



## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Charter Ping An 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, 2020 and 2019, 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 Charter Ping An Insurance Corporation'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 Charter Ping An Insurance Corporation or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing Charter Ping An Insurance Corporation'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.

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of Charter Ping An Insurance Corporation in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit.

Solomon S. Cua  
Chairman of the Board

Rahul Hora  
President and Chief Executive Officer

Gael Georges Ann Lapie  
Chief Financial Officer

Signed this 5th day of April 2021

### CHARTER PING AN INSURANCE CORPORATION

Under the trade name AXA Philippines

29th Floor GT Tower International, 6813 Ayala Ave. cor. H.V. Dela Costa St., Makati City, Philippines 1227

Customer Care Hotline +63 2 5815 292 • [customer.service@axa.com.ph](mailto:customer.service@axa.com.ph) • [www.axa.com.ph](http://www.axa.com.ph)

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AFTER THE BIR HAS DULY  
STAMPED "RECEIVED."

# COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

1 7 0 8 5

## COMPANY NAME

C H A R T E R P I N G A N I N S U R A N C E  
C O R P O R A T I O N ( A W h o l l y O w n e d  
S u b s i d i a r y o f P h i l i p p i n e A X A  
L i f e I n s u r a n c e C o r p o r a t i o n )

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

2 9 t h F l o o r , G T T o w e r  
I n t e r n a t i o n a l , 6 8 1 3 A y a l a  
A v e n u e , M a k a t i C i t y

Form Type

A A F S

Department requiring the report

S E C

Secondary License Type, If Applicable

## COMPANY INFORMATION

Company's Email Address

www.axa.com.ph

Company's Telephone Number

580-6800

Mobile Number

N/A

No. of Stockholders

8

Annual Meeting (Month / Day)

Any day in April

Fiscal Year (Month / Day)

12/31

## CONTACT PERSON INFORMATION

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

Name of Contact Person

Wendy T. Saez Co

Email Address

wendy.saez-co@axa.com.ph

Telephone Number/s

885-0101

Mobile Number

N/A

## CONTACT PERSON'S ADDRESS

29th Floor, GT Tower International, 6813 Ayala Avenue, Makati City

**NOTE 1:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

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



## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders  
Charter Ping An Insurance Corporation  
29th Floor, GT Tower International,  
6813 Ayala Avenue,  
Makati City

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Charter Ping An Insurance Corporation (the Company), which comprise the statements of financial position as at December 31, 2020 and 2019, 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 accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

#### Basis for Opinion

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

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

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

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

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



## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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



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

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

SYCIP GORRES VELAYO & CO.



Juan Carlo B. Maminta

Partner

CPA Certificate No. 115260

Accreditation No. 115260-SEC (Group A)

Valid to cover audit of 2020 to 2024

financial statements of SEC covered institutions

Tax Identification No. 210-320-399

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

November 27, 2020, valid until November 26, 2023

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

April 28, 2021



# CHARTER PING AN INSURANCE CORPORATION

## STATEMENTS OF FINANCIAL POSITION

		December 31	
	Notes	2020	2019
<b>ASSETS</b>			
Cash and cash equivalents	4	<b>¥1,502,771,985</b>	¥1,088,028,023
Short-term investments	4	—	38,000,000
Insurance receivables - net	5	<b>1,755,988,754</b>	2,133,137,213
Financial assets	6		
Available-for-sale financial assets		<b>4,456,999,018</b>	5,165,905,601
Loans and receivables - net		<b>76,336,389</b>	69,652,738
Reinsurance assets	7, 12	<b>2,803,928,874</b>	3,304,746,881
Deferred acquisition costs	8	<b>413,482,499</b>	644,298,629
Property and equipment - net	9	<b>65,075,828</b>	121,157,408
Assets held for sale	10	<b>67,465,675</b>	78,023,000
Net deferred tax assets	22	<b>269,718,492</b>	283,112,061
Right-of-use assets	24	<b>44,095,521</b>	59,685,466
Other assets	11	<b>148,661,133</b>	193,964,387
<b>TOTAL ASSETS</b>		<b>¥11,604,524,168</b>	¥13,179,711,407
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Insurance contract liabilities	12	<b>¥6,439,101,188</b>	¥7,940,915,877
Insurance payables	13	<b>252,695,130</b>	468,013,029
Accounts payable and accrued expenses	14	<b>1,924,935,464</b>	1,880,519,018
Income tax payable		<b>15,647,943</b>	2,646,328
Deferred reinsurance commissions	8	<b>84,309,686</b>	122,123,556
Lease liability	24	<b>48,630,043</b>	65,784,939
Net retirement benefit obligation	21	<b>9,988,991</b>	68,129,401
<b>Total Liabilities</b>		<b>8,775,308,445</b>	10,548,132,148
<b>Equity</b>			
Capital stock	15	<b>512,500,000</b>	512,500,000
Contingency surplus	15	<b>3,270,000,000</b>	3,270,000,000
Additional paid-in capital		<b>6,634,245</b>	6,634,245
Revaluation reserve on:			
Available-for-sale financial assets	6	<b>81,085,778</b>	3,107,531
Property and equipment	9	<b>55,533,695</b>	96,980,228
Remeasurement loss on defined benefit obligation	21	<b>(575,283)</b>	(50,053,867)
Deficit		<b>(1,095,962,712)</b>	(1,207,588,878)
<b>Total Equity</b>		<b>2,829,215,723</b>	2,631,579,259
<b>TOTAL LIABILITIES AND EQUITY</b>	Date	<b>¥11,604,524,168</b>	¥13,179,711,407

See accompanying Notes to Financial Statements.





# CHARTER PING AN INSURANCE CORPORATION

## STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31	
	Notes	2020	2019
Gross earned premiums on insurance contracts		₱4,698,813,347	₱5,540,235,220
Reinsurers' share of gross earned premiums on insurance contracts		(1,409,661,271)	(1,923,563,333)
<b>Net insurance earned premiums</b>	12, 16	<b>3,289,152,076</b>	<b>3,616,671,887</b>
Commission income	8	150,040,239	217,178,638
Interest income	17	202,428,341	188,025,465
Gain on sale of property and equipment	9	17,820,194	—
Gain on sale of available-for-sale financial assets	6	451,264	122,945,644
Dividend income	17	1,571,758	3,673,268
Other income - net	17	7,028,738	—
<b>Other income</b>		<b>379,340,534</b>	<b>531,823,015</b>
<b>Total income</b>		<b>3,668,492,610</b>	<b>4,148,494,902</b>
Gross insurance contract benefits and claims paid		2,743,973,969	2,931,847,113
Reinsurers' share of gross insurance contract benefits and claims paid		(944,202,674)	(770,078,955)
Gross change in insurance contract liabilities		(694,541,843)	129,030,938
Reinsurers' share of gross change in insurance contract liabilities		343,556,669	460,659,404
<b>Net insurance benefits and claims</b>	12, 18	<b>1,448,786,121</b>	<b>2,751,458,500</b>
Operating expenses	19	1,221,824,636	1,504,594,706
Commission expense	8	884,527,503	726,638,798
Interest on lease liability	24	5,504,611	7,201,261
Interest on defined benefit obligation	21	2,923,222	1,626,243
Interest on funds held for reinsurers	13	39,080	24,921
Other expense - net	17	—	7,444,970
<b>Other expenses</b>		<b>2,114,819,052</b>	<b>2,247,530,899</b>
<b>Total benefits, claims and other expenses</b>		<b>3,563,605,173</b>	<b>4,998,989,399</b>
<b>Income (loss) before income tax</b>		<b>104,887,437</b>	<b>(850,494,497)</b>
Current		54,420,889	54,762,329
Deferred		(19,713,085)	(40,195,720)
<b>Benefit from income tax</b>	22	<b>34,707,804</b>	<b>14,566,609</b>
<b>NET INCOME (LOSS)</b>		<b>70,179,633</b>	<b>(865,061,106)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<i>Item that will be reclassified into profit or loss subsequent periods:</i>			
Unrealized fair value gains (losses) on available-for-sale financial assets, net of tax effect	6	78,429,511	195,775,559
Fair value gain on available-for-sale financial assets transferred to profit or loss	6	(451,264)	(122,945,644)
<i>Items that will not be reclassified into profit or loss in subsequent periods:</i>			
Remeasurement (losses) gains on defined benefit obligation, net of tax effect	21	49,478,584	(23,196,755)
Total other comprehensive income (loss)		127,456,831	49,633,160
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		<b>₱197,636,464</b>	<b>(₱815,427,946)</b>

See accompanying Notes to Financial Statements.

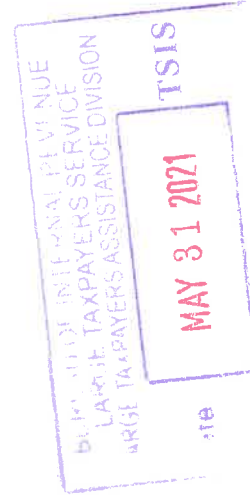


# CHARTER PING AN INSURANCE CORPORATION

## STATEMENTS OF CHANGES IN EQUITY

	Revaluation Reserves					Total		
	Capital stock (Note 15)	Contingency surplus (Note 15)	Additional paid-in capital	Available-for-sale financial assets (Note 6)	Property and equipment (Note 9)		Remeasurement loss on defined benefit obligation (Note 21)	Retained earnings (deficit)
As of January 1, 2020	₱512,500,000	₱3,270,000,000	₱6,634,245	₱3,107,531	₱96,980,228	(₱50,053,867)	(₱1,207,588,878)	₱2,631,579,259
Disposal of property during the year	—	—	—	—	(41,446,533)	—	41,446,533	—
Net income for the year	₱512,500,000	₱3,270,000,000	₱6,634,245	₱3,107,531	₱55,533,695	(₱50,053,867)	(₱1,166,142,345)	₱2,631,579,259
Other comprehensive income	—	—	—	—	—	—	70,179,633	70,179,633
Total comprehensive income	—	—	—	77,978,247	—	49,478,584	—	127,456,831
As of December 31, 2020	₱512,500,000	₱3,270,000,000	₱6,634,245	₱81,085,778	₱55,533,695	(₱575,283)	(₱1,095,962,712)	₱2,829,215,723
As of January 1, 2019	₱512,500,000	₱1,800,000,000	₱6,634,245	(₱69,722,384)	₱96,980,228	(₱26,857,112)	(₱342,527,772)	₱1,977,007,205
Capital contribution during the year	—	1,470,000,000	—	—	—	—	—	1,470,000,000
Net loss for the year	512,500,000	3,270,000,000	6,634,245	(69,722,384)	96,980,228	(26,857,112)	(342,527,772)	3,447,007,205
Other comprehensive income (loss)	—	—	—	—	—	—	(865,061,106)	(865,061,106)
Total comprehensive income (loss)	—	—	—	72,829,915	—	(23,196,755)	—	49,633,160
As of December 31, 2019	₱512,500,000	₱3,270,000,000	₱6,634,245	₱3,107,531	₱96,980,228	(₱50,053,867)	(₱1,207,588,878)	₱2,631,579,259

See accompanying Notes to Financial Statements.



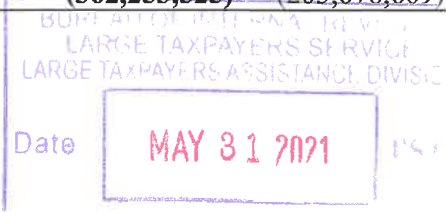


# CHARTER PING AN INSURANCE CORPORATION

## STATEMENTS OF CASH FLOWS

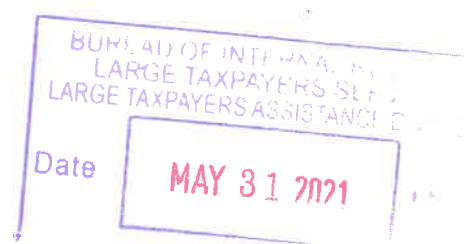
		Years Ended December 31	
	Notes	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income (loss) before income tax		<b>¥104,887,437</b>	(¥850,494,499)
Adjustments for:			
Interest income	17	<b>(202,428,341)</b>	(188,025,465)
Depreciation and amortization	19	<b>76,126,643</b>	236,503,302
Impairment losses on insurance receivables and reinsurance assets - net	19	<b>35,872,447</b>	404,606,809
Retirement expense	20, 21	<b>29,270,794</b>	8,620,571
Loss (gain) on sale of property and equipment	9, 17	<b>(17,820,194)</b>	220,386
Interest on lease liability	24	<b>5,504,611</b>	7,201,261
Interest on defined benefit obligation	21	<b>2,923,222</b>	1,626,243
Dividend income	17	<b>(1,571,758)</b>	(3,673,268)
Unrealized foreign exchange (gain) loss	17	<b>(682,397)</b>	2,915,668
Gain on sale of available-for-sale financial assets	6	<b>(451,264)</b>	(122,945,644)
Interest on funds held for reinsurer	13	<b>39,080</b>	24,921
Operating loss before working capital changes		<b>31,670,280</b>	(503,419,715)
Decrease (increase) in:			
Reinsurance assets		<b>500,818,007</b>	592,303,467
Insurance receivables		<b>341,276,013</b>	340,291,426
Deferred acquisition costs		<b>230,816,130</b>	(43,346,030)
Short-term investments		<b>38,000,000</b>	(35,000,000)
Assets held for sale		<b>10,557,325</b>	(23,211,000)
Loans and receivables		<b>(7,379,837)</b>	18,290,220
Other assets		<b>45,303,254</b>	(16,036,049)
Increase (decrease) in:			
Insurance contract liabilities		<b>(1,501,814,689)</b>	(5,776,404)
Insurance payables		<b>(215,317,899)</b>	(289,665,629)
Deferred reinsurance commissions		<b>(37,813,870)</b>	(15,712,671)
Accounts payable and accrued expenses		<b>44,416,446</b>	(306,553,670)
Net cash used in operations		<b>(519,468,840)</b>	(287,836,055)
Interest received		<b>222,257,257</b>	186,301,027
Interest paid on funds held for reinsurer		<b>(39,080)</b>	(24,921)
Interest paid on lease liability	24	<b>(5,504,611)</b>	(7,201,261)
Dividends received		<b>1,571,758</b>	3,673,268
Contributions paid to the pension fund	21	<b>(19,650,735)</b>	(33,161,379)
Income tax paid		<b>(41,419,274)</b>	(65,429,288)
Net cash used in operating activities		<b>(362,253,525)</b>	(203,678,609)

(Forward)



		Years Ended December 31	
	Notes	2020	2019
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale/maturities of:			
Available-for-sale financial assets	6	₱2,192,245,265	₱1,329,464,463
Property and equipment	9	17,831,250	169,999
Acquisition of:			
Available-for-sale financial assets	6	(1,407,299,610)	(2,414,729,967)
Property and equipment	9	(947,682)	(55,179,511)
Net cash provided by (used in) investing activities		801,829,223	(1,140,275,016)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Contingency surplus contribution	15	—	1,470,000,000
Payment of principal portion of lease liabilities	24	(25,514,133)	(21,613,381)
Net cash provided by (used in) financing activities		(25,514,133)	1,448,386,619
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>414,061,565</b>	<b>104,432,994</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>1,088,028,023</b>	<b>986,510,697</b>
<b>EFFECTS OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS</b>		<b>682,397</b>	<b>(2,915,668)</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>4</b>	<b>₱1,502,771,985</b>	<b>₱1,088,028,023</b>

See accompanying Notes to Financial Statements.



# CHARTER PING AN INSURANCE CORPORATION

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## NOTES TO FINANCIAL STATEMENTS

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### 1. Corporate information

Charter Ping An Insurance Corporation (the Company) was incorporated in the Philippines on June 21, 1960. On September 14, 2009, the Philippine Securities and Exchange Commission (SEC) granted the Company's extension of its corporate life for another 50 years.

Philippine AXA Life Insurance Corporation (AXA Philippines or Parent Company) acquired effective control and management of the Company on April 4, 2016. With this, the operations of the two insurers will remain separate, and AXA Philippines became the parent of the Company.

The Company is presently engaged in the business of nonlife insurance which includes fire, motor car, marine hull, marine cargo, personal accident insurance and other products that are permitted to be sold by a nonlife insurance company in the Philippines.

The Company's registered office is at 29th Floor, GT Tower International, 6813 Ayala Avenue, Makati City.

The accompanying financial statements were approved and authorized for issue by the Board of Directors on April 28, 2021.

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### 2. Summary of significant accounting policies

#### Basis of Preparation

The accompanying financial statements have been prepared using the historical cost basis, except for available-for-sale (AFS) financial assets and certain property and equipment, which have been measured at fair value and assets held for sale which are measured at the lower of carrying amount and fair value less costs to sell. The company financial statements are presented in Philippine Peso (₱), which is also the Company's functional currency. All values are rounded off to the nearest peso except when otherwise stated.

#### Statement of Compliance

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

#### Changes in Accounting Policies and Disclosures

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

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

The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments may impact future periods should the Company enter into any business combinations.



- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*

The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

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

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

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

- Conceptual Framework for Financial Reporting issued on March 29, 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

- Amendments to PFRS 16, COVID-19-related Rent Concessions

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

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

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

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

The Company adopted the amendments beginning January 1, 2020 and have assessed that this had no impact on the financial statements of the Company.



#### Foreign Exchange Transactions

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

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

#### Product Classification

Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk, by comparing benefits paid with 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. Investment contracts mainly transfer financial risk but can also transfer insignificant insurance risk.

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

#### Fair Value Measurement

The Company measures financial instrument and non-financial assets such as property and equipment, at fair value at each reporting period. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 25.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.





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

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

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the 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.

#### Cash and Cash Equivalents

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

#### Short-term investments

Short-term investments are made for periods ranging more than three months up to twelve months and earn interest at the respective short-term investment rates.

#### Insurance Receivables

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

#### Financial Instruments

##### *Date of recognition*

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

##### *Initial recognition*

Financial instruments are initially recognized at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: held-to-maturity (HTM) investments, Available-For-Sale (AFS) financial assets, FVPL investments and loans and 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 investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every end of the reporting period.

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

#### *Day 1 difference*

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where an observable data is used, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held-for-trading, nor designated as AFS or FVPL. This accounting policy relates to the Company's statement of financial position captions: (a) "Cash and cash equivalents," (b) "Short-term investments," (c) "Insurance receivables" and (d) "Loans and receivables."

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less 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. The amortization is included in the "Interest income" in profit or loss. The losses arising from impairment of such loans and receivables are recognized in profit or loss.

#### *AFS financial assets*

AFS financial assets are those which are designated as such or do not qualify to be classified as designated at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. This includes government securities, equity investments, and other debt instruments.

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in profit or loss.

Interest earned on holding AFS debt investments are reported as interest income using the effective interest rate. Dividends earned on holding AFS equity investments are recognized in profit or loss when the right to receive the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS investments are reported as "Revaluation reserve on available-for-sale financial assets" in equity. The losses arising from impairment of such investments are recognized in profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as realized gains or losses in profit or loss. When the Company holds more than one investment in the same security, the cost is determined using the weighted average method.



When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost.

#### *Other financial liabilities*

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

This accounting policy applies primarily to the Company's provision for claims reported by policyholders, insurance payables and accounts payable and accrued expenses that meet the above definition (other than liabilities covered by other accounting standards, such as retirement benefit obligation and income tax payable).

#### Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt if it has a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual agreement. Interests, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income.

Distributions to holders of financial instrument classified as equity are charged directly to liabilities and equity, net of any related income tax benefits.

#### Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.



#### Impairment of Financial Assets

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

#### *Financial assets carried at amortized cost*

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against profit or loss. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The Company performs a regular review of the age and status of its loans and receivables, designed to identify receivables with objective evidence of impairment and provide the appropriate allowance for impairment loss. The review is accomplished using a combination of specific and collective assessment approaches, with the impairment loss being determined for each risk grouping identified by the Company

#### *AFS investments carried at fair value*

For equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of an investment below its cost or where other objective evidence of impairment exists. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) is removed from equity and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of



measuring impairment loss and is recorded as part of 'Interest income' account in profit or loss. If, in a subsequent period, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

#### *AFS investments carried at cost*

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

#### *Write-off policy*

The Company writes-off its financial assets when it has been established that all efforts to collect and recover the loss has been exhausted. This may include other party being insolvent, deceased or the obligation being unenforceable.

#### Derecognition of Financial Assets and 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 where:

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

When the Company has transferred its right to receive cash flows from an asset or has entered into a 'pass-through' arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Company could be required to repay.

##### *Financial liability*

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

#### Reinsurance

The Company cedes insurance risk in the normal course of business. 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 during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in profit or loss. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

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

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

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party. When the Company enters into a proportional treaty reinsurance agreement for ceding out its insurance business, the Company initially recognizes a liability at transaction price. Subsequent to initial recognition, the portion of the amount initially recognized as a liability which is presented as "Insurance payables" in the liabilities section of the statement of financial position will be withheld and recognized as "Funds held for reinsurers" and included as part of the "Insurance payables" in the liabilities section of the statement of financial position. The amount withheld is generally released after a year. Funds held by ceding companies is accounted for in the same manner.

#### Deferred Acquisition Costs (DAC)

Commissions 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.

Subsequent to initial recognition, these costs are amortized on a straight-line basis using the 24th method over the life of the contract. Amortization is charged against profit or loss. The unamortized acquisition costs are shown as "Deferred acquisition costs" in the assets section of the statement of financial position.

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

#### Property and Equipment

The Company's property and equipment consist of condominium units, office improvements, equipment and right-of-use assets. Property and equipment, except for condominium units, are stated at cost, net of accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow



to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged against profit or loss during the financial period in which they are incurred.

Depreciation and amortization are computed using the straight-line method over the estimated useful life of the assets. Office improvements are amortized over the estimated useful life of the improvements or the term of the related lease, whichever is shorter. The estimated useful lives of the different categories of property and equipment follow:

	Years
Building (including condominium units)	20
Transportation equipment	5
Office furniture, fixtures and equipment	5
Office improvements	5-8
Electronic data processing (EDP) equipment	3

The assets' residual values, useful lives and depreciation and amortization method are reviewed at each reporting date and adjusted if appropriate to ensure that the period, residual value and the method of depreciation and amortization are consistent with the expected pattern of consumption of future economic benefits embodied in the asset.

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in profit or loss in the year the asset is derecognized. This is not applicable to items that still have useful lives but are currently classified as idle. Depreciation continues for those items until fully depreciated or disposed.

Condominium units are measured at fair value less accumulated depreciation and impairment losses recognized at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

A revaluation surplus is recorded in OCI and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in the statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve.

The revaluation reserve on property and equipment will be transferred directly to retained earnings when the asset is derecognized, i.e., the whole of the reserve will be transferred to retained earnings when the condominium units is retired or disposed of. Transfers from revaluation reserve to retained earnings are not made through profit or loss.

#### Computer Software

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

Computer software is carried at cost less accumulated amortization. The Company revised the estimated useful life of its Computer Software with effect from October 1, 2019. Computer software cost is amortized over the expected useful life of the asset, but not to exceed five years. All computer software components are amortized over three (3) to five (5) years. Amortization commences when





the asset is available for use or when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Company.

#### Assets Held for Sale

The Company classifies assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

#### Impairment of Non-financial Assets

The Company assesses at each end of the reporting period whether there is an indication that an asset may be impaired. If any such indication exists or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

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

#### Insurance Contract Liabilities

Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.

#### *Provision for Unearned Premiums*

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



#### *Premium liabilities*

Premium liabilities is equal to the provision for unearned premiums plus the difference between the provision for unexpired risk and the provision for unearned premiums, net of deferred acquisition costs, if the provision for unexpired risk is greater than the provision for unearned premiums net of Deferred acquisition costs. Otherwise, it is equal to the provision for unearned premiums.

#### *Claims Provision and Incurred But Not Reported (IBNR) Losses*

These liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money and includes provision for IBNR losses. The IBNR is calculated at the reporting date using a range of actuarial projection techniques such as but not limited to the chain ladder method, expected loss ratio method and Bornheutter-Ferguson method. The liability is derecognized when the contract is discharged, cancelled or has expired.

Provision for claims IBNR pertains to amount provided for claim events that have occurred but have not been reported to the Company as of the reporting date. The provision for claims IBNR at each reporting date is calculated by an internal actuary and certified by an independent and accredited actuary by Insurance Commission (IC), using standard actuarial projection techniques (or combination of such techniques), including but not limited to the chain ladder method, the expected loss ratio approach, and the Bornhuetter-Ferguson method. The actuary determines the appropriateness of the method used by considering the characteristics of the Company's claims data and other factors such as maturity of the business, large losses arising from significant past events, operational changes in claims and underwriting processes and external conditions.

The Company shall include an MfAD to allow for inherent uncertainty of the best estimate of the policy reserves which shall be determined by an independent actuary at least on an annual basis based on standard projection techniques or combination of such techniques such as, but not limited to, the Mack Method, Bootstrapping Method, Stochastic Chain Ladder Method to bring the actuarial estimate of the policy liabilities at the 75% level of sufficiency.

Provision for claims handling expenses is also calculated by the actuary to cover estimated expenses of settling all claims, both reported and unreported, outstanding as of the reporting date.

Quarterly, an actuarial valuation is performed on the gross and net claims and premium liabilities to ensure that the reserves are in compliance with the Valuation Standards for Non-Life Insurance Policy Reserves as required by the IC guided by Sections 219 and 220 of the Amended Insurance Code (Republic Act (RA) No. 10607) along with Circular Letters No. 2018-18 and No. 2018-19. Additional reserves are set up if the result of the actuarial investigation shows that the existing balances are not in accordance with the mandate of IC.

#### *Provision for unexpired risk*

Provision for unexpired risk is the best estimate that relates to expected future claim payments and related expenses to be incurred after the valuation date, arising from future events. This shall be calculated as the best estimate of future claims and expenses for all classes of business, with MfAD.

#### *Liability adequacy test*

At each end of the reporting period, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities, net of the related DAC assets. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses are used. Changes



in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged to profit or loss by establishing an unexpired risk provision for losses arising from the liability adequacy tests. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

#### Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the control the use of an identified asset for a period of time in exchange for consideration.

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

#### *Right of use asset*

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

Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. All right of use assets are amortized over three (3) to five (5) years. Right-of-use assets are subject to impairment.

#### *Lease liability*

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

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. The accretion of interest is presented as 'Interest on lease liability' in the Company statement of comprehensive income.



*Short-term leases and leases of low-value asset*

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

*Company as a lessor*

Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income.

*Company as a lessee*

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Pension Cost

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit cost comprises the following:

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

Service cost includes current service cost, past service cost and gain or loss on non-routine settlements and is recognized as expense in profit or loss. Past service cost is recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or





expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

### Equity

#### *Capital stock*

Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to additional paid-in capital. Share issuance costs incurred as necessary part of completing an equity transaction are accounted for as part of that transaction and are treated as a deduction from additional paid-in capital from previous share issuance. If the additional paid-in capital account is not sufficient, the excess is deducted from retained earnings.

#### *Contingency surplus*

Contingency Surplus represents contributions of the stockholders to cover any unexpected deficiency in the Margin of Solvency (MOS) and Risk-Based Capital (RBC) as required under the Insurance Code and can be withdrawn upon the approval of the IC.

#### *Additional paid-in capital*

Additional paid-in capital includes any premiums received in excess of par value on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital.

#### *Retained earnings (Deficit)*

Retained earnings (deficit) include all the accumulated earnings (losses) of the Company, less any amount of dividends declared.

### Revenue Recognition

Revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Company concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized within the scope of PFRS 15.

#### *Other income*

Other income is recognized in the profit or loss as it accrues. This includes administrative fees and other underwriting income.



Revenues outside the scope of PFRS 15

*Premiums revenue*

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

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting period are accounted for as Provision for unearned premiums and shown as part of "Insurance contract liabilities" presented in the liabilities section of the statements of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at end of the reporting period are accounted for as Deferred reinsurance premiums and shown as part of "Reinsurance assets" in the statements of financial position. The net changes in these accounts between each end of reporting period are recognized in profit or loss.

*Reinsurance commissions*

Commissions earned from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24<sup>th</sup> method. The portion of the commissions that relate to the unexpired periods of the policies at end of the reporting period are accounted for as "Deferred reinsurance commissions" and presented in the liabilities section of the statement of financial position.

*Interest income*

For all financial instruments measured at amortized cost and interest-bearing financial instruments, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The adjusted carrying amount is calculated based on the original effective interest rate. The change in carrying amount is recorded as "Interest income."

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

*Dividend income*

Dividend income is recognized when the shareholders' right to receive the payment is established.

Benefits, Claims and Expenses Recognition

*Benefits and claims*

Benefits and claims consist of benefits and claims paid to policyholders, which include changes in the valuation of Insurance contract liabilities, including IBNR, except for changes in the provision for unearned premiums which are recorded in premiums revenue. 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, the Bornhuetter - Ferguson method. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are charged to provision. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and





subrogation are also considered. General insurance claims are recorded on the basis of notifications received.

#### *Operating expense*

Operating expenses, except for lease expenses, are recognized as expense as they are 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 cost" in the assets section of the statement of financial position.

#### *Interest expense*

Interest expense is charged against operations and is calculated using the effective interest method.

#### Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

#### Income Tax

##### *Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the end of the reporting period.

##### *Deferred income tax*

Deferred income tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular income tax, and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carry forward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise from the initial



recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

Deferred tax assets and liabilities are measured at the tax rates that are applicable 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 end of the reporting period. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged against or credited to income for the period.

Current tax and deferred tax relating to items recognized as other comprehensive income is also recognized in the statement of other comprehensive income.

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

#### Events after the Reporting Date

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

Pronouncements issued but not yet effective are listed below. The Company intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Company's financial statements unless otherwise indicated.

#### *Effective beginning on or after January 1, 2021*

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

#### *Effective beginning on or after January 1, 2022*

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
- *Annual Improvements to PFRSs 2018-2020 Cycle*
  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
  - Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*
  - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*



*Effective beginning on or after January 1, 2023*

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

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

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

PFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted.

The Company is currently assessing the impact of adopting PFRS 17.

The Company applies the exemption from applying 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 the Company to continue applying PAS 39 rather than PFRS 9 for annual periods beginning before January 1, 2022. The Company concluded that it qualified for the temporary exemption from PFRS 9 because its activities are predominantly connected with insurance. As at December 31, 2015, the Company's gross liabilities arising from contracts within the scope of PFRS 4 represented 87% of the total carrying amount of all its liabilities. Since December 31, 2015, there has been no change in the activities of the Company that requires reassessment of the use of the temporary exemption.

*Deferred effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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

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



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### 3. Significant accounting judgments and estimates

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

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

#### 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 Company financial statements:

#### *Product classification*

The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 5% more than the benefits payable if the insured event did not occur.

The Company has determined that the insurance policies it issues have significant insurance risks and therefore meet the definition of an insurance contract and should be accounted for as such.

#### *Determination of lease term of contracts with renewal and termination options – Company as a lessee*

The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

#### *Uncertainties over income tax payments*

The Company applies significant judgement in identifying uncertainties over income treatments. Since the Company operates in a highly regulated environment, it assessed whether the Interpretation had an impact on its financial statements.

The Company applies significant judgment whether it is probable that a particular uncertain income tax treatment will be acceptable to the taxation authority. The Company considers the following:

- Past experience related to similar tax treatments
- Legal advice or case law related to other entities
- Practice guidelines published by the taxation authority that are applicable to the case

The Company reassesses the judgement if the facts and circumstances on which the judgement was based change or as a result of new information that affects the judgement.





### Estimates

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

#### *Leases - Estimating the incremental borrowing rate*

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

The Company's lease liabilities amounted to ₱48.63 million and ₱65.78 million as of December 31, 2020 and 2019, respectively (see Note 24).

#### *Claims liability arising from insurance contracts*

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

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

The carrying values of provision for outstanding claims and IBNR amounted to ₱4.38 billion and ₱5.10 billion as of December 31, 2020 and 2019, respectively (see Note 12).

#### *Impairment of financial assets*

The Company treats AFS equity 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' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more or 'prolonged' as continuous decline for more 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.

The Company reviews its insurance receivables and loans and receivables at each end of the reporting period to assess whether an allowance for impairment should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to age of balances, financial status of counterparties, payment behavior and known market factors. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a regular basis.

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

Insurance receivables, net of allowance for doubtful accounts amounted to ₱1.76 billion and ₱2.13 billion as of December 31, 2020 and 2019, respectively (see Note 5). Loans and receivables, net of allowance for doubtful accounts amounted to ₱76.34 million and ₱69.65 million as of December 31, 2020 and 2019, respectively (see Note 6). Reinsurance assets, net of allowance for doubtful accounts amounted to ₱2.80 billion and ₱3.30 billion as of December 31, 2020 and 2019, respectively (see Note 7).

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

The Company reviews annually the estimated useful lives of property and equipment based on the period over which the assets are expected to be available for use. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation and amortization expense and decrease the related asset accounts. In October 1, 2019, the Company reviewed and revised the estimated useful lives of its condominium units from a range of thirty-two (32) to fifty (50) years to twenty (20) years and its office improvement five (5) years to a range of five (5) to eight (8) years, effective October 1, 2019. The changes were accounted for prospectively starting in the period in which they were revised.

#### *Appraised value of property and equipment*

The Company carries certain property and equipment at fair value, less accumulated depreciation. Fair value is arrived at by using the market data approach. With this approach, the value of the property is based on sales and listings of comparable properties registered in the vicinity. The technique of this approach requires the establishment of comparable properties by reducing reasonable comparative sales and listings to a common denominator and adjustment of the differences between the subject property and those actual sales and listings regarded as comparables. The comparison was premised on the factors of location, characteristics of the lot, time element, quality and prospective use.

As of December 31, 2020 and December 31, 2019, property and equipment carried at fair value amounted to nil (see Note 9).





*Impairment of nonfinancial assets*

The Company assesses impairment on property and equipment and right-of-use assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

The carrying value of property and equipment amounted to ₱65.08 million and ₱121.16 million as of December 31, 2020 and 2019, respectively (see Note 9). The carrying value of assets held for sale amounted to ₱67.47 million and ₱78.02 million as of December 31, 2020 and 2019, respectively (see Note 10). The carrying value of right-of-use assets amounted to ₱59.69 million and ₱44.10 million as of December 31, 2020 and 2019, respectively (see Note 24).

*Recognition of deferred tax assets*

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which these can be utilized.

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

As of December 31, 2020, and 2019, deferred tax assets amounted to ₱269.72 million and ₱283.11 million, respectively (see Note 22).

*Estimation of pension obligations and other retirement benefits*

The determination of pension obligation and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of end of the reporting period. Refer to Note 21 for the details of assumptions used in the calculation. In accordance with PAS 19, actual results that differ from the Company's assumptions are recognized as other comprehensive income in the statement of comprehensive income. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligation.

The Company's net pension obligation amounted to ₱9.99 million and ₱68.13 million as of December 31, 2020 and 2019, respectively (see Note 21).



### *Contingencies*

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

## **4. Cash and Cash Equivalents and Short-term Investments**

### Cash and cash equivalents

This account consists of:

	2020	2019
Cash on hand	<b>₱250,621</b>	₱255,075
Cash in banks	<b>457,181,559</b>	239,094,118
Cash equivalents	<b>1,045,339,805</b>	848,678,830
	<b>₱1,502,771,985</b>	₱1,088,028,023

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earned interest at rates ranging from 0.125% and 3.75% in 2020 and 0.80% to 7.25% in 2019.

Interest income earned from cash equivalents and cash in banks amounted ₱12.89 million and ₱0.67 million, respectively, in 2020 and ₱32.55 million and ₱0.60 million, respectively, in 2019 (see Note 17). Accrued interest income on cash equivalents as of December 31, 2020 and 2019 amounted to ₱0.41 million and ₱1.88 million, respectively (see Note 6).

### Short-term investments

Short-term investments consist of money market placements amounting to nil and ₱38.00 million as of December 31, 2020 and 2019, respectively. Short-term investments are made for periods ranging more than three (3) months up to twelve (12) months and earn interest at the respective short-term investment rates. Interest income earned from short-term investment presented under "Interest income" in the statements of the comprehensive income amounted to ₱0.18 million and ₱0.11 million in 2020 and 2019, respectively (see Note 17). Accrued interest income on short-term investments as of December 31, 2020 and 2019 amounted nil and ₱0.09 million, respectively (see Note 6).

## **5. Insurance receivables - net**

This account consists of:

	2020	2019
Premiums receivable and agents' balances	<b>₱1,566,679,701</b>	₱2,234,408,630
Reinsurance recoverable on paid losses	<b>404,263,814</b>	295,022,600
Due from ceding companies	<b>48,958,715</b>	50,428,630
Bonds recoverable on paid losses	<b>29,272,723</b>	29,272,723
Funds held by ceding companies	<b>13,456,932</b>	12,785,977
	<b>2,062,631,885</b>	2,621,918,560
Less allowance for doubtful accounts	<b>(306,643,131)</b>	(488,781,347)
	<b>₱1,755,988,754</b>	₱2,133,137,213



Premiums receivable and agents' balances arise from unpaid premiums from policyholders and intermediaries. Reinsurance recoverable on paid losses are the share of insurance or reinsurance companies for the claims paid to the insured by the Company while due from ceding companies are premiums receivable for assumed business from other insurance and reinsurance companies.

Bonds recoverable on paid losses represent the estimated recoveries the Company may have from losses on bond policies issued.

The amount of funds held by ceding companies is a percentage of the premiums, as required by the Insurance Commission. The Company's insurance receivables are all due within one year.

The following table shows aging information of insurance receivables:

**December 31, 2020**

	1 to 90 days	91 to 120 days	121 to 150 days	151 to 180 days	Over 180 days	Total
Premiums receivable and agents' balances	₱735,371,939	₱207,300,554	₱99,975,715	₱88,116,973	₱435,914,520	₱1,566,679,701
Reinsurance recoverable on paid losses	113,923,019	727,967	673,452	8,971,680	279,967,696	404,263,814
Due from ceding companies	13,494,354	3,123,083	1,787,291	808,538	29,745,449	48,958,715
Bonds recoverable on paid losses	—	—	—	—	29,272,723	29,272,723
Funds held by ceding companies	636,140	—	—	—	12,820,792	13,456,932
	₱863,425,452	₱211,151,604	₱102,436,458	₱97,897,191	₱787,721,180	₱2,062,631,885

**December 31, 2019**

	1 to 90 days	91 to 120 days	121 to 150 days	151 to 180 days	Over 180 days	Total
Premiums receivable and agents' balances	₱927,282,124	₱226,582,711	₱163,527,780	₱152,004,699	₱765,011,316	₱2,234,408,630
Reinsurance recoverable on paid losses	35,818,513	8,064,990	1,099,014	9,295,457	240,744,626	295,022,600
Due from ceding companies	14,136,962	3,892,041	1,969,099	1,681,256	28,749,272	50,428,630
Bonds recoverable on paid losses	—	—	—	—	29,272,723	29,272,723
Funds held by ceding companies	967,056	651,162	452,030	320,817	10,394,912	12,785,977
	₱978,204,655	₱239,190,904	₱167,047,923	₱163,302,229	₱1,074,172,849	₱2,621,918,560

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

**December 31, 2020**

	Premiums receivable and agents' balances	Reinsurance recoverable on paid losses	Due from ceding companies	Bonds recoverable on paid losses	Total
At January 1, 2020	₱359,390,061	₱98,619,553	₱3,670,371	₱27,101,362	₱488,781,347
Impairment during the year (Note 19)	31,939,988	3,676,873	255,586	—	35,872,447
Write-off	(218,010,663)	—	—	—	(218,010,663)
At December 31, 2020	₱173,319,386	₱102,296,426	₱3,925,957	₱27,101,362	₱306,643,131
Individual impairment	₱62,770,440	₱102,296,426	₱3,925,957	₱27,101,362	₱196,094,185
Collective impairment	110,548,946	—	—	—	110,548,946
	₱173,319,386	₱102,296,426	₱3,925,957	₱27,101,362	₱306,643,131



December 31, 2019

	Premiums receivable and agents' balances	Reinsurance recoverable on paid losses	Due from ceding companies	Bonds recoverable on paid losses	Total
At January 1, 2019	₱121,577,311	₱76,617,548	₱927,612	₱27,101,362	₱226,223,833
Impairment during the year (Note 19)	371,898,981	22,002,005	2,742,759	—	396,643,745
Write-off	(134,086,231)	—	—	—	(134,086,231)
At December 31, 2019	₱359,390,061	₱98,619,553	₱3,670,371	₱27,101,362	₱488,781,347
Individual impairment	₱257,850,462	₱98,619,553	₱3,670,371	₱27,101,362	₱387,241,748
Collective impairment	101,539,599	—	—	—	101,539,599
	₱359,390,061	₱98,619,553	₱3,670,371	₱27,101,362	₱488,781,347

## 6. Financial assets

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

	2020	2019
AFS financial assets	<b>₱4,456,999,018</b>	₱5,165,905,601
Loans and receivables - net	<b>76,336,389</b>	69,652,738
	<b>₱4,533,335,407</b>	₱5,235,558,339

The assets included in each of the categories above are detailed below:

### a. AFS financial assets

	2020	2019
Equity securities		
Quoted:		
Common shares	<b>₱252,445</b>	₱351,499
Preferred shares	<b>25,860,000</b>	32,189,000
Club shares	<b>600,000</b>	970,000
Unquoted - at cost		
Common shares	<b>35,125</b>	35,125
Preferred shares	<b>21,525</b>	21,525
Total equity securities	<b>26,769,095</b>	33,567,149
Debt securities		
Government securities:		
Local currency	<b>₱3,848,924,584</b>	₱4,500,021,389
Foreign currency	<b>42,122,311</b>	43,846,709
Private debt securities	<b>539,183,028</b>	588,470,354
Total debt securities	<b>4,430,229,923</b>	5,132,338,452
Total AFS financial assets recognized in the statements of financial position	<b>₱4,456,999,018</b>	₱5,165,905,601



The costs or amortized costs of AFS financial assets are as follows:

	2020	2019
Equity securities - at cost		
Quoted:		
Common shares	<b>₱29,809</b>	₱29,809
Preferred shares	<b>25,010,000</b>	32,010,000
Club shares	<b>117,500</b>	117,500
Unquoted securities - at cost		
Common shares	<b>35,125</b>	35,125
Preferred shares	<b>21,525</b>	21,525
Total equity securities	<b>25,213,959</b>	32,213,959
Debt securities - at cost or amortized cost		
Quoted:		
Government debt securities:		
Local currency	<b>3,811,731,214</b>	4,497,781,109
Foreign currency	<b>37,613,711</b>	39,683,769
Private debt securities	<b>524,455,126</b>	589,545,266
Total debt securities	<b>4,373,800,051</b>	5,127,010,144
Total AFS financial assets at cost or amortized cost	<b>₱4,399,014,010</b>	₱5,159,224,103

The carrying values of AFS financial assets have been determined as follows:

	2020	2019
At January 1	<b>₱5,165,905,601</b>	₱3,889,308,191
Additions	<b>1,407,299,610</b>	2,414,729,967
Maturities and disposals	<b>(2,192,245,265)</b>	(1,329,464,463)
Amortization of premium	<b>(14,291,985)</b>	(7,384,554)
Fair value gains charged against other comprehensive income	<b>90,331,057</b>	198,716,460
At December 31	<b>₱4,456,999,018</b>	₱5,165,905,601

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

	2020	2019
At January 1	<b>₱3,107,531</b>	(₱69,722,384)
OCI		
Changes in fair value of AFS financial assets	<b>90,331,057</b>	198,716,460
Tax effect	<b>(11,901,546)</b>	(2,940,901)
Transferred to profit or loss:		
Realized gain on sale of AFS financial assets	<b>(451,264)</b>	(122,945,644)
At December 31	<b>₱81,085,778</b>	₱3,107,531

Interest income earned from AFS financial assets amounted to ₱188.04 million and ₱154.29 million in 2020 and 2019, respectively (see Note 17). Dividend income from AFS financial assets earned by the Company amounted to ₱1.57 million and ₱3.67 million in 2020 and 2019, respectively (see Note 17).





b. *Loans and receivables - net*

This account consists of:

	2020	2019
Accounts receivable	<b>₱42,022,925</b>	₱29,802,342
Allowance for doubtful accounts	<b>(3,831,404)</b>	(3,831,404)
Accounts receivable - net	<b>38,191,521</b>	25,970,938
Accrued interest income on:		
Cash equivalents	<b>410,918</b>	1,879,942
Short-term investments	—	88,593
AFS debt securities	<b>37,733,951</b>	41,713,265
	<b>₱76,336,389</b>	₱69,652,738

Accounts receivable pertain to advances granted to insurance agents and salary loans granted to employees. Advances granted to insurance agents are to be settled through regular deductions from commissions while salary loans granted to employees are non-interest bearing and payable to the Company within one year through payroll deduction.

Accrued income pertains to interest accrued arising from cash and cash equivalents, short-term investments and AFS financial assets.

The reconciliation of changes in allowance for impairment on loans and receivables are as follows:

	Note	2020	2019
At January 1		<b>₱3,831,404</b>	₱1,871,695
Impairment during the year	19	—	1,959,709
At December 31		<b>₱3,831,404</b>	₱3,831,404

## 7. Reinsurance assets

This account consists of the following:

	Notes	2020	2019
Reinsurance recoverable on unpaid losses		<b>₱1,977,100,569</b>	₱2,831,527,399
Less allowance for doubtful accounts		<b>(143,852,746)</b>	(143,852,746)
Reinsurance recoverable on unpaid losses - net	12	<b>1,833,247,823</b>	2,687,674,653
Reinsurance share on IBNR	12	<b>593,723,440</b>	109,623,762
Deferred reinsurance premiums	12	<b>376,957,611</b>	507,448,466
		<b>₱2,803,928,874</b>	₱3,304,746,881

The reconciliation of changes in allowance for reinsurance assets are as follows:

	Note	2020	2019
At January 1		<b>₱143,852,746</b>	₱137,849,391
Impairment during the year	19	—	6,003,355
At December 31		<b>₱143,852,746</b>	₱143,852,746



## 8. Deferred acquisition costs and deferred reinsurance commissions

### Deferred acquisition costs

The rollforward analyses of this account follow:

#### December 31, 2020

	Commission Expense	Other Acquisition Costs	Total
At January 1	₱463,973,781	₱180,324,848	₱644,298,629
Costs deferred during the year	762,611,699	42,115,004	804,726,703
Amortization during the year	(884,527,503)	(151,015,330)	(1,035,542,833)
At December 31	₱342,057,977	₱71,424,522	₱413,482,499

#### December 31, 2019

	Commission Expense	Other Acquisition Costs	Total
At January 1	₱420,117,499	₱180,835,100	₱600,952,599
Costs deferred during the year	770,495,080	188,015,050	958,510,130
Amortization during the year	(726,638,798)	(188,525,302)	(915,164,100)
At December 31	₱463,973,781	₱180,324,848	₱644,298,629

Other acquisition costs pertain to underwriting expenses, other than commissions, incurred during the financial period that vary with and are related to securing new insurance contracts and or renewing existing insurance contracts. These costs are included in the 'Other underwriting expense' under 'Operating expenses' account (Note 19).

### Deferred reinsurance commissions

The rollforward analyses of this account follow:

	2020	2019
At January 1	₱122,123,556	₱137,836,227
Income deferred during the year	112,226,369	201,465,967
Amortization during the year	(150,040,239)	(217,178,638)
At December 31	₱84,309,686	₱122,123,556

## 9. Property and equipment - net

The rollforward analysis of property and equipment at cost for 2020 and 2019 follows:

#### December 31, 2020

	EDP Equipment	Transportation Equipment	Office Furniture, Fixtures and Equipment	Office Improvements	Total
Cost					
At January 1, 2020	₱150,811,326	₱67,630,795	₱13,807,848	₱98,812,295	₱331,062,264
Additions	729,125	—	218,557	—	947,682
Reclassification	(10,625)	(4,858,875)	28,755	—	(4,840,745)

(Forward)



	EDP Equipment	Transportation Equipment	Office Furniture, Fixtures and Equipment	Office Improvements	Total
Write-off	₱-	(₱42,013,796)	(₱2,508,616)	(₱6,731,748)	(₱51,254,160)
Disposals	-	-	(197,433)	-	(197,433)
At December 31, 2020	151,529,826	20,758,124	11,349,111	92,080,547	275,717,608
<b>Accumulated depreciation and amortization</b>					
At January 1, 2020	77,944,163	62,017,213	11,492,324	58,451,156	209,904,856
Depreciation and amortization (Notes 19 & 24)	37,238,702	2,487,896	963,127	15,492,090	56,181,815
Reclassification	(3,896)	(4,004,354)	3,896	-	4,004,354
Write-off	-	(42,013,796)	(2,508,616)	(6,731,748)	(51,254,160)
Disposals	-	-	(186,377)	-	(186,377)
At December 31, 2020	115,178,969	18,486,959	9,764,354	67,211,498	210,641,780
Net book value as of December 31, 2020	₱36,350,857	₱2,271,165	₱1,584,7575	₱24,869,049	₱65,075,828

### December 31, 2019

	EDP Equipment	Transportation Equipment	Office Furniture, Fixtures and Equipment	Office Improvements	Total
Cost					
At January 1, 2019	₱96,658,367	₱67,201,582	₱33,281,687	₱113,403,896	₱310,545,532
Additions	54,152,959	429,213	435,661	278,572	55,296,405
Disposals	-	-	(19,909,500)	(14,870,173)	(34,779,673)
At December 31, 2019	150,811,326	67,630,795	13,807,848	98,812,295	331,062,264
<b>Accumulated depreciation and amortization</b>					
At January 1, 2019	44,642,125	58,052,639	17,945,623	45,391,795	166,032,182
Depreciation and amortization (Notes 19 & 24)	33,302,038	3,964,574	13,065,816	27,929,534	78,261,962
Disposals	-	-	(19,519,115)	(14,870,173)	(34,389,288)
At December 31, 2019	77,944,163	62,017,213	11,492,324	58,451,156	209,904,856
Net book value as of December 31, 2019	₱72,867,163	₱5,613,582	₱2,315,5242	₱40,361,139	₱121,157,408

Certain transportation equipment was reclassified to accounts receivable for the employee's share in car loan payments under the employee's car lease program.

The rollforward analysis of property and equipment at revalued amount for 2020 and 2019 follows:

	Note	Condominium Units	
		2020	2019
Cost			
At January 1		₱376,409,004	₱376,409,004
Disposals		(100,133,275)	-
At December 31		276,275,729	376,409,004
<b>Accumulated depreciation and amortization</b>			
At January 1		376,409,004	243,418,812
Depreciation and amortization	19	-	132,990,192
Disposals		(100,133,275)	-
At December 31		276,275,729	376,409,004
Net book value as of December 31		₱-	₱-



The Company sold real estate property in Binondo, Manila for a cash consideration of ₱17.82 million in 2020. The Company reclassified the related revaluation reserve to retained earnings amounting to ₱41.44 million.

The rollforward analysis of revaluation reserve on property and equipment follows:

	2020	2019
At January 1	₱96,980,228	₱96,980,228
Disposals	(41,446,533)	—
At December 31	₱55,553,695	₱96,980,228

The Company recognized gain on disposal of property amounting to ₱17.82 million in 2020 and loss on disposal of property amounting to ₱0.22 million in 2019 (see Note 17).

If condominium units were carried at the cost model, the carrying amount would be as follows:

	2020	2019
Cost		
At January 1	₱60,933,959	₱60,933,959
Disposals	(5,937,825)	—
At December 31	54,996,134	60,933,959
Accumulated depreciation and amortization		
At January 1	₱60,933,959	₱60,933,959
Disposals	(5,937,825)	—
At December 31	54,996,134	60,933,959
Net carrying amount	₱—	₱—

To determine the Market Value of the condominium units, the Market Approach is utilized. The approach provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available. By analyzing data which qualify as 'arms-length', between willing buyers and sellers, market value indicators and price trends can be established. Adjustments can be made for time, size, location, and other relevant factors when comparing these data against the Property. This approach is commonly used to value properties when reliable transaction evidence of properties of a similar nature is available. As of January 30, 2017, the real estate properties' fair values are based on the valuations performed by Philippine Appraisal Company, Inc., an accredited independent appraiser.

Description of valuation techniques used and key inputs to valuation on revalued property and equipment are as follows:

Location	Valuation techniques	Significant unobservable inputs	Range (weighted average)
Sen. Gil J. Puyat Avenue, Makati City Plaza	Market Data Approach	Estimated computed value per sqm	68,000 to 142,544 (98,000)
		Net price (₱/sq.m)	85,000 to 219,298
		Internal factors:	
		Location	10%
		Condition	-5% to -10%
		Utility	10%
		Size	-5% to -20%
		Bargaining allowance	-15%



Location	Valuation techniques	Significant unobservable inputs	Range (weighted average)
Lorenzo Ruiz Corner Oriente Market Data Approach St., Binondo, Manila		Estimated computed value per sqm	32,454 to 50,000 (41,000)
		Net price (₱/sq.m)	25,963 to 52,632
		Internal factors:	
		Size	5%
		Condition	20%
		Bargaining allowance	-5%

#### 10. Assets held for sale

Assets held for sale pertain to salvage recoverable which consists of amount recoverable on account of losses on direct business. These recoveries are available for immediate sale in its present condition and its sale are highly probable. In 2020 and 2019, management is committed to a plan to sell the assets and is actively locating for buyers.

Salvage recoverable amounted to ₱67.47 million and ₱78.02 million as of December 31, 2020 and 2019, respectively.

Gain and loss incurred on sale which is part of "Gross insurance contract benefits and claims paid" under the statement of comprehensive income amounted to ₱15.25 million and ₱18.90 million as of December 31, 2020 and 2019, respectively.

#### 11. Other assets

This account consists of the following:

	2020	2019
Creditable withholding taxes	₱110,351,432	₱95,447,517
Deposits and prepayments	22,970,939	28,283,151
Documentary stamps fund	8,075,399	62,871,796
Claims fund	7,212,148	7,310,708
Security fund	51,215	51,215
	₱148,661,133	₱193,964,387

Creditable withholding taxes pertain to the Company's taxes withheld at source by its customers and is creditable against the income tax liability of the Company. Documentary stamps fund represents fund set-up for documentary stamps affixture to policy contracts. Deposits and prepayments pertain to the rental and security deposits on rented properties, and advance payments for the electric meter and telephone.

Claims fund represents fund set-up held by third parties for the payment of claims. Security fund pertains to the fund set-up for payment of claims against insolvent insurance companies in compliance with Section 367 of Presidential Decree (PD) No. 612, as amended under PD No. 1640.





## 12. Insurance contract liabilities

Insurance contract liabilities may be analyzed as follows:

### December 31, 2020

	Note	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net
Provision for claims reported and loss adjustment expenses		₱3,254,267,720	₱1,977,100,569	₱1,277,167,151
Allowance for doubtful accounts		—	(143,852,746)	143,852,746
Provision for IBNR and ULAE (unallocated loss adjustment expenses)		1,124,224,620	593,723,440	530,501,180
<b>Total claims reported and IBNR</b>		<b>4,378,492,340</b>	<b>2,426,971,263</b>	<b>1,951,521,077</b>
Provision for unearned premiums	16	2,060,608,848	376,957,611	1,683,651,237
<b>Total insurance contract liabilities</b>		<b>₱6,439,101,188</b>	<b>₱2,803,928,874</b>	<b>₱3,635,172,314</b>

### December 31, 2019

	Note	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net
Provision for claims reported and loss adjustment expenses		₱4,466,915,029	₱2,831,527,399	₱1,635,387,630
Allowance for doubtful accounts		—	(143,852,746)	143,852,746
Provision for IBNR and ULAE (unallocated loss adjustment expenses)		634,261,543	109,623,762	524,637,781
<b>Total claims reported and IBNR</b>		<b>5,101,176,572</b>	<b>2,797,298,415</b>	<b>2,303,878,157</b>
Provision for unearned premiums	16	2,839,739,305	507,448,466	2,332,290,839
<b>Total insurance contract liabilities</b>		<b>₱7,940,915,877</b>	<b>₱3,304,746,881</b>	<b>₱4,636,168,996</b>

The Company recognized provisions for doubtful accounts amounting to nil and ₱6.00 million in 2020 and 2019, respectively (see Note 19).

Provisions for claims reported by policyholders and IBNR may be analyzed as follows:

### December 31, 2020

	Notes	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net
At January 1		₱5,101,176,572	₱2,797,298,415	₱2,303,878,157
Claims incurred during the year		1,531,326,660	89,775,844	1,441,550,816
Increase in IBNR and ULAE	18	489,963,077	484,099,678	5,863,399
Claims paid during the year	18	(2,743,973,969)	(944,202,674)	(1,799,771,295)
<b>At December 31</b>		<b>₱4,378,492,340</b>	<b>₱2,426,971,263</b>	<b>₱1,951,521,077</b>



December 31, 2019

	Notes	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net
At January 1		₱5,005,078,137	₱3,297,644,394	₱1,707,433,743
Claims incurred during the year		3,455,560,537	825,281,198	2,630,279,339
Allowance for doubtful accounts	7,19	—	(6,003,355)	6,003,355
Increase in IBNR and ULAE	18	(427,614,989)	(549,544,867)	121,929,878
Claims paid during the year	18	(2,931,847,113)	(770,078,955)	(2,161,768,158)
At December 31		₱5,101,176,572	₱2,797,298,415	₱2,303,878,157

Claims under litigation as of December 31, 2020 and 2019 amounted to ₱1.15 billion and ₱933.75 million, respectively.

Provision for unearned premiums may be analyzed as follows:

December 31, 2020

	Notes	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net
At January 1		₱2,839,739,305	₱507,448,466	₱2,332,290,839
New policies written during the year	16	3,919,682,890	1,279,170,416	2,640,512,474
Premiums earned during the year	16	(4,698,813,347)	(1,409,661,271)	(3,289,152,076)
At December 31		₱2,060,608,848	₱376,957,611	₱1,683,651,237

December 31, 2019

	Notes	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net
At January 1		₱2,941,614,144	₱605,409,309	₱2,336,204,835
New policies written during the year	16	5,438,360,381	1,825,602,490	3,612,757,891
Premiums earned during the year	16	(5,540,235,220)	(1,923,563,333)	(3,616,671,887)
At December 31		₱2,839,739,305	₱507,448,466	₱2,332,290,839

### 13. Insurance payables

This account consists of:

	2020	2019
Due to reinsurers	₱173,938,015	₱377,103,176
Funds held for reinsurers	78,757,115	90,909,853
	₱252,695,130	₱468,013,029

The funds held for reinsurers are interest-bearing. the Company recognized an amount of ₱0.04 million and ₱0.02 million as “Interest expense” charged against the statements of comprehensive income in 2020 and 2019, respectively.



The rollforward analysis of this account follows:

	Due to Reinsurers	Funds Held for Reinsurers	Total
At January 1, 2019	₱571,988,748	₱185,689,907	₱757,678,655
Arising during the year	2,653,938,260	308,596,078	2,962,534,338
Utilized	(2,848,823,832)	(403,376,132)	(3,252,199,964)
At December 31, 2019	₱377,103,176	₱90,909,853	₱468,013,029
Arising during the year	1,563,956,389	237,220,786	1,801,177,175
Utilized	(1,767,121,550)	(249,373,524)	(2,016,495,074)
<b>At December 31, 2020</b>	<b>₱173,938,015</b>	<b>₱78,757,115</b>	<b>₱252,695,130</b>

#### 14. Accounts payable and accrued expenses

This account consists of:

	2020	2019
Accounts payable	₱983,758,533	₱834,228,380
Commissions payable	355,568,924	372,282,353
Taxes payable	301,858,828	398,961,971
Accrued expenses	283,749,179	275,046,314
	<b>₱1,924,935,464</b>	<b>₱1,880,519,018</b>

Accounts payable include amounts due to suppliers which represent payables for goods and services purchased that have been contracted for but not yet settled as of the end of the reporting period which are payable on demand

Commissions payable pertain to sales force commissions which are non-interest bearing and payable every month.

Taxes payable consists primarily of local government taxes payable, value-added taxes (VAT) payable and withholding taxes payable.

Accrued expenses are expected to be settled within twelve (12) months after the end of the reporting period.

#### 15. Capital stock and contingency surplus

The Company's capital stock consists of:

	2020		2019	
	Shares	Amount	Shares	Amount
Common stock - ₱100 par value				
Authorized:	10,000,000	₱1,000,000,000	10,000,000	₱1,000,000,000
Issued and outstanding:	5,125,000	₱512,500,000	5,125,000	₱512,500,000

In 2016, the Company received contingency surplus from its Parent Company amounting to ₱1.80 billion. Subsequently in 2019, the Company received from its Parent Company an additional contingency surplus amounting to ₱1.47 billion (see Note 25).



## 16. Net insurance earned premiums

Gross earned premiums and reinsurers' share in gross earned premiums on insurance contracts consist of the following:

	Notes	2020	2019
Gross premiums on insurance contracts:			
Direct insurance		<b>₱3,822,706,219</b>	₱5,281,289,712
Assumed reinsurance		<b>96,976,671</b>	157,070,669
Total gross premiums on insurance contracts	12	<b>3,919,682,890</b>	5,438,360,381
Gross change in provision for unearned premiums		<b>779,130,457</b>	101,874,839
<b>Total gross earned premiums on insurance contracts</b>	12	<b>4,698,813,347</b>	5,540,235,220
Reinsurers' share of gross premiums on insurance contracts:			
Direct insurance		<b>1,233,714,895</b>	1,757,178,028
Assumed reinsurance		<b>45,455,521</b>	68,424,462
Total reinsurers' share of gross premiums on insurance contracts	12	<b>1,279,170,416</b>	1,825,602,490
Reinsurers' share of gross change in provision for unearned premiums		<b>130,490,855</b>	97,960,843
<b>Total reinsurers' share of gross earned premiums on insurance contracts</b>	12	<b>1,409,661,271</b>	1,923,563,333
<b>Net insurance earned premiums</b>	12	<b>₱3,289,152,076</b>	₱3,616,671,887

## 17. Interest, other underwriting, dividend and other income (expense)

Interest income consists of the following:

	Notes	2020	2019
AFS financial assets	6	<b>₱188,035,238</b>	₱154,285,116
Cash equivalents	4	<b>12,891,805</b>	32,553,148
Short-term investments	4	<b>182,698</b>	110,742
Cash in banks	4	<b>673,808</b>	596,403
Salary loans		<b>644,792</b>	480,056
		<b>₱202,428,341</b>	₱188,025,465

Other income (expense) - net consists of:

	2020	2019
Foreign exchange gain (loss):		
Unrealized	<b>₱682,397</b>	(₱15,232,783)
Realized	<b>(416,494)</b>	(993,469)
Other underwriting income	<b>2,833,916</b>	3,726,163
Loss on sale of property and equipment (Note 9)	<b>—</b>	(220,386)
Other income	<b>3,928,919</b>	5,275,505
<b>Other income (expense) - net</b>	<b>₱7,028,738</b>	(₱7,444,970)

Other underwriting income pertains to the fronting fees earned by the Company for fronting arrangements made during the year with several agencies and intermediaries. It also includes recoveries from cancelled transactions.



Other income pertains to sundry income from the expired premium deposits on personal accident cards for the years 2017 to 2020.

Dividend income from AFS equity financial assets amounted to ₱1.57 million and ₱3.67 million in 2020 and 2019, respectively (see Note 6).

## 18. Net insurance benefits and claims

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

	Note	2020	2019
Direct insurance		<b>₱2,565,511,536</b>	₱2,584,351,881
Assumed reinsurance		<b>178,462,433</b>	347,495,232
Total insurance contract benefits and claims paid	12	<b>₱2,743,973,969</b>	₱2,931,847,113

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

	Note	2020	2019
Direct insurance		<b>₱847,042,140</b>	₱502,442,677
Assumed reinsurance		<b>97,160,534</b>	267,636,278
Total reinsurers' share of insurance contract benefits and claims paid	12	<b>₱944,202,674</b>	₱770,078,955

Gross change in insurance contract liabilities:

	Note	2020	2019
Change in provision for claims reported		<b>(₱1,184,504,920)</b>	₱556,645,927
Change in provision for IBNR	12	<b>489,963,077</b>	(427,614,989)
Total gross change in insurance contract liabilities		<b>(₱694,541,843)</b>	₱129,030,938

Reinsurers' share of gross change in insurance contract liabilities:

	Note	2020	2019
Change in provision for claims reported		<b>(₱827,656,347)</b>	₱88,885,463
Change in provision for IBNR	12	<b>484,099,678</b>	(549,544,867)
Total reinsurers' share of gross change in insurance contract liabilities		<b>(₱343,556,669)</b>	(₱460,659,404)





## 19. Operating expenses

This account consists of:

	Notes	2020	2019
Salaries, allowances and employee benefits	20	<b>₱488,271,314</b>	₱475,364,227
Other underwriting expense	8	<b>249,691,605</b>	194,710,880
Outside services	23	<b>219,825,977</b>	122,152,615
Depreciation and amortization of property and equipment	9, 24	<b>80,130,997</b>	236,503,302
Provision for doubtful accounts	5, 6, 7,12	<b>35,872,447</b>	404,606,809
Communication and postage		<b>29,514,114</b>	9,477,409
Advertising and promotion		<b>16,711,316</b>	12,517,042
Repairs and maintenance		<b>13,197,692</b>	5,165,779
Transportation and travel		<b>12,687,211</b>	2,940,670
Utilities		<b>9,966,013</b>	7,382,346
Supplies		<b>9,069,347</b>	8,139,011
Association and pool dues		<b>6,428,597</b>	3,751,102
Rent	24	<b>4,230,924</b>	6,801,691
Insurance		<b>2,407,969</b>	1,399,932
Representation and entertainment		<b>1,548,167</b>	3,773,611
Taxes and licenses		<b>1,148,054</b>	1,185,224
Others		<b>41,122,892</b>	8,723,056
		<b>₱1,221,824,636</b>	₱1,504,594,706

Others include contingent provision for taxes, agency expense, and investment expense.

## 20. Salaries, allowances and employee benefits

Expenses recognized for salaries, allowances and employee benefits are presented below.

	Note	2020	2019
Salaries and wages		<b>₱282,750,807</b>	₱286,826,168
Allowances and bonuses		<b>101,582,601</b>	103,400,959
Other employee benefits		<b>52,933,306</b>	55,963,708
Retirement expense	21	<b>29,270,794</b>	8,620,571
Social security costs		<b>11,735,430</b>	11,345,600
Director's fees and allowances		<b>5,820,000</b>	5,615,000
PhilHealth insurance contribution		<b>3,225,802</b>	2,841,271
Pag-ibig contribution		<b>952,574</b>	750,950
		<b>₱488,271,314</b>	₱475,364,227

Other employee benefits pertain to the clothing and medical allowances, leave conversion, and holiday pay of the employees during the year.



## 21. Pension benefits

The Company has a noncontributory defined benefit pension plan, covering substantially all of its employees, which requires contributions to be made by the Company to an administered fund. The Company's retirement fund is administered by Metropolitan Bank and Trust Company (MBTC) as trustee, under the supervision of the Board of Trustees of the plan. The Board of Trustees is responsible for investment of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes account of the plans' objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure (investment policy). The Board of Trustees delegates the implementation of the investment policy in accordance with the investment strategy as well as various principles and objectives to an Investment Committee, which also consists of members of the Board of Trustees.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan. The Company also provides additional post employment healthcare benefits to certain employees. These benefits are unfunded.

Effective January 1, 2019, the Company amended its Retirement Plan and adopted the One AXA Retirement Plan. The effect of this change is reflected as past service credit amounting to ₱12.52 million and recognized immediately in the 2019 retirement expense. No past service cost was recorded in 2020. The current service costs and net interest income for 2020 and 2019 are computed based on the remeasured defined benefit obligation as of 2020 and 2019, respectively.

The following tables summarize the components of net benefit expense recognized in the statement of comprehensive income and the amounts recognized in the statement of financial position:

### *Net benefit expense*

	Note	2020	2019
Current service cost	20	₱29,939,257	₱21,142,931
Past service cost		–	(12,522,360)
Net released obligation due to employee transfers		(668,463)	–
Net interest cost		2,923,222	1,626,243
Net benefit expense		₱32,194,016	₱10,246,814

### *Remeasurement losses on defined benefit obligation*

	2020	2019
From defined benefit obligation	₱59,786,873	(₱50,062,310)
From plan assets	10,896,818	16,924,088
Total amount to be recognized in OCI	₱70,683,691	(₱33,138,222)



*Net pension obligation*

	2020	2019
Defined benefit obligation	<b>₱223,546,225</b>	₱252,127,056
Fair value of plan assets	<b>(213,557,234)</b>	(183,997,655)
Net pension obligation	<b>₱9,988,991</b>	₱68,129,401

Changes in the defined benefit obligation are as follows:

	2020	2019
Defined benefit obligation at January 1	<b>₱252,127,056</b>	₱195,405,230
Current service cost	<b>29,939,257</b>	21,142,931
Past service cost	—	(12,315,550)
Net acquired/(released) obligation due to employee transfers	<b>(668,463)</b>	(711,485)
Actuarial (gains) losses	<b>(59,786,873)</b>	50,062,310
Interest cost	<b>12,426,234</b>	12,607,620
Benefits paid from plan assets	<b>(10,490,986)</b>	(14,064,000)
Defined benefit obligation at December 31	<b>₱223,546,225</b>	₱252,127,056

Changes in fair value of plan assets are as follows:

	2020	2019
Fair value of plan assets at January 1	<b>₱183,997,655</b>	₱137,499,486
Interest income	<b>9,503,012</b>	10,981,377
Contributions	<b>19,650,735</b>	33,161,379
Actuarial gains (losses)	<b>10,896,818</b>	16,924,088
Benefits paid	<b>(10,490,986)</b>	(14,064,000)
Benefits paid due from previous year separation	—	(504,675)
Fair value of plan assets at December 31	<b>₱213,557,234</b>	₱183,997,655

The principal assumptions used in determining pension obligation for the Company's plan are shown below:

	2020	2019
Discount rate	<b>3.80%</b>	5.02%
Salary increase rate	<b>5.00%</b>	8.00%
Mortality rate	<b>2017 PCIM</b>	2017 PCIM
	<b>A scale ranging from 20% at age 18 to 0% at age 60</b>	A scale ranging from 13% at age 18 to 0% at age 60
Turnover rate		



Following is the distribution of the Company's plan assets stated at fair value as of December 31:

	2020	2019
<b>Assets</b>		
Government securities	<b>₱204,858,084</b>	₱183,446,992
Deposit in banks	<b>6,785,853</b>	810,621
Corporate bonds and debt instruments	<b>1,050,428</b>	1,054,401
Unit investment trust funds (UITFs)	<b>997,050</b>	3,630,092
	<b>213,691,415</b>	188,942,106
<b>Liabilities</b>		
Accounts payable	<b>134,181</b>	154,871
Benefit payable from fund	<b>—</b>	4,789,580
	<b>134,181</b>	4,944,451
<b>Net assets</b>	<b>₱213,557,234</b>	₱183,997,655

The Company expects to contribute ₱15.25 million to its retirement plan in 2021.

The rollforward analysis of remeasurement loss on retirement plan follows:

	Note	2020	2019
At January 1		<b>(₱50,053,867)</b>	(₱26,857,112)
Recognized in OCI		<b>70,683,691</b>	(33,138,222)
Tax effect	22	<b>(21,205,107)</b>	9,941,467
At December 31		<b>(₱575,283)</b>	(₱50,053,867)

#### *Sensitivities*

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

#### 2020

	Change in variables	Impact on present value of defined benefit obligation Increase (Decrease)
<b>Discount rate</b>	+1.00%	(20,507,725)
	-1.00%	24,054,170
<b>Salary increase rate</b>	+1.00%	24,620,274
	-1.00%	(21,387,858)
<b>Turnover rate</b>	+2.00%	(6,059,264)
	-2.00%	7,037,334

#### 2019

	Change in variables	Impact on present value of defined benefit obligation Increase (Decrease)
<b>Discount rate</b>	+1.00%	(28,348,684)
	-1.00%	33,867,882
<b>Salary increase rate</b>	+1.00%	33,757,412
	-1.00%	(28,852,953)



	Change in variables	Impact on present value of defined benefit obligation Increase (Decrease)
Turnover rate	+2.00%	(10,048,951)
	-2.00%	11,762,862

The average duration of the expected benefit payments at the end of the reporting period is 17.18 years.

The following shows the maturity profile for the undiscounted benefits payments of the Company:

## **2020**

Plan Year	Expected Benefit		
	Normal Retirement	Payments Other than Normal Retirement	Total
Less than one year	₱—	₱15,255,828	₱15,255,828
More than one year to five years	8,762,756	61,769,218	70,531,974
More than five years to 10 years	35,483,646	97,495,880	132,979,526
More than 10 years to 15 years	60,303,194	99,182,849	159,486,043
More than 15 years to 20 years	74,959,692	92,255,588	167,215,280
More than 20 years	250,941,020	129,096,199	380,037,219

## **2019**

Plan Year	Expected Benefit		
	Normal Retirement	Payments Other than Normal Retirement	Total
Less than one year	₱—	₱9,185,034	₱9,185,034
More than one year to five years	5,446,335	50,638,428	56,084,763
More than five years to 10 years	53,772,195	94,471,957	148,244,152
More than 10 years to 15 years	117,932,820	117,106,502	235,039,322
More than 15 years to 20 years	142,181,741	130,917,213	273,098,954
More than 20 years	856,564,318	260,221,047	1,116,785,365

## **22. Income Tax**

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

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

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

### **Relevant tax updates**

Revenue Regulations No. 25-2020

On September 30, 2020, the Bureau of Internal Revenue (BIR) has issued Revenue Regulations (RR) No. 25-2020 to implement Section 4 of Republic Act No. 11494, otherwise known as "Bayanihan to





Recover as One Act”, allowing qualified businesses or enterprises which incurred net operating loss for taxable years 2020 and 2021 to carry over the same as a deduction from its gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

#### CREATE Bill

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

On February 3, 2021, the Bicameral Conference Committee approved the reconciled version of the CREATE Bill of the House of Representatives and the Senate. On March 26, 2021, the bill was signed into law (see Note 28).

#### Current Tax

The provision for current income tax consists of:

	2020	2019
MCIT	<b>₱15,647,943</b>	₱2,646,329
Final	<b>38,772,946</b>	52,116,000
	<b>₱54,420,889</b>	₱54,762,329

#### Deferred Tax

The net deferred income tax assets consist of the tax effects of the following:

	December 31	
	2020	2019
Deferred tax assets:		
Provision for IBNR and ULAE	<b>₱138,150,356</b>	₱157,391,335
Allowance for doubtful accounts	<b>109,264,164</b>	161,967,690
Accrued expenses	<b>146,794,470</b>	91,562,485
Deferred reinsurance commissions	<b>25,292,906</b>	36,637,067
Retirement benefit obligation	<b>2,996,697</b>	20,438,820
Unamortized past service cost	<b>6,596,673</b>	8,095,961
Unrealized foreign exchange loss	<b>-</b>	4,569,835
Total deferred tax assets	<b>429,095,266</b>	480,663,193
Deferred tax liabilities:		
Deferred acquisition costs	<b>₱124,044,750</b>	₱193,289,589
Reserve for fluctuation on AFS	<b>15,479,930</b>	3,578,384
Excess of provision for unearned premiums per books over tax basis	<b>19,647,375</b>	683,159
Unrealized foreign exchange gain	<b>204,719</b>	-
Total deferred tax liabilities	<b>159,376,774</b>	197,551,132
	<b>₱269,718,492</b>	₱283,112,061

Movements in deferred tax that were recognized in OCI and profit or loss in 2020 and 2019 follows:

	Note	2020	2019
Recognized in OCI	6, 21	<b>(₱33,106,653)</b>	₱7,000,566
Recognized in profit or loss		<b>19,713,085</b>	40,195,720
		<b>(₱13,393,568)</b>	₱47,196,286



A reconciliation of the statutory income tax rate to effective income tax rate in 2020 and 2019 follows:

	2020	2019
Statutory income tax rate	30.00%	30.00%
Tax effects of:		
Interest income already subject to / exempt from final tax	(20.75%)	0.49%
Gain on sale of AFS financial assets	(0.13%)	4.34%
Dividend income	(0.45%)	0.13%
Nondeductible expenses	79.65%	(3.99%)
Unrecognized deferred tax assets	34.94%	(32.68%)
NOLCO Application	(90.17%)	—
Effective income tax rate	33.09%	(1.71%)

As of December 31, 2020 and 2019, the Company did not recognize deferred tax assets on the following deductible temporary differences amounting to ₱217.32 million and ₱304.23 million, respectively, as the Company does not have sufficient future taxable income against which the deferred tax assets may be utilized.

	2020	2019
NOLCO	₱180,674,587	₱275,256,520
IBNR	21,000,000	—
MCIT	15,647,943	—
Allowance for doubtful accounts	—	28,971,959
	₱217,322,530	₱304,228,479

Details of the Company's NOLCO follow:

Inception year	Amount	Used	Balance	Expiry Year
2019	₱917,521,735	₱315,273,113	₱602,248,622	2022

Details of the Company's MCIT are as follows:

Inception year	Amount	Used	Expired	Balance	Expiry Year
2018	₱17,387,439	₱—	₱—	₱17,387,439	2021
2019	2,646,328	—	—	20,033,767	2022
2020	15,647,943	—	—	35,681,710	2023

## 23. Related party transaction

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.



The Company, in its regular conduct of business, has entered into transactions with related parties principally consisting of the following:

**December 31, 2020**

Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
<b>Philippine AXA Life Insurance Corporation</b>				
Shared service cost (Note 19)	₱97,200,000	₱—	—	—
Accounts payable and accrued expenses	—	296,318,433	Due and Demandable; Non-interest bearing	Unsecured; no impairment
<b>Metropolitan Bank and Trust Company</b>				
Direct premiums	50,423,422	—	—	—
Premiums receivable	—	32,370,084	Due and Demandable; Non-interest bearing	Unsecured; no impairment
Investment expense	2,518,405	—	—	—
Bank Charges	1,324,410	—	—	—
Time deposit placements	—	105,000,000	15 to 54 days; 0.25% - 1.00%	—
Interest income on time deposits	3,560,962	—	0.25% - 1.00%	—
Accrued interest on time deposits	—	25,944	0.25% - 1.00%	—
Savings and current deposits	—	237,042,458	0.125 - 0.25%	—
Interest income on savings deposits	370,753	—	0.125 - 0.25%	—
Rent expense	6,486,629	—	—	—
Rental and security deposits	—	2,375,026	Non-interest bearing	No impairment
Utilities	670,533	—	—	—
Plan assets	—	19,650,735	—	No impairment
<b>First Metro Investment Corporation</b>				
Direct premiums	920,404	—	—	—
Premiums receivable	—	114,875	Due and demandable; non-interest bearing	Unsecured; no impairment
<b>Philippine Savings Bank</b>				
Direct premiums	48,485,291	—	—	—
Premiums receivable	—	12,510,716	Due and demandable; non-interest bearing	Unsecured; no impairment
Time deposit placements	—	308,452,900	42 to 59 days; 0.38 - 0.88%%	—
Accrued interest on time deposits	—	137,545	0.38 - 0.88%%	—
Interest income on time deposits	2,234,473	—	0.38 - 0.88%%	—
Savings and current deposits	—	74,302,250	0.25% - 0.50%	—
Interest income on savings deposit	159,598	—	0.25% - 0.50%	—
Other Underwriting Expense	43,707,357	—	—	—
Accounts payable and accrued expenses	—	43,763,266	—	—
<b>Federal Land Inc.</b>				
Direct premiums	14,633,282	—	—	—
Premiums receivable	—	7,250,891	Due and demandable; non-interest bearing	Unsecured; no impairment
Rent expense	17,667,888	—	—	—
Rental and security deposits	—	4,398,644	Due and demandable; non-interest bearing	—
Utilities	1,135,312	—	—	—
Association dues	2,901,600	—	—	—

(Forward)



Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
<b>ORIX Metro Leasing and Financing Corporation</b>				
Direct premiums	₱12,036,228	₱—	—	—
Premiums receivable	—	12,039,405	Due and demandable; non-interest bearing	Unsecured; no impairment
<b>LMI Insurance Agency, Inc.</b>				
Commission Expense	25,337,730	—	—	—
Commission Payable	—	237,229	Due and demandable; non-interest bearing	—
<b>OMLF Insurance Agency, Inc.</b>				
Commission Expense	71,711,784	—	—	—
Commission Payable	—	15,710,050	Due and demandable; non-interest bearing	—
<b>TMBC Insurance Agency, Inc.</b>				
Commission Expense	54,390,684	—	—	—
Commission Payable	—	5,605,574	Due and demandable; non-interest bearing	—
<b>ORIX Auto Leasing Phils. Corporation</b>				
Direct premiums	₱114,751	₱—	—	—
<b>ORIX Rental Corporation</b>				
Direct premiums	42,695,928	—	—	—
Premiums receivable	—	16,524,075	Due and demandable; non-interest bearing	Unsecured; no impairment
<b>Toyota Financial Services Philippine Corporation</b>				
Direct premiums	27,790,563	—	—	—
Premiums receivable	—	3,359,307	Due and demandable; non-interest bearing	Unsecured; no impairment
<b>Toyota Manila Bay Corporation</b>				
Direct premiums	343,621	—	—	—
Premiums receivable	—	397,704	Due and demandable; non-interest bearing	Unsecured; no impairment
<b>Toyota Motors Philippines Corporation</b>				
Direct premiums	23,796,498	—	—	—
Premiums receivable	—	5,287	Due and demandable; non-interest bearing	Unsecured; no impairment
<b>Cathay International Resources Corporation</b>				
Direct premiums	3,038,906	—	—	—
Premiums receivable	—	3,466,786	Due and demandable; non-interest bearing	Unsecured; no impairment
<b>GT Capital Holdings</b>				
Direct premiums	2,302,400	—	—	—
Premiums receivable	—	501,924	Due and demandable; non-interest bearing	Unsecured; no impairment
Dividend income	1,902	—	—	—
Investment in AFS equity securities	—	185,445	Common shares	—
Investment in AFS debt securities	—	20,302,617	10 years; 5.09%	Unsecured; no impairment

(Forward)



Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
Accrued interest on debt securities	₱—	₱76,971	5.09%	—
Interest income on debt securities	1,018,740	—	5.09%	—
<b>AXA Global P&amp;C (AXA Global RE)</b>				
Reinsurer's share of gross premiums on insurance contracts	995,616,549	—	—	—
Commission income	96,501,233	—	—	—
Funds held by ceding company	—	77,702,572	Non-interest bearing	Unsecured; no impairment
Reinsurance recoverable on paid losses	—	154,207,479	Due and demandable; non-interest bearing	Unsecured; no impairment
Reinsurance recoverable on unpaid losses	—	612,361,288	Non-interest bearing	Unsecured; no impairment
<b>First Metro Securities Brokerage Corporation</b>				
Premiums receivable	—	172,266	Due and demandable; non-interest bearing	Unsecured; no impairment
Direct premiums	203,728	—	—	—
<b>AXA Group Operations Hong Kong Limited (formerly AXA Technologies Services Asia Limited)</b>				
Service fee	24,717,810	—	—	—
<b>AXA Asia</b>				
Service fee	91,948,802	—	—	—
Accounts payable and accrued expenses	—	35,867,904	Non-interest bearing	Unsecured; no impairment
<b>MBTC Technology, Inc.</b>				
Direct premiums	1,347	—	—	—
Premiums receivable	—	616	Due and demandable; non-interest bearing	Unsecured; no impairment
<b>First Metro Asset Management, Inc.</b>				
Direct premiums	258,016	—	—	—
Premiums receivable	—	282,881	Due and demandable; non-interest bearing	Unsecured; no impairment
<b>AXA Corporate Solutions Assurance Singapore Branch</b>				
Reinsurer's share of gross premiums on insurance contracts	17,266,407	—	—	—
Commission income	1,923,150	—	—	—
Reinsurance recoverable on unpaid losses	—	767,525	Due and demandable; non-interest bearing	Unsecured; no impairment
Due to reinsurer	—	5,048,490	Non-interest bearing	Unsecured; no impairment
<b>AXA Insurance Singapore PTE LTD</b>				
Reinsurer's share of gross premiums on insurance contracts	23,071,728	—	—	—
Commission income	5,791,891	—	—	—
Due to reinsurer	—	232,835	Non-interest bearing	Unsecured; no impairment

(Forward)





Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
<b>AXA Group Operations SAS (formerly AXA Group Solutions SAS/AXA Services SAS)</b>				
Professional fees	₱2,900,791	₱—	—	—
<b>AXA Group Operations Malaysia Sdn. Bhd.</b>				
Service fees	758,730	—	—	—
<b>Sumisho Motor Finance Corp</b>				
Direct premiums	471,758	—	—	—
Premiums receivable	—	340,798	Due and demandable; non-interest bearing	Unsecured; no impairment
<b>Bonifacio Landmark Realty &amp; Development Corp. (formerly Morano Holdings, Corporation)</b>				
Direct premiums	38,974,570	—	—	—
<b>Federal Brent Retail, Inc.</b>				
Direct premiums	1,128,929	—	—	—
Premiums receivable	—	1,308,654	Due and demandable; non-interest bearing	Unsecured; no impairment
<b>Horizon Land Property and Development Corporation</b>				
Direct premiums	907,430	—	—	—
Premiums receivable	—	2,196,032	Due and demandable; non-interest bearing	Unsecured; no impairment
<b>HSL South Food, Inc.</b>				
Direct premiums	2,165	—	—	—
Premiums receivable	—	2,700	Due and demandable; non-interest bearing	Unsecured; no impairment
<b>Assist and Assistance Concept, Inc.</b>				
Other underwriting expense	15,527,363	—	—	—

December 31, 2019

Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
<b>Philippine AXA Life Insurance Corporation</b>				
Direct premiums	₱1,111,264	₱—	—	—
Premiums receivable	—	1,524,192	Due and Demandable; Non-interest bearing	Unsecured; no impairment
Shared service cost	81,420,233	—	—	—
Accounts payable and accrued expenses	—	135,932,015	Due and Demandable; Non-interest bearing	Unsecured; no impairment
<b>Metropolitan Bank and Trust Company</b>				
Direct premiums	28,942,276	—	—	—
Premiums receivable	—	33,757,194	Due and Demandable; Non-interest bearing	Unsecured; no impairment
Investment expense	317,106	—	—	—
Gain on sale of AFS financial assets	753,989	—	—	—
Dividend income	105,862	—	—	—

(Forward)



Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
Time deposit placements	P=	P320,000,000	53 to 91 days; 2.13 - 3.88%	—
Interest income on time deposits	12,206,435	—	2.13 - 3.88%	—
Accrued interest on time deposits	—	1,045,250	2.13 - 3.88%	—
Savings and current deposits	—	114,474,006	0.125 - 0.25%	—
Interest income on savings deposits	331,252	—	0.125 - 0.25%	—
Rent expense	6,173,332	—	—	—
Rental and security deposits	—	3,098,278	Non-interest bearing	No impairment
Utilities	519,954	—	—	—
Plan assets	—	30,917,824	—	No impairment
Metrobank Card Corporation				
Direct premiums	28,144,660	—	—	—
Premiums receivable	—	10,426,996	Due and demandable; non-interest bearing	Unsecured; no impairment
First Metro Investment Corporation				
Direct premiums	164,608	—	—	—
Premiums receivable	—	134,769	Due and demandable; non-interest bearing	Unsecured; no impairment
Interest income on AFS financial assets	459,375	—	5.75%	—
Philippine Savings Bank				
Direct premiums	26,475,004	—	—	—
Premiums receivable	—	12,122,151	Due and demandable; non-interest bearing	Unsecured; no impairment
Time deposit placements	—	76,892,800	33 to 67 days; 1.25 - 3.00%	—
Accrued interest on time deposits	—	144,929	1.25 - 3.00%	—
Interest income on time deposits	3,224,319	—	1.25 - 3.00%	—
Savings and current deposits	—	24,652,732	0.25% - 0.50%	—
Interest income on savings deposit	163,936	—	0.25% - 0.50%	—
Investment expenses	15,050	—	—	—
Interest income on AFS financial assets	548,625	—	5.50%	—
Federal Land Inc.				
Direct premiums	17,732,539	—	—	—
Premiums receivable	—	11,486,911	Due and demandable; non- interest bearing	Unsecured; no impairment
Rent expense	16,826,560	—	—	—
Rental and security deposits	—	4,189,185	Due and demandable; non- interest bearing	—
Utilities	3,165,986	—	—	—
Association dues	2,901,600	—	—	—
Metro Pacific Investments Corporation				
Loss on sale of AFS financial assets	807,850	—	—	—
Dividend income	54,672	—	—	—
ORIX Metro Leasing and Financing Corporation				
Direct premiums	5,656,519	—	—	—
Premiums receivable	—	14,375,354	Due and demandable; non- interest bearing	Unsecured; no impairment

(Forward)



Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
ORIX Auto Leasing Phils. Corporation				
Direct premiums	₱20,121	₱—		
Premiums receivable	—	73,214	Due and demandable; non-interest bearing	Unsecured; no impairment
ORIX Rental Corporation				
Direct premiums	25,286,376	—	—	—
Premiums receivable	—	8,234,030	Due and demandable; non-interest bearing	Unsecured; no impairment
Toyota Financial Services Philippine Corporation				
Direct premiums	22,554,025	—	—	—
Premiums receivable	—	26,065	Due and demandable; non-interest bearing	Unsecured; no impairment
Toyota Manila Bay Corporation				
Direct premiums	183,410	—	—	—
Premiums receivable	—	373,442	Due and demandable; non-interest bearing	Unsecured; no impairment
Toyota Motors Philippines Corporation				
Direct premiums	7,366,402	—	—	—
Premiums receivable	—	1,760,488	Due and demandable; non-interest bearing	Unsecured; no impairment
Cathay International Resources Corporation				
Direct premiums	2,266,170	—	—	—
Premiums receivable	—	631,992	Due and demandable; non-interest bearing	Unsecured; no impairment
GT Capital Holdings				
Direct premiums	2,197,652	—	—	—
Premiums receivable	—	407,743	Due and demandable; non-interest bearing	Unsecured; no impairment
Dividend income	11,919	—	—	—
Investment in AFS equity securities	—	268,499	Common shares	—
Investment in AFS debt securities	—	20,045,417	10 years; 5.09%	Unsecured; no impairment
Accrued interest on debt securities	—	76,971	5.09%	—
Interest income on debt securities	1,871,171	—	5.09%	—
Loss on sale of AFS financial assets	1,106,852	—	—	—
AXA Global P&C (AXA Global RE)				
Reinsurer's share of gross premiums on insurance contracts	1,429,403,270	—	—	—
Commission income	138,340,486	—	—	—
Funds held by ceding company	—	89,350,726	Non-interest bearing	Unsecured; no impairment
Reinsurance recoverable on paid losses	—	9,383,509	Due and demandable; non-interest bearing	Unsecured; no impairment
Reinsurance recoverable on unpaid losses	—	1,435,874,269	Non-interest bearing	Unsecured; no impairment
Due from ceding company	—	92,539	Due and demandable; non-interest bearing	Unsecured; no impairment
Due to reinsurer	—	216,401,456	Non-interest bearing	Unsecured; no impairment

(Forward)



Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
First Metro Securities Brokerage Corporation				
Investment expense	₱549,639	₱—	—	—
Premiums receivable	—	237,855	Due and demandable; non-interest bearing	Unsecured; no impairment
Direct premiums	173,702	—	—	—
AXA Group Operations Hong Kong Limited (formerly AXA Technologies Services Asia Limited)				
Service fee	15,900,000	—	—	—
Accounts payable and accrued expenses	—	15,900,000	Non-interest bearing	Unsecured; no impairment
AXA Asia				
Service fee	46,450,130	—	—	—
Accounts payable and accrued expenses	—	46,450,130	Non-interest bearing	Unsecured; no impairment
MBTC Technology, Inc.				
Direct premiums	896	—	—	—
First Metro Asset Management, Inc.				
Direct premiums	51,446	—	—	—
Premiums receivable	—	42,136	Due and demandable; non-interest bearing	Unsecured; no impairment
AXA Corporate Solutions Assurance Singapore Branch				
Reinsurer's share of gross premiums on insurance contracts	1,364,364	—	—	—
Commission income	380,029	—	—	—
Reinsurance recoverable on unpaid losses	—	20,163,744	Due and demandable; non-interest bearing	Unsecured; no impairment
Due to reinsurer	—	56,672	Non-interest bearing	Unsecured; no impairment
AXA Insurance Singapore PTE LTD				
Reinsurer's share of gross premiums on insurance contracts	28,046,416	—	—	—
Commission income	9,375,179	—	—	—
Due to reinsurer	—	9,281,325	Non-interest bearing	Unsecured; no impairment
Property Company of Friends, Inc.				
Premiums receivable	—	629,367	Due and demandable; non-interest bearing	Unsecured; no impairment
Sumisho Motor Finance Corp				
Premiums receivable	—	139,805	Due and demandable; non-interest bearing	Unsecured; no impairment
Bonifacio Landmark Realty & Development Corp. (formerly Morano Holdings, Corporation)				
Premiums receivable	—	9,444,327	Due and demandable; non-interest bearing	Unsecured; no impairment

(Forward)



Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
Federal Brent Retail, Inc. Premiums receivable	₱—	₱1,259,808	Due and demandable; non- interest bearing	Unsecured; no impairment
Horizon Land Property and Development Corporation Premiums receivable	—	1,810,968	Due and demandable; non- interest bearing	Unsecured; no impairment
HSL South Food, Inc. Premiums receivable	—	9,503	Due and demandable; non- interest bearing	Unsecured; no impairment
Micara Land Inc. Premiums receivable	—	9,459	Due and demandable; non- interest bearing	Unsecured; no impairment
OMLF Insurance Agency, Inc. Premiums receivable	—	109,508	Due and demandable; non- interest bearing	Unsecured; no impairment
Omni Orient Mgt Corp. (formerly Top Leader Property Management Corp.) Premiums receivable	—	32,549	Due and demandable; non- interest bearing	Unsecured; no impairment
Assist and Assistance Concept, Inc. Other underwriting expense	24,589,867	—	—	—

Companies within the AXA Group allocated certain expenses to the Company which pertains to shared service costs for providing services on management planning, support and maintenance services, procurement regional projects and information technology service delivery charges. Total amount of Service fees allocated to CPAIC are included in the 'Outside services' which amounted to ₱117.43 million and ₱62.35 million in 2020 and 2019, respectively (see Note 19).

## 24. Lease commitments

The Company is a party under various leases covering certain offices which have lease terms between 1 to 5 years for its branches. These leases have an average life of between 1 to 5 years with renewal terms included in the contracts. Generally, the Company is restricted from assigning and subleasing the leased assets. There are several lease contracts that include termination options which the management is reasonably certain not to exercise.

The Company has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased asset portfolio and align with the Company's business needs. Management exercises significant judgment in determining whether these assets and termination options are reasonably certain to be exercised. Based on management's assessment, the Company will not terminate any contracts and/or plan to avail of the extension of contracts.

The Company also has certain leases with lease terms of 12 months or less and leases with low-value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.





Set out below are the carrying amounts of right of use assets recognized and the movements during the period.

	Note	
At January 1, 2019		₱79,532,116
Additions		5,404,498
Depreciation expense	19	(25,251,148)
As at December 31, 2019		59,685,466
Additions		8,359,237
Depreciation expense	19	(23,949,182)
<b>As at December 31, 2020</b>		<b>₱44,095,521</b>

The Company also recognized lease liability with movements stated below:

	Note	2020	2019
At January 1		₱65,784,939	₱81,993,822
Additions		8,359,237	5,404,498
Interest expense		5,504,611	7,201,261
Payments		(31,018,744)	(28,814,642)
		<b>₱48,630,043</b>	<b>₱65,784,939</b>

The maturity analysis of lease liabilities is disclosed in Note 26.

The following are the amounts recognized in statement of income:

	Notes	2020	2019
Depreciation expense of right-of-use assets		₱23,949,182	₱25,251,148
Interest expense on lease liabilities		5,504,611	7,201,261
Expenses relating to short-term leases	19	2,051,735	4,742,345
Expenses relating to leases of low-value assets	19	2,179,189	2,059,346
<b>Total amount recognized in statement of income</b>		<b>₱33,684,717</b>	<b>₱39,254,100</b>

Minimum lease payments due:

	2020	2019
Within one (1) year	₱27,661,767	₱29,238,724
More than one (1) year but less than five (5) years	26,383,395	48,630,412
	<b>₱54,045,162</b>	<b>₱77,869,136</b>

## 25. Management of capital, insurance and financial risks

### Governance Framework

The Company has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risk. It also supports the effective implementation of policies at the individual business unit levels. The policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategy to the corporate goals and specify reporting requirements.



#### Regulatory Framework

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

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

On August 5, 2013, the President of the Philippines approved the Republic Act No. 10607 to be known as the “New Insurance 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.

On January 13, 2015, the IC issued Circular Letter No. 2015-02-A clarifying the minimum capitalization and net worth requirements of new and existing insurance companies in the Philippines. All domestic life and non-life insurance companies duly licensed by the IC must have a net worth of at least ₱250.00 million by December 31, 2013. The minimum net worth of the said companies shall remain unimpaired at all times and shall increase to the amounts as follows:

<b>Networth</b>	<b>Compliance Date</b>
₱550,000,000	December 31 ,2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

As of December 31, 2020, the Company’s estimated statutory net worth amounted to ₱2.21 billion and the Company’s net worth as of December 31, 2019 after verification of the Insurance Commission amounted to ₱1.63 billion.

As of December 31, 2020 and 2019, the Company has complied with the minimum net worth requirements.

The premiums received by the Company from policyholders are properly invested not only to provide for policy obligations but also to serve as capital or surplus to provide margin of safety which will attract insurance buyers.

The funds invested shall produce an investment income that will be needed to pay stockholders a fair return. While part of this income is due to favorable loss experience and sound cost management, a major portion of additional profits must be earned by managing the investment portfolio to produce a higher return on investment. While there may be a wide range of investment opportunities, the investment portfolio must always reflect the safety of the funds.

Since these funds are held in fiduciary capacity, the New Insurance Code contains investment provisions that the Company should observe to protect the interest of the policyholders and of the stockholders.



The three (3) general classifications of investment requirements are:

1. **Capital Investments** - The Company must invest at least 25% of its minimum net worth in bonds or other evidences of debt of the Government of the Philippines or its political subdivisions or in government-owned or controlled corporations and entities, including the Bangko Sentral ng Pilipinas.

Furthermore, investments shall at all times be maintained free from any lien or encumbrance and shall be deposited and held by the Commissioner of the IC for the benefit and security of the policyholders.

2. **Reserve Investment** - The Company must invest 100% of the Reserve for unearned premiums and Reserve funds withheld for authorized reinsurer in common or preferred stocks and government or private bonds, real estate and real estate loans, collateral loans, adequately secured obligations and other securities as may be approved by the Commissioner.
3. **Surplus Investment** - After complying with the capital and reserve investment requirements, the Company may invest any portion of its funds, representing earned surplus in stocks, bonds, real estate, equities of other financial institutions, engaged in the buying and selling of short-term debt instruments, securities issued by registered enterprises under Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987.

Section 201 of the New Insurance Code provides that a domestic nonlife insurance company shall declare or distribute dividends on its outstanding capital stock only from profits remaining on hand after retaining unimpaired:

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

#### **Risk-based capital requirements**

In 2006, the IC issued Memorandum Circular (IMC) No. 7-2006 adopting a risk-based capital framework to establish the required amounts of capital to be maintained by non-life insurance companies in relation to their investment and insurance risks. The RBC ratio of a company shall be calculated as Net worth divided by the RBC requirement. Net worth shall include the Company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the Insurance Commissioner.

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



The minimum RBC ratio is set at 100%. All insurance companies are required to maintain the minimum RBC ratio and not fail the Trend Test.

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

	2020	2019
Total Available Capital	<b>₱2,446,389,244</b>	₱2,189,865,247
RBC requirement	<b>735,611,115</b>	893,489,308
RBC Ratio	<b>333%</b>	245%

The final RBC ratio can be determined only after the accounts of the Company have been examined by the IC specifically as to admitted and non-admitted assets as defined under the Code. The 2019 RBC ratio was determined final during the examination made by the IC.

#### **New regulatory framework**

Pursuant to the powers vested in the Insurance Commissioner by Sections 189, 200, 437 and 438 of Republic Act (RA) No. 10607, otherwise known as the Insurance Code, as amended, the following regulatory requirements and actions for the new regulatory framework are hereby adopted and promulgated:

*Circular Letter 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 Amended Insurance Code and all other accounts not discussed in the Amended Insurance Code but are used in accounting of insurance and reinsurance companies. This circular was further amended by CL No. 2018-54 to clarify the provisions of Section 6.1 ("Miscellaneous Provisions").

*Circular Letter 2018-18, Valuation Standards for Non-Life Insurance Policy Reserves*, prescribes the new valuation methodology for the non-life insurance companies. This CL supersedes CL No. 2016-67 and amends CL No. 2015-06 "New Reserves Computation for the Compulsory Insurance Coverage for Migrant Workers." CL No. 2018-18 was further supplemented by CL No. 2018-76, Discount Rates for Non-Life Insurance Policy Reserves as of 31 December 2018, prescribing the use of Peso spot and forward rates derived from the PHP BVAL Reference rates from Bloomberg and the Dollar spot and forward rates derived from the International Yield Curve from Bloomberg for Peso-denominated and US Dollar-denominated policies, respectively.

*Circular Letter 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 (TAC) divided by the RBC requirement.

#### *Implementation requirements and transition accounting*

*Circular Letter No. 2016-69, Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-based Capital Framework*. The new regulatory requirements under circular letters 2016-65, 2016-68 and 2018-18 shall take effect beginning January 1, 2017.



This circular was further amended by CL No. 2018-19 allowing companies to set the Margin for Adverse Deviation (MfAD) as follows:

Period Covered	Percentage (%) of company specific MfAD
2017	0%
2018	50%
2019 onwards	100%

*Circular Letter No. 2017-15, Regulatory Requirements and Actions for the New Regulatory Framework.* The cumulative prior year impact of the changes arising from the adoption of the New Financial Reporting Framework, including the revaluation of the reserves for Claims and Premiums Liabilities computed based on the new valuation standards for non-life insurance policy reserves as provided under CL No. 2016-67, shall be recognized in “Retained Earnings – Transition Adjustments” account except for items listed in Section 2.1. All changes in valuation shall be measured net of any tax effect.

*Circular Letter No. 2020-58, Regulatory Relief on the admittance of Premiums Receivable due to COVID-19 pandemic.* The basis for admitting Premium Receivable account (direct agents, general agents and insurance brokers) for all non-life insurance and professional reinsurance companies shall be adjusted from ninety (90) days to one hundred eighty (180) days from the date of issuance of the policies. This rule shall be applied to annual and quarterly financial reports for the year 2020 unless extended or changed as deemed necessary by this Commission.

#### Insurance Risk

The risk under insurance contracts is the possibility of occurrence of insured event and uncertainty of the amount and timing of resulting claims. The principal risk the Company faces under such contracts is that the actual claims exceed the carrying amount of insurance liabilities. This could occur due to any of the following:

Occurrence risk - the possibility that the number of insured events will differ from those expected.

Severity risk - the possibility that the cost of the events will differ from those expected.

Development risk - the possibility that changes may occur in the amount of an insurer’s obligation at the end of the contract period.

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

The business of the Company comprises short-term nonlife insurance contracts. For general insurance contracts, claims are often affected by natural disasters, calamities, terrorist attacks, etc.

These risks currently do not vary significantly in relation to the location of the risk insured by the Company whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.





The Company has an objective to control and minimize insurance risk, to reduce volatility of operating profits. The Company manages insurance risk through the following mechanisms:

The use and maintenance of management information systems that provide up-to-date, accurate and reliable data on risk exposure at any point in time.

Guidelines are issued for concluding insurance contracts and assuming insurance risks. Pro-active claims handling procedures are followed to investigate and adjust claims thereby preventing settlement of dubious or fraudulent claims.

Reinsurance is used to limit the Company's exposure to large claims by placing risk with reinsurers providing high security.

Diversification is accomplished by achieving sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

#### Reinsurance

The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the business ceded is placed on a quota-share basis with retention limits varying by 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.

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

The Company is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any reinsurance contract.

The following table sets out the concentration of the claims liabilities by type of contract:

	2020			2019		
	Gross Liabilities	Reinsurers' Share of Liabilities	Net Liabilities	Gross Liabilities	Reinsurers' Share of Liabilities	Net Liabilities
Fire	₱2,868,225,830	₱2,065,322,921	₱802,902,909	₱3,449,718,159	₱2,359,875,673	₱1,089,842,486
Engineering	160,073,079	117,374,802	42,698,277	185,175,899	114,383,715	70,792,184
Bonds	219,330,550	161,769,718	57,560,832	282,038,743	214,574,280	67,464,463
Motorcar	754,692,212	110,876	754,581,336	824,916,358	34,389,565	790,526,793
Marine	183,344,961	106,044,947	77,300,014	121,568,846	53,968,367	67,600,479
Accident	63,075,136	8,060,200	55,014,936	69,244,275	13,931,114	55,313,161
Casualty	129,750,572	112,140,545	17,610,027	168,514,292	150,028,447	18,485,845
	<b>₱4,378,492,340</b>	<b>₱2,570,824,009</b>	<b>₱1,807,668,331</b>	<b>₱5,101,176,572</b>	<b>₱2,941,151,161</b>	<b>₱2,160,025,411</b>

\*gross of allowance

#### Terms and Conditions

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



For general insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and IBNR) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the end of the reporting period.

The provisions are refined quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

Claims provisions are separately analyzed by class of business. In addition, larger claims are usually either separately assessed by loss adjusters. The claims projection assumptions are generally intended to provide a best estimate of the most likely or expected outcome.

#### Assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example once off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

#### Sensitivities

The general insurance claims provision is sensitive to the above key assumptions. The sensitivity of certain assumptions such as legislative change, uncertainty in the estimation process, etc., is not possible to quantify.

The analysis below is performed for a reasonable possible movement in key assumptions with all other assumptions held constant, on the statement of comprehensive income and equity.

#### December 31, 2020

	Change in assumptions	Increase (decrease) in gross liabilities	Increase (decrease) in net liabilities	Increase (decrease) in profit before tax	Increase (decrease) in equity
Average claim cost	42.40%	₱1,856,609,461	₱827,502,303	(₱827,502,303)	(₱579,251,612)
Average number of claims	-37.74%	(1,652,296,843)	(736,438,908)	736,438,908	515,507,236

#### December 31, 2019

	Change in assumptions	Increase (decrease) in gross liabilities	Increase (decrease) in net liabilities	Increase (decrease) in profit before tax	Increase (decrease) in equity
Average claim cost	23.63%	₱1,205,514,639	₱544,454,560	(₱544,454,560)	(₱381,118,192)
Average number of claims	-17.25%	(880,115,599)	(397,492,436)	397,492,436	278,244,705

#### Claims Development Table

Reproduced below are the tables showing the development of claims over a period of time on a gross and net reinsurance basis for fire, engineering, bonds, motorcar, marine, personal accident and casualty lines.



The tables reflect the cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each end of the reporting period, together with cumulative payments to date.

Gross general insurance contract liabilities for 2020

Accident year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
<b>Estimate of ultimate claims costs:</b>											
At the end of accident year	₹3,516,849,519	₹1,336,296,954	₹2,908,571,719	₹1,548,416,776	₹1,626,715,450	₹2,124,908,695	₹2,656,448,702	₹3,480,606,464	₹3,544,628,454	₹1,674,778,395	₹1,674,778,395
One year later	3,528,895,646	1,614,302,433	3,554,834,687	1,561,574,619	1,905,134,447	2,106,638,531	2,789,414,948	3,537,860,707	3,571,055,540	-	3,571,055,540
Two years later	3,539,224,836	1,633,220,075	3,432,978,063	1,531,214,385	1,850,268,227	2,028,565,958	2,666,436,105	3,576,609,741	-	-	3,576,609,741
Three years later	3,997,342,731	1,600,622,671	3,429,176,669	1,496,233,910	1,803,874,862	2,022,039,280	2,650,204,223	-	-	-	2,650,204,223
Four years later	3,519,285,994	1,578,206,539	3,395,395,803	1,488,957,220	1,804,444,913	2,003,086,914	-	-	-	-	2,003,086,914
Five years later	3,505,243,426	1,576,688,403	3,398,986,445	1,485,875,067	1,795,314,750	-	-	-	-	-	1,795,314,750
Six years later	3,500,414,231	1,577,293,203	3,398,197,613	1,487,929,171	-	-	-	-	-	-	1,487,929,171
Seven years later	3,331,115,861	1,579,148,863	3,399,222,410	-	-	-	-	-	-	-	3,399,222,410
Eight years later	3,331,006,853	1,578,323,289	-	-	-	-	-	-	-	-	1,578,323,289
Nine years later	3,365,434,872	-	-	-	-	-	-	-	-	-	3,365,434,872
Current estimate of cumulative claims	3,365,434,872	1,578,323,289	3,399,222,410	1,487,929,171	1,795,314,750	2,003,086,914	2,650,204,223	3,576,609,741	3,571,055,540	1,674,778,395	25,101,959,306
Cumulative payments to date	2,431,262,663	1,572,425,498	3,385,249,298	1,467,160,282	1,792,354,024	1,939,705,420	2,466,414,067	3,462,301,865	2,669,217,225	661,601,245	21,847,691,586
<b>Total gross insurance liabilities included in the statement of financial position (Note 12)</b>	<b>₹934,172,210</b>	<b>₹5,897,791</b>	<b>₹13,973,113</b>	<b>₹20,768,889</b>	<b>₹2,960,725</b>	<b>₹63,381,494</b>	<b>₹183,790,156</b>	<b>₹114,307,876</b>	<b>₹901,838,315</b>	<b>₹1,013,177,150</b>	<b>₹3,254,267,520</b>

Net general insurance contract liabilities for 2020

Accident year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
<b>Estimate of ultimate claims costs:</b>											
At the end of accident year	₹2,023,147,135	₹656,761,606	₹928,043,485	₹924,271,079	₹1,249,107,061	₹1,718,102,322	₹1,903,172,605	₹-	₹-	₹-	₹1,903,172,605
One year later	1,883,976,613	658,149,174	907,634,032	934,304,280	1,247,895,401	1,726,804,887	-	-	-	-	1,726,804,887
Two years later	2,040,377,932	683,895,453	1,071,379,205	933,863,422	1,244,887,700	1,718,520,921	1,952,065,037	2,389,024,916	-	-	2,389,024,916
Three years later	2,023,147,135	656,761,606	928,043,485	924,271,079	1,249,107,061	1,718,102,322	1,903,172,605	-	-	-	1,903,172,605
Four years later	1,883,976,613	658,149,174	907,634,032	934,304,280	1,247,895,401	1,726,804,887	-	-	-	-	1,726,804,887
Five years later	2,017,828,790	657,467,857	911,319,017	935,706,141	1,246,162,790	-	-	-	-	-	1,246,162,790
Six years later	1,979,614,734	657,941,559	912,205,348	937,167,104	-	-	-	-	-	-	937,167,104
Seven years later	1,945,672,987	659,359,640	912,132,005	-	-	-	-	-	-	-	912,132,005
Eight years later	1,945,938,517	659,341,179	-	-	-	-	-	-	-	-	659,341,179
Nine years later	1,960,059,908	-	-	-	-	-	-	-	-	-	1,960,059,908
Current estimate of cumulative claims	1,960,059,908	659,341,179	912,132,005	937,167,104	1,246,162,790	1,726,804,887	1,903,172,605	2,389,024,916	2,604,065,515	1,466,416,720	15,804,347,629
Cumulative payments to date	1,913,310,758	658,191,207	908,520,545	934,119,687	1,245,393,617	1,724,449,610	1,876,768,207	2,332,192,808	2,291,451,470	642,782,570	14,527,180,478
<b>Total net insurance liabilities included in the statement of financial position (Note 12)</b>	<b>₹46,749,150</b>	<b>₹1,149,972</b>	<b>₹3,611,460</b>	<b>₹3,047,417</b>	<b>₹769,173</b>	<b>₹2,355,276</b>	<b>₹26,404,398</b>	<b>₹56,832,108</b>	<b>₹312,614,045</b>	<b>₹823,634,151</b>	<b>₹1,277,167,151</b>

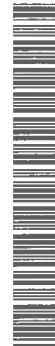


Gross general insurance contract liabilities for 2019

Accident year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claims costs:											
At the end of accident year	₱2,622,456,194	₱894,393,325	₱1,336,296,954	₱2,908,571,719	₱1,548,416,776	₱1,626,715,450	₱2,124,908,695	₱2,656,448,702	₱3,480,606,464	₱3,544,628,454	₱3,544,628,454
One year later	2,627,084,140	901,811,507	1,614,302,433	3,554,834,687	1,561,574,619	1,905,134,447	2,106,638,531	2,789,414,948	3,537,860,707	-	3,537,860,707
Two years later	2,731,967,519	807,257,317	1,633,220,075	3,432,978,063	1,531,214,385	1,850,268,227	2,028,565,958	2,666,436,105	-	-	2,666,436,105
Three years later	3,190,178,960	807,163,772	1,600,622,671	3,429,176,669	1,496,233,910	1,803,874,862	2,022,039,280	-	-	-	2,022,039,280
Four years later	2,709,754,979	809,531,015	1,578,206,539	3,395,395,803	1,488,957,220	1,804,444,913	-	-	-	-	1,804,444,913
Five years later	2,692,868,864	812,374,562	1,576,688,403	3,398,986,445	1,485,875,067	-	-	-	-	-	1,485,875,067
Six years later	2,690,573,549	809,840,682	1,577,293,203	3,398,197,613	-	-	-	-	-	-	3,398,197,613
Seven years later	2,520,690,270	810,425,591	1,579,148,863	-	-	-	-	-	-	-	1,579,148,863
Eight years later	2,519,719,565	811,287,288	-	-	-	-	-	-	-	-	811,287,288
Nine years later	2,553,974,791	-	-	-	-	-	-	-	-	-	2,553,974,791
Current estimate of cumulative claims	2,553,974,791	811,287,288	1,579,148,863	3,398,197,613	1,485,875,067	1,804,444,913	2,022,039,280	2,666,436,105	3,537,860,707	3,544,628,454	23,403,893,080
Cumulative payments to date	1,650,351,220	797,714,898	1,552,143,451	3,369,169,953	1,460,266,975	1,794,968,883	1,833,788,454	2,353,783,466	2,879,047,258	1,245,743,492	18,936,978,051
Total gross insurance liabilities included in the statement of financial position (Note 12)	₱903,623,570	₱13,572,390	₱27,005,412	₱29,027,660	₱25,608,092	₱9,476,030	₱188,250,826	₱312,652,638	₱658,813,449	₱2,298,884,962	₱4,466,915,029

Net general insurance contract liabilities for 2019

Accident year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claims costs:											
At the end of accident year	₱3,938,390,744	₱525,272,773	₱999,723,769	₱2,419,674,451	₱1,116,483,010	₱1,340,401,248	₱1,745,978,418	₱1,813,246,675	₱2,278,514,311	₱2,479,547,862	₱2,479,547,862
One year later	1,369,896,801	742,652,867	684,008,612	1,447,524,769	1,002,727,502	1,281,375,633	1,757,071,046	1,989,127,453	2,522,969,840	-	2,522,969,840
Two years later	1,502,926,012	537,451,921	683,895,453	1,071,379,205	933,863,422	1,244,887,700	1,718,520,921	1,952,065,037	-	-	1,952,065,037
Three years later	1,486,014,045	537,133,090	656,761,606	928,043,485	924,271,079	1,249,107,061	1,718,102,322	-	-	-	1,718,102,322
Four years later	1,348,149,773	535,826,840	658,149,174	907,634,032	934,304,280	1,247,895,401	-	-	-	-	1,247,895,401
Five years later	1,477,783,974	540,044,816	657,467,857	911,319,017	935,706,141	-	-	-	-	-	935,706,141
Six years later	1,442,178,227	537,436,507	657,941,559	912,205,348	-	-	-	-	-	-	912,205,348
Seven years later	1,407,651,569	538,021,417	659,359,640	-	-	-	-	-	-	-	659,359,640
Eight years later	1,407,031,645	538,906,872	-	-	-	-	-	-	-	-	538,906,872
Nine years later	1,421,003,201	-	-	-	-	-	-	-	-	-	1,421,003,201
Current estimate of cumulative claims	1,421,003,201	538,906,872	659,359,640	912,205,348	935,706,141	1,247,895,401	1,718,102,322	1,952,065,037	2,522,969,840	2,479,547,862	14,387,761,665
Cumulative payments to date	1,367,501,603	514,349,911	614,794,423	888,430,846	913,831,491	1,245,889,977	1,634,381,542	1,787,096,635	2,331,539,789	1,454,557,818	12,752,374,035
Total net insurance liabilities included in the statement of financial position (Note 12)	₱53,501,598	₱24,556,961	₱44,565,217	₱23,774,502	₱21,874,650	₱2,005,424	₱83,720,781	₱164,968,402	₱191,430,051	₱1,024,990,044	₱1,635,387,630



### Financial Instruments

The table below presents the carrying amounts and fair values of the Company's non-derivative financial instruments as of December 31, 2020 and 2019.

	2020		2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Loans and Receivables</b>				
Cash and cash equivalents	₱1,502,771,985	₱1,502,771,985	₱1,088,028,023	₱1,088,028,023
Short-term investments	—	—	38,000,000	38,000,000
Insurance receivables – net	1,755,988,754	1,755,988,754	2,133,137,213	2,133,137,213
Loans and receivables:				
Accounts receivable – net	38,191,521	38,191,521	25,970,938	25,970,938
Accrued income	38,144,868	38,144,868	43,681,800	43,681,800
<b>AFS Financial Assets</b>				
Equity securities	26,769,095	26,769,095	33,567,149	33,567,149
Government debt	3,891,046,894	3,891,046,894	4,543,868,098	4,543,868,098
Private debt	539,183,029	539,183,029	588,470,354	588,470,354
<b>Total Financial Assets</b>	<b>₱7,792,096,146</b>	<b>₱7,792,096,146</b>	<b>₱8,494,723,575</b>	<b>₱8,494,723,575</b>
<b>Other Financial Liabilities:</b>				
Provision for claims reported by policyholders	4,378,492,340	4,378,492,340	5,101,176,572	₱5,101,176,572
Insurance payables:				
Due to reinsurers	173,938,015	173,938,015	377,103,176	377,103,176
Funds held for reinsurers	78,757,115	78,757,115	90,909,853	90,909,853
Accounts payable and accrued expenses				
Accounts payable	983,758,534	983,758,534	834,228,380	834,228,380
Commissions payable	355,568,924	355,568,924	372,282,353	372,282,353
Accrued expenses	283,749,179	283,749,179	275,046,314	275,046,314
Lease liability	48,630,043	48,630,043	65,784,939	65,784,939
<b>Total Other Financial Liabilities</b>	<b>₱6,302,894,150</b>	<b>₱6,302,894,150</b>	<b>₱7,116,531,587</b>	<b>₱7,116,531,587</b>

Due to the short-term nature of cash and cash equivalents, short-term investments, insurance receivables, loans and receivables, insurance payables, and accounts payable and accrued expenses, their carrying values reasonably approximate fair values at year-end.

The fair value of AFS financial assets that are actively traded in organized financial markets is determined by reference to quoted market prices at the close of business on the reporting date, or last trading day as applicable.

The fair value of unquoted equity shares where the fair value is not reasonably determinable due to the unpredictable nature of cash flows and the lack of suitable method at arriving at a reliable fair value are carried at cost.

### Fair Value Hierarchy

The Company classifies its financial assets and property and equipment at fair value as follows:

#### December 31, 2020

	Date of valuation	Quoted in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
<b>Assets measured at fair value:</b>					
<b>AFS financial assets</b>					
Government debt securities	December 31	₱3,891,046,895	₱—	₱—	₱3,891,046,895
Private debt securities	December 31	539,183,028	—	—	539,183,028
<b>Quoted equity securities:</b>					
Common shares	December 31	252,445	—	—	252,445
Preferred shares	December 31	25,860,000	—	—	25,860,000
Club shares	December 31	—	600,000	—	600,000
<b>Property and equipment:</b>					
Real estate properties	December 7, 2017	—	—	129,544,000	129,544,000
<b>Total</b>		<b>₱4,456,342,368</b>	<b>₱600,000</b>	<b>₱129,544,000</b>	<b>₱4,586,486,368</b>





**December 31, 2019**

	Date of valuation	Quoted in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value:					
AFS financial assets					
Government debt securities	December 31	₱4,543,868,098	₱—	₱—	₱4,543,868,098
Private debt securities	December 31	588,470,354	—	—	588,470,354
Quoted equity securities:					
Common shares	December 31	351,499	—	—	351,499
Preferred shares	December 31	32,189,000	—	—	32,189,000
Club shares	December 31	—	970,000	—	970,000
Property and equipment:					
Real estate properties	December 7, 2017	—	—	150,448,140	150,448,140
<b>Total</b>		<b>₱5,164,878,951</b>	<b>₱970,000</b>	<b>₱150,448,140</b>	<b>₱5,316,297,091</b>

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

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

As of December 31, 2020 and 2019, the Company classifies AFS financial assets under Level 1 of the fair value hierarchy.

During the reporting period ended December 31, 2020 and 2019, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

**Fair value disclosure under the Amendments to PFRS 4**

The table below presents an analysis of the fair value of classes of financial assets of the Company as of December 31, 2020, as well as the corresponding change in fair value for the year then ended. The financial assets are divided into two categories:

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

**December 31, 2020**

	SPPI financial assets		Other financial assets	
Financial asset	Fair value	Fair value change	Fair value	Fair value change
Cash and cash equivalents	₱1,502,771,985	₱—	₱—	₱—
AFS financial assets	4,430,229,923	92,067,399	26,769,095	653,210
Accounts receivables - net	38,191,521	—	—	—
Accrued income	38,144,868	—	—	—



December 31, 2019

Financial asset	SPPI Financial assets		Other Financial assets	
	Fair value	Fair value change	Fair value	Fair value change
Cash and cash equivalents	₱1,088,028,023	₱-	₱-	₱-
AFS financial assets	38,000,000	-	-	-
Accounts receivables - net	5,132,338,452	176,924,015	33,567,149	(104,094,100)
Accrued income	25,970,938	-	-	-

### Financial Risk

The Company is exposed to financial risk through its financial assets, financial liabilities and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and liabilities are credit risk, liquidity risk and interest rate risk.

The Company's objectives in managing exposure to financial risks include providing financial security to policyholders, ensure prompt payment of its obligations and to provide owners with a satisfactory return on their investments.

To ensure that these objectives are met, the Company's policies and procedures require monitoring of financial risks by the Comptroller and regularly reviewed by the BOD.

### *Credit risk*

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

Management has established a credit control policy, which provides for terms of business and credit reference criteria. The policy requires that financial references are obtained for each agent and broker when credit is given. Credit terms are set for the counterparty but these are withdrawn or restricted when these are breached. Any deviation from the policy requires justification subject to approval by the management.

The Company's procedures provide for the monitoring of the counterparty's ability to meet its obligations through regular review of each account. Statements of accounts with covering letter are regularly sent to agents and brokers reminding them of their outstanding balances and to follow up payment. Reconciliation of accounts is also done on a regular basis.

The credit control policy is regularly reviewed by the management and amended as necessary.

For cash and cash equivalents and investments, the Company considers the safety of the investment, yield or income, liquidity, diversification, capital growth and appreciation.

The following are the acceptable instruments set up by the Investment Committee in order of priority:

1. Government securities
2. Special savings accounts/ bank promissory notes
3. Commercial papers with credit rating of two (2) for short term and B for long term
4. Preferred and common stocks (blue chip stocks only)



The table below shows the maximum exposure to credit risk for the components of its statement of financial position:

	2020	2019
Cash and cash equivalents (excluding cash on hand)	<b>₱1,502,521,364</b>	₱1,087,772,948
Short-term investments	—	38,000,000
Insurance receivables	<b>1,755,988,754</b>	2,133,137,213
Financial assets:		
AFS financial assets		
Quoted equity securities	<b>26,712,445</b>	33,510,499
Unquoted equity securities	<b>56,650</b>	56,650
Quoted debt securities	<b>4,430,229,923</b>	5,132,338,452
Loans and receivables	<b>76,336,389</b>	69,652,738
	<b>₱7,791,845,525</b>	₱8,494,468,500

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

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties.

#### **December 31, 2020**

	Neither Past Due nor Impaired		Past Due	Total
	Investment Grade	Satisfactory	or Impaired	
Cash and cash equivalents	<b>₱1,502,771,985</b>	<b>₱—</b>	<b>₱—</b>	<b>₱1,502,771,985</b>
Insurance receivables:				
Premiums receivable and agents' balances	—	735,371,939	831,307,762	1,566,679,701
Reinsurance recoverable on paid losses	88,045,201	25,877,818	290,340,795	404,263,814
Due from ceding companies	—	13,494,354	35,464,361	48,958,715
Bonds recoverable on paid losses	—	—	29,272,723	29,272,723
Funds held by ceding companies	—	13,456,932	—	13,456,932
Financial assets:				
AFS financial assets:				
Quoted equity securities:	252,445	—	—	252,445
Common shares	25,860,000	—	—	25,860,000
Preferred shares	—	—	—	—
Club shares	—	600,000	—	600,000
Unquoted equity securities:	—	35,125	—	35,125
Common shares	—	21,525	—	21,525
Preferred shares	—	—	—	—
Government debt securities:	3,848,924,583	—	—	3,848,924,583
Local currency	42,122,311	—	—	42,122,311
Foreign currency	539,183,029	—	—	539,183,029
Private debt securities	—	—	—	—
Loans and receivables:				
Accounts receivable	7,309,784	34,713,141	—	42,022,925
Accrued income	38,144,868	—	—	38,144,868
Total	<b>₱6,092,614,206</b>	<b>₱823,570,834</b>	<b>₱1,186,385,641</b>	<b>₱8,102,570,681</b>



**December 31, 2019**

	Neither Past Due nor Impaired		Past Due or Impaired	Total
	Investment Grade	Satisfactory		
Cash and cash equivalents	₱1,088,028,023	₱—	₱—	₱1,088,028,023
Short-term investments	38,000,000	—	—	38,000,000
Insurance receivables:				
Premiums receivable and agents' balances	—	927,282,124	1,307,126,506	2,234,408,630
Reinsurance recoverable on paid losses	9,719,326	17,259,254	268,044,020	295,022,600
Due from ceding companies	92,540	14,044,422	36,291,668	50,428,630
Bonds recoverable on paid losses	—	—	29,272,723	29,272,723
Funds held by ceding companies	—	12,785,977	—	12,785,977
Financial assets:				
AFS financial assets:				
Quoted equity securities:				
Common shares	351,499	—	—	351,499
Preferred shares	32,189,000	—	—	32,189,000
Club shares	—	970,000	—	970,000
Unquoted equity securities:				
Common shares	—	35,125	—	35,125
Preferred shares	—	21,525	—	21,525
Government debt securities:				
Local currency	4,500,021,389	—	—	4,500,021,389
Foreign currency	43,846,709	—	—	43,846,709
Private debt securities	588,470,354	—	—	588,470,354
Loans and receivables:				
Accounts receivable	—	3,818,396	25,983,946	29,802,342
Accrued income	43,681,800	—	—	43,681,800
<b>Total</b>	<b>₱6,344,400,640</b>	<b>₱976,216,823</b>	<b>₱1,666,718,863</b>	<b>₱8,987,336,326</b>

The Company uses a credit rating concept based on the borrowers and counterparties' overall creditworthiness, as follows:

**Investment grade** - This rating class is given to borrowers and counterparties who possess strong to very strong capacity to meet its obligations. These financial assets have the smallest degree of financial risk.

**Satisfactory** - This rating class is given to borrowers and counterparties who possess above average capacity to meet its obligations.

The tables below show the analysis of age of financial assets that are past due or impaired:

**December 31, 2020**

	Age analysis of financial assets past-due but not impaired				Total past due but not impaired	Past-due and impaired	Total
	1 to 30 days	31 to 60 days	61 to 90 days	over 90 days			
Insurance receivables:							
Premiums receivable and agents' balances	₱207,300,554	₱99,975,715	₱88,116,973	₱262,595,134	₱657,988,376	₱173,319,386	₱831,307,762
Reinsurance recoverable on paid losses	727,967	673,452	8,971,680	177,671,270	188,044,369	102,296,426	290,340,795
Due from ceding companies	3,123,083	1,787,291	808,538	25,819,492	31,538,404	3,925,957	35,464,361
Bonds recoverable on paid losses	—	—	—	2,171,361	2,171,361	27,101,362	29,272,723
Accounts receivable	2,406,054	5,192,718	3,799,019	19,483,946	30,881,737	3,831,404	34,713,141
<b>Total</b>	<b>₱213,557,658</b>	<b>₱107,629,176</b>	<b>₱101,696,210</b>	<b>₱487,741,203</b>	<b>₱910,624,247</b>	<b>₱310,474,535</b>	<b>₱1,221,098,782</b>



**December 31, 2019**

	Age analysis of financial assets past-due but not impaired				Total past due but not impaired	Past-due and impaired	Total
	1 to 30 days	31 to 60 days	61 to 90 days	over 90 days			
Insurance receivables:							
Premiums receivable and agents' balances	₱226,582,711	₱163,527,780	₱152,004,699	₱405,621,255	₱947,736,445	₱359,390,061	₱1,307,126,506
Reinsurance recoverable on paid losses	8,064,989	1,099,014	9,295,457	150,965,007	169,424,467	98,619,553	268,044,020
Due from ceding companies	3,892,041	1,969,099	1,681,255	25,078,903	32,621,298	3,670,370	36,291,668
Bonds recoverable on paid losses	-	-	-	-	-	29,272,723	29,272,723
Accounts receivable	1,294,046	694,776	632,088	19,531,632	22,152,542	3,831,404	25,983,946
<b>Total</b>	<b>₱239,833,787</b>	<b>₱167,290,669</b>	<b>₱163,613,499</b>	<b>₱601,196,797</b>	<b>₱1,171,934,752</b>	<b>₱494,784,111</b>	<b>₱1,666,718,863</b>

**Credit risk disclosure under the Amendments to PFRS 4**

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

**December 31, 2020**

SPPI financial asset	Investment grade	Non-investment grade:	Unrated	Total
		Satisfactory		
Cash and cash equivalents	₱1,484,551,899	₱17,918,349	₱51,116	₱1,502,521,364
AFS financial assets	4,430,229,923	-	-	4,430,229,923
Accounts receivables - net	-	-	38,191,521	38,191,521
Accrued income	38,144,868	-	-	38,144,868

**December 31, 2019**

SPPI financial asset	Investment grade	Non-investment grade:	Unrated	Total
		Satisfactory		
Cash and cash equivalents	₱1,081,772,948	₱5,000,000	₱1,255,075	₱1,088,028,023
AFS financial assets	5,132,338,452	-	-	5,132,338,452
Accounts receivables - net	-	-	25,970,938	25,970,938
Accrued income	43,681,800	-	-	43,681,800

**Liquidity risk**

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

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

It is the Company's objective to develop a plan that will provide a well-balanced cash flow to ensure that enough cash is available to meet its obligations and to fund its operational requirements. A well-managed cash flow statement will yield positive cash balance in compliance to the requirement of the IC.

To meet these objectives, the Company prepares a Cash Flow Plan which entails forecasting and tabulating all significant cash inflows relating to premiums paid by policyholders, interest received



from investments and others, and analyzing in detail the timing of expected payments relating to supplies, wages, other expenses, capital expenditure, dividends, tax, and others. Excess funds resulting from a positive cash flows are invested in short-term placements and high yielding government securities.

The table below summarizes the maturity profile of the financial assets and liabilities of the Company using undiscounted contractual amounts based on remaining contractual maturity, or for the insurance contract liabilities, based on the estimated timing of net cash outflows.

### December 31, 2020

	No term	Up to a year	1 to 3 years	3 to 5 years	Over 5 years	Total
Cash and cash equivalents	₱1,502,771,985	₱-	₱-	₱-	₱-	₱1,502,771,985
Insurance receivables	-	1,755,988,754	-	-	-	1,755,988,754
Financial assets:						
AFS financial assets*	26,769,095	1,400,069,898	2,185,001,728	871,021,785	212,833,811	4,695,696,317
Loans and receivables*	-	76,336,389	-	-	-	76,336,389
Reinsurance assets	-	2,803,928,874	-	-	-	2,803,928,874
<b>Total financial assets</b>	<b>₱1,529,541,080</b>	<b>₱6,036,323,915</b>	<b>₱2,185,001,728</b>	<b>₱871,021,785</b>	<b>₱212,833,811</b>	<b>₱10,834,722,319</b>

Provision for claims reported by policyholders	₱-	₱3,254,267,720	₱-	₱-	₱-	₱3,254,267,720
Insurance payables*	-	252,695,130	-	-	-	252,695,130
Accounts payable and accrued expenses:	-	-	-	-	-	-
Accounts payable	-	983,758,534	-	-	-	983,758,534
Commissions payable	-	355,568,924	-	-	-	355,568,924
Accrued expenses	-	283,749,179	-	-	-	283,749,179
Lease liability	-	23,857,312	24,772,731	-	-	48,630,043
<b>Total financial liabilities</b>	<b>-</b>	<b>5,153,896,799</b>	<b>24,772,731</b>	<b>-</b>	<b>-</b>	<b>5,178,669,530</b>
<b>Liquidity gap</b>						<b>₱5,656,052,789</b>

\*Inclusive of interest

### December 31, 2019

	No term	Up to a year	1 to 3 years	3 to 5 years	Over 5 years	Total
Cash and cash equivalents	₱1,088,028,023	₱-	₱-	₱-	₱-	₱1,088,028,023
Short-term investment	-	38,000,000	-	-	-	38,000,000
Insurance receivables	-	2,133,137,213	-	-	-	2,133,137,213
Financial assets:						
AFS financial assets*	33,567,149	76,556,601	759,179,806	111,300,575	4,646,394,878	5,626,999,009
Loans and receivables*	-	69,652,738	-	-	-	69,652,738
Reinsurance assets	-	3,304,746,881	-	-	-	3,304,746,881
<b>Total financial assets</b>	<b>₱1,121,595,172</b>	<b>₱5,622,093,433</b>	<b>₱759,179,806</b>	<b>₱111,300,575</b>	<b>₱4,646,394,878</b>	<b>₱12,260,563,864</b>

Provision for claims reported by policyholders	₱-	4,466,915,029	₱-	₱-	₱-	₱4,466,915,029
Insurance payables*	-	-	-	-	-	-
Accounts payable and accrued expenses:	-	468,013,029	-	-	-	468,013,029
Accounts payable	-	-	-	-	-	-
Commissions payable	-	834,228,380	-	-	-	834,228,380
Accrued expenses	-	372,282,353	-	-	-	372,282,353
Lease Liability	-	275,046,314	-	-	-	275,046,314
<b>Total financial liabilities</b>	<b>-</b>	<b>6,416,485,105</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,416,485,105</b>
<b>Liquidity</b>						<b>₱5,844,078,759</b>

\*Inclusive of interest

### *Market risk*

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

Market risk is the risk to an institution's financial condition from volatility in the price movements of the assets contained in a portfolio. Market risk represents what the Company would lose from price





volatilities. Market risk can be measured as the potential gain or loss in a position or portfolio that is associated with a price movement of a given probability over a specified time horizon.

The Company manages market risk by evenly distributing capital among investment instruments.

The Company structures the levels of market risk it accepts through a sound market risk policy based on specific guidelines set by the Investment Committee. This policy constitutes certain limits on exposure of investments mostly with top-rated banks, which are selected on the basis of the bank's credit ratings, capitalization and quality servicing being rendered to the Company. Also, the said policy includes diversification benchmarks of investment portfolio to different investment types duly approved by the IC, asset allocation and portfolio limit structure.

Moreover, control of relevant market risks can be addressed through compliance reporting of market risk exposures, regular monitoring and review of the Company's investment performance and upcoming investment opportunities for pertinence and changing environment.

#### *Currency risk*

The Company's principal transactions are carried out in Philippine peso and its exposure to foreign exchange risk arises primarily with respect to the US Dollar, as it deals with foreign reinsurers in its settlement of its obligations and receipt of any claim reimbursements.

The Company's financial assets are denominated in the same currencies as its insurance liabilities which mitigate the foreign currency exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than those in which insurance liabilities are expected to be settled.

The following table summarizes the Company's exposure to foreign currency exchange risk as of December 31, 2020 and 2019:

	2020		2019	
	US\$	PHP	US\$	PHP
<b>Assets</b>				
Cash and cash equivalents	\$4,236,212	₱203,435,600	\$7,835,024	₱397,580,469
AFS financial assets	877,128	42,122,311	864,077	43,846,709
Premiums receivable and agents' balances	577,732	27,744,441	1,980,899	100,518,753
	5,691,072	273,302,352	10,680,000	541,945,931
<b>Liabilities</b>				
Insurance contract liabilities	12,060,792	579,466,978	13,362,289	678,055,995
Due to reinsurers	1,230,476	59,091,136	3,125,038	158,576,945
	13,291,268	638,558,114	16,487,327	836,632,940
<b>Net exposure</b>	<b>(\$7,600,196)</b>	<b>(₱365,255,763)</b>	<b>(\$5,807,327)</b>	<b>(₱294,687,009)</b>

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of currency sensitive monetary assets and liabilities).

#### **December 31, 2020**

	Change in variables	Impact on profit before tax Increase (decrease)
USD	5.66%	(₱20,673,476)
USD	-5.66%	20,673,476



December 31, 2019

	Change in variables	Impact on profit before tax Increase (decrease)
USD	3.88%	(P11,433,856)
USD	-3.88%	11,433,856

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

*Interest rate risk*

Interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest rate risk. The Company's fixed rate investments in particular are exposed to fair value interest rate risk.

The Company's market risk policy requires it to manage interest rate risk by investing in fixed rate instruments.

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

	Interest Rates	Maturity				Total
		Within 1 year	1-3 years	3-5 years	Over 5 years	
AFS financial assets						
2020	2.63 – 8.13%	P1,458,532,382	P2,023,757,049	P779,179,215	P168,761,277	P4,430,229,923
2019	3.50 - 7.38%	1,619,637,433	2,236,541,992	749,240,350	526,918,677	5,132,338,452

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity (that reflects adjustments on revaluing fixed rate AFS financial assets).

December 31, 2020

	Change in variables	Impact on equity Increase (decrease)
AFS Debt securities	+50 basis points	(P34,755,965)
	-50 basis points	32,841,355

December 31, 2019

	Change in variables	Impact on equity Increase (decrease)
AFS Debt securities	+150 basis points	(P117,673,975)
	-150 basis points	130,815,809

*Price risk*

The Company's price risk exposure at year-end relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally investment in mutual fund and AFS equity securities.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.



The Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investment, diversification plan and limits on investments.

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

**December 31, 2020**

	Change in Variable	Impact on equity Increase (decrease)
PSEi	4.68%	₱8,548
PSEi	-4.68%	(8,548)

**December 31, 2019**

	Change in Variable	Impact on equity Increase (decrease)
PSEi	1.68%	₱4,656
PSEi	-1.68%	(4,656)

**26. Maturity Profile of Assets and Liabilities**

The following tables present the assets and liabilities by contractual maturity and settlement dates:

	2020			2019		
	Due within one year	Beyond one year	Total	Due within one year	Beyond one year	Total
<b>Assets</b>						
Cash and cash equivalents	₱1,502,771,985	₱—	₱1,502,771,985	₱1,088,028,023	₱—	₱1,088,028,023
Short-term investments	—	—	—	38,000,000	—	38,000,000
Insurance receivables – net	1,755,988,754	—	1,755,988,754	2,133,137,213	—	2,133,137,213
Loans and receivables	76,336,389	—	76,336,389	69,652,738	—	69,652,738
Reinsurance assets	2,803,928,874	—	2,803,928,874	3,304,746,881	—	3,304,746,881
Assets held for sale	67,465,675	—	67,465,675	78,023,000	—	78,023,000
Deferred acquisition costs	413,482,499	—	413,482,499	644,298,629	—	644,298,629
Deferred tax assets	—	269,718,492	269,718,492	—	283,112,061	283,112,061
Other assets	110,351,432	38,309,701	148,661,133	95,447,517	98,516,870	193,964,387
Available-for-sale financial assets						
Quoted equity securities at fair value:						
Common shares	—	252,445	252,445	—	351,499	351,499
Preferred shares	—	25,860,000	25,860,000	—	32,189,000	32,189,000
Club shares	—	600,000	600,000	—	970,000	970,000
Unquoted equity securities at cost:						
Common shares	35,125	—	35,125	35,125	—	35,125
Preferred shares	21,525	—	21,525	21,525	—	21,525
Government debt securities local currency	1,353,239,215	2,495,685,368	3,848,924,583	1,572,682,303	2,927,339,086	4,500,021,389
Corporate debt securities local currency	105,293,167	433,889,862	539,183,029	46,955,129	541,515,225	588,470,354
Corporate debt securities foreign currency	—	42,122,311	42,122,311	—	43,846,709	43,846,709
Property and equipment – net	—	109,171,349	109,171,349	—	180,842,874	180,842,874
	8,188,914,640	3,415,609,528	11,604,524,168	9,071,028,083	4,108,683,324	13,179,711,407

(Forward)



	2020			2019		
	Due within one year	Beyond one year	Total	Due within one year	Beyond one year	Total
<b>Liabilities</b>						
Insurance contract liabilities	₱6,439,101,188	₱—	₱6,439,101,188	₱7,940,915,877	₱—	₱7,940,915,877
Insurance payables	252,695,130	—	252,695,130	468,013,029	—	468,013,029
Accounts payable and accrued expenses	1,924,935,465	—	1,924,935,465	1,880,519,018	—	1,880,519,018
Income tax payable	15,647,943	—	15,647,943	2,646,328	—	2,646,328
Deferred reinsurance commissions	84,309,686	—	84,309,686	122,123,556	—	122,123,556
Retirement benefit obligation	—	9,988,991	9,988,991	—	68,129,401	68,129,401
Lease liability	23,857,312	24,772,731	48,630,043	24,427,008	41,357,931	65,784,939
	8,740,546,724	34,761,722	8,775,308,446	10,438,644,816	109,487,332	10,548,132,148
	(₱551,632,084)	₱3,380,847,806	₱2,829,215,722	(₱1,367,616,733)	₱3,999,195,992	₱2,631,579,259

## 27. Contingent liabilities

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. Related risks have been analyzed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, management believes that no material liabilities are likely to result.

## 28. Events After the Reporting Period

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

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

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding Php5 million and with total assets not exceeding Php100 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.
- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.
  - Effective January 1, 2021, income tax rate for nonresident foreign corporation is reduced from 30% to 25%.
- Foreign-sourced dividends received by domestic corporations are exempt from income tax subject to the following conditions:
  - o The funds from such dividends actually received or remitted into the Philippines are reinvested in the business operations of the domestic corporation in the Philippines within the next taxable year from the time the foreign-sourced dividends were received;
  - o Shall be limited to funding the working capital requirements, capital expenditures, dividend payments, investment in domestic subsidiaries, and infrastructure project; and



- o The domestic corporation holds directly at least 20% of the outstanding shares of the foreign corporation and has held the shareholdings for a minimum of 2 years at the time of the dividend distribution.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2011 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

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

- Based on the provisions of Revenue Regulations (RR) No. 5-2021 dated April 8, 2021 issued by the BIR, the prorated CIT rate of the Company for CY2020 is 1.5%. This will result in lower provision for current income tax for the year ended December 31, 2020 and lower income tax payable as of December 31, 2020, amounting to ₱11,735,957 and ₱11,735,957, respectively, or a reduction of ₱3,911,986 and ₱3,911,986, respectively. The reduced amounts will be reflected in the Company's 2020 annual income tax return. However, for financial reporting purposes, the changes will only be recognized in the 2021 financial statements.
- This will result in lower net deferred tax assets as of December 31, 2020 and higher provision for deferred tax for the year then ended by ₱44,953,082 and ₱47,491,979, respectively. These reductions will be recognized in the 2021 financial statements.

## 29. Supplementary information required under Revenue Regulations 15-2010

In compliance with the requirements set forth by RR15-2010 hereunder are the information on taxes and license fees paid or accrued during the taxable year.

- a. The Company is a Value-Added Tax (VAT) registered company with output VAT declaration of ₱493.04 million for the year based on Vatable Sales/Receipts of ₱4.11 billion.

The Company has zero-rated sales amounting to ₱67.08 million.

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

	2020
Balance at January 1	₱—
Current year's purchases/payments:	
Goods other than for resale	53,621,373
Services paid lodged under operating expenses	131,688,934
	185,310,307
Claims for tax credit/refund and other adjustments	(4,918,619)
Balance at December 31	₱180,391,688



- b. The Documentary Stamp Tax (DST) paid on the following transactions are:

Transaction	Amount	DST
Policy issuance:		
Based on premiums	₱3,935,557,511	₱491,944,689
Based on sum insured	390,801,462,421	4,154,400

- c. Other taxes paid are:

Transaction	Amount	Tax
Premium tax	₱225,143,919	₱4,502,878

- d. Details of other taxes, local and national, including real estate taxes, license and permit fees lodged under the "Taxes and licenses" account under "Operating expenses" in the statement of comprehensive income follow:

*Local:*

Business license	₱391,665
Real estate taxes	549,889
Communicate tax certificate	10,960
	952,514

*National:*

Motor vehicle registration fees	11,859
Registration fees	12,500
Miscellaneous	171,181
	195,540
<b>Total</b>	<b>₱1,148,054</b>

The Company paid fire service tax amounting to ₱20.67 million.

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

	Total Remittances	Amounts Outstanding
Expanded withholding taxes	₱109,778,415	₱11,827,438
Tax on compensation and benefits	38,616,932	4,293,069
Final withholding taxes	2,754,009	770,669
Fringe benefit tax	127,684	109,749
Final withholding VAT	97,592	308,079
<b>Total</b>	<b>₱151,374,632</b>	<b>₱17,309,004</b>

- f. The Company has received Letter of Authority (LOA) nos. eLA201600094191, eLA201700005711 and eLA201700018239 to examine the Company's books of accounts and other accounting records for all internal revenue taxes including documentary stamp tax and other taxes (miscellaneous tax) covering the taxable years 2016, 2017 and 2018, respectively. The LOAs for 2016, 2017 and 2018 were received on April 1, 2019, April 30, 2019 and July 16, 2019, respectively. LOA for 2016 was replaced and received on January 11, 2021 due to change of revenue officers. All periods are currently under audit.
- g. The Company has not been involved in any tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the Bureau of Internal Revenue.





## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
Charter Ping An Insurance Corporation  
29th Floor, GT Tower International,  
6813 Ayala Avenue,  
Makati City

We have audited the financial statements of Charter Ping An Insurance Corporation (a wholly owned subsidiary of Philippine AXA Life Insurance Corporation) (the Company) as at and for the year ended December 31, 2020, on which we have rendered the attached report dated April 28, 2021.

In compliance with Revised Securities Regulation Code Rule No. 68, we are stating that the Company has only one (1) stockholder owning more than one hundred (100) shares.

SYCIP GORRES VELAYO & CO.



Juan Carlo B. Maminta  
Partner

CPA Certificate No. 115260

Accreditation No. 115260-SEC (Group A)

Valid to cover audit of 2020 to 2024

financial statements of SEC covered institutions

Tax Identification No. 210-320-399

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

November 27, 2020, valid until November 26, 2023

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

April 28, 2021

