			
Net fair value changes on AFS investments	7	<b>5,467,499</b>	8,827
<i>Not to be reclassified to profit or loss –</i>			
Remeasurement gain (loss) on net retirement asset - net of tax effect of ₱0.4 million in 2021 and ₱0.1 million in 2020	22	<b>(4,300,351)</b>	292,498
		<b>1,167,148</b>	301,325
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>₱174,821,526</b>	₱115,310,198

See accompanying Notes to the Financial Statements.

BUREAU OF INTERNAL REVENUE  
LARGE TAXPAYERS SERVICE  
LARGE TAXPAYERS ASSISTANCE DIVISION

Date **MAY 16 2022** TSIS

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**LIBERTY INSURANCE CORPORATION**  
**STATEMENTS OF CHANGES IN EQUITY**

	Note	Years Ended December 31	
		2021	2020
<b>CAPITAL STOCK</b>			
	17		
Balance at beginning of year		<b>₱356,687,600</b>	₱281,687,600
Issuances from stock dividends		–	75,000,000
Balance at end of year		<b>356,687,600</b>	356,687,600
<b>ADDITIONAL PAID-IN CAPITAL</b>			
		<b>2,239</b>	2,239
<b>RETAINED EARNINGS</b>			
	17		
Balance at beginning of year		<b>429,518,198</b>	389,509,325
Net income		<b>173,654,378</b>	115,008,873
Stock dividends		–	(75,000,000)
Balance at end of year		<b>603,172,576</b>	429,518,198
<b>OTHER COMPONENTS OF EQUITY</b>			
<b>Cumulative remeasurement loss on net retirement asset</b>			
	22		
Balance at beginning of year		<b>(11,305,677)</b>	(11,598,175)
Remeasurement loss on net retirement asset		<b>(4,300,351)</b>	292,498
Balance at end of year		<b>(15,606,028)</b>	(11,305,677)
<b>Cumulative fair value changes on AFS investments</b>			
	7		
Balance at beginning of year		<b>(318,083)</b>	(326,910)
Net fair value changes on AFS investments		<b>5,467,499</b>	8,827
Balance at end of year		<b>5,149,416</b>	(318,083)
		<b>(10,456,612)</b>	(11,623,760)
		<b>₱949,405,803</b>	₱774,584,277

*See accompanying Notes to the Financial Statements.*

BUREAU OF INTERNAL REVENUE  
LARGE TAXPAYERS SERVICE  
LARGE TAXPAYERS ASSISTANCE DIVISION

Date **MAY 16 2022** TSIS

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**LIBERTY INSURANCE CORPORATION**  
**STATEMENTS OF CASH FLOWS**

		Years Ended December 31	
	Note	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		<b>₱216,859,034</b>	₱157,794,986
Adjustments for:			
Interest income	21	<b>(20,902,617)</b>	(19,008,138)
Depreciation and amortization	11	<b>9,927,652</b>	9,884,055
Loss (gain) on sale of:			
Investment property	21	<b>(7,748,382)</b>	(7,762,318)
AFS investments	21	<b>(5,826,253)</b>	77,951
Investments in FVPL	21	<b>151,352</b>	-
Property and equipment	21	<b>(100,000)</b>	55,882
Net retirement benefit expense	22	<b>7,037,021</b>	5,562,253
Dividend income	21	<b>(4,442,483)</b>	(2,411,693)
Impairment loss on AFS investments	7	<b>963,641</b>	1,051,705
Unrealized fair value gain on investments at FVPL	21	<b>(413,176)</b>	(56,362)
Interest expense on lease liabilities	24	<b>21,309</b>	79,884
Operating income before changes in working capital		<b>195,527,098</b>	145,268,205
Decrease (increase) in:			
Insurance and other receivables		<b>18,395,263</b>	65,148,760
Reinsurance assets		<b>(4,714,779)</b>	(188,045)
Deferred acquisition costs		<b>(3,706,120)</b>	4,048,372
Other assets		<b>2,515,653</b>	428,579
Increase (decrease) in:			
Insurance contract liabilities		<b>47,219,799</b>	(9,673,159)
Insurance payables		<b>(8,090,047)</b>	18,216,549
Accounts and other payables		<b>35,741,375</b>	43,485
Deferred reinsurance commissions		<b>400,645</b>	(1,325,895)
Net cash generated from operations		<b>283,288,887</b>	221,966,851
Income tax paid		<b>(34,404,280)</b>	(31,724,040)
Contributions paid	22	<b>(9,180,000)</b>	(6,095,000)
Net cash provided by operating activities		<b>239,704,607</b>	184,147,811

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest received		<b>11,923,608</b>	11,734,251
Dividend received		<b>4,442,483</b>	2,411,693
Proceeds from maturities of:			
Short-term investments		<b>300,342,200</b>	150,383,556
HTM investments	7	<b>58,000,000</b>	13,000,000
Proceeds from disposals of:			
AFS financial assets	7	<b>77,201,193</b>	56,063,265
Investment in financial assets at FVPL	7	<b>20,939,250</b>	1,012,500
Investment property	10	<b>7,784,000</b>	7,798,000
Property and equipment		<b>100,000</b>	717,157

BUREAU OF INTERNAL REVENUE  
LARGE TAXPAYERS SERVICE  
LARGE TAXPAYERS ASSISTANCE DIVISION

(Forward)

Date **MAY 16 2022** TSIS

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		Years Ended December 31	
	Note	2021	2020
<b>Acquisitions of:</b>			
Short-term investment		(P422,965,644)	(P295,004,042)
HTM investments	7	(212,925,178)	(68,353,737)
AFS investments	7	(106,057,788)	(62,127,216)
Property and equipment	11	(9,843,789)	(7,109,233)
Investment at FVPL	7	-	(50,151,717)
<b>Net cash used in investing activities</b>		<b>(271,908,313)</b>	<b>(239,625,523)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Payment of principal portion of lease liabilities	24	(637,887)	(1,418,131)
<b>NET DECREASE IN CASH</b>		<b>(31,992,945)</b>	<b>(56,895,843)</b>
<b>CASH AT BEGINNING OF YEAR</b>		<b>87,950,008</b>	<b>144,845,851</b>
<b>CASH AT END OF YEAR</b>	<b>4</b>	<b>P55,957,063</b>	<b>P87,950,008</b>

See accompanying Notes to the Financial Statements.

BUREAU OF INTERNAL REVENUE  
LARGE TAXPAYERS SERVICE  
LARGE TAXPAYERS ASSISTANCE DIVISION

Date **MAY 16 2022** TSIS

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**LIBERTY INSURANCE CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

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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 companies in the Philippines.

On September 7, 2021, the Insurance Commission (IC) renewed the Company's license to operate as an Insurance Company with Certificate of Authority No. 2022/12-R valid until December 31, 2024.

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. 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 application for the increase on authorized capital stock was approved by SEC on December 16, 2020.

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

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

The accompanying financial statements as at and for the years ended December 31, 2021 and 2020 were approved and authorized for issue by the BOD on March 30, 2022.

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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.

BUREAU OF INTERNAL REVENUE  
LARGE TAXPAYERS SERVICE  
LARGE TAXPAYERS ASSISTANCE DIVISION

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**NOTES TO FINANCIAL STATEMENTS**

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**2. Summary of Significant Accounting Policies**

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### **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 less present value of the defined benefit obligation. 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 Asset Investments
- Note 10 - Investment Properties
- Note 26 - Fair Value of Financial Instruments

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

Relevant new and amended PFRS, which are not yet effective as at December 31, 2021 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 will replace the reference of PFRS 3 from the 1989 Framework to the current 2018 Conceptual Framework. The amendments include 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 will ensure that the liabilities recognized in a business combination will remain the same as those recognized applying the current requirements in PFRS 3. The amendments also clarified that an acquirer shall not recognize contingent assets acquired in a business combination. 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 applied the amendments.
- 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 component of equity, as applicable. Accordingly, the comparatives are not restated. Earlier application is permitted.
- Annual Improvements to PFRS 2018 to 2020 Cycle:
  - Amendment to PFRS 9, *Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities* – The amendment clarifies which fees an entity shall include 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 amendment applies to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applied the amendments. Earlier application is permitted.
  - Amendment to PFRS 16, *Leases - Lease Incentives* – The amendment removes from the Illustrative Example 13 the illustration of the reimbursement of leasehold improvements by the lessor. The objective of the amendment is to avoid any potential confusion regarding the treatment of lease incentives because of how the requirements for lease incentives are illustrated.

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.
- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure Initiative – Accounting Policies* – The amendments require an entity to disclose its material accounting policies, instead of its significant accounting policies and provide guidance on how an entity applies the concept of materiality in making decisions about accounting policy disclosures. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and its nature. The amendments clarify (1) that accounting policy information may be material because of its nature, even if the related amounts are immaterial, (2) that accounting policy information is material if users of an entity’s financial statements would need it to understand other material information in the financial statements, and (3) if an entity discloses immaterial accounting policy information, such information should not obscure material accounting policy information. In addition, PFRS Practice Statement 2, *Making Materiality Judgements*, is amended by adding guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ to accounting policy information. The amendments should be applied prospectively. Earlier application is permitted.
- Amendments to PAS 8, *Definition of Accounting Estimates* – The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies, and the correction of errors. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. An entity develops an accounting estimate if an accounting policy requires an item in the financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not a correction of an error, and that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. A change in an accounting estimate may affect only the profit or loss in the current period, or the profit or loss of both the current and future periods. Earlier application is permitted.
- Amendments to PAS 12, *Deferred Tax Related Assets and Liabilities from a Single Transaction* – The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. 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 Insurance Commission 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, 2021 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	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
Investments at FVPL	Held for trading	Financial assets at FVPL
AFS investments	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 loans 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 publicly traded preferred equity instruments and investment in mutual fund (see Note 7). The Company has no financial liabilities at FVPL as at December 31, 2021 and 2020.

*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).

*Loans and Receivables.* Loans and 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, loans and 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 EIR. Loans and receivables that are perpetual and that have either a fixed or a market-based variable rate of interest are measured at cost. 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.

Loans and 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, short-term investments, insurance and other receivables (see Notes 4, 5 and 6).

*Cash.* Cash includes cash on hand and in banks 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 deferred output VAT) 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.

#### **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.

#### **Other Assets**

This account includes prepayments, documentary stamp tax fund and security fund 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 when it is expected to be realized for no more than 12 months after the financial year is considered as current assets, otherwise, prepayments are classified as noncurrent assets.

#### **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 Underwriting Income.* Other underwriting income from other sources, if any, is recognized when earned.

*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.

*Final Tax.* Interest income from cash in banks and debt securities, which are subject to final withholding tax, is presented at gross amounts, while taxes paid or withheld are recognized as final tax under "Income tax expense (benefit)" account in the statement of comprehensive income.

*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 significant accounting 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, short-term investments, insurance and other receivables, HTM investments, AFS investments and investments at FVPL. 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 assessed its lease commitments by class of underlying asset to which the ROU asset relates and 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.

As at December 31, 2021, the Company no longer has ROU assets and lease liabilities arising from lease of office and service centers as contract renewals were classified as short-term leases. ROU assets and lease liabilities amounted to ₱0.6 million as at December 31, 2020 (see Notes 11 and 24).

Rent expense on short-term lease amounted to ₱18.4 million and ₱16.7 million in 2021 and 2020, respectively (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 ₱52.5 million and ₱36.4 million as at December 31, 2021 and 2020, respectively (see Note 13).

*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 of 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 2021 and 2020. The carrying amount of HTM investments amounted to ₱441.3 million and ₱286.3 million as at December 31, 2021 and 2020, respectively (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 ₱1.0 million and ₱1.1 million in 2021 and 2020, respectively. The carrying amount of AFS investments amounted to ₱66.5 million and ₱27.3 million as at December 31, 2021 and 2020, respectively (see Note 7).

*Determining the Fair Value of AFS Investments and Investments at FVPL.* 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 statements of comprehensive income and the statements of changes in equity.

The carrying amount of AFS investments measured at fair value amounted to ₱66.5 million and ₱27.3 million as at December 31, 2021 and 2020, respectively. The carrying amount of investments at FVPL amounted to ₱55.1 million and ₱75.8 million as at December 31, 2021 and 2020, respectively (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 2021 and 2020. The Company did not write-off any insurance receivables in 2021. Accounts written-off amounted to ₱0.2 million in 2020. The carrying amount of insurance receivables amounted to ₱118.7 million and ₱138.2 million as at December 31, 2021 and 2020, respectively (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.

There were no changes in the useful lives of property and equipment in 2021 and 2020. The carrying amount of property and equipment amounted to ₱26.6 million and ₱26.7 million as at December 31, 2021 and 2020, respectively (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 2021 and 2020. Accordingly, no impairment loss was recognized. The carrying amount of investment property amounted to ₱135.8 million as at December 31, 2021 and 2020 (see Note 10). The carrying amount of property and equipment amounted to ₱26.6 million and ₱26.7 million as at December 31, 2021 and 2020, respectively (see Note 11).

*Determining the Net Retirement Asset and Net Retirement Benefit Expense.* The determination of the net retirement asset and net retirement benefit 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 ₱7.0 million and ₱5.6 million in 2021 and 2020, respectively. Net retirement asset amounted to ₱14.4 million and ₱16.9 million as at December 31, 2021 and 2020, respectively (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 ₱9.2 million and ₱12.0 million as at December 31, 2021 and 2020, respectively (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

This account consists of:

	2021	2020
Cash on hand	<b>₱700,000</b>	₱690,000
Cash in banks	<b>55,257,063</b>	87,260,008
	<b>₱55,957,063</b>	₱87,950,008

Cash in banks earns interest at the prevailing bank deposit rates. Interest income earned from cash in banks amounted to ₱0.2 million and ₱0.4 million in 2021 and 2020, respectively (see Note 21).

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#### 5. Short-term Investments

Short-term investments amounting to ₱426.2 million and ₱298.6 million in 2021 and 2020, respectively, are government treasury bills made for varying periods with maturities of more than three months but less than one year and with interest rates ranging from 0.9% to 3.9% in 2021 and 1.3% to 3.9% in 2020.

Interest income earned on short-term investments amounted to ₱4.9 million in 2021 and 2020 (see Note 21).

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#### 6. Insurance and Other Receivables

This account consists of:

	2021	2020
Insurance receivables	<b>₱118,668,204</b>	₱138,244,014
Other receivables	<b>11,366,081</b>	10,185,534
	<b>₱130,034,285</b>	₱148,429,548

**Insurance Receivables**

Insurance receivables consist of:

	<b>2021</b>	2020
Premium receivables	<b>₱93,869,019</b>	₱116,183,983
Premiums due from ceding companies	<b>11,978,012</b>	10,063,381
Reinsurance recoverable on paid losses	<b>10,761,091</b>	10,820,404
Funds held by ceding companies	<b>2,060,082</b>	1,176,246
	<b>₱118,668,204</b>	₱138,244,014

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

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

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

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

The balance and movement in allowance for impairment losses on insurance receivables as at December 31, 2020 follow:

Balance at beginning of year	₱212,783
Write-off	(212,783)
Balance at end of year	₱-

**Other Receivables**

Other receivables consist of:

	<b>2021</b>	2020
Receivables from employees	<b>₱8,302,876</b>	₱7,914,612
Accrued interest income	<b>2,440,966</b>	2,143,150
Accrued dividend income	<b>622,239</b>	127,772
	<b>₱11,366,081</b>	₱10,185,534

Receivables from employees include interest bearing advances settled through salary deductions. Interest income from this advances amounted to ₱0.7 million and ₱0.6 million in 2021 and 2020, respectively (see Note 21).

## 7. Financial Asset Investments

This account consists of:

	2021	2020
HTM investments	<b>₱441,263,609</b>	₱286,338,431
AFS investments	<b>66,510,086</b>	27,323,380
Investments at FVPL	<b>55,139,393</b>	75,816,819
	<b>₱562,913,088</b>	₱389,478,630

### HTM Investments

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

	2021	2020
Government bonds	<b>₱258,173,609</b>	₱189,338,431
Corporate bonds	<b>183,090,000</b>	97,000,000
	<b>₱441,263,609</b>	₱286,338,431

HTM investments earn interest ranging from 2.4% to 7.4% per annum in 2021 and 2.5% to 7.8% per annum in 2020. Interest income earned from these investments amounted to ₱15.2 million and ₱13.0 million in 2021 and 2020, respectively (see Note 21).

Movements of the HTM investments are as follows:

	2021	2020
Balance at beginning of year	<b>₱286,338,431</b>	₱230,984,694
Additions	<b>212,925,178</b>	68,353,737
Maturities	<b>(58,000,000)</b>	(13,000,000)
Balance at end of year	<b>₱441,263,609</b>	₱286,338,431

Maturity profile of the above investments is as follows:

	2021	2020
Within one year	<b>₱51,000,000</b>	₱58,000,000
One to five years	<b>287,934,150</b>	190,233,145
More than five years	<b>102,329,459</b>	38,105,286
	<b>₱441,263,609</b>	₱286,338,431

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 under the Registry of Scripless Securities system.

As at December 31, 2021 and 2020, the minimum capital investment requirement amounted to ₱225.0 million or twenty-five percent (25%) of the minimum net worth required under Section 194.

The carrying amount of these earmarked government debt securities, which are included under short-term investments and HTM investments accounts, aggregated to ₱684.3 million and ₱487.9 million, as at December 31, 2021 and 2020, respectively.

### **AFS Investments**

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

AFS investments consists of:

	<b>2021</b>	2020
Equity shares:		
Quoted	<b>₱66,480,086</b>	₱27,293,380
Unquoted	<b>30,000</b>	30,000
	<b>₱66,510,086</b>	₱27,323,380

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:

	<b>2021</b>	2020
Balance at beginning of year	<b>₱27,323,380</b>	₱22,380,258
Additions	<b>106,057,788</b>	62,127,216
Disposals	<b>(77,201,193)</b>	(56,063,265)
Unrealized gain (loss) on fair value changes	<b>10,330,111</b>	(1,120,829)
Balance at end of year	<b>₱66,510,086</b>	₱27,323,380

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

	Note	<b>2021</b>	2020
<b>Balance at beginning of year</b>		<b>(₱318,083)</b>	(₱326,910)
<b>Net change in revaluation reserve on AFS investments:</b>			
Unrealized gain (loss) on fair value changes		<b>10,330,111</b>	(1,120,829)
Realized loss (gain) on sale transferred to profit or loss	21	<b>(5,826,253)</b>	77,951
Impairment loss transferred to profit or loss		<b>963,641</b>	1,051,705
		<b>5,467,499</b>	8,827
<b>Balance at end of year</b>		<b>₱5,149,416</b>	(₱318,083)

Dividends earned from AFS investments amounted to ₱1.8 million and ₱0.8 million in 2021 and 2020, respectively (see Note 21).



**Investments at FVPL**

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

Investments at FVPL consists of:

	<b>2021</b>	2020
Preferred equity shares	<b>₱44,866,550</b>	₱65,640,102
Mutual fund	<b>10,272,843</b>	10,176,717
	<b>₱55,139,393</b>	₱75,816,819

As at December 31, 2021 and 2020, the acquisition costs of these investments amounted to ₱54.3 million and ₱74.6 million, respectively, and the cumulative unrealized fair value gains amounted to ₱0.8 million and ₱1.2 million, respectively.

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

Loss on sale of these investments amounted to ₱0.2 million and nil in 2021 and 2020, respectively (see Note 21).

Movements in this account are as follows:

	Note	<b>2021</b>	2020
Balance at beginning of year		<b>₱75,816,819</b>	₱26,621,240
Additions		–	50,151,717
Disposal		<b>(21,090,602)</b>	(1,012,500)
Unrealized gain on fair value changes	21	<b>413,176</b>	56,362
Balance at end of year		<b>₱55,139,393</b>	₱75,816,819

Dividends earned from investments at FVPL amounted to ₱2.6 million and ₱1.7 million in 2021 and 2020, respectively (see Note 21).

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

**Deferred Acquisition Costs**

Movements in this account are as follows:

	<b>2021</b>	2020
Balance at beginning of year	<b>₱57,693,890</b>	₱61,742,262
Cost deferred	<b>127,079,293</b>	114,324,773
Amortization	<b>(123,373,173)</b>	(118,373,145)
Balance at end of year	<b>₱61,400,010</b>	₱57,693,890

### **Deferred Reinsurance Commissions**

Movements in this account are as follows:

	<b>2021</b>	2020
Balance at beginning of year	<b>₱5,559,927</b>	₱6,885,822
Income deferred	<b>14,282,835</b>	11,543,983
Amortization	<b>(13,882,190)</b>	(12,869,878)
Balance at end of year	<b>₱5,960,572</b>	₱5,559,927

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### **9. Reinsurance Assets**

This account consists of:

	<b>2021</b>	2020
Deferred reinsurance premiums	<b>₱26,883,842</b>	₱22,328,550
Reinsurance recoverable on unpaid losses	<b>5,590,148</b>	5,430,661
	<b>₱32,473,990</b>	₱27,759,211

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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, 2021 and 2020.

Movements in this account are as follows:

	<b>2021</b>	2020
Balance at beginning of year	<b>₱135,830,176</b>	₱135,865,858
Disposals	<b>(35,618)</b>	(35,682)
Balance at end of the year	<b>₱135,794,558</b>	₱135,830,176

In 2021 and 2020, the Company sold a parcel of land with a carrying cost of ₱35,618 and ₱35,682, respectively, which resulted to a gain on sale amounting to ₱7.7 million and ₱7.8 million, respectively (see Note 21).

No rental income was earned from investment property in 2021 and 2020. Expenses related to investment property amounted to ₱1.6 million and ₱0.7 million in 2021 and 2020, respectively.

The fair value of investment properties based on a valuation made by an independent appraiser amounted to ₱844.3 million and ₱853.8 million as at December 31, 2021 and 2020, respectively. 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:

2021						
Note	Leasehold Improvements	Transportation Equipment	Computer Equipment	Office Furniture, Fixtures and Equipment	ROU Asset	Total
<b>Cost</b>						
Balance at beginning of year	₱7,450,837	₱14,362,250	₱31,196,351	₱12,017,214	₱3,779,124	₱68,805,776
Additions	804,901	–	7,986,456	1,052,432	–	9,843,789
Disposals and terminations	–	(500,000)	–	(229,474)	(3,779,124)	(4,508,598)
Balance at end of year	8,255,738	13,862,250	39,182,807	12,840,172	–	74,140,967
<b>Accumulated Depreciation and Amortization</b>						
Balance at beginning of year	2,684,198	6,587,724	23,492,112	6,162,923	3,216,318	42,143,275
Depreciation and amortization	20 716,265	2,509,050	4,296,382	1,843,149	562,806	9,927,652
Disposals and terminations	–	(500,000)	–	(229,474)	(3,779,124)	(4,508,598)
Balance at end of year	3,400,463	8,596,774	27,788,494	7,776,598	–	47,562,329
<b>Carrying Amounts</b>	<b>₱4,855,275</b>	<b>₱5,265,476</b>	<b>₱11,394,313</b>	<b>₱5,063,574</b>	<b>₱–</b>	<b>₱26,578,638</b>

2020						
Note	Leasehold Improvements	Transportation Equipment	Computer Equipment	Office Furniture, Fixtures and Equipment	ROU Asset	Total
<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>

The Company sold transportation equipment resulting to a gain on sale amounting to ₱0.1 million in 2021 and a loss on sale amounting to ₱0.1 million in 2020 (see Note 21).

The cost of fully depreciated property and equipment still being used in operations amounted to ₱27.2 million and ₱19.7 million as at December 31, 2021 and 2020, respectively.

## 12. Other Assets

This account consists of:

	2021	2020
Prepayments	₱4,569,422	₱6,969,229
Documentary stamp tax fund	1,345,018	1,460,864
Security fund	48,439	48,439
	<b>₱5,962,879</b>	<b>₱8,478,532</b>

Prepayments pertain to prepaid rent, 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:

	2021		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Provision for claims reported	P33,345,772	P297,302	P33,048,470
Provision for IBNR	19,172,869	5,292,846	13,880,023
Outstanding claims provision	52,518,641	5,590,148	46,928,493
Provision for unearned premiums	279,075,048	26,883,842	252,191,206
	<b>P331,593,689</b>	<b>P32,473,990</b>	<b>P299,119,699</b>

	2020		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Provision for claims reported	P17,947,573	P2,339,988	P15,607,585
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>P284,373,890</b>	<b>P27,759,211</b>	<b>P256,614,679</b>

Movements of outstanding claims provision follow:

	Note	2021		
		Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Balance at beginning of year		P36,360,947	P5,430,661	P30,930,286
Claims incurred		56,434,355	2,113,901	54,320,454
Claims paid, net of recoveries		(41,036,156)	(4,156,587)	(36,879,569)
Increase (decrease) in IBNR	19	759,495	2,202,173	(1,442,678)
Balance at end of year		<b>P52,518,641</b>	<b>P5,590,148</b>	<b>P46,928,493</b>

	Note	2020		
		Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Balance at beginning of year		P32,404,725	P3,173,396	P29,231,329
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>P36,360,947</b>	<b>P5,430,661</b>	<b>P30,930,286</b>

Movements of provision for unearned premiums follow:

				2021		
	Note	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net		
Balance at beginning of year		P248,012,943	P22,328,550	P225,684,393		
Premiums written		600,797,940	126,225,130	474,572,810		
Premiums earned	18	(569,735,835)	(121,669,838)	(448,065,997)		
Balance at end of year		P279,075,048	P26,883,842	P252,191,206		

				2020		
	Note	Insurance Contract Liabilities	Reinsurers' Share 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		

#### 14. Insurance Payables

This account consists of:

	2021	2020
Due to reinsurers and ceding companies	P16,492,453	P26,776,871
Funds held for reinsurers	6,175,412	3,981,041
	P22,667,865	P30,757,912

#### 15. Accounts and Other Payables

This account consists of:

	2021	2020
Collateral bonds	P61,973,915	P28,315,894
Deferred output VAT	19,678,171	18,058,958
Payables to government agencies	7,498,715	6,564,935
Accounts payable	1,479,044	685,104
Accrued expenses	1,460,000	2,723,579
	P92,089,845	P56,348,470

Collateral bonds represent the amount of cash collaterals received by the Company in relation to suretyship contracts.

Deferred output VAT pertains to output VAT on uncollected receivables which is due to the taxation authority upon collection.

Payable to government agencies pertains to claims by government agencies from the Company which are normally settled the following month.

Accounts payable are noninterest-bearing and are normally settled within 30 days.

Accrued expenses are noninterest-bearing and usually settled throughout the subsequent year.

## 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	<b>2021</b>	<b>₱7,921,740</b>	<b>₱-</b>
			2020	6,752,456	-

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

	<b>2021</b>	2020
Short-term employee benefits	<b>₱7,649,007</b>	₱8,184,000
Post-employment benefits	<b>990,000</b>	807,600
	<b>₱8,639,007</b>	₱8,991,600

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 ₱8.3 million and ₱7.9 million as of December 31, 2021 and 2020, respectively. These are interest-bearing, due and demandable, unsecured and not impaired.

The Company paid directors' fees amounting to ₱1.6 million and ₱1.3 million in 2021 and 2020, respectively (see Note 20).

## 17. Equity

### Capital Stock

Movements in capital stock are as follows:

	<b>2021</b>		<b>2020</b>	
	<b>Number of Shares</b>	<b>Amount</b>	<b>Number of Shares</b>	<b>Amount</b>
<b>Authorized - ₱100 par value</b>				
Balance at beginning of year	<b>6,000,000</b>	<b>₱600,000,000</b>	3,000,000	₱300,000,000
Additions	-	-	3,000,000	300,000,000
Balance at end of year	<b>6,000,000</b>	<b>₱600,000,000</b>	6,000,000	₱600,000,000
<b>Issued and outstanding</b>				
Balance at beginning of year	<b>3,566,876</b>	<b>₱356,687,600</b>	2,816,876	₱281,687,600
Stock dividends	-	-	750,000	75,000,000
Balance at end of year	<b>3,566,876</b>	<b>₱356,687,600</b>	3,566,876	₱356,687,600

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, 2021 and 2020, the Company's retained earnings amounting to ₱603.2 million and ₱429.5 million, respectively, is in excess of its paid-up capital. The retention of excess retained earnings is mainly due to the requirements to the IC for minimum statutory net worth for which the Company has to complied with (see Note 25).

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

Gross premiums earned on insurance contracts follow:

	Note	2021	2020
Gross premiums on insurance contracts:			
Direct insurance		<b>₱597,449,707</b>	₱503,088,534
Assumed reinsurance		<b>3,348,233</b>	4,578,587
Total gross premiums on insurance contracts		<b>600,797,940</b>	507,667,121
Gross change in provision for unearned premiums		<b>(31,062,105)</b>	13,629,382
Gross premiums earned	13	<b>₱569,735,835</b>	₱521,296,503

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

	Note	2021	2020
Reinsurers' share of gross premiums on direct insurance contracts		<b>₱126,225,130</b>	₱113,327,171
Reinsurers' share of gross change in provision for unearned premiums		<b>(4,555,292)</b>	2,069,221
Reinsurer's share of gross premiums earned	13	<b>₱121,669,838</b>	₱115,396,392

## 19. Net Insurance Benefits and Claims

This account consists of:

	2021	2020
Gross insurance contract benefits and claims	<b>₱56,946,059</b>	₱63,702,043
Reinsurers' share of gross insurance contract benefits and claims	<b>(3,389,991)</b>	(4,298,326)
<b>Net insurance benefits and claims</b>	<b>₱53,556,068</b>	₱59,403,717

Gross insurance contract benefits and claims consist of the following:

	Note	2021	2020
Insurance contract benefits and claims paid		<b>₱40,788,365</b>	₱59,745,821
Gross change in:			
Claims payable		<b>15,398,199</b>	6,446,813
Provision for IBNR	13	<b>759,495</b>	(2,490,591)
<b>Gross insurance contract benefits and claims</b>		<b>₱56,946,059</b>	₱63,702,043

Reinsurers' share of gross insurance contract benefits and claims:

	Note	2021	2020
Reinsurers' share of gross insurance contract benefits and claims on direct insurance contracts		<b>₱3,230,504</b>	₱2,041,061
Reinsurers' share of gross change in:			
Claims payable		<b>(2,042,686)</b>	1,914,088
Provision for IBNR	13	<b>2,202,173</b>	343,177
<b>Reinsurer's share of gross insurance contract benefits and claims</b>		<b>₱3,389,991</b>	₱4,298,326

## 20. Operating Expenses

This account consists of:

	Note	2021	2020
Salaries and employee benefits		<b>₱76,206,782</b>	₱69,871,899
Rent	24	<b>18,420,172</b>	16,675,256
Depreciation and amortization	11	<b>9,927,652</b>	9,884,055
Net retirement benefit	22	<b>7,037,021</b>	5,562,253
Professional fees		<b>6,202,753</b>	5,909,811
Printing and office supplies		<b>2,451,947</b>	2,849,462
Taxes, licenses and fees		<b>2,098,078</b>	2,412,585
Outside services		<b>1,813,559</b>	2,154,806
Communication and postage		<b>1,701,501</b>	2,049,223
Directors' fees	16	<b>1,620,000</b>	1,310,000
Repairs and maintenance		<b>1,224,779</b>	1,972,330

(Forward)



	2021	2020
Light and water	<b>₱1,122,860</b>	₱1,429,439
Transportation and travel	<b>976,891</b>	1,333,138
Association dues	<b>890,199</b>	1,078,794
Professional and technical development	<b>851,151</b>	893,003
Entertainment, amusement and recreation	<b>520,161</b>	1,183,981
Insurance	<b>297,995</b>	290,905
Advertising	<b>172,745</b>	217,555
Donation and contributions	<b>149,500</b>	70,000
Others	<b>1,267,078</b>	2,606,833
	<b>₱134,952,824</b>	₱129,755,328

## 21. Investment and Other Underwriting Income

Investment and other income consists of:

	Note	2021	2020
Interest income:			
HTM investments	7	<b>₱15,166,980</b>	₱13,033,916
Short-term investments	5	<b>4,928,881</b>	4,930,561
Receivable from employees	6	<b>652,605</b>	618,818
Cash	4	<b>154,151</b>	424,843
Gain (loss) on sale of:			
Investment properties	10	<b>7,748,382</b>	7,762,318
AFS investments	7	<b>5,826,253</b>	(77,951)
Investments in FVPL	7	<b>(151,352)</b>	-
Property and equipment	11	<b>100,000</b>	(55,882)
Dividend income:			
Investments at FVPL	7	<b>2,649,821</b>	1,654,555
AFS investments	7	<b>1,792,662</b>	757,138
Unrealized fair value gain on investments at FVPL	7	<b>413,176</b>	56,362
		<b>₱39,281,559</b>	₱29,104,678

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 ₱32.0 million and ₱21.0 million in 2021 and 2020, respectively.

## 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 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, 2021.

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

	2021	2020
Current service cost	P <b>7,712,223</b>	P6,422,444
Net interest benefit	<b>(675,202)</b>	(860,191)
	<b>P7,037,021</b>	P5,562,253

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

	2021	2020
Fair value of retirement plan assets	P <b>99,959,446</b>	P92,662,085
Present value of defined benefit obligations	<b>(85,593,481)</b>	(75,782,029)
	<b>P14,365,965</b>	P16,880,056

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

	2021	2020
Balance at beginning of year	P <b>92,662,085</b>	P80,564,547
Contributions	<b>9,180,000</b>	6,095,000
Interest income	<b>3,706,483</b>	4,350,486
Benefits paid	-	(3,101,851)
Remeasurement gain (loss) on plan assets	<b>(5,589,122)</b>	4,753,903
Balance at end of year	<b>P99,959,446</b>	P92,662,085

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

	2021	2020
Balance at beginning of year	P <b>75,782,029</b>	P64,635,093
Current service cost	<b>7,712,223</b>	6,422,444
Interest cost	<b>3,031,281</b>	3,490,295
Benefits paid	-	(3,101,851)
Remeasurement loss (gain) on defined benefits obligation	<b>(932,052)</b>	4,336,048
Balance at end of year	<b>P85,593,481</b>	P75,782,029

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

	<b>2021</b>		
	<b>Cumulative Remeasurement Loss</b>	<b>Deferred Tax (Note 23)</b>	<b>Net</b>
Balance at beginning of year	<b>(P16,150,967)</b>	<b>(P4,845,290)</b>	<b>(P11,305,677)</b>
Impact of change in statutory tax rates	-	<b>807,549</b>	<b>(807,549)</b>
Remeasurement loss	<b>(4,657,070)</b>	<b>(1,164,268)</b>	<b>(3,492,802)</b>
Balance at end of year	<b>(P20,808,037)</b>	<b>(P5,202,009)</b>	<b>(P15,606,028)</b>

	<b>2020</b>		
	<b>Cumulative Remeasurement Loss</b>	<b>Deferred Tax (Note 23)</b>	<b>Net</b>
Balance at beginning of year	<b>(P16,568,822)</b>	<b>(P4,970,647)</b>	<b>(P11,598,175)</b>
Remeasurement gain	<b>417,855</b>	<b>125,357</b>	<b>292,498</b>
Balance at end of year	<b>(P16,150,967)</b>	<b>(P4,845,290)</b>	<b>(P11,305,677)</b>

Expected contribution of the Company in 2022 amounted to P9.0 million.

The major categories of plan assets as at December 31, 2021 and 2020 are as follows:

	<b>2021</b>	<b>2020</b>
Fixed income securities	<b>90%</b>	99%
Cash	<b>9%</b>	-
Other assets	<b>1%</b>	1%
	<b>100%</b>	100%

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:

	<b>2021</b>	2020
Discount rates	<b>5.1%</b>	4.0%
Salary increase rate	<b>8.0%</b>	8.0%

Sensitivity analysis based on reasonably possible changes of the assumptions on present value of defined benefit obligation as at December 31, 2021 are as follows:

	Change in Assumption	Effect on Present Value of Defined Benefit Obligation	Present Value of Defined Benefit Obligation
Discount rate	+1.0%	(P5,759,494)	P79,833,987
	-1.0%	6,912,292	92,505,773
Salary increase rate	+1.0%	P6,273,379	P91,866,860
	-1.0%	(5,358,972)	80,234,509

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	P47,766,529
Between six and ten years	32,135,968
Between ten to 15 years	49,958,639
Over 15 years	353,462,555
	<b>P483,323,691</b>

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

### 23. Income Taxes

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 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 MCIT was changed from 2% to 1% of gross income for a period of three years. The changes in the income tax rates shall retrospectively become effective beginning July 1, 2020.

The approval of the law is considered a non-adjusting event for financial reporting in 2020. The impact of change in statutory income tax rate is recognized in profit or loss in 2021.

The income tax rates used in preparing the financial statements are 25% and 1% for RCIT and MCIT, respectively, in 2021 and 30% and 2% for RCIT and MCIT, respectively, in 2020. The Company’s provision for current tax pertains to RCIT in 2021 and 2020.

The provision for (benefit from) income tax as reported in the statements of comprehensive income is composed of the following:

	2021	2020
Current tax:		
Provision for current tax of current period	<b>₱42,585,828</b>	₱37,524,854
Adjustment for current tax of prior period	<b>(3,127,072)</b>	-
	<b>39,458,756</b>	37,524,854
Final tax:	<b>4,050,128</b>	3,677,864
Deferred tax:		
Movement in deferred taxes	<b>2,237,601</b>	1,583,395
Impact of change in statutory income tax rate	<b>(2,541,829)</b>	-
	<b>(304,228)</b>	1,583,395
	<b>₱43,204,656</b>	₱42,786,113

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

	2021	2020
Deferred tax assets on:		
Unamortized past service cost	<b>₱4,183,412</b>	₱5,621,745
Provision for IBNR losses	<b>3,470,006</b>	4,596,810
Deferred reinsurance commissions	<b>1,490,143</b>	1,667,978
Allowance for doubtful accounts	<b>53,196</b>	63,835
Lease liability in excess of ROU asset	-	16,132
	<b>9,196,757</b>	11,966,500
Deferred tax liabilities on:		
Deferred acquisition costs	<b>15,350,003</b>	17,308,167
Net retirement asset	<b>3,591,491</b>	5,064,017
	<b>18,941,494</b>	22,372,184
Net deferred tax liabilities	<b>(₱9,744,737)</b>	(₱10,405,684)

The components of deferred tax expense (benefit) are presented as follows:

	2021	2020
In profit or loss	<b>(₱304,228)</b>	₱1,583,395
In OCI	<b>(356,719)</b>	125,357
	<b>(₱660,947)</b>	₱1,708,752

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:

	2021	2020
Income tax expense at statutory income tax rate	<b>₱54,214,759</b>	₱47,338,496
Impact of change in statutory tax rates on:		
Current tax	<b>(3,127,072)</b>	-
Deferred tax	<b>(2,541,829)</b>	-
Income tax effects of:		
Income already subjected to capital gains tax	<b>(1,937,096)</b>	(2,311,931)
Dividend income exempt from income tax	<b>(1,110,621)</b>	(723,508)
Difference of final tax rate against statutory tax rate	<b>(1,012,375)</b>	(1,838,932)
Other nontaxable investment income	<b>(1,522,020)</b>	(16,909)
Other nondeductible investment expenses	<b>240,910</b>	338,897
	<b>₱43,204,656</b>	₱42,786,113

## 24. Commitments and Contingencies

### Lease Commitments

The Company, as a lessee, has entered into lease agreements covering its office spaces and service centers used in its operations with lease terms ranging from one to three years. The Company assessed its lease commitments by class of underlying asset and assessed the contract renewals as short-term leases. The Company applies the “short-term lease” recognition exemptions under PFRS 16 for these leases.

The movements of lease liabilities are as follows:

	2021	2020
Balance as at beginning of year	<b>₱616,578</b>	₱1,954,825
Interest expense	<b>21,309</b>	79,884
Payments	<b>(637,887)</b>	(1,418,131)
Balance at end of year	<b>₱-</b>	₱616,578

The following are the amounts recognized in profit or loss:

	Note	2021	2020
Rent expense on short-term lease	20	<b>₱18,420,172</b>	₱16,675,256
Amortization expense of right-of-use assets	11	<b>562,806</b>	1,363,173
Interest expense on lease liabilities		<b>21,309</b>	79,884
		<b>₱19,004,287</b>	₱18,118,313

### 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.

## 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.

	2021		Net
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	
<b>Motor</b>	<b>₱25,079,611</b>	<b>₱279,821</b>	<b>₱24,799,790</b>
<b>Fire</b>	<b>6,180,000</b>	<b>–</b>	<b>6,180,000</b>
<b>Casualty</b>	<b>2,086,161</b>	<b>17,481</b>	<b>2,068,680</b>
	<b>₱33,345,772</b>	<b>₱297,302</b>	<b>₱33,048,470</b>

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

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 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 output VAT) 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, 2021 and 2020.

	<b>2021</b>	2020
Cash in banks	<b>₱55,257,063</b>	₱87,260,008
Short-term investments	<b>426,152,389</b>	298,600,064
Insurance and other receivables	<b>130,034,285</b>	148,429,548
HTM investments	<b>441,263,609</b>	286,338,431
	<b>₱1,052,707,346</b>	₱820,628,051

The tables below show the credit quality of financial assets as at December 31, 2021 and 2020.

	2021							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	₱55,257,063	P-	P-	P-	P-	P-	P-	₱55,257,063
Short-term investments	426,152,389	-	-	-	-	-	-	426,152,389
Insurance and other receivables	50,947,816	29,984,483	22,281,662	-	25,488,071	1,332,253	-	130,034,285
HTM investments	441,263,609	-	-	-	-	-	-	441,263,609
	<b>₱1,052,707,346</b>	<b>₱29,984,483</b>	<b>₱22,281,662</b>	<b>P-</b>	<b>₱25,488,071</b>	<b>₱1,332,253</b>	<b>P-</b>	<b>₱1,052,707,346</b>



	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	₱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>

Cash in banks 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:

	2021				Total
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	
Insurance payables	<b>₱22,667,865</b>	₱-	₱-	₱-	<b>₱22,667,865</b>
Accounts and other payables*	<b>64,912,958</b>	-	-	-	<b>64,912,958</b>
	<b>₱87,580,823</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱87,580,823</b>

\*excluding payables to government agencies and deferred output VAT aggregating to ₱27.2 million.

	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
	<b>₱63,099,067</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱63,099,067</b>

\*excluding payables to government agencies and deferred output VAT aggregating to ₱24.6 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 2021 and 2020.

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, 2021 and the actual admitted assets as at December 31, 2020 follows:

	<b>2021 (Estimated)</b>	<b>2020 (Actual)</b>
Total assets	<b>₱1,451,632,865</b>	₱1,197,762,616
Additional admitted assets from increase in fair value of investment properties	<b>939,394,007</b>	717,935,089
Non admitted assets	<b>(22,726,582)</b>	(39,477,715)
Total admitted assets	<b>₱2,368,300,290</b>	₱1,876,219,990

Details of the Company's admitted assets follow:

	<b>2021 (Estimated)</b>	<b>2020 (Actual)</b>
Cash*	<b>₱70,323,027</b>	₱104,830,007
Short-term investments	<b>426,152,389</b>	298,600,065
Insurance and other receivables	<b>134,292,181</b>	143,020,307
Financial asset investments	<b>562,913,088</b>	389,530,341
Investment properties	<b>1,074,893,000</b>	851,901,346
Property and equipment	<b>11,394,314</b>	8,267,045
Deferred acquisition costs	<b>61,400,010</b>	57,693,890
Deferred reinsurance premiums	<b>26,883,842</b>	22,328,550
Other assets	<b>48,439</b>	48,439
	<b>₱2,368,300,290</b>	₱1,876,219,990

\*includes net retirement asset amounting to ₱14.4 million and ₱16.9 million in 2021 and 2020, respectively.

The Company's estimated net worth as at December 31, 2021 and the actual net worth as at December 31, 2020 based on the examination of IC follows:

	<b>2021 (Estimated)</b>	2020 (Actual)
Total admitted assets	<b>₱2,368,300,290</b>	₱1,876,219,990
Total liabilities	<b>502,227,061</b>	423,178,339
Net worth	<b>1,866,073,229</b>	1,453,041,651
Less: Net worth requirements	<b>900,000,000</b>	900,000,000
Excess over net worth requirement	<b>₱966,073,229</b>	₱553,041,651

As at December 31, 2021 and 2020, 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, 2021 and 2020 was determined by the Company based on its internal calculations:

	<b>2021</b>	2020
Total available capital	<b>₱1,398,194,898</b>	₱1,113,196,148
RBC requirement	<b>311,264,309</b>	255,840,771
RBC ratio	<b>449%</b>	435%

The final amount of the RBC ratio as at December 31, 2021 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 75th 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, 2021 and 2020:

	2021		2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash in banks	<b>₱55,257,063</b>	<b>₱55,257,063</b>	₱87,260,008	₱87,260,008
Short-term investments	<b>426,152,389</b>	<b>426,152,389</b>	298,600,064	298,600,064
Insurance and other receivables	<b>130,034,285</b>	<b>130,034,285</b>	148,429,548	148,429,548
HTM investments	<b>441,263,609</b>	<b>443,637,013</b>	286,338,431	305,255,185
AFS investments	<b>66,510,086</b>	<b>66,510,086</b>	27,323,380	27,323,380
Investments at FVPL	<b>55,139,393</b>	<b>55,139,393</b>	75,816,819	75,816,819
	<b>₱1,174,356,825</b>	<b>₱1,176,730,229</b>	₱923,768,250	₱942,685,004
<b>Financial Liabilities</b>				
Accounts and other payables*	<b>₱64,912,958</b>	<b>₱64,912,958</b>	₱31,724,577	₱31,724,577
Premiums due to reinsurers	<b>22,667,865</b>	<b>22,667,865</b>	30,757,912	30,757,912
Lease liability	—	—	2,726,572	2,726,572
	<b>₱87,580,823</b>	<b>₱87,580,823</b>	₱65,209,061	₱65,209,061

\*excluding deferred output VAT and payables to government agencies aggregating to ₱27.2 million and ₱24.6 million in 2021 and 2020

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

*HTM investments.* The fair values of HTM investments were determined based on Level 2 in which the inputs are based on the discounted interest rate of the prevailing comparable instrument in the market. The discount rates used in determining the fair value of the Company's HTM investments ranges from 1.01% to 4.64% in 2021, and 0.46% to 3.68% in 2020.

*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.

### **Fair Value Hierarchy**

For the year ended December 31, 2021 and 2020, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.



**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE  
SECURITIES AND EXCHANGE COMMISSION**

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 Liberty Insurance Corporation (the Company) as at and for the years then ended December 31, 2021 and 2020, on which we have rendered our report dated March 30, 2022.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Company has 72 stockholders owning one hundred or more shares each.

**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 April 13, 2024

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. 8851713

Issued January 3, 2022, Makati City

March 30, 2022

Makati City, Metro Manila

BUREAU OF INTERNAL REVENUE  
LARGE TAXPAYERS SERVICE  
LARGE TAXPAYERS ASSISTANCE DIVISION

Date **MAY 16 2022** TSIS

**RECEIVED**  
RHEA ARAGON



**REPORT OF INDEPENDENT AUDITORS  
ON SUPPLEMENTARY SCHEDULES OF  
RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION**

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, in accordance with Philippine Standards on Auditing, the basic financial statements of Liberty Insurance Corporation as at and for the year ended December 31, 2021, and have issued our report thereon dated March 30, 2022. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Supplementary Schedule of Retained Earnings Available for Dividend Declaration as at December 31, 2021 is the responsibility of the Company's management.

This schedule is presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein 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 April 13, 2024  
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March 30, 2022  
Makati City, Metro Manila

BUREAU OF INTERNAL REVENUE  
LARGE TAXPAYERS SERVICE  
LARGE TAXPAYERS ASSISTANCE DIVISION

Date **MAY 16 2022** TSIS

**RECEIVED**  
RHEA ARAGON

**LIBERTY INSURANCE CORPORATION**  
**SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**  
**DECEMBER 31, 2021**

<b>Retained Earnings as at beginning of year</b>		<b>₱429,518,198</b>
<b>Less: Non-actual/unrealized income</b>		
Deferred tax assets as at beginning of year	(₱11,966,500)	
Cumulative unrealized fair value gains on investments at FVPL as at beginning of year	(1,222,133)	(13,188,633)
<hr/>		
<b>Retained Earnings, available for dividend declaration as at beginning of year</b>		<b>416,329,565</b>
<b>Add: Net income actually earned/realized during the year</b>		
Net income earned during the year	₱173,654,378	
Movement in deferred tax assets	2,769,743	
Unrealized fair value gains on investments at FVPL	427,426	176,851,547
<hr/>		
<b>Retained Earnings, available for dividend declaration as at end of year</b>		<b>₱593,181,112</b>
<hr/>		

BUREAU OF INTERNAL REVENUE  
LARGE TAXPAYERS SERVICE  
LARGE TAXPAYERS ASSISTANCE DIVISION

Date **MAY 16 2022** TSIS

**RECEIVED**  
RHEA ARAGON