P&A Grant Thornton

**FOR SEC FILING**

# Financial Statements and Independent Auditors' Report

# Cocogen Insurance, Inc.

December 31, 2022 and 2021

P&A Grant Thornton

Shaping a Vibrant Tomorrow
#BoldPerspectives #DivergentThinking #ForgingPaths

**Punongbayan & Araullo**
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 8988 2288

# Report of Independent Auditors

**The Board of Directors**
**Cocogen Insurance, Inc.**
***(Formerly UCPB General Insurance Company, Inc.)***
***(A Wholly Owned Subsidiary of United Coconut Planters Life Assurance Corporation)***
22F, One Corporate Centre Condominium
Doña Julia Vargas Avenue, corner Meralco Avenue
Ortigas Center, San Antonio, Pasig City

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the financial statements of Cocogen Insurance, Inc. (the Company), which comprise the statements of financial position as at December 31, 2022 and 2021, 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, 2022 and 2021, and its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards (PFRS).

### *Basis for Opinion*

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or 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 PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

## Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2022 required by the Bureau of Internal Revenue as disclosed in Note 38 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**PUNONGBAYAN & ARAULLO**

**By: Jerald M. Sanchez**
Partner

CPA Reg. No. 0121830
TIN: 307-367-174
PTR No. 9566645, January 3, 2023, Makati City
SEC Group A Accreditation
Partner - No. 121830-SEC (until financial period 2023)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002551-041-2023 (until Jan. 24, 2026)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

May 24, 2023

P&A Grant Thornton

YEARS 35 Shaping a Vibrant Tomorrow
#BoldPerspectives #DivergentThinking #ForgingPaths

**Punongbayan & Araullo**
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 8988 2288

# Supplemental Statement of Independent Auditors

**The Board of Directors**
**Cocogen Insurance, Inc.**
***(Formerly UCPB General Insurance Company, Inc.)***
***(A Wholly Owned Subsidiary of United Coconut Planters Life Assurance Corporation)***
22F, One Corporate Centre Condominium
Doña Julia Vargas Avenue, corner Meralco Avenue
Ortigas Center, San Antonio, Pasig City

We have audited the financial statements of Cocogen Insurance, Inc. (the Company) for the year ended December 31, 2022, on which we have rendered the attached report dated May 24, 2023.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Company has only one stockholder owning 100 or more shares of the Company's capital stock as at December 31, 2022, as disclosed in Note 23 to the financial statements.

**PUNONGBAYAN & ARAULLO**

**By: Jerald M. Sanchez**
Partner

CPA Reg. No. 0121830
TIN: 307-367-174
PTR No. 9566645, January 3, 2023, Makati City
SEC Group A Accreditation
Partner - No. 121830-SEC (until financial period 2023)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002551-041-2023 (until Jan. 24, 2026)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

May 24, 2023

**COCOGEN INSURANCE, INC.**
***(Formerly UCPB General Insurance Company, Inc.)***
***(A Wholly Owned Subsidiary of United Coconut Planters Life Assurance Corporation)***
**STATEMENTS OF FINANCIAL POSITION**
**DECEMBER 31, 2022 AND 2021**
***(Amounts in Philippine Pesos)***

| | Notes | 2022 | 2021 |
|---|---|---|---|
| **A S S E T S** | | | |
| Cash and cash equivalents | 4 | P 410,633,839 | P 275,763,811 |
| Insurance receivables - net | 5 | 917,641,799 | 780,911,348 |
| Financial assets at fair value through profit or loss | 6 | 250,579,298 | 263,149,341 |
| Available-for-sale (AFS) financial assets | 8 | 449,065,776 | 804,680,243 |
| Held-to-maturity securities | 7 | 343,203,183 | 244,879,448 |
| Loans and receivables - net | 9 | 206,484,001 | 175,324,108 |
| Reinsurance assets - net | 11 | 2,148,283,389 | 1,343,923,663 |
| Deferred acquisition costs | 12 | 181,594,997 | 163,813,584 |
| Investment properties - net | 13 | 61,590,996 | 94,569,154 |
| Property and equipment - net | 14 | 358,038,053 | 356,708,380 |
| Intangible assets - net | 16 | 17,205,830 | 15,880,209 |
| Right-of-use assets - net | 15 | 37,772,421 | 25,944,956 |
| Deferred tax assets - net | 30 | 166,290,491 | 192,304,448 |
| Other assets | 17 | 87,743,224 | 140,157,612 |
| **TOTAL ASSETS** | | **P 5,636,127,297** | P 4,878,010,305 |
| **LIABILITIES AND EQUITY** | | | |
| **LIABILITIES** | | | |
| Insurance contract liabilities | 18 | P 2,692,310,150 | P 2,348,452,491 |
| Insurance payables | 20 | 716,626,616 | 714,369,700 |
| Accounts payable and accrued expenses | 21 | 439,483,782 | 338,836,210 |
| Deferred reinsurance commissions | 22 | 47,972,040 | 51,165,756 |
| Lease liabilities | 15 | 38,784,420 | 26,987,195 |
| Net pension liability | 29 | 5,478,789 | - |
| Total Liabilities | | 3,940,655,797 | 3,479,811,352 |
| **EQUITY** | | | |
| Capital stock | 23 | 650,000,000 | 650,000,000 |
| Contributed surplus | 23 | 240,000,000 | 240,000,000 |
| Deposit for future stock subscription | 23 | 157,020,178 | - |
| Revaluation reserve on AFS financial assets | 8 | ( 143,815,313 ) | ( 87,580,412 ) |
| Reserve for net pension liability | 29, 30 | 59,774,240 | 86,664,760 |
| Retained earnings | 2 | | |
| Appropriated for catastrophic losses | | 30,532,854 | 30,532,854 |
| Unappropriated | | 701,959,541 | 478,581,751 |
| Total Equity | | 1,695,471,500 | 1,398,198,953 |
| **TOTAL LIABILITIES AND EQUITY** | | **P 5,636,127,297** | P 4,878,010,305 |

***See Notes to Financial Statements.***

**COCOGEN INSURANCE, INC.**
***(Formerly UCPB General Insurance Company, Inc.)***
***(A Wholly Owned Subsidiary of United Coconut Planters Life Assurance Corporation)***
**STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**
***(Amounts in Philippine Pesos)***

| | Notes | 2022 | 2021 |
|---|---|---|---|
| **NET PREMIUMS EARNED** | 24 | | |
| Gross premiums earned on insurance contracts - net | | **P 3,209,235,971** | P 3,040,064,540 |
| Reinsurers' share of gross premiums on insurance contracts earned - net | | **( 1,443,909,083 )** | ( 1,468,785,076 ) |
| | | **1,765,326,888** | 1,571,279,464 |
| **OTHER INCOME** | | | |
| Commission income | 22 | **129,239,456** | 129,109,088 |
| Investment and other income - net | 25 | **82,704,324** | 96,388,714 |
| | | **211,943,780** | 225,497,802 |
| **TOTAL NET PREMIUMS EARNED AND OTHER INCOME** | | **1,977,270,668** | 1,796,777,266 |
| **NET BENEFITS AND CLAIMS** | 26 | | |
| Gross insurance contracts benefits and claims paid | | **1,944,081,916** | 2,248,467,931 |
| Reinsurers' share of gross insurance contracts benefits and claims paid | | **( 1,087,167,979 )** | ( 1,849,368,196 ) |
| Net change in provision for incurred but not reported losses | | **( 177,281,590 )** | 426,329,164 |
| | | **679,632,347** | 825,428,899 |
| **OTHER EXPENSES** | | | |
| Operating expenses | 27 | **476,080,975** | 492,278,735 |
| Commission expense | 12 | **373,745,493** | 424,300,697 |
| Other underwriting expenses | 28 | **148,933,736** | 142,775,396 |
| Investment expenses | | **3,199,014** | 3,036,429 |
| | | **1,001,959,218** | 1,062,391,257 |
| **TOTAL NET BENEFITS AND CLAIMS, AND OTHER EXPENSES** | | **1,681,591,565** | 1,887,820,156 |
| **PROFIT (LOSS) BEFORE TAX** | | **295,679,103** | ( 91,042,890 ) |
| **TAX EXPENSE** | 30 | **( 72,301,313 )** | ( 1,184,727 ) |
| **NET INCOME (LOSS)** | | **223,377,790** | ( 92,227,617 ) |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| **Item that will not be reclassified to profit or loss** | | | |
| Remeasurements of net pension asset/liability | 29 | **( 26,890,520 )** | 53,305,743 |
| **Item that will be reclassified to profit or loss** | | | |
| Changes in fair values of available-for-sale financial assets | 8 | **( 56,234,901 )** | 4,098,493 |
| | | **( 83,125,421 )** | 57,404,236 |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | | **P 140,252,369** | ( P 34,823,381 ) |

***See Notes to Financial Statements.***

**COCOGEN INSURANCE, INC.**
***(Formerly UCPB General Insurance Company, Inc.)***
***(A Wholly Owned Subsidiary of United Coconut Planters Life Assurance Corporation)***
**STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**
***(Amounts in Philippine Pesos)***

| | Capital Stock (see Note 23) | Deposit for Future Stock Subscription (see Note 23) | Contributed Surplus (see Note 23) | Revaluation Reserve on Available-for-sale Financial Assets (see Note 8) | Reserve for Net Pension Liability (see Notes 29 and 30) | Retained Earnings (see Note 2) Appropriated for Catastrophic Losses | Retained Earnings (see Note 2) Unappropriated | Retained Earnings (see Note 2) Total | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| Balance as at January 1, 2022 | P 650,000,000 | P - | P 240,000,000 | ( P 87,580,412 ) | P 86,664,760 | P 30,532,854 | P 478,581,751 | P 509,114,605 | P 1,398,198,953 |
| Subscription during the year | - | 157,020,178 | - | - | - | - | - | - | 157,020,178 |
| Total comprehensive income (loss) for the year | - | - | - | ( 56,234,901 ) | ( 26,890,520 ) | - | 223,377,790 | 223,377,790 | 140,252,369 |
| Balance as at December 31, 2022 | **P 650,000,000** | **P 157,020,178** | **P 240,000,000** | **( P 143,815,313 )** | **P 59,774,240** | **P 30,532,854** | **P 701,959,541** | **P 732,492,395** | **P 1,695,471,500** |
| Balance as at January 1, 2021 | P 500,000,000 | P - | P 240,000,000 | ( P 91,678,905 ) | P 33,359,017 | P 30,532,854 | P 570,809,368 | P 601,342,222 | P 1,283,022,334 |
| Issuance during the year | 150,000,000 | - | - | - | - | - | - | - | 150,000,000 |
| Total comprehensive income (loss) for the year | - | - | - | 4,098,493 | 53,305,743 | - | ( 92,227,617 ) | ( 92,227,617 ) | ( 34,823,381 ) |
| Balance as at December 31, 2021 | P 650,000,000 | P - | P 240,000,000 | ( P 87,580,412 ) | P 86,664,760 | P 30,532,854 | P 478,581,751 | P 509,114,605 | P 1,398,198,953 |

***See Notes to Financial Statements.***

**COCOGEN INSURANCE, INC.**
***(Formerly UCPB General Insurance Company, Inc.)***
***(A Wholly Owned Subsidiary of United Coconut Planters Life Assurance Corporation)***
**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**
***(Amounts in Philippine Pesos)***

| | Notes | 2022 | 2021 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit (loss) before tax | | **P 295,679,103** | ( P 91,042,890 ) |
| Adjustments for: | | | |
| Depreciation and amortization | 13, 14, 15, 16 | **64,276,614** | 57,488,622 |
| Gain on sale of investment properties | 13 | **( 41,475,067 )** | ( 5,320,766 ) |
| Interest income | 4, 7, 8, 9, 17 | **( 27,797,244 )** | ( 29,931,207 ) |
| Fair value losses (gains) on financial assets at fair value through profit or loss (FVTPL) - net | 6 | **13,272,635** | ( 3,511,544 ) |
| Dividend income | 8 | **( 10,936,942 )** | ( 10,940,232 ) |
| Foreign exchange gains - net | 4, 8 | **( 4,402,922 )** | ( 10,576,779 ) |
| Gain on sale of available-for-sale (AFS) financial assets | 8 | **( 3,487,812 )** | ( 5,163,756 ) |
| Interest expense | 15, 28, 29, 31 | **1,993,825** | 4,647,401 |
| Gain on sale of property and equipment | 14 | **( 39,140 )** | ( 323,442 ) |
| Impairment losses on financial assets | 5, 9, 11 | **-** | 24,999,999 |
| Gain on reversal of long outstanding liabilities | 25 | **-** | ( 15,711,754 ) |
| Operating profit (loss) before working capital changes | | **287,083,050** | ( 85,386,348 ) |
| Increase in insurance receivables | | **( 136,499,958 )** | ( 132,936,269 ) |
| Increase in loans and receivables | | **( 59,460,118 )** | ( 26,921,771 ) |
| Decrease (increase) in reinsurance assets | | **( 766,858,197 )** | 283,208,942 |
| Increase in deferred acquisition costs | | **( 17,781,413 )** | ( 9,503,477 ) |
| Decrease (increase) in other assets | | **8,471,383** | ( 30,900,242 ) |
| Increase (decrease) in insurance contract liabilities | | **343,857,659** | ( 361,969,172 ) |
| Decrease in insurance payables | | **1,058,474** | 139,494,518 |
| Decrease (increase) in accounts payable and accrued expenses | | **100,647,572** | ( 55,058,491 ) |
| Increase (decrease) in deferred reinsurance commissions | | **( 3,193,716 )** | 5,668,442 |
| Increase (decrease) in net pension liability | | **( 20,715,596 )** | 9,319,274 |
| Cash used in operations | | **( 263,390,860 )** | ( 264,984,594 ) |
| Cash paid for income taxes | | **( 3,520,744 )** | ( 3,549,978 ) |
| Net Cash Used in Operating Activities | | **( 266,911,604 )** | ( 268,534,572 ) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale and maturities of AFS financial assets | 8 | **795,047,990** | 866,698,854 |
| Acquisitions of AFS financial assets | 8 | **( 490,749,157 )** | ( 744,992,069 ) |
| Acquisition of held-to-maturity (HTM) securities | 7 | **( 279,148,615 )** | ( 96,884,578 ) |
| Proceeds from maturities of HTM securities | 7 | **179,585,747** | 96,375,726 |
| Proceeds from sale of investment properties | 13 | **65,262,004** | 19,268,763 |
| Acquisitions of financial assets at FVTPL | 6 | **( 62,290,230 )** | ( 61,587,640 ) |
| Proceeds from sale of financial assets at FVTPL | 6 | **61,587,638** | 61,452,747 |
| Acquisitions of property and equipment | 14 | **( 36,240,007 )** | ( 9,870,637 ) |
| Interest received | | **19,644,862** | 20,505,713 |
| Dividends received | 8 | **10,936,942** | 10,940,232 |
| Acquisitions of intangible assets | 16 | **( 6,735,841 )** | ( 8,756,739 ) |
| Proceeds from sale of property and equipment | 14 | **39,140** | 323,442 |
| Net Cash From Investing Activities | | **256,940,473** | 153,473,814 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from deposit for future stock subscription | 23, 31 | **157,020,178** | - |
| Payments of lease liabilities | 15 | **( 15,100,184 )** | ( 16,464,206 ) |
| Net Cash From (Used in) Financing Activities | | **141,919,994** | ( 16,464,206 ) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | 4 | **2,921,165** | 9,649,401 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **134,870,028** | ( 121,875,563 ) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **275,763,811** | 397,639,374 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **P 410,633,839** | P 275,763,811 |

**Supplemental Information on Non-cash Investing Activity –**

1) The Company recognized additional right-of-use assets and lease liabilities amounting to P26.6 million and P25.4 million, respectively, in 2022, and P17.0 million and P6.8 million, respectively, in 2021 (see Note 15).

2) Upon approval of the increase in authorized capital stock by the SEC in 2021, the Deposit for Future Stock Subscription amounting to P150.0 million presented under the Liabilities section in the 2020 statement of financial position was reclassified to Capital Stock in 2021. There was no similar transaction in 2022.

***See Notes to Financial Statements.***

**COCOGEN INSURANCE, INC.**
***(Formerly UCPB General Insurance Company, Inc.)***
***(A Wholly Owned Subsidiary of***
***United Coconut Planters Life Assurance Corporation)***
**NOTES TO FINANCIAL STATEMENTS**
**DECEMBER 31, 2022 AND 2021**
***(Amounts in Philippine Pesos)***

# 1. GENERAL INFORMATION

## *1.1 Corporate Information*

Cocogen Insurance, Inc. (the Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on January 29, 1963 to engage in the business of non-life insurance and to act as agent to other insurance or surety companies. It includes lines such as accident, fire and allied lines, motor vehicle, casualty, marine cargo, marine hull, comprehensive liability insurance and allied risks, and/or such other insurance coverage allied with an incident to the aforementioned lines.

The Company is a wholly owned subsidiary of United Coconut Planters Life Assurance Corporation (the parent company), a stock corporation. The parent company was formed to undertake life insurance business, including accident and health insurance; to write insurance contracts providing for all risks, hazards, guarantees and contingencies to which life, accident or health insurance is applicable; to grant endowment and annuities; to issue insurance policies providing for participation or nonparticipation of profits; to reinsure all or part of the risks underwritten by the parent company; to undertake all kinds of reinsurance to the extent allowed by the law; and, to act as agent or general agent of another insurance company.

In 2020, the Company's Board of Directors (BOD) and majority stockholders approved the change in name of the Company from UCPB General Insurance Company, Inc. to Cocogen Insurance, Inc. The Company's amended Articles of Incorporation and By-Laws to reflect the new corporate name was approved by the SEC on May 26, 2021 and August 31, 2021, respectively. The change in corporate name was also approved by the Bureau of Internal Revenues (BIR) on October 14, 2021.

The Company's registered office address and principal place of business is located at 22F, One Corporate Centre Condominium, Doña Julia Vargas Avenue, corner Meralco Avenue, Ortigas Center, San Antonio, Pasig City. The parent company's registered office address is at Cocolife Building, 6774 Ayala Avenue, Makati City.

## *1.2 Approval of Financial Statements*

The financial statements of the Company as of and for the year ended December 31, 2022 (including the comparative financial statements as of and for the year ended December 31, 2021) were authorized for issue by the BOD on May 24, 2023.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

### *2.1 Basis of Preparation of Financial Statements*

*(a) Statement of Compliance with Philippine Financial Reporting Standards*

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

*(b) Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statement.* The Company presents all items of income, expenses, and other comprehensive income (loss) in a single statement of comprehensive income.

The Company presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

*(c) Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Company are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Company operates.

## 2.2 Adoption of Amended PFRS

*(a) Effective in 2022 that are Relevant to the Company*

The Company adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2022:

| | | |
|---|---|---|
| PAS 16 (Amendments) | : | Property, Plant and Equipment – Proceeds Before Intended Use |
| PAS 37 (Amendments) | : | Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract |
| Annual Improvements to PFRS (2018-2020 Cycle) | | |
| PFRS 16 (Amendments) | : | Leases – Lease Incentives |

Discussed below and in the succeeding page are the relevant information about these amendments.

(i) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use.* The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The application of these amendments had no significant impact on the Company's financial statements as there were no sales of such items produced by property, plant and equipment made before being available for use on or after the beginning of the earliest period presented.

(ii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract.* The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services. Costs that relate directly to a contract include both incremental costs of fulfilling that contract (e.g., direct labor and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g., the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments resulted in a revision in the Company's policy to include both incremental costs and an allocation of other costs when determining whether a contract was onerous. The amendments apply prospectively to contracts existing at the date when the amendments are first applied. Management assessed that there is no significant impact on the Company's financial statements as a result of the change since none of the existing contracts as of January 1, 2022 would be identified as onerous after applying the amendments.

(iii) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments which do not have significant impavt and which are effective from January 1, 2022, are relevant to the Company's financial statements:

- Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*. The amendments remove potential for confusion regarding lease incentives by deleting from Illustrative Example 13 the reimbursement relating to leasehold improvements as it had not been explained clearly enough as to whether the reimbursement would meet the definition of a lease incentive in accordance with PFRS 16.

*(b) Effective in 2022 that are not Relevant to the Company*

Among the amendments to PFRS which are mandatorily effective for annual periods beginning on or after January 1, 2022, the following are not relevant to the Company's financial statements:

(i) PFRS 3 (Amendments), *Business Combinations – Reference to the Conceptual Framework*

(ii) Annual Improvements to PFRS 2018-2020 Cycle

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Subsidiary as a First-time Adopter*

- PAS 41, *Agriculture – Taxation in Fair Value Measurements*

*(c) Effective Subsequent to 2022 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2022, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, none of these are expected to have significant impact on the Company's financial statements:

(i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023)

(ii) PAS 1 and PFRS Practice Statement 2 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective from January 1, 2023)

(iii) PAS 8 (Amendments), *Accounting Estimates – Definition of Accounting Estimates* (effective from January 1, 2023)

(iv) PAS 12 (Amendments), *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (effective from January 1, 2023)

(v) PFRS 9, *Financial Instruments* (issued in 2014). This new standard on financial instruments replaces PAS 39, *Financial Instruments* and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments, i.e. financial asset at amortized costs, fair value through profit or loss (FVTPL), and fair value through other comprehensive income (FVOCI);

- an expected credit loss model in determining impairment of all financial assets that are not measured at FVTPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at FVOCI if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Management opted to defer application of PFRS 9 (2014) to periods beyond January 1, 2018 [see Note 2.2(b)(ii)]. Consequently, the Company continued to apply the existing requirements of PAS 39 with respect to its financial instruments.

(vi) PFRS 17, *Insurance Contracts – Insurance Contracts* (effective from January 1, 2025). This new standard will eventually replace PFRS 4. The IC, through its Circular Letter (CL) No. 2020-62, *Amendment of Sec 1 of CL No. 2018-69; Deferral of IFRS 17 Implementation,* has deferred the implementation of PFRS 17 for life insurance and non-life insurance industry. PFRS 17 will set out the principles for the recognition, measurement, presentation and disclosure of insurance contracts within its scope.

This new standard requires a current measurement model where estimates are remeasured in each reporting period. Moreover, contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and,
- a contractual service margin (CSM) representing the unearned profit of the contract which is recognized as revenue over the coverage period.

In addition, the standard provides an optional, simplified premium allocation approach for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

A modification of the general measurement model called the variable fee approach is also introduced by PFRS 17 for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

In preparation for the adoption of PFRS 17, the following activities have been taken by the Company:

- complete selection of members of the PFRS 17 technical working group;
- sourcing of past actuarial models and assumptions for preparation of expected cashflows for retrospective transition approaches;
- initial enhancement of assumption methodology to be more consistent with PFRS 17 requirements;
- engagement with external experts for the training of personnel for the adoption of PFRS 17;
- conducting analysis to identify gaps on operational and accounting policies; and,
- discussion with the existing system provider for system design necessary in preparation for PFRS 17.

(vii) PFRS 17 (Amendments), *Insurance Contracts – Initial Application of PFRS 17 and PFRS 9 – Comparative Information* (effective from January 1, 2025). The amendments add a transition option for a classification overlay to address possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of PFRS 17. This amendment is applicable to the Company to annual reporting periods beginning on or after January 1, 2025 in accordance with the IC CL No. 2020-62.

### *2.3 Current versus Non-Current Classification*

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

- expected to be realized or intended to be sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within 12 months after the reporting period; or,
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 months after the reporting period; or,
- there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and deferred tax liabilities are classified as non-current assets and non-current liabilities, respectively.

### *2.4 Insurance and Reinsurance Contracts*

*(a) Insurance Contracts*

Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. 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 is significantly greater than the benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period, unless all the rights and obligations are extinguished or expired. Investment contracts can, however, be reclassified as insurance contracts after inception if the insurance risk becomes significant.

*(i) Gross Premiums Earned on Insurance Contracts*

Premiums from short-duration insurance contracts are recognized as revenue over the period of the insurance contracts using the 24$^{th}$ method. The portion of the premiums written that relates to the unexpired periods of the policies at each reporting date is accounted for as provision for unearned premiums under Insurance contract liabilities account in the statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at reporting dates are debited to or charged against income for the year.

*(ii) Reinsurers' Share of Gross Premiums on Insurance Contracts Earned*

Premiums ceded from short-duration insurance contracts are recognized as expense over the period of the contracts using the 24$^{th}$ method. The related reinsurance premiums that pertain to the unexpired periods at reporting date are accounted for as deferred reinsurance premiums shown under Reinsurance Assets in the statement of financial position. The net changes in the deferred reinsurance premiums between reporting dates are charged against or credit to income for the year.

*(b) Reinsurance Contracts*

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more insurance contracts issued by the Company and that meet the classification requirements for the insurance contracts are classified as reinsurance contracts held.

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of short-term balances due from ceding companies, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Reinsurance assets are derecognized when the contractual rights are extinguished or expired, or when the contract is transferred to another party.

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

An impairment review is performed at each reporting date 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 reinsurance contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is charged in the statement of comprehensive income.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Receivables and payables are recognized when due. These include amounts due to and from agents and brokers.

*(i) Commission Income and Deferred Reinsurance Commission (DRC)*

Commission earned from short-duration insurance contracts are recognized as revenue over the period of the contracts using the $24^{th}$ method. The portion of the commissions that relates to the unexpired periods of the policies at reporting date is accounted for as Deferred Reinsurance Commissions in the statement of financial position. The net changes in the DRC between reporting dates are charged against or credited to income for the year.

*(ii) Commission Expense and Deferred Acquisition Costs (DAC)*

Commissions incurred from short-term duration insurance contracts are recognized as expense over the period of the contracts. Subsequent to initial recognition, these costs are amortized using the $24^{th}$ method. The portion of the commissions that relates to the unexpired periods on the policies at the end of the reporting period is accounted for as Deferred Acquisition Costs in the statement of financial position.

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 relate 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.

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

## *2.5 Financial Instruments*

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the financial instrument.

*(a) Financial Assets*

For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments*. All other non-derivative financial instruments are treated as debt instruments.

Regular purchases and sales of financial assets are recognized on their trade date (i.e., the date that the Company commits to purchase or sell the asset).

*(i) Classification and Measurement of Financial Assets*

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described below and in the succeeding page.

*Financial Assets at Fair Value through Profit or Loss (FVTPL)*

A financial asset is classified as FVTPL if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial assets may be designated by management at initial recognition at FVTPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis; or,

- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or,

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

Financial assets at FVTPL are initially measured at fair value. Attributable transaction costs are recognized in the statement of comprehensive income as incurred. Fair value changes and realized gains or losses are recognized in the statement of comprehensive income.

The Company's financial assets at FVTPL consist of investments in mutual funds, unit investment trust funds (UITF) and trust funds.

*Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated financial assets at FVTPL or available-for-sale (AFS) financial assets. Such assets are recognized initially at fair value plus any directly attributable transaction costs. After initial recognition, loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

Loans and receivables consist of Cash and Cash Equivalents, Insurance Receivables, Loans and Receivables, Reinsurance Assets (for Paid losses recoverable from insurers), and Other Assets (for Claims fund, Security deposit, Short-term investments and Security fund) and are presented in the statement of financial position.

Cash and cash equivalents includes cash on hand and in banks, which are stated at face amount, and cash equivalents. 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 acquisition and that are subject to an insignificant risk of changes in value and are free of any encumbrances.

*Available-for-sale Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company's AFS financial assets pertain to equity and debt securities, and club shares.

All financial assets within this category are subsequently measured at fair value, except for equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost, less impairment loss, if any.

Gains and losses are recognized in other comprehensive income, net of any income tax effects, and are presented as Changes in Fair Values of AFS Financial Assets except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

*Held-to-maturity Securities*

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. If the Company were to sell other than an insignificant amount of held-to-maturity (HTM) securities, the whole category would be tainted and reclassified to AFS financial assets. The Company currently holds government securities and corporate notes designated into this category. Subsequent to initial recognition, HTM securities are measured at amortized cost using the effective interest method, less impairment losses, if any.

*(ii) Impairment of Financial Assets*

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that 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 higher than normal 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.

*Available-for-sale Financial Assets Carried at Fair Value*

In case of equity securities classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below cost. When there is objective evidence of impairment, the cumulative loss in equity, measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized, is transferred to profit or loss in the statement of comprehensive income.

Subsequent recovery in the fair value of an impaired AFS equity financial asset is recognized in other comprehensive income as fair value adjustment. In the case of AFS debt financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the effective interest rate on the reduced carrying amount of the asset and is recorded as part of interest income in profit or loss. If, in a subsequent year, 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 in the statement of comprehensive income, the impairment loss is reversed through profit or loss in the statement of comprehensive income to the extent that the resulting carrying amount of the asset does not exceed its carrying amount had no impairment loss been recognized.

*Available-for-sale Financial Assets Carried at Cost*

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

*Financial Assets Carried at Amortized Cost*

For loans and receivables, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed accounts, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and are collectively assessed 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 the collective assessment for impairment. For the purpose of a collective evaluation of impairment, loans and receivables are grouped on the basis of such credit risk characteristics as type of borrower, collateral type, credit and payment status, and term.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the excess of loans and receivables' carrying amount over its net realizable value, based on the present value of the estimated future cash flows from the asset. The present value of the estimated future cash flows is discounted at the loan and receivables' original effective interest rate. Time value is generally not considered when the effect of discounting is not material. If a loan and receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateral-dependent loan and receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. Any impairment loss determined is charged to profit or loss in the statement of comprehensive income.

The carrying amount of an impaired loan and receivable is reduced to its net realizable value through the use of an allowance account. For an impaired loans and receivable, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent period, the amount of the allowance for impairment loss decreases because of an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed to profit or loss in the statement of comprehensive income to the extent that the resulting carrying amount of the asset does not exceed its carrying amount had no impairment loss been recognized.

*(iii) Items of Income and Expense Related to Financial Assets*

All income and expenses, including impairment losses, relating to financial assets are recognized in profit or loss.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

*(iv) Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

*(b) Financial Liabilities*

Financial liabilities, which include accounts payable and accrued expenses (except tax-related liabilities), insurance payables, lease liabilities and deposit for future stock subscription, are recognized when the Company becomes a party to the contractual agreements of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in profit or loss as part of Operating Expenses in the statement of comprehensive income.

Except for lease liabilities [see Note 2.15(a)], all financial liabilities are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of the new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

*(c) Offsetting Financial Instruments*

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entity and all counterparties to the financial instruments.

### *2.6 Investment Properties*

Properties consisting of land, memorial lots and condominium units held for long-term rental yields or for capital appreciation or for both, are classified as investment properties. These properties are initially measured at cost, which includes transaction costs, but excludes day-to-day service cost. Replacement cost is capitalized if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be reliably measured. Subsequently, at each reporting period, such properties are carried at cost less accumulated depreciation and any impairment in value (see Note 2.17).

Depreciation of condominium units is computed using the straight-line method over the estimated useful life of ten years of the properties regardless of utilization. The estimated useful life and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic activity.

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

Rental income in investment properties are recognized over the term of the lease using the straight-line method.

Investment properties, including the related accumulated depreciation and any impairment losses, are derecognized when it has either been disposed of or the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss arising from derecognition of an investment property is recognized in the statement of comprehensive income in the year of derecognition.

### *2.7 Property and Equipment*

Items of property and equipment, except for land, are measured at cost less accumulated depreciation and amortization and any accumulated impairment losses. Land is stated at cost less any impairment in value. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense during the period in which they are incurred.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Building | 50 years |
| Furniture, fixtures and office equipment | 5 years |
| Electronic data processing (EDP) hardware | 5 years |
| Transportation equipment | 5 years |

Leasehold improvements are amortized over the estimated useful life of five years or remaining term of the lease, whichever is shorter.

Fully depreciated and amortized assets are retained until they are no longer in use and no further charge for depreciation and amortization are made in respect of those assets.

The residual values, estimated useful lives and method of depreciation and amortization of property and equipment are reviewed and adjusted if appropriate, at the end of each reporting period.

The Company's property and equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.17).

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

An item of property and equipment and the related accumulated depreciation and amortization and any accumulated impairment losses is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset which is calculated as the difference between the net disposal proceeds and the carrying amount of the item is included in profit or loss in the year the item is derecognized.

### *2.8 Intangible Assets*

Intangible assets pertain to software used in operations and administration which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition.

Capitalized software costs are amortized on a straight-line basis over the estimated useful lives of five to ten years as these intangible assets are considered finite.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

The Company's intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.17).

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

### *2.9 Other Assets*

Other assets pertain to other resources controlled by the Company as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Company and the asset has a cost or value that can be measured reliably.

Other asset inventory is valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

### *2.10 Equity*

Capital stock represents the nominal value of shares that have been issued. When the Company issues shares in excess of par, the excess is recognized as part of contributed surplus.

Contributed surplus represents the additional contribution of the parent company in order to comply with the requirements of the Amended Insurance Code of the Philippines (the Code).

Revaluation reserve on AFS financial assets pertains to cumulative mark-to-market valuation of outstanding AFS financial assets.

Reserve for net pension liability refers to accumulated actuarial losses, net of gains, as a result of remeasurements of post-employment defined benefit plan and return on plan assets (excluding amount included in net interest).

Retained earnings represent all current and prior period results of operations as reported in the profit or loss section of the statement of comprehensive income, reduced by the amounts of dividends declared, if any. The appropriated portion of the retained earnings is for catastrophic losses which is a reserve for future losses.

### *2.11 Deposit for Future Stock Subscription*

Deposit for future stock subscription refers to the amount of money or property received by the Company with the purpose of applying the same as payment for future issuance of stocks which may or may not materialize. Deposit for future stock subscriptions cannot be considered as part of the capital stock of the Company until shares of stock are actually issued in consideration thereof.

On May 11, 2017, the SEC issued an amendment on SEC Bulletin No. 6 (issued in 2012) for the treatment of the deposit for future stock subscriptions. As stated, an entity shall classify a contract to deliver its own equity instruments under equity as deposit for future stock subscriptions if and only if, all of the following elements are present as of end of the period:

(i) the unissued authorized capital of the entity is insufficient to cover the amount of shares indicated in the contract;

(ii) there is a BOD approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);

(iii) there is stockholders' approval of said proposed increase in authorized capital stock; and,

(iv) the application for the approval of the increase in capital stock has been presented for filing or has been filed with the SEC.

If any or all of the foregoing elements are not present, the transaction should be recognized as part of liability. The amount of deposit for future stock subscriptions will be reclassified to equity account when the Company meets the foregoing elements.

### *2.12 Provision and Contingencies*

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events (e.g., legal dispute or onerous contracts).

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, at an amount not exceeding the balance of the related provision.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements.

On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

### *2.13 Revenue and Income Recognition*

Revenue is recognized only when (or as) the Company satisfied a performance obligation by transferring control of the promised services to the customer.

The Company's significant revenues pertain to net premiums earned, investment income and rental income which are accounted for by the Company in accordance with PFRS 4, *Insurance Contracts*, PAS 39, *Financial Instruments Recognition and Measurement* and PFRS 16, respectively.

The following provides information about the specific recognition criteria of the significant revenues recognized:

*(a)* *Premiums* – Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into during the accounting period and are recognized on the inception date of the policy. Premiums include any adjustment arising in the accounting period for premiums receivable in respect of business written in prior years.

Premiums from insurance contracts are recognized as revenue over the period of the insurance contracts using the $24^{th}$ method. The $24^{th}$ method assumes that the average date of issue of all policies written during any one month is the middle of that month. Accordingly, $1/24^{th}$ of the net premiums are considered earned in the month the insurance contracts are issued and $2/24^{th}$ for every month thereafter (or $1/24^{th}$ for every 15-day period after the issue month).

The portion of the premiums written that relates to the unexpired periods of the policies at the reporting date are accounted for as provision for unearned premiums, and presented as part of Insurance Contract Liabilities in the statement of financial position. The related reinsurance premiums ceded that pertains to the unexpired periods at the end of the reporting period are accounted for as deferred reinsurance premiums shown as part of Reinsurance Assets in the statement of financial position. The net change in this account between reporting dates are recognized in profit or loss.

*(b)* *Commission Income* – Commissions earned from short-duration reinsurance contracts are recognized over the period of the contracts using the $24^{th}$ method. The portion of the commissions that is related to the unexpired periods of the policies at the reporting date is accounted for as Deferred Reinsurance Commissions in the statement of financial position.

*(c)* *Interest Income* – This is recognized as the interest accrues taking into account the effective yield on the asset. Interest income include the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(d) *Gain on Sale of AFS Financial Assets* – Gain includes realized gains and losses on the sale of AFS financial assets which are calculated as the difference between net sales proceeds and the carrying value. Realized gains and losses are recognized in profit or loss in the statement of comprehensive income when the sales transaction occurred.

(e) *Gain on Sale of Property and Equipment, and Investment Properties* – These are recognized when the risks and rewards of ownership of the property and equipment, and investment property have passed to the buyer or at a point in time when the control of the non-financial assets transfers to the customer.

(f) *Fair Value Gains (Losses) on Financial Assets at FVTPL* – Fair value gains and losses from the changes in the market values of financial assets at FVTPL are recognized in profit or loss at the end of the reporting period.

(g) *Dividend Income* – This is recognized when the Company's right to receive payment is established.

### *2.14 Expense Recognition*

Cost and expenses are recognized in the profit or loss upon utilization of the goods and services or at the date they are incurred. Gross benefits and claims consist of benefits and claims paid to policyholders and changes in the gross valuation of insurance contract liabilities, except for gross changes in the provision for unearned premiums which are included in net premiums earned. It further includes internal and external claims handling cost that are directly related to the processing and settlement of claims. The amortized portion of the deferred acquisition costs which is computed using the $24^{th}$ method is recognized as Commission Expense in the statement of comprehensive income.

All finance costs are reported in profit or loss on an accrual basis.

### *2.15 Leases*

The Company accounts for its leases as follows:

(a) *Company as a Lessee*

For any new contracts entered into, the Company considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;

- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Company depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.17). On the other hand, the Company measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets and lease liabilities have been presented separately from all other assets and liabilities, respectively.

*(b) Company as a Lessor*

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

### *2.16 Foreign Currency Transaction and Translation*

The accounting records of the Company are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as AFS financial assets are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

### *2.17 Impairment of Non-financial Assets*

The Company's property and equipment, investment properties, intangible assets, right-of-use assets and other non-financial assets are subject to impairment testing. Intangible asset with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements.

Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

### *2.18 Insurance Contract Liabilities*

Insurance contract liabilities consist of provision for claims reported by policyholders, provision for incurred but not reported (IBNR) losses, and provision for unearned premiums.

(a) *Provision for Claims Reported by Policyholders*

Provision for claims reported by policyholders are based on the estimated ultimate cost of claims incurred which are reported but not settled as at the reporting date together with related claims handling costs and reduction for expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain type of insurance claims, particularly in respect of liability business, therefore the ultimate cost of which cannot be known with certainty at the reporting date. Differences between the provision for claims reported by policyholder at the reporting date and subsequent revisions and settlements are included in the statement of comprehensive income for subsequent years. The liability is derecognized when the contract is discharged, cancelled or has expired.

(b) *Provision for IBNR Losses*

Provision is made for the cost of claims incurred as at the reporting date but not reported. For each identified loss, the provision for IBNR is based on the independent actuarial report. For unidentified losses, the provision for IBNR is based on the Bornhuetter-Ferguson Method which purposes predictors of the outstanding losses and every predictor is obtained by multiplying an estimator of the percentage of the outstanding losses with respect to the ultimate one.

(c) *Provision for Unearned Premiums*

The portion of written premiums attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. The change in the provision for unearned premiums is taken to the statement of comprehensive income in the order that revenue is recognized over the period of risk. When the anticipated losses, loss adjustment expenses, commissions, and other acquisition costs, and maintenance costs exceed the recorded unearned premium reserve, and any future instalment premiums on existing policies, a premium deficiency reserve shall be recognized by recording an additional liability for the deficiency, with a corresponding charge to the statement of comprehensive income.

(d) *Liability Adequacy Test*

At end of each reporting period, liability adequacy tests are performed, to ensure the adequacy of insurance contract liabilities, net of related deferred acquisition costs. 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 charged to profit or loss by establishing an unexpired risk provision for losses arising from the liability adequacy tests.

### *2.19 Employee Benefits*

The Company provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows:

*(a) Post-employment Defined Benefit Plan*

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Company, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Company's post-employment defined benefit plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest), are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, unless there is a plan amendment, curtailment or settlement during the reporting period.

The calculation also takes into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Salaries and employee benefits under Operating Expenses in the statement of comprehensive income.

Past service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment.

*(b) Post-employment Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which the Company pays fixed contributions into an independent entity [i.e., Social Security System (SSS)]. The Company has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred.

*(c) Termination Benefits*

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

*(d) Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. They are included in Accounts Payable and Accrued Expenses account in the statement of financial position at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

*(e) Short-Term Employee Benefits*

Short-term employee benefits, including holiday entitlement, are current liabilities included in pension and other employee obligations, measured at the undiscounted amount the Group expects to pay as a result of the unused entitlement.

### *2.20 Income Tax*

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets and liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Company has legally enforceable rights to set-off current tax assets against current tax liabilities and the deferred taxes relates to the same taxation authority.

### *2.21 Related Party Transactions and Relationships*

Related party transactions are transfers of resources, services or obligations between the Company and its related parties, regardless whether or not a price is charged.

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

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

### *2.22 Events After the End of the Reporting Period*

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

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Company's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

### *3.1 Critical Management Judgments in Applying Accounting Policies*

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

*(a) Determination of Lease Term of Contracts with Renewal and Termination Options*

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

For leases of offices, the factors that are normally the most relevant are (a) if there are significant penalties should the Company pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Company is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The Company did not include the renewal period as part of the lease term for leases of office spaces because the terms are renewable upon the mutual agreement of the parties.

The lease term is reassessed if an option is actually exercised or not exercised or the Company becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Company.

*(b) Classification of Financial Instruments*

The Company exercises judgments in classifying a financial instrument, or its components parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of financial position.

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as HTM securities, the Company evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity. If the Company fails to keep these investments to maturity other than for specific circumstances as allowed under the standard, it will be required to reclassify the whole class as AFS financial assets. In such case, the investments would, therefore, be measured at fair value, not at amortized cost.

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

As of December 31, 2022 and 2021, the Company's financial assets are classified as financial assets at FVTPL, HTM securities, AFS financial assets, and loans and receivables.

*(c) Distinction Between Investment Properties and Owner-Occupied Properties*

The Company determines whether a property qualifies as investment property or owner-occupied property. In making its judgment, the Company considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process. Investment property is held primarily to earn rental and capital appreciation and is not substantially for use by, or in the operations of the Company.

*(d) Distinction Between Operating and Finance Leases for Contracts where the Company is the Lessor*

The Company has entered into a lease agreement for certain investment properties. Critical judgment was exercised by management to distinguish the lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the property covered by the agreement. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

In 2022 and 2021, the Company has determined that its existing leases are operating leases.

*(e) Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.12 and disclosures on relevant provisions and contingencies are presented in Note 32.

*(f) Impairment of AFS Financial Assets*

The Company considers that financial assets at fair value are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Company evaluates other factors, including normal volatility in share price for quoted securities and the future cash flows and the discount factors for unquoted securities. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Based on the recent evaluation of information and circumstance affecting the Company's AFS financial assets, the management concluded that no AFS financial assets are impaired as of December 31, 2022 and 2021.

*(g) Going Concern Assumption*

When preparing financial statements, the management makes an assessment of the Company's ability to continue as a going concern. The Company prepares financial statements on a going concern basis unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. When management is aware in making its assessment of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, the Company discloses those uncertainties. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The degree of consideration depends on the facts in each case.

Management believes that the Company will continue as a going concern entity since it has complied with the net worth requirements of P1.3 billion of the Insurance Commision (IC) as of December 31, 2022 (see Note 34.2).

### *3.2 Key Sources of Estimation Uncertainty*

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

*(a) Estimation of Claims Liability Arising from Insurance Contracts*

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. Estimation of the ultimate cost of claims is a complex process and can be evaluated with the aid of adjuster's estimates. The Company considers that it is impracticable to discuss with sufficient reliability the possible effects of sensitivities surrounding the ultimate liability arising from claims made under insurance contracts as the major uncertainties may differ significantly. With this, it is reasonably possible, based on existing knowledge, that the outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected including reserve for outstanding losses and related insurance balances.

As of December 31, 2022 and 2021, total insurance contract liabilities amounted to P2,692.3 million and P2,348.5 million, respectively (see Note 18).

*(b) Valuation of Insurance Contract Liabilities*

Estimates have to be made both for the expected ultimate cost of claims reported and for the expected ultimate cost of IBNR losses at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty.

The primary technique adopted by the management in estimating the cost of IBNR losses is using the past claims settlement trend to predict the future claims settlement. At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to provisions. Insurance contract liabilities are not discounted for the time value of money.

As of December 31, 2022 and 2021, the carrying amount of insurance contract liabilities comprising of total claims reported and provisions for IBNR losses amounted to P2,692.3 million and P2,348.5 million, respectively (see Note 18).

The Company's adjustment to provision for IBNR losses is presented as Net Change in Provision for IBNR losses in the statement of comprehensive income (see Note 26).

*(c) Measurement of Fair Values*

The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value adjustments, including Level 3 fair values. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the valuation team assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The Company uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques.

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

The methods and assumptions used to estimate fair values for both financial and non-financial assets and liabilities are discussed in Note 36.

*(d) Estimation of Impairment of Financial Assets*

*(i) Financial Assets at Fair Value – AFS Financial Assets*

The Company treats AFS financial assets 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 of the original cost of investment, and 'prolonged' as greater than six months.

In addition, the Company evaluates other factors, including normal volatility in share price for listed AFS equity financial assets and the future cash flows and the discount factors for unlisted AFS equity financial assets. 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.

As of December 31, 2022 and 2021, the carrying amount of AFS financial assets and impairment loss, if any, recognized is disclosed in Note 8.

*(ii) Financial Assets at Amortized Cost*

The Company reviews its financial assets at amortized cost to assess impairment at least on an annual basis, or as the need arises due to significant movements on certain accounts. These financial assets that are individually significant are assessed to determine whether objective evidence of impairment exists on an individual basis, while those that are not individually significant are assessed for objective evidence of impairment either on an individual or on collective basis.

In determining whether an impairment loss should be recognized, the Company makes judgment as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets before the decrease can be identified with an individual financial asset in that portfolio.

As at December 31, 2022 and 2021, allowance for impairment losses was recognized for insurance receivables, loans and receivables, and reinsurance assets (see Notes 5, 9 and 11). There was no impairment loss recognized for HTM securities.

*(e) Estimation of Impairment of Non-financial Assets*

The Company's policy on estimating the impairment of non-financial assets is discussed in Note 2.17. Though management believes that the assumptions used in the estimation of fair values are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Based on management's evaluation, there are no impairment losses to be recognized on the Company's non-financial assets in both 2022 and 2021.

*(f) Valuation of Net Pension Asset (Liability)*

The determination of the Company's obligation and cost of post-employment benefits is dependent on the selection of certain assumptions used by the actuary in calculation such amounts. Those assumptions include, among others, discount rates and salary rate increase. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the net pension asset (liability) in the next reporting period.

The amounts of net pension asset (liability) and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such liability are presented in Note 29.2.

*(g) Estimation of Useful Lives of Investment Properties, Property and Equipment, Right-of-use Assets, and Intangible Assets*

The Company estimates the useful lives of investment properties, property and equipment, right-of-use assets, and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of investment properties and property and equipment are based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. For the right-of-use assets, the Company bases the useful lives on the lease terms agreed upon in each lease contract. Based on management's assessment as of December 31, 2022 and 2021, there is no change in the estimated useful lives of those assets during those years.

The carrying amounts of investment properties, property and equipment, right-of-use assets, and intangible assets are analyzed in Notes 13, 14, 15.1, and 16, respectively. Based on management's assessment as of December 31, 2022 and 2021, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates bought about by changes in factors mentioned above.

*(h) Determination of Appropriate Discount Rate in Measuring Lease Liabilities*

The Company measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Company's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

*(i) Determination of Realizable Amount of Deferred Tax Assets*

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets recognized as of December 31, 2022 and 2021 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 30.

## 4. CASH AND CASH EQUIVALENTS

This account includes the following components as of December 31:

| | **2022** | 2021 |
|---|---|---|
| Cash on hand | **P 1,953,180** | P 1,953,180 |
| Cash in banks | **338,977,238** | 269,127,702 |
| Cash equivalents | **69,703,421** | 4,682,929 |
| | **P 410,633,839** | P 275,763,811 |

Cash in banks generally earn interest ranging based on daily bank deposit rates. Cash equivalents include 14 to 90-day Philippine peso time deposits made for varying periods depending on the immediate cash requirements of the Company, and earn interest at rates ranging from 0.01% to 5.00% and 0.01% to 0.75% per annum in 2022 and 2021, respectively.

Interest income earned from cash and cash equivalents amounted to P0.3 million and P0.8 million in 2022 and 2021, respectively, and is presented as Interest income on cash and cash equivalents under Investment and Other Income in the statements of comprehensive income (see Note 25).

Foreign exchange gains on United States dollar (USD)-denominated cash and cash equivalents amounted to P2.9 million and P9.6 million in 2022 and 2021, respectively, and is recognized as Foreign exchange gains on cash and cash equivalents under Investment and Other Income in the statements of comprehensive income (see Note 25).

## 5. INSURANCE RECEIVABLES

The components of this account are as follows:

| | 2022 | 2021 |
|---|---|---|
| Due from agents and brokers | **P 678,868,087** | P 571,476,982 |
| Due from ceding companies | **293,683,829** | 265,361,908 |
| Funds held by ceding companies | **11,049,854** | 10,262,922 |
| | **983,601,770** | 847,101,812 |
| Allowance for impairment losses | **( 65,959,971)** | ( 66,190,464) |
| | **P 917,641,799** | P 780,911,348 |

Due from agents and brokers pertains to premium payments that are yet to be remitted to the Company by its insurance agents and brokers.

Due from ceding companies refers to the premiums receivable from the ceding companies as a result of treaty and facultative acceptances.

Funds held by ceding companies pertains to the portion of reinsurance premiums withheld by ceding companies in accordance with treaty and facultative agreements.

The maturity profile of the insurance receivables (gross of allowance) is shown below.

| | 2022 | 2021 |
|---|---|---|
| Within one year | **P 645,519,705** | P 683,531,205 |
| Beyond one year | **338,082,065** | 163,570,607 |
| | **P 983,601,770** | P 847,101,812 |

All of the Company's insurance receivables have been reviewed for indicators of impairment. The reconciliation of the allowance for impairment at the beginning and end of 2022 and 2021 is shown below.

| | 2022 | 2021 |
|---|---|---|
| Balance at beginning of year | **P 66,190,464** | P 69,929,257 |
| Impairment for the year | **-** | 1,030,343 |
| Reversal for the year | **( 230,493)** | ( 4,769,136) |
| Balance at end of year | **P 65,959,971** | P 66,190,464 |

Additional impairment losses, net of reversal, on the Company's insurance receivables are shown as part of Impairment losses under Operating Expenses account in the statements of comprehensive income (see Note 27).

## 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As of December 31, financial assets at FVTPL consists of the following:

| | Note | 2022 | 2021 |
|---|---|---|---|
| Mutual funds | | **P 108,063,591** | P 116,777,689 |
| UITF | | **80,225,477** | 84,784,013 |
| Trust funds | 10 | **62,290,230** | 61,587,639 |
| | | **P 250,579,298** | P 263,149,341 |

The reconciliation of the fair values of financial assets at FVTPL are as follows.

| | Note | 2022 | 2021 |
|---|---|---|---|
| Balance at beginning of year | | **P 263,149,341** | P 259,502,904 |
| Additions | | **62,290,230** | 61,587,640 |
| Disposals | | **( 61,587,638)** | ( 61,452,747) |
| Fair value gains (losses) - net | 25 | **( 13,272,635)** | 3,511,544 |
| Balance at end of year | | **P 250,579,298** | P 263,149,341 |

## 7. HELD-TO-MATURITY SECURITIES

The account consists of:

| | 2022 | 2021 |
|---|---|---|
| Retail treasury bonds | **P 117,898,739** | P 85,209,148 |
| Treasury notes | **131,668,219** | 58,780,326 |
| Treasury bills | **93,636,225** | 95,889,974 |
| Corporate notes | **-** | 5,000,000 |
| | **P 343,203,183** | P 244,879,448 |

These investments bear interest at rates ranging from 1.38% to 9.25% and 1.45% to 15.00% in 2022 and 2021, respectively. Interest earned from these investments amounting to P9.4 million and P8.5 million in 2022 and 2021, respectively, is presented as Interest income on HTM securities under Investment and Other Income account in the statements of comprehensive income (see Note 25).

Investments in HTM securities are deposited with the IC as security for the benefit of policyholders and creditors of the Company in accordance with the provision of the Code.

The reconciliation of the carrying amount of HTM at the beginning and end of 2022 and 2021 is as follows:

| | 2022 | 2021 |
|---|---|---|
| Balance at beginning of year | **P 244,879,448** | P 246,312,164 |
| Additions | **279,148,615** | 96,884,578 |
| Maturities | **( 179,585,747)** | ( 96,375,726) |
| Amortization | **( 1,239,133)** | ( 1,941,568) |
| | **P 343,203,183** | P 244,879,448 |

The maturity profile of HTM securities follows:

| | 2022 | 2021 |
|---|---|---|
| Within one year | **P 105,124,023** | P 147,596,569 |
| Beyond one year | **238,079,160** | 97,282,879 |
| | **P 343,203,183** | P 244,879,448 |

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account consists of:

| | 2022 | 2021 |
|---|---|---|
| Quoted securities: | | |
| Equity securities: | | |
| Common | **P 261,747,072** | P 306,706,264 |
| Preferred | **39,306,695** | 47,329,549 |
| Debt securities: | | |
| Corporate securities | **85,601,054** | 110,653,063 |
| Government securities | **50,063,455** | 327,533,867 |
| Club shares | **5,390,000** | 5,500,000 |
| | **442,108,276** | 797,722,743 |
| Unquoted securities – | | |
| Equity securities | **6,957,500** | 6,957,500 |
| | **P 449,065,776** | P 804,680,243 |

The reconciliation of the carrying amounts of AFS financial assets follows:

| | Note | 2022 | 2021 |
|---|---|---|---|
| Balance at beginning of year | | **P 804,680,243** | P 916,297,370 |
| Additions | | **490,749,157** | 744,992,069 |
| Maturities and disposals | | **( 795,047,990)** | ( 866,698,854) |
| Fair value gains (losses) - net | | **( 52,747,089)** | 9,262,249 |
| Foreign exchange gains - net | 25 | **1,481,757** | 927,378 |
| Amortization of premium - net | 25 | **( 50,302)** | ( 99,969) |
| Balance at end of year | | **P 449,065,776** | P 804,680,243 |

The maturity profile of the AFS debt securities follows:

| | 2022 | 2021 |
|---|---|---|
| Within one year | **P 52,241,519** | P 363,638,470 |
| Beyond one year | **83,422,990** | 74,548,460 |
| | **P 135,664,509** | P 438,186,930 |

Dividend income earned from equity securities amounted to P10.9 million both in 2022 and 2021, and is presented as Dividend income on AFS financial assets under Investment and Other Income account in the statements of comprehensive income (see Note 25).

Interest income earned from debt securities amounted to P8.7 million and P9.2 million in 2022 and 2021, respectively, and is presented as Interest income on AFS financial assets under Investment and Other Income in the statements of comprehensive income (see Note 25).

Movement in the revaluation reserve on AFS financial assets is as follows:

| | Note | 2022 | 2021 |
|---|---|---|---|
| Balance at beginning of year | | **(P 87,580,412)** | (P 91,678,905) |
| Other comprehensive income: | | | |
| Fair value gains - net | | **( 52,747,089)** | 9,262,249 |
| Transferred to profit or loss | 25 | **( 3,487,812)** | ( 5,163,756) |
| Balance at end of year | | **(P 143,815,313)** | (P 87,580,412) |

There were no impairment losses recognized in 2022 and 2021.

## 9. LOANS AND RECEIVABLES

As of December 31, this account consists of:

| | Note | 2022 | 2021 |
|---|---|---|---|
| Accounts receivable | | **P 126,842,560** | P 91,951,547 |
| Surety loss recoverable | | **106,950,615** | 63,793,882 |
| Mortgage, collateral and guaranteed loans | | **73,434,652** | 84,671,204 |
| Accrued income | | **5,224,874** | 3,623,759 |
| Due from related parties | 31.1(b), 31.2 | **2,286,423** | 1,806,817 |
| | | **314,739,124** | 245,847,209 |
| Allowance for impairment | | **( 108,255,123)** | ( 70,523,101) |
| | | **P 206,484,001** | P 175,324,108 |

Accounts receivable includes receivables from institutions, intermediaries, and employees.

Surety loss recoverable represents estimated recoveries the Company may have from losses on surety policies issued.

Mortgage, collateral and guaranteed loans earn interest ranging from 5.00% to 12.00% and 6.00% to 12.00% per annum in 2022 and 2021, respectively. Interest income earned from these loans receivables amounted to P9.4 million and P11.5 million in 2022 and 2021, respectively, and is presented as Interest income on loans and receivables under Investment and Other Income account in the statements of comprehensive income (see Note 25).

Accrued income refers to earned but not yet collected interest income from loans and receivables.

The table below shows the reconciliation of the changes in the allowance for impairment as of December 31, 2022 and 2021.

| | Mortgage, Collateral and Guaranteed Loans | Accounts Receivable | Total |
|---|---|---|---|
| Balance at January 1, 2022 | P 4,023,982 | P 66,499,119 | P 70,523,101 |
| Provision (reversal) for the year | ( 43,832) | 37,775,854 | 37,732,022 |
| Balance at December 31, 2022 | **P 3,980,150** | **P 104,274,973** | **P 108,255,123** |
| Balance at January 1, 2021 | P 4,023,982 | P 52,902,798 | P 56,926,780 |
| Provision for the year | - | 13,596,321 | 13,596,321 |
| Balance at December 31, 2021 | P 4,023,982 | P 66,499,119 | P 70,523,101 |

Provision for impairment losses in 2022 and 2021 are presented as part of Impairment losses under Operating Expenses in the statements of comprehensive income (see Note 27).

## 10. ASSETS HELD IN TRUST

As the lead insurance entity among a consortium of non-life insurance companies, the Company entered into trust agreements with two local banks in October 2006 to establish trust funds for the fulfilment of the consortium obligations under the non-life insurance agreements. The Company owns 10% of the trust funds, with the rest of the consortium members sharing 90%. The corresponding liability of the Company is presented as Liability for assets held in trust under Accounts Payable and Accrued Expenses account in the statements of financial position (see Note 21).

The details of assets held in trust are as follows:

| | Note | 2022 | 2021 |
|---|---|---|---|
| Cash and cash equivalents | | **P 4,374,493** | P 4,388,104 |
| Financial assets at FVTPL | | **53,248,811** | 53,248,811 |
| Accrued income | | **4,666,926** | 3,950,724 |
| | 6 | **P 62,290,230** | P 61,587,639 |

## 11. REINSURANCE ASSETS

The components of this account are as follows:

| | Note | 2022 | 2021 |
|---|---|---|---|
| Reinsurance recoverable: | | | |
| Paid losses recoverable from reinsurers | | **P 1,008,038,861** | P 573,040,278 |
| Unpaid losses recoverable from reinsurers | 18 | **1,013,786,010** | 631,648,834 |
| | | **2,021,824,871** | 1,024,689,112 |
| Deferred reinsurance premiums | 18 | **275,583,191** | 325,860,753 |
| | | **2,297,408,062** | 1,530,549,865 |
| Allowance for impairment | | **( 149,124,673)** | ( 186,626,202) |
| | | **P 2,148,283,389** | P 1,343,923,663 |

The movements of reinsurance recoverable are as follows:

| | Note | 2022 | 2021 |
|---|---|---|---|
| Balance at beginning of year | | **P 1,204,689,112** | P 1,478,360,897 |
| Reinsurer's share from losses | 26 | **1,087,167,979** | 1,849,368,196 |
| Collection from reinsurers | | **( 141,556,552)** | ( 2,462,112,109) |
| Reinsurer's share in IBNR | | **( 128,475,668)** | 339,072,128 |
| Balance at end of year | | **P 2,021,824,871** | P 1,204,689,112 |

Movements in the deferred reinsurance premiums are as follows:

| | Notes | 2022 | 2021 |
|---|---|---|---|
| Balance at beginning of year | | **P 325,860,753** | P 335,397,910 |
| Premiums ceded and paid during the year | 24 | **1,393,631,521** | 1,459,247,919 |
| Premium ceded during the year | 24 | **( 1,443,909,083)** | ( 1,468,785,076) |
| Balance at end of year | 18 | **P 275,583,191** | P 325,860,753 |

Paid losses recoverable from reinsurers represents amounts due from reinsurers under treaty and facultative agreements as their share in losses already paid by the Company. Unpaid losses recoverable from reinsurers, on the other hand, pertains to amounts due from reinsurers under treaty and facultative as their share in losses on claims not yet paid but already reported in the books.

Deferred reinsurance premiums pertains to the portion of the reinsurance premiums ceded out related to the unexpired periods of the policies at the end of each reporting period.

Changes in the allowance for impairment losses on paid losses recoverable from reinsurers are as follows:

| | Note | 2022 | 2021 |
|---|---|---|---|
| Balance at beginning of year | | **P 186,626,202** | P 171,483,731 |
| Impairment (reversal) for the year | 27 | **( 37,501,529)** | 15,142,471 |
| Balance at end of year | | **P 149,124,673** | P 186,626,202 |

## 12. DEFERRED ACQUISITION COSTS

The movements of this account consist of:

| | 2022 | 2021 |
|---|---|---|
| Balance at beginning of year | **P 163,813,584** | P 154,310,107 |
| Commissions paid during the year | **391,526,906** | 433,804,174 |
| Commissions incurred during the year | **( 373,745,493)** | ( 424,300,697) |
| Balance at end of year | **P 181,594,997** | P 163,813,584 |

Commissions incurred in 2022 and 2021 are recognized as Commission expense under Other Expenses in the statements of comprehensive income.

## 13. INVESTMENT PROPERTIES

The gross amounts and accumulated depreciation of investment properties at the beginning and end of 2022 and 2021 are shown below.

| | Land and Memorial Lots | Building | Total |
|---|---|---|---|
| December 31, 2022 | | | |
| Acquisition cost | P 2,416,000 | P 96,411,162 | P 98,827,162 |
| Accumulated depreciation | - | ( 37,236,166) | ( 37,236,166) |
| Net carrying amount | **P 2,416,000** | **P 59,174,996** | **P 61,590,996** |
| December 31, 2021 | | | |
| Acquisition cost | P 26,202,938 | P 96,411,162 | P 122,614,100 |
| Accumulated depreciation | - | ( 28,044,946) | ( 28,044,946) |
| Net carrying amount | P 26,202,938 | P 68,366,216 | P 94,569,154 |
| January 1, 2021 | | | |
| Acquisition cost | P 26,811,372 | P 109,750,726 | P 136,562,098 |
| Accumulated depreciation | - | ( 20,187,683) | ( 20,187,683) |
| Net carrying amount | P 26,811,372 | P 89,563,043 | P 116,374,415 |

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2022 and 2021 is shown below.

| | Land and Memorial Lots | Building | Total |
|---|---|---|---|
| December 31, 2022 | | | |
| Balance at beginning of year, net of accumulated depreciation | P 26,202,938 | P 68,366,216 | P 94,569,154 |
| Disposals | ( 23,786,938) | - | ( 23,786,938) |
| Depreciation charges for the year | - | ( 9,191,220) | ( 9,191,220) |
| Balance at end of year, net of accumulated depreciation | **P 2,416,000** | **P 59,174,996** | **P 61,590,996** |
| December 31, 2021 | | | |
| Balance at beginning of year, net of accumulated depreciation | P 26,811,372 | P 89,563,043 | P 116,374,415 |
| Disposals | ( 608,434) | ( 13,339,563) | ( 13,947,997) |
| Depreciation charges for the year | - | ( 7,857,264) | ( 7,857,264) |
| Balance at end of year, net of accumulated depreciation | P 26,202,938 | P 68,366,216 | P 94,569,154 |

As of December 31, 2022 and 2021, the estimated fair value of these investment properties amounted to P141.1 million and P198.4 million, respectively (see Note 36.4).

Depreciation charges in 2022 and 2021 are recognized as part of Depreciation and amortization under Operating Expenses in the statements of comprehensive income (see Note 27). Real estate tax on investment properties amounting to P1.5 million and P2.0 million in 2022 and 2021, respectively, is recognized as part of Taxes and licenses under Operating Expenses in the statements of comprehensive income (see Note 27).

Rent income from office building leased out amounted to P4.5 million and P2.0 million in 2022 and 2021, respectively (see Notes 25 and 32.1).

In 2022 and 2021, the Company sold certain investment properties resulting to a gain on sale amounting to P41.5 million and P5.3 million, respectively, which is recognized as Gain on sale of investment properties under Investment and Other Income account in the statements of comprehensive income (see Note 25).

## 14. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2022 and 2021 are shown below.

| | Land | EDP Hardware | Transportation Equipment | Furniture, Fixtures and Equipment | Leasehold Improvements | Building | Total |
|---|---|---|---|---|---|---|---|
| December 31, 2022 | | | | | | | |
| Cost | P 18,794,054 | P 51,322,069 | P 44,996,932 | P 24,493,469 | P 23,714,496 | P323,700,020 | P 487,021,040 |
| Accumulated depreciation and amortization | - | ( 23,995,977) | ( 25,209,337) | ( 17,672,251) | ( 19,924,125) | ( 42,181,297) | ( 128,982,987) |
| Net carrying amount | **P 18,794,054** | **P 27,326,092** | **P 19,787,595** | **P 6,821,218** | **P 3,790,371** | **P 281,518,723** | **P 358,038,053** |
| December 31, 2021 | | | | | | | |
| Cost | P 18,794,054 | P 35,479,120 | P 49,157,398 | P 30,365,293 | P 30,867,713 | P323,511,090 | P 488,174,668 |
| Accumulated depreciation and amortization | - | ( 21,553,166) | ( 30,136,516) | ( 21,570,758) | ( 23,598,785) | ( 34,607,063) | ( 131,466,288) |
| Net carrying amount | P 18,794,054 | P 13,925,954 | P 19,020,882 | P 8,794,535 | P 7,268,928 | P 288,904,027 | P 356,708,380 |
| January 1, 2021 | | | | | | | |
| Cost | P 18,794,054 | P 33,155,600 | P 47,285,654 | P 27,400,408 | P 30,213,456 | P322,683,476 | P 479,532,648 |
| Accumulated depreciation and amortization | - | ( 15,638,690) | ( 24,484,484) | ( 16,570,350) | ( 18,762,335) | ( 27,046,708) | ( 102,502,567) |
| Net carrying amount | P 18,794,054 | P 17,516,910 | P 22,801,170 | P 10,830,058 | P 11,451,121 | P295,636,768 | P 377,030,081 |

A reconciliation of the carrying amounts of property and equipment at the beginning and end of December 31, 2022 and 2021 is shown below and in the succeeding page.

| | Land | EDP Hardware | Transportation Equipment | Furniture, Fixtures and Equipment | Leasehold Improvements | Building | Total |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2022, net of accumulated depreciation and amortization | P 18,794,054 | P 13,925,954 | P 19,020,882 | P 8,794,535 | P 7,268,928 | P288,904,027 | P 356,708,380 |
| Additions | - | 23,312,667 | 9,843,515 | 2,044,658 | 850,241 | 188,930 | 36,240,011 |
| Depreciation and amortization charges for the year | - | ( 9,912,529) | ( 9,076,802) | ( 4,017,975) | ( 4,328,798) | ( 7,574,234) | ( 34,910,338) |
| Balance at December 31, 2022, net of accumulated depreciation and amortization | **P 18,794,054** | **P 27,326,092** | **P 19,787,595** | **P 6,821,218** | **P 3,790,371** | **P281,518,723** | **P 358,038,053** |

| | Land | EDP Hardware | Transportation Equipment | Fixtures and Equipment | Leasehold Improvement | Building | Total |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2021, net of accumulated depreciation and amortization | P 18,794,054 | P 17,516,910 | P 22,801,170 | P 10,830,058 | P 11,451,121 | P295,636,768 | P 377,030,081 |
| Additions | - | 2,352,895 | 2,946,119 | 3,089,752 | 654,257 | 827,614 | 9,870,637 |
| Depreciation and amortization charges for the year | - | ( 5,943,851) | ( 6,726,407) | ( 5,125,275) | ( 4,836,450) | ( 7,560,355) | ( 30,192,338) |
| Balance at December 31, 2021, net of accumulated depreciation and amortization | P 18,794,054 | P 13,925,954 | P 19,020,882 | P 8,794,535 | P 7,268,928 | P288,904,027 | P 356,708,380 |

Depreciation charges in 2022 and 2021 are recognized as part of Depreciation and amortization under Operating Expenses in the statements of comprehensive income (see Note 27).

The Company recognized gain on sale of property and equipment amounting P39,140 and P0.3 million in 2022 and 2021, respectively, which is presented as Gain on sale of property and equipment under Investment and Other Income account in the statements of comprehensive income (see Note 25).

## 15. LEASES

The Company has leases for its head office and several branch offices. With the exception of short-term leases, each lease is reflected on the statements of financial position as a right-of-use asset and a lease liability.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. The leases contain an option to extend the lease for a further term, which should be mutually agreed with the lessor. For leases over offices, the Company must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Company must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The nature of the Company's leasing activities recognized in the statements of financial position is described below.

| | **2022** | 2021 |
|---|---|---|
| Number of right-of-use assets leased | **38** | 37 |
| Range of remaining term | **1 - 5 years** | 1 - 5 years |
| Average remaining lease term | **2 years** | 2 years |

### *15.1 Right-of-use Assets*

The carrying amounts of the Company's right-of-use assets as of December 31, 2022 and 2021 and the movements during the years are shown below.

| | **2022** | 2021 |
|---|---|---|
| Cost | **P 65,799,977** | P 57,931,722 |
| Accumulated amortization | **( 28,027,556)** | ( 31,986,766) |
| Net carrying amount | **P 37,772,421** | P 25,944,956 |

A reconciliation of the carrying amount of right-of-use assets at beginning and end of 2022 and 2021 is shown below.

| | Note | **2022** | 2021 |
|---|---|---|---|
| Balance at January 1, net of accumulated amortization | | **P 25,944,956** | P 34,052,869 |
| Additions | | **26,592,303** | 7,040,736 |
| Amortization during the year | 27 | **( 14,764,838)** | ( 15,148,649) |
| Balance at December 31, net accumulated amortization | | **P 37,772,421** | P 25,944,956 |

### *15.2 Lease Liabilities*

Lease liabilities are presented in the statements of financial position are as follows:

| | **2022** | 2021 |
|---|---|---|
| Current | **P 13,852,003** | P 10,763,418 |
| Non-current | **24,932,417** | 16,223,777 |
| | **P 38,784,420** | P 26,987,195 |

The movements in the lease liabilities recognized in the statements of financial position are as follows:

| | Note | **2022** | 2021 |
|---|---|---|---|
| Balance at beginning of year | | **P 26,987,195** | P 35,074,349 |
| Cash flows from financing activities – Repayments of lease liabilities | | **( 15,100,184)** | ( 16,464,206) |
| Non-cash financing activities: | | | |
| Additional lease obligation | | **25,405,891** | 6,843,483 |
| Interest amortization | 27 | **1,491,518** | 1,533,569 |
| | | **P 38,784,420** | P 26,987,195 |

The lease liabilites are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at December 31, 2022 and 2021 are as follows:

| | Within 1 year | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | Total |
|---|---|---|---|---|---|---|
| **December 31, 2022** | | | | | | |
| Lease payments | P 15,213,677 | P 11,134,318 | P 6,732,159 | P 5,573,877 | P 3,054,894 | P41,708,925 |
| Finance charges | ( 1,361,674) | ( 812,163) | ( 473,551) | ( 234,669) | ( 42,448) | ( 2,924,505) |
| Net present values | **P 13,852,003** | **P 10,322,155** | **P 6,258,608** | **P 5,339,208** | **P 3,012,446** | **P38,784,420** |
| December 31, 2021 | | | | | | |
| Lease payments | P 11,677,375 | P 9,637,542 | P 5,678,817 | P 1,408,218 | P 164,898 | P28,566,850 |
| Finance charges | ( 913,957) | ( 490,840) | ( 151,753) | ( 21,970) | ( 1,135) | ( 1,579,655) |
| Net present values | P 10,763,418 | P 9,146,702 | P 5,527,064 | P 1,386,248 | P 163,763 | P26,987,195 |

### *15.3 Lease Payments Not Recognized as Liabilities*

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases. Payments made under such leases are expensed on a straight-line basis. In 2022 and 2021, the expenses incurred on short-term leases amounted to P6.1 million and P5.7 million, respectively, and is presented as Rent under Operating Expenses in the statements of comprehensive income (see Note 27).

As at December 31, 2022 and 2021, total future cash outflows for short-term leases amounted to P0.1 million in both years.

## 16. INTANGIBLE ASSETS

The Company's intangible assets pertain to computer software with remaining lives of one to five years.

The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of 2022 and 2021 are shown below.

| | **December 31, 2022** | December 31, 2021 | January 1, 2021 |
|---|---|---|---|
| Cost | **P 56,860,356** | P 54,473,357 | P 45,716,618 |
| Accumulated amortization | **( 39,654,526)** | ( 38,593,148) | ( 34,302,777) |
| | **P 17,205,830** | P 15,880,209 | P 11,413,841 |

A reconciliation of carrying amounts of intangible assets at the end of 2022 and 2021 is shown below.

| | Note | **2022** | 2021 |
|---|---|---|---|
| Balance at January 1, net of accumulated amortization | | **P 15,880,209** | P 11,413,841 |
| Additions during the year | | **6,735,841** | 8,756,739 |
| Amortization for the year | 27 | **( 5,410,220)** | ( 4,290,371) |
| Balance at December 31, net of accumulated amortization | | **P 17,205,830** | P 15,880,209 |

## 17. OTHER ASSETS

The details of this account are as follows:

| | Note | 2022 | 2021 |
|---|---|---|---|
| Prepayments | | **P 72,544,920** | P 78,692,961 |
| Creditable withholding taxes | | **6,927,323** | 22,201,242 |
| Security deposit | | **4,904,957** | 5,993,474 |
| Other asset inventory | | **2,144,000** | 2,144,000 |
| Short-term investments | | **1,173,584** | 1,168,263 |
| Security fund | | **48,440** | 48,440 |
| Claims fund | | **-** | 15,986,534 |
| Net pension asset | 29.2 | **-** | 13,922,698 |
| | | **P 87,743,224** | P 140,157,612 |

Prepayments consist of prepaid rent for the Company's branches' premises, utility deposits and upfront fee. Upfront fee pertains to fees paid by the Company for the bancassurance agreement entered into by the Company and its parent company with United Coconut Planters Bank. In 2021, the Company entered into another bancassurrance agreement with UCPB Savings Bank, Inc. As of December 31, 2022 and 2021, the balance of the upfront fee amounted to P69.6 million and P76.1 million, respectively, and is to be amortized for a period of 10 years from the effectivity of the respective agreements. Amortization expense recognized in 2022 and 2021 amounted to P6.4 million and P9.1 million, respectively, and is presented as part of Advertising and promotions under Operating Expenses in the statements of comprehensive income (see Note 27).

Short-term investments pertain to 91-day time deposits and earn interest at the rates of 0.05% to 1.50% and 0.50% to 1.13% per annum in 2022 and 2021, respectively. Interest income earned from these investments amounted to P10,020 and P7,730 in 2022 and 2021, respectively, and is presented as Interest income on short-term investments under Investment and Other Income in the statements of comprehensive income (see Note 25).

Security fund represents the amount deposited with the IC. This was created under Section 365 of the Presidential Decree No. 612, as amended under the Presidential Decree No. 1640, to be used for the payment of valid claims against insolvent insurance companies.

## 18. INSURANCE CONTRACT LIABILITIES

The analysis of insurance contract liabilities, net of reinsurers' share of liabilities, is as follows:

| | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (see Note 11) | Net Retention |
|---|---|---|---|
| **December 31, 2022** | | | |
| Provision for claims reported by policyholders | P 1,034,844,794 | P 732,819,414 | P 302,025,380 |
| Provisions for IBNR losses | 469,434,216 | 280,966,596 | 188,467,620 |
| Total claims reported and provisions for IBNR losses | 1,504,279,010 | 1,013,786,010 | 490,493,000 |
| Provision for unearned premiums | 1,188,031,140 | 275,583,191 | 912,447,949 |
| | **P 2,692,310,150** | **P 1,289,369,201** | **P 1,402,940,949** |
| December 31, 2021 | | | |
| Provision for claims reported by policyholders | P 550,438,165 | P 222,206,569 | P 328,231,596 |
| Provisions for IBNR losses | 646,396,709 | 409,442,265 | 236,954,444 |
| Total claims reported and provisions for IBNR losses | 1,196,834,874 | 631,648,834 | 565,186,040 |
| Provision for unearned premiums | 1,151,617,617 | 325,860,753 | 825,756,864 |
| | P 2,348,452,491 | P 957,509,587 | P 1,390,942,904 |

Provision for claims reported by policyholders are losses and claims due to policyholders under direct insurance contracts and due to ceding companies under treaty and facultative agreements.

As stated in CL No. 2018-18, *Valuation Standards for Non-Life Insurance*, non-life insurance and reinsurance companies shall be allowed to set Margin for Adverse Deviation (Mfad) of 100% starting 2019 onwards.

Provision for unearned premiums is the portion of the direct insurance and reinsurance premiums assumed related to the unexpired periods of the policies at the end of each year.

The movements of provisions for unearned premiums are presented below.

| | Gross Provision for Unearned Premiums | Reinsurers' Share of Liabilities (see Note 11) | Net Retention |
|---|---|---|---|
| **December 31, 2022** | | | |
| Balance at beginning of year | P 1,151,617,617 | P 325,860,753 | P 825,756,864 |
| New policies written during the year | 3,245,649,494 | 1,393,631,521 | 1,852,017,973 |
| Premiums earned during the year | ( 3,209,235,971) | ( 1,443,909,084) | ( 1,765,326,888) |
| Balance at end of year | **P 1,188,031,140** | **P 275,583,190** | **P 912,447,949** |

| | Gross Provision for Unearned Premiums | Reinsurers' Share of Liabilities (see Note 11) | Net Retention |
|---|---|---|---|
| December 31, 2021 | | | |
| Balance at beginning of year | P 1,072,511,252 | P 335,397,910 | P 737,113,342 |
| New policies written during the year | 3,119,170,905 | 1,459,247,919 | 1,659,922,986 |
| Premiums earned during the year | ( 3,040,064,540) | ( 1,468,785,076) | ( 1,571,279,464) |
| Balance at end of year | P 1,151,617,617 | P 325,860,753 | P 825,756,864 |

## 19. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES

### *19.1 Terms and Conditions*

The major classes of general insurance written by the Company include motor, property, casualty, marine and engineering. Risks under these policies usually cover a 12 month duration. For general insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and IBNR losses) are established to cover the ultimate cost of setting the liabilities in respect of claims that have occurred and are estimated based on known facts at the end of the year.

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

The measurement process primarily includes projection of future claims costs through a combination of actuarial and statistical projection techniques. In certain cases, where there is a lack of reliable historical data on which to estimate claims development, relevant benchmarks of similar business are used in developing claims estimates. Claims provisions are separately analyzed by class of business. In addition, larger claims are usually either separately assessed by loss adjusters or separately projected by the actuaries. The claims projection assumptions are generally intended to provide a best estimate of the most likely expected outcome.

### *19.2 Key Assumptions*

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claims handling costs, claims inflation factors and claim numbers for each accident year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example, one-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. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

### *19.3 Loss Development Table*

Reproduced below are the tables showing the development of claims over a period of time on a gross and net reinsurance basis.

**Gross of Reinsurance – 2022**

| Accident Year | All Years Prior | 2018 | 2019 | 2020 | 2021 | 2022 | Total |
|---|---|---|---|---|---|---|---|
| Estimate of Ultimate Claims Costs | | | | | | | |
| At the end of accident year | P 17,651,198,961 | P 822,346,779 | P 845,439,364 | P 729,319,769 | P 833,288,551 | P 828,055,306 | P 828,055,306 |
| One year later | 17,561,391,492 | 881,290,872 | 1,090,647,292 | 903,679,177 | 1,529,491,342 | - | 1,529,491,342 |
| Two years later | 17,285,998,716 | 923,375,920 | 1,173,640,325 | 1,003,927,396 | - | - | 1,003,927,396 |
| Three years later | 17,285,724,417 | 925,984,238 | 1,141,879,670 | - | - | - | 1,141,879,670 |
| Four years later | 17,181,141,881 | 927,741,272 | - | - | - | - | 927,741,272 |
| Five years later | 17,522,042,716 | - | - | - | - | - | 17,522,042,716 |
| Current estimate of cumulative claims | 17,522,042,716 | 927,741,272 | 1,141,879,670 | 1,003,927,396 | 1,529,491,342 | 828,055,306 | 22,953,137,702 |
| Cumulative payments to date | 17,113,320,835 | 918,685,076 | 1,100,453,064 | 1,002,232,107 | 927,008,678 | 387,067,932 | 21,448,858,692 |
| **Estimated Gross Insurance Liabilities** | **P 408,721,881** | **P 9,056,196** | **P 41,426,606** | **P 1,604,289** | **P 602,482,664** | **P 440,987,374** | **P 1,504,279,010** |

**Net of Reinsurance – 2022**

| Accident Year | All Years Prior | 2018 | 2019 | 2020 | 2021 | 2022 | Total |
|---|---|---|---|---|---|---|---|
| Estimate of Ultimate Claims Costs | | | | | | | |
| At the end of accident year | P 7,607,508,788 | P 673,406,848 | P 701,071,922 | P 652,862,703 | P 485,372,835 | P 630,660,180 | P 630,660,180 |
| One year later | 7,791,603,255 | 743,995,436 | 883,144,958 | 749,689,561 | 544,535,697 | - | 544,535,697 |
| Two years later | 7,827,141,462 | 758,847,564 | 948,728,799 | 692,397,216 | - | - | 692,397,216 |
| Three years later | 7,867,408,808 | 749,259,533 | 917,483,354 | - | - | - | 917,483,354 |
| Four years later | 7,894,687,298 | 742,787,869 | - | - | - | - | 742,787,869 |
| Five years later | 7,179,152,906 | - | - | - | - | - | 7,179,152,906 |
| Current estimate of cumulative claims | 7,179,152,906 | 742,787,869 | 917,483,354 | 692,397,217 | 544,535,697 | 630,660,180 | 10,707,017,222 |
| Cumulative payments to date | 6,997,646,347 | 735,692,077 | 899,146,700 | 736,443,054 | 472,249,475 | 375,346,569 | 10,216,524,222 |
| **Estimated Net Insurance Liabilities** | **P 181,506,559** | **P 7,095,792** | **P 18,336,654** | **(P 44,045,838)** | **P 72,286,222** | **P 255,313,611** | **P 490,493,000** |

Gross of Reinsurance – 2021

| Accident Year | All Years Prior | 2017 | 2018 | 2019 | 2020 | 2021 | Total |
|---|---|---|---|---|---|---|---|
| Estimate of Ultimate Claims Costs | | | | | | | |
| At the end of accident year | P 16,660,703,498 | P 848,294,292 | P 822,346,779 | P 845,439,364 | P 729,319,769 | P 833,288,551 | P 833,288,551 |
| One year later | 16,683,192,727 | 913,402,028 | 881,290,872 | 1,090,647,292 | 903,679,177 | - | 903,679,177 |
| Two years later | 16,440,781,952 | 902,557,286 | 923,375,920 | 1,173,640,325 | - | - | 1,173,640,325 |
| Three years later | 16,436,706,197 | 898,974,516 | 925,984,238 | - | - | - | 925,984,238 |
| Four years later | 16,338,318,719 | 896,345,334 | - | - | - | - | 896,345,334 |
| Five years later | 11,994,728,239 | - | - | - | - | - | 11,994,728,239 |
| Current estimate of cumulative claims | 11,994,728,239 | 896,345,334 | 925,984,238 | 1,173,640,325 | 903,679,177 | 833,288,551 | 16,727,665,864 |
| Cumulative payments to date | 11,699,322,667 | 892,317,097 | 883,354,786 | 1,071,364,191 | 736,813,919 | 247,658,329 | 15,530,830,990 |
| Estimated Gross Insurance Liabilities | P 295,405,572 | P 4,028,237 | P 42,629,452 | P 102,276,134 | P 166,865,258 | P 585,630,222 | P 1,196,834,874 |

Net of Reinsurance – 2021

| Accident Year | All Years Prior | 2017 | 2018 | 2019 | 2020 | 2021 | Total |
|---|---|---|---|---|---|---|---|
| Estimate of Ultimate Claims Costs | | | | | | | |
| At the end of accident year | P 6,824,943,765 | P 681,388,607 | P 673,406,848 | P 701,071,922 | P 652,862,703 | P 485,372,835 | P 485,372,835 |
| One year later | 7,010,664,030 | 753,915,579 | 743,995,436 | 883,144,958 | 749,689,561 | - | 749,689,561 |
| Two years later | 7,062,630,378 | 759,661,942 | 758,847,564 | 948,728,799 | - | - | 948,728,799 |
| Three years later | 7,100,437,852 | 760,949,207 | 749,259,533 | - | - | - | 749,259,533 |
| Four years later | 7,124,226,578 | 763,395,480 | - | - | - | - | 763,395,480 |
| Five years later | 4,389,781,418 | - | - | - | - | - | 4,389,781,418 |
| Current estimate of cumulative claims | 4,389,781,418 | 763,395,480 | 749,259,533 | 948,728,799 | 749,689,561 | 485,372,835 | 8,086,227,626 |
| Cumulative payments to date | 4,235,817,028 | 760,833,861 | 734,247,033 | 880,663,531 | 660,837,113 | 248,643,019 | 7,521,041,585 |
| Estimated Net Insurance Liabilities | P 153,964,390 | P 2,561,619 | P 15,012,500 | P 68,065,268 | P 88,852,448 | P 236,729,816 | P 565,186,041 |

### *19.4 Sensitivities*

The claims provision is sensitive to the key assumptions discussed in Note 19.2. The sensitivity of certain assumptions such as legislative change, uncertainty in the estimation process, among others 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 statement of changes in equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumption changes had to be done on an individual basis.

| | Change in Assumption of Claims Development Factor | Increase (Decrease) in Gross Liabilities | Increase (Decrease) in Net Liabilities | Increase (Decrease) in Profit Before Tax | Increase (Decrease) in Equity |
|---|---|---|---|---|---|
| **December 31, 2022** | | | | | |
| Claims provision | **5.0%** | **P 34,275,340** | **P 28,907,605** | **(P 28,907,605)** | **P 28,907,605** |
| | **-5.0%** | **( 36,204,946)** | **( 30,356,768)** | **30,356,768** | **( 30,356,768)** |
| December 31, 2021 | | | | | |
| Claims provision | 5.0% | P 28,901,893 | P 23,641,835 | (P 23,641,835) | P 23,641,835 |
| | -5.0% | ( 30,146,255) | ( 24,579,834) | 24,579,834 | ( 24,579,834) |

It should also be stressed that these assumptions are non-linear and larger or smaller impacts cannot easily be gleaned from these results.

Changes in claims development factor do not have material impact on the Company's financial statement because the Company acquires excess of loss agreements from reinsurers.

## 20. INSURANCE PAYABLES

As of December 31, this account consists of:

| | **2022** | 2021 |
|---|---|---|
| Due to reinsurers | **P 366,098,158** | P 433,109,761 |
| Reinsurance payable on paid losses | **140,042,556** | 140,042,556 |
| Funds held for reinsurers | **131,655,480** | 56,620,467 |
| Commission payable | **78,830,422** | 84,596,916 |
| | **P 716,626,616** | P 714,369,700 |

The movements of due to reinsurers and funds held for reinsurers consist of:

| | **2022** | | |
|---|---|---|---|
| | **Due to Reinsurers** | **Funds Held for Reinsurers** | **Total** |
| Balance at beginning of year | P 433,109,761 | P 56,620,467 | P 489,730,228 |
| Incurred during the year | 580,335,476 | 152,661,315 | 732,996,791 |
| Paid during the year | ( 647,347,079) | ( 77,626,302) | ( 724,973,381) |
| Balance at end of year | **P 366,098,158** | **P 131,655,480** | **P 497,753,638** |

| | 2021 | | |
|---|---|---|---|
| | Due to Reinsurers | Funds Held for Reinsurers | Total |
| Balance at beginning of year | P 246,443,300 | P 51,416,132 | P 297,859,432 |
| Incurred during the year | 700,032,601 | 53,817,769 | 753,850,370 |
| Paid during the year | ( 513,366,140) | ( 48,613,434) | ( 561,979,574) |
| Balance at end of year | P 433,109,761 | P 56,620,467 | P 489,730,228 |

Due to reinsurers are unpaid reinsured premiums of reinsurers which are recognized as part of Reinsurer's share of gross premiums on insurance contracts earned in the statements of comprehensive income (see Note 11). Funds held for reinsurers represent portion of the reinsurance premium ceded to reinsurers, which are withheld by the Company in accordance with reinsurance agreements. The Company's payments of these reinsurance liabilities are netted by the reinsurers' share in losses paid and underwriting costs which are recognized as part of Reinsurer's Share of Gross Insurance Contracts Benefits and Claims Paid and Other Underwriting Expenses, respectively, in the statements of comprehensive income (see Notes 26 and 28).

## 21. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

As of December 31, this account consists of:

| | Notes | **2022** | 2021 |
|---|---|---|---|
| Accounts payable | | **P 231,851,230** | P 175,459,928 |
| Taxes payable | | **121,196,601** | 87,289,002 |
| Liability for assets held in trust | 10 | **62,290,230** | 61,587,639 |
| Accrued expenses | | **24,145,721** | 13,864,427 |
| Due to related parties | 31.1(b) | **-** | 635,214 |
| | | **P 439,483,782** | P 338,836,210 |

Accounts payable pertains to the Company's share in SSS, PhilHealth and Pag-ibig of the employees for remittance and to collection made by the Company in behalf of other service providers which support the underwriting business of the Company. These are settled semi-monthly.

Taxes payable consists of amounts payable for income taxes, output value-added tax (VAT) payable, withholding taxes, premium tax, fire service tax and documentary stamp tax, which are subsequently remitted within one month after the reporting date.

Accrued expenses pertain to accrual for employee benefits, underwriting expenses, commissions, professional and legal fees, utilities, supplies, postage and shipping expenses. These are noninterest-bearing and are normally settled on 15 to 60-day periods.

## 22. DEFERRED REINSURANCE COMMISSIONS

The movements of this account are shown below.

| | 2022 | 2021 |
|---|---|---|
| Balance at beginning of year | **P 51,165,756** | P 45,497,314 |
| Commission collected during the year | **126,045,740** | 134,777,530 |
| Commission earned during the year | **( 129,239,456)** | ( 129,109,088) |
| Balance at end of year | **P 47,972,040** | P 51,165,756 |

Commission earned in 2022 and 2021 is recognized as Commission Income in the statements of comprehensive income.

## 23. PAID-IN CAPITAL

As of December 31, 2022 and 2021, this account consists of:

| | 2022 | 2021 |
|---|---|---|
| Capital stock – P1 par value | | |
| Authorized – 1,000,000,000 shares in both years | | |
| Issued and outstanding – 650,000,000 shares in both years | **P 650,000,000** | P 650,000,000 |
| Contributed surplus | **240,000,000** | 240,000,000 |
| Deposit for future stock subscription | **157,020,178** | - |
| Balance at end of year | **P 1,047,020,178** | P 890,000,000 |

In 2021, the SEC approved the increase of the Company's authorized capital stock from P500,000,000 divided into 500,000,000 shares to P1,000,000,000 divided into 1,000,000,000 shares both with par value of P1.00 per share.

In 2022, the Company received cash amounting to P157.0 million from the parent company as an additional capital infusion to comply with the minimum net worth requirement of the IC. The Company recognized the capital infusion as Deposit for Future Stock Subscription under equity section in the 2022 statement of financial position. As of the date of the issuance of the financial statements, the Company is yet to issue stock certificates to parent company although it has sufficient authorized capital stock.

As of December 31, 2022 and 2021, the Company has only one stockholder owning 100 or more shares of the Company's capital stock.

## 24. NET PREMIUMS EARNED

The details of gross premiums earned on insurance contracts are presented below.

| | Note | 2022 | 2021 |
|---|---|---|---|
| Gross premiums written: | | | |
| Direct | | **P 3,141,089,557** | P 2,927,452,331 |
| Assumed | | **104,559,937** | 191,718,574 |
| | 31.1 | **3,245,649,494** | 3,119,170,905 |
| Gross change in provision for unearned premiums | | **( 36,413,523)** | ( 79,106,365) |
| | | **P 3,209,235,971** | P 3,040,064,540 |

Reinsurers' share of gross premiums on insurance contracts earned consists of (see Note 11):

| | 2022 | 2021 |
|---|---|---|
| Reinsurers' share of gross premiums on insurance contracts earned: | | |
| Direct | **P 1,379,598,079** | P 1,335,725,275 |
| Assumed | **14,033,442** | 123,522,644 |
| | **1,393,631,521** | 1,459,247,919 |
| Reinsurers' share of gross change in provision for unearned premiums | **50,277,562** | 9,537,157 |
| | **P 1,443,909,083** | P1,468,785,076 |

Net premium earned on insurance contracts consist of:

| | Note | 2022 | 2021 |
|---|---|---|---|
| Gross premium earned on insurance contracts | | **P 3,209,235,971** | P 3,040,064,540 |
| Reinsurers' share of gross premiums on insurance contracts earned | 11 | **( 1,443,909,083)** | ( 1,468,785,076) |
| | | **P 1,765,326,888** | P 1,571,279,464 |

## 25. INVESTMENT AND OTHER INCOME

This account consists of:

| | Notes | 2022 | 2021 |
|---|---|---|---|
| Gain on sale of: | | | |
| Investment properties | 13 | **P 41,475,067** | P 5,320,766 |
| AFS financial assets | 8 | **3,487,812** | 5,163,756 |
| Property and equipment | 14 | **39,140** | 323,442 |
| Interest income on: | | | |
| Loans and receivables | 9 | **9,431,797** | 11,459,301 |
| HTM securities | 7 | **9,426,518** | 8,531,114 |
| AFS financial assets | 8 | **8,696,691** | 9,230,568 |
| Cash and cash equivalents | 4 | **282,520** | 802,463 |
| Amortization of premium on AFS financial assets | 8 | **( 50,302)** | ( 99,969) |
| Short-term investments | 17 | **10,020** | 7,730 |
| Fair value gains (losses) on financial assets at FVTPL - net | 6 | **( 13,272,635)** | 3,511,544 |
| Dividend income on AFS financial assets | 8 | **10,936,942** | 10,940,232 |
| Rent income | 13, 32.1 | **4,500,032** | 1,998,531 |
| Foreign exchange gains: | | | |
| Cash and cash equivalents | 4 | **2,921,165** | 9,649,401 |
| AFS financial assets | 8 | **1,481,757** | 927,378 |
| Notarial fees | | **3,837,901** | 3,850,378 |
| Gain on reversal of long outstanding liabilities | | **-** | 15,711,754 |
| Other income (charges) | | **( 500,101)** | 9,060,325 |
| | | **P 82,704,324** | P 96,388,714 |

## 26. NET BENEFITS AND CLAIMS

Gross insurance contract benefits and claims consist of:

| | 2022 | 2021 |
|---|---|---|
| Direct insurance | **P 1,561,400,105** | P2,250,434,467 |
| Assumed reinsurance | **( 382,681,811)** | ( 1,966,716) |
| | **P 1,944,081,916** | P 2,248,467,931 |

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

| | Note | 2022 | 2021 |
|---|---|---|---|
| Direct insurance | | **(P 785,945,574)** | (P1,854,074,303) |
| Assumed reinsurance | | **301,222,405** | 4,706,107 |
| | 11 | **(P 1,087,167,979)** | (P1,849,368,196) |

Net benefits and claims on insurance contracts consist of:

| | Notes | 2022 | 2021 |
|---|---|---|---|
| Gross insurance contract benefits and claims paid | | **P 1,944,081,916** | P 2,248,467,931 |
| Reinsurers' share of gross insurance contract benefits and claims paid | 11, 20 | **( 1,087,167,979)** | ( 1,849,368,196) |
| Net change in provision for IBNR losses | | **( 177,281,590)** | 426,329,164 |
| | | **P 679,632,347** | P 825,428,899 |

## 27. OPERATING EXPENSES

Operating expenses consist of:

| | Notes | 2022 | 2021 |
|---|---|---|---|
| Salaries and employee benefits | 29, 31.1(b) 31.3 | **P 285,785,787** | P 261,617,602 |
| Depreciation and amortization | 13, 14, 15.1, 16 | **64,276,614** | 57,488,622 |
| Utilities | | **26,958,724** | 24,920,933 |
| Advertising and promotions | | **15,902,307** | 22,640,338 |
| Transportation and travel | | **8,227,527** | 6,807,276 |
| Postage, telephone and telegraph | | **7,512,586** | 15,313,703 |
| Repairs and maintenance | | **7,076,482** | 9,060,980 |
| Entertainment, amusement and recreation | | **6,369,693** | 3,989,745 |
| Rent | 15.3, 31.1(b) | **6,074,361** | 5,690,894 |
| Taxes and licenses | 13 | **5,892,130** | 9,025,473 |
| Printing and office supplies | | **4,832,753** | 9,999,314 |
| Professional fees | | **2,935,075** | 4,664,289 |
| Membership fees | | **2,665,958** | 2,637,253 |
| Insurance | | **1,750,472** | 1,378,546 |
| Interest expense | 15.2 | **1,491,518** | 1,533,569 |
| Impairment losses – net | 5, 9, 11 | **-** | 24,999,999 |
| Donations and contributions | | **-** | 521,000 |
| Miscellaneous | | **28,328,988** | 29,989,199 |
| | | **P 476,080,975** | P 492,278,735 |

## 28. OTHER UNDERWRITING EXPENSES

Other underwriting expenses account consists of:

| | Note | 2022 | 2021 |
|---|---|---|---|
| Management expenses | | **P 116,993,026** | P 119,491,044 |
| Underwriting expenses | 20 | **30,742,269** | 21,739,950 |
| Interest expense on funds held | | **1,198,441** | 1,544,402 |
| | | **P 148,933,736** | P 142,775,396 |

## 29. SALARIES AND EMPLOYEE BENEFITS

### *29.1 Salaries and Employee Benefits*

The details of salaries and employee benefits are presented below.

| | Notes | **2022** | 2021 |
|---|---|---|---|
| Salaries and short-term benefits | | **P 274,931,972** | P 244,537,425 |
| Post-employment defined benefit | 29.2(b) | **10,853,815** | 17,080,177 |
| | 27, 31.3 | **P 285,785,787** | P 261,617,602 |

### *29.2 Post-employment Defined Benefit Plan*

*(a) Characteristics of the Post-employment Defined Benefit Plan*

The Company has funded, non-contributory, defined benefit retirement plan covering all of its permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Company's latest actuarial valuation report is dated December 31, 2022. Valuations are obtained on a periodic basis.

The plan is registered with the Bureau of Internal Revenue (BIR) as tax-qualified plan under Republic Act (R.A.) No. 4917, *The Retirement Pay Law*, as amended. The control and administration of the retirement plan is vested in the BOD. The BOD of the retirement plan exercises voting rights over the shares and approve material transactions.

*(b) Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are made annually to update the retirement benefit costs and the actual amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2022 and 2021.

The amounts of net pension asset (liability) recognized in the statements of financial position are determined as shown below.

| | **2022** | 2021 |
|---|---|---|
| Fair value of plan assets | **P 192,784,405** | P 180,103,337 |
| Present value of the obligation | **( 198,263,194)** | ( 166,180,639) |
| | **(P 5,478,789)** | P 13,922,698 |

The movements in the present value of the defined benefit obligations are shown below.

| | 2022 | 2021 |
|---|---|---|
| Balance at beginning of year | **P 166,180,639** | P 240,759,539 |
| Current service cost | **11,549,950** | 15,510,747 |
| Interest expense | **8,309,032** | 8,908,103 |
| Transferred to (from) liabilities | **687,466** | - |
| Remeasurements – | | |
| Actuarial losses (gains) arising from: | | |
| Experience adjustments | **58,298,176** | ( 28,764,980) |
| Changes in financial assumptions | **( 39,089,310)** | ( 20,069,561) |
| Benefits paid | **( 7,672,759)** | ( 50,163,209) |
| Balance at end of year | **P 198,263,194** | P 166,180,639 |

The movements in the fair value of plan assets are presented below.

| | 2022 | 2021 |
|---|---|---|
| Balance at beginning of year | **P 180,103,337** | P 198,342,500 |
| Contributions to the plan | **18,342,848** | 20,114,171 |
| Interest income | **9,005,167** | 7,338,673 |
| Benefits paid | **( 7,672,759)** | ( 50,163,209) |
| Return on plan assets (excluding amounts included in net interest and expected return) | **( 6,994,188)** | 4,471,202 |
| Balance at end of year | **P 192,784,405** | P 180,103,337 |

The composition of the fair value of plan assets at the end of the year is shown below.

| | 2022 | 2021 |
|---|---|---|
| Cash and cash equivalents | **P 25,989,732** | P 46,759,054 |
| AFS financial assets | **167,605,570** | 133,000,203 |
| Loans and receivables | **350,462** | 593,589 |
| Accounts payable | **( 1,161,359)** | ( 249,509) |
| | **P 192,784,405** | P 180,103,337 |

The components of amounts recognized in profit or loss and in other comprehensive income (loss) in respect of the post-employment defined benefit plan are shown below.

| | 2022 | 2021 |
|---|---|---|
| *Recognized in profit or loss:* | | |
| Current service cost | **P 11,549,950** | P 15,510,747 |
| Net interest expense (income) | **( 696,135)** | 1,569,430 |
| | **P 10,853,815** | P 17,080,177 |
| *Recognized in other comprehensive income (loss):* | | |
| Actuarial gains (losses) arising from: | | |
| Experience adjustments | **(P 58,298,176)** | P 28,764,980 |
| Changes in financial assumptions | **39,089,310** | 20,069,561 |
| Return on plan assets (excluding amounts included in net interest expense) | **( 7,681,654)** | 4,471,202 |
| | **(P 26,890,520)** | P 53,305,743 |

Current service cost and net interest expense are both recognized as part of Salaries and employee benefits under Operating Expenses account in the statements of comprehensive income (see Note 29.1).

Amounts recognized in other comprehensive income (loss) is presented as an item that will not be reclassified subsequently to profit or loss.

In determining the amounts of net pension asset (liability), the following significant actuarial assumptions were used:

| | 2022 | 2021 |
|---|---|---|
| Discount rates | **3.70%** | 5.00% |
| Expected rates of salary increases | **5.00%** | 4.00% |

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at age 65 is 34.99 years. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the net pension liability. Other assumptions are based on current actuarial benchmarks and management's historical experience.

*Risk Associated with the Post-employment Plan*

The plan exposes the Company to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

*(i) Investment and Interest Rate Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan.

Currently, the plan has investment in cash and cash equivalents, equity securities and debt securities and loans and receivables. Due to the long-term nature of the plan obligation, a level of continuing debt and equity investments is an appropriate element of the Company's long-term strategy to manage the plan efficiently.

*(ii) Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

*(c) Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Company's asset-liability matching (ALM) strategy, and the timing and uncertainty of future cash flows related to the net pension asset/liability are described below.

*(i) Sensitivity Analysis*

The table below summarizes the effects of changes in the significant actuarial assumptions used in the determination of the net pension asset/liability.

| | Impact on Post-employment Benefit Obligation | | |
|---|---|---|---|
| | **Change in Assumption** | **Increase in Assumption** | **Decrease in Assumption** |
| **December 31, 2022** | | | |
| Discount rate | **+/-1.00%** | **(P 14,279,573)** | **P 16,298,830** |
| Salary growth rate | **+/-1.00%** | **15,296,439** | **( 13,626,128)** |
| December 31, 2021 | | | |
| Discount rate | +/-1.00% | (P 12,972,230) | P 15,071,538 |
| Salary growth rate | +/-1.00% | 13,909,174 | ( 12,199,120) |

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

*(ii) ALM Strategies*

The retirement plan trustee has has no specific matching strategy between plan assets and the plan liabilities.

*(iii) Funding Arrangements and Expected Contributions*

The BOD reviews the level of funding required for the retirement fund. Such review includes ALM strategy and investment risk management policy. The Company's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Company monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligations.

The maturity profile of undiscounted expected benefit payments from the plan as of December 31, 2022 and 2021 are follows:

| | **2022** | 2021 |
|---|---|---|
| More than one year to five years | **P 11,549,950** | P 15,510,747 |
| More than six years to ten years | **696,135** | 1,569,430 |
| More than 11 years to 15 years | **696,135** | 1,569,430 |
| More than 16 years and above | **696,135** | 1,569,430 |
| | **P 13,638,355** | P 20,219,037 |

## 30. TAX EXPENSE

The components of tax expense as reported in the statements of comprehensive income for the years ended December 31 are as follows:

| | 2022 | 2021 |
|---|---|---|
| Current: | | |
| Regular Corporate Income Tax (RCIT) at 25% | **P 42,766,612** | P 22,783,118 |
| Final tax at 20% | **3,520,744** | 3,549,978 |
| Adjustment due to change in income tax rate | **-** | ( 428,458) |
| Stock transaction tax at 0.6% | **-** | 206,425 |
| | **46,287,356** | 26,111,063 |
| Deferred tax expense (income) relating to origination and reversal of temporary differences | **26,013,957** | ( 53,076,580) |
| Adjustment due to change in income tax rate | **-** | 28,150,244 |
| | **26,013,957** | ( 24,926,336) |
| | **P 72,301,313** | P 1,184,727 |

The reconciliation of tax on pretax profit (loss) computed at the applicable statutory rates to tax expense reported in profit or loss is shown below:

| | 2022 | 2021 |
|---|---|---|
| Tax on pretax income (loss) at 25% | **P 73,919,776** | (P 22,760,723) |
| Tax effect of unrecognized deferred tax assets | **( 1,266,195)** | ( 529,981) |
| Adjustments for income subjected to: | | |
| Final tax | **( 880,824)** | ( 880,416) |
| Stock transaction tax | **( 734,874)** | ( 890,509) |
| Exempt from tax | **713,820** | ( 3,612,944) |
| Non-deductible expenses | **549,610** | 783,433 |
| Application of excess of Minimum Corporate Income Tax (MCIT) Over RCIT | **-** | 1,354,081 |
| Effect of change in income tax rate | **-** | 27,721,786 |
| | **P 72,301,313** | P 1,184,727 |

The details of recognized net deferred tax assets and the related deferred tax income (expense) charged to profit or loss are as follows:

| | Statements of Financial Position | | Statements of Comprehensive Income | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Deferred tax assets: | | | | |
| Provision for IBNR losses | **P117,358,554** | P161,599,177 | **(P 44,240,623)** | P 95,578,913 |
| Allowance for impairment losses | **80,834,942** | 80,834,942 | **-** | ( 8,666,988) |
| Deferred reinsurance commissions | **11,993,010** | 12,791,439 | **( 798,429)** | ( 857,755) |
| Lease liabilities | **9,696,105** | 6,746,799 | **2,949,306** | ( 3,775,506) |
| Net operating loss carry-over (NOLCO) | **-** | - | **-** | ( 92,110,350) |
| MCIT | **-** | - | **-** | ( 1,782,539) |
| Unrealized foreign exchange losses - net | **-** | - | **-** | ( 80,249) |
| | **219,882,611** | 261,972,357 | **( 42,089,746)** | ( 11,694,474) |
| Deferred tax liabilities: | | | | |
| Deferred acquisition cost | **( 45,398,749)** | ( 40,953,396) | **( 4,445,353)** | 5,339,636 |
| Right-of-use assets | **( 9,443,105)** | ( 6,486,239) | **( 2,956,866)** | 3,729,622 |
| Excess of provision for unearned premiums per books over tax basis | **2,350,464** | ( 19,322,308) | **21,672,772** | 30,457,518 |
| Unrealized foreign exchange gains - net | **( 1,100,730)** | ( 2,905,966) | **1,805,236** | ( 2,905,966) |
| | **( 53,592,120)** | ( 69,667,909) | **16,075,789** | ( 36,620,810) |
| Deferred tax assets - net | **P166,290,491** | P192,304,448 | | |
| Deferred tax income (expense) - net | | | **(P 26,013,957)** | P 24,926,336 |

In 2020, the Company incurred NOLCO amounting to P306,544,401 computed in accordance with the provisions of Corporate Recovery and Tax Incentives for Enterprises Act (CREATE). NOLCO incurred in 2020 can be claimed as a deduction within five years after the year it was incurred, pursuant to Section 4 (bbbb) of R.A. No. 11494 and as implemented under Revenue Regulations (RR) No. 25-2020, *Rules and Regulations Implementing Section 4 (bbbb) of R.A. No. 11494, otherwise known as "Bayanihan to Recover as One Act" Relative to Net Operating Loss Carry-Over (NOLCO) Under Section 34 (D)(3) of NIRC, As Amended.*

In 2022 and 2021, the Company is subject to MCIT computed at 1% of gross income, net of allowable deductions, as defined under the tax regulations, or to RCIT, whichever is higher. In 2020, the Company reported MCIT as it was higher than RCIT amounting to P1,354,081, which can be claimed as deduction against RCIT within three consecutive years or until 2023. No MCIT was reported in 2022 and 2021 as the RCIT was higher than the MCIT.

The details of the Company's NOLCO as reported in the 2021 Annual Income Tax Return (AITR) are as follows:

| Year Incurred | Original Amount | Applied Balance | Expired Balance | Remaining Balance | Valid Until |
|---|---|---|---|---|---|
| 2020 | P 306,544,401 | P 306,544,401 | P - | P - | 2025 |

The details of the Company's excess MCIT over RCIT as reported in the 2020 AITR are as follows:

| Year Incurred | Original Amount | Applied Balance | Expired Balance | Remaining Balance | Valid Until |
|---|---|---|---|---|---|
| 2020 | P 1,354,081 | P 1,354,081 | P - | P - | 2025 |

The details of the unrecognized deferred tax assets as of December 31, 2022 and 2021 are shown below.

| | Statements of Financial Position | | Statements of Comprehensive Income – Profit or Loss | | Statements of Comprehensive Income – Other Comprehensive Income | |
|---|---|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 |
| Net pension liability (asset) | **P 1,369,697** | (P 3,480,675) | **P 1,872,258** | P 2,621,708 | **(P 6,722,630)** | P 11,658,485 |
| Past service cost | **6,241,688** | 5,635,625 | **( 606,063)** | 852,905 | **-** | - |
| Deferred tax assets - net | **P 7,611,385** | P 2,154,950 | | | | |
| Deferred tax expense (income) - net | | | **P 1,266,195** | P 3,474,613 | **( P 6,722,630)** | P 11,658,485 |

In 2022 and 2021, the Company opted to claim itemized deductions in computing its income tax due.

## 31. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company has transactions with its parent company, company under common control and key management personnel and others. Details of these transactions are presented below.

| Related Party Category | Notes | 2022 Amount of Transaction | 2022 Outstanding Balance | 2021 Amount of Transaction | 2021 Outstanding Balance |
|---|---|---|---|---|---|
| **Parent Company:** | | | | | |
| Premiums earned | 31.1(a) | **P 42,671,654** | **P -** | P 24,816,709 | P - |
| Lease of office premise and reimbursements | 31.1(b) | **342,644** | **-** | 643,445 | ( 635,214 ) |
| Reimbursable expenses | 31.1(b) | **-** | **1,905,275** | - | 1,519,801 |
| Deposit for future stock subscription | 23 | **157,020,178** | **-** | - | - |
| **Related Party Under Common Control – Cocoplans, Inc. –** | | | | | |
| Reimbursement expenses | 31.2 | **95,062** | **381,148** | 82,289 | 287,016 |
| **Key Management Personnel –** | | | | | |
| Compensation | 31.3 | **69,140,033** | **-** | 51,783,189 | - |

### *31.1 Transactions with the Parent Company*

(a) The Company accepts insurance and reinsurance business from the parent company, which is recognized as part of Net Premiums Earned in statements of comprehensive income (see Note 24). As of December 31, 2022 and 2021, there was no outstanding net insurance receivables from these transactions.

(b) Other transactions with the parent company include billings to cover health maintenance organization reimbursements and lease of office premises by the Company, which are recognized as part of Salaries and employee benefits and Rent, respectively, under Operating Expenses account in the statements of comprehensive income. As of December 31, 2022 and 2021, there was no outstanding net insurance receivables from these transactions.

Additionally, other transactions with the parent company also include its share on the marketing expenses initially paid by the Company on behalf of the parent company.

The outstanding balance from these transactions as of December 31, 2022 and 2021 is noninterest-bearing, unsecured and payable in cash within 12 months, and is recognized as part of Due from related parties under Loans and Receivables in the statements of financial position (see Note 9).

### *31.2 Transaction with Cocoplans, Inc.*

In 2022 and 2021, transactions with Cocoplans, Inc. include its share on expenditures in Bacolod office and expenses related to sale of investment properties. The outstanding balance from these transactions as of December 31, 2022 and 2021 is noninterest-bearing, unsecured and payable in cash within 12 months, and is recognized as part of Due from related parties under Loans and Receivables in the statements of financial position (see Note 9).

### *31.3 Key Management Personnel Compensation*

Key management personnel of the Company include all management committee officers. The summary of compensation of key management personnel, which is recognized as part of Salaries and employee benefits under Operating Expenses in the statements of comprehensive income (see Notes 27 and 29), as follows:

| | **2022** | 2021 |
|---|---|---|
| Salaries | **P 57,400,729** | P 41,744,706 |
| Post-employment benefits | **8,200,104** | 3,081,032 |
| Other short-term employee benefits | **3,539,200** | 6,957,451 |
| | **P 69,140,033** | P 51,783,189 |

## 32. COMMITMENTS AND CONTINGENCIES

### *32.1 Operating Lease Commitments – Company as a Lessor*

Certain real properties managed by the Company (see Note 13) are leased out under operating lease agreements. The leases have a maximum term of two years, with an option to renew under terms and conditions to be agreed upon by the parties. Income from these agreements are presented as Rent income under Investment and Other Income account in the statements of comprehensive income (see Note 13 and 25).

Future rental income from these leases as of December 31, are as follows:

| | **2022** | 2021 |
|---|---|---|
| Within one year | **P 4,203,387** | P 4,265,090 |
| After one year but not more than five years | **12,215,553** | 15,104,648 |
| | **P 16,418,940** | P 19,369,738 |

### *32.2 Pending Claims and Lawsuits*

The Company is currently involved in various pending claims and lawsuits which could be decided in favour of or against the Company. The Company's estimate of the probable costs for the resolution of these pending claims and lawsuits has been developed in consultation with the legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Company does not believe that these pending items and lawsuits will have a material adverse effect on its financial position and financial performance. It is possible, however, that the future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings.

### *32.3 Others*

There are commitments and contingencies that arise in the normal course of the Company's operation which are not reflected in the financial statements. The Company's management is of the opinion that losses, if any, from these contingencies will not have material effects on the financial statements.

## 33. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks which result from both its operating and investing activities. The Company's risk management focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

Moreover, the Company's activities expose it to a variety of risks such as capital, insurance and financial risks. The overall objective of risk management is to focus on the unpredictability of financial markets and insurance contingencies to minimize potential adverse effects on the financial position of the Company.

The Company has established risk management functions with clear cut responsibilities and with the mandate to develop company-wide policies on market, credit, liquidity, insurance and operational risk management. It also supports the effective implementation of risk management policies at the individual business unit and process levels.

The risk management policies define the Company's identification of risk and its interpretation, limit structure ensuring the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals, and specify reporting requirements.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The significant financial risks to which the Company is exposed to are described below and in the succeeding pages.

### *33.1 Insurance Risk*

The risk under an insurance contract is the risk that an insured event will occur, including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities.

The main risks that the Company is exposed to are as follows:

- *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 is also improved by careful selection and implementation of underwriting strategies, strict claims review policies to assess all new and ongoing claims, as well as the investigation of possible fraudulent claims. The Company also enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The business of the Company comprises short-term non-life insurance contracts. For non-life insurance contracts, claims are often affected by natural disasters and calamities.

The risks currently do not vary significantly in relation to the location of the risk insured by the Company while undue concentration by amounts could have an impact on the Company.

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 issuing insurance contracts and assuming insurance risks;

- pro-active claims handling procedures are followed to investigate and adjust claims, thereby preventing settlement of dubious fraudulent claims;

- reinsurance is used to limit the Company's exposure to large claims by placing risk with reinsurers providing high security; and,

- 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.

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

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

*(a) Concentration of Insurance Risk*

The following tables set out the concentration of the insurance contract liabilities by type of contract:

| | Note | Gross Claims Liabilities | Reinsurers' Share of Claims Liabilities | Net of Claims Liabilities |
|---|---|---|---|---|
| **December 31, 2022** | | | | |
| Fire | | P 1,003,918,508 | P 875,916,554 | P 128,001,954 |
| Motor | | 190,344,649 | 39,930,464 | 150,414,185 |
| Bonds | | 174,208,445 | 34,401,001 | 139,807,444 |
| Engineering | | 48,834,962 | 35,166,266 | 13,668,696 |
| Personal accident | | 15,344,841 | 6,717,523 | 8,627,318 |
| Marine | | 5,068,302 | 1,827,017 | 3,241,285 |
| Hull | | 23,481,075 | 8,007,918 | 15,473,157 |
| Miscellaneous casualty | | 13,450,593 | 6,389,054 | 7,061,539 |
| OFW | | 21,612,737 | 746,190 | 20,866,547 |
| Liability | | 8,014,898 | 4,684,023 | 3,330,875 |
| | 18 | **P 1,504,279,010** | **P 1,013,786,010** | **P 490,493,000** |
| December 31, 2021 | | | | |
| Fire | | P 738,539,217 | P 466,208,889 | P 272,330,328 |
| Motor | | 164,563,257 | 17,963,503 | 146,599,754 |
| Bonds | | 149,031,259 | 66,673,753 | 82,357,507 |
| Engineering | | 45,602,009 | 35,821,576 | 9,780,433 |
| Personal accident | | 24,762,576 | 10,518,456 | 14,244,120 |
| Marine | | 21,446,284 | 112,989 | 21,333,295 |
| Hull | | 21,137,293 | 20,644,272 | 493,022 |
| Miscellaneous casualty | | 10,712,794 | 4,200,089 | 6,512,705 |
| OFW | | 11,321,444 | 6,444,244 | 4,877,199 |
| Liability | | 9,718,741 | 3,061,062 | 6,657,678 |
| | 18 | P 1,196,834,874 | P 631,648,833 | P 565,186,041 |

### *33.2 Financial Risk*

The Company has significant exposure to the following financial risks from its use of financial instruments:

(a) *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause another party to incur a financial loss. The Company manages the level of credit risk by setting up limits of exposure to bad debts to 10% of the gross premiums written. Counterparty may be subjected to a credit evaluation based on criteria set by management. The Company's reinsurance business is conducted among reinsurers with good credit rating and strong operational capability to meet their obligations as these become due. The Company has written underwriting policy guidelines which are communicated with all its underwriting and marketing personnel, and that should be strictly followed before accepting inward reinsurance or deciding the panel of reinsurers. Then, the management performs an annual assessment of creditworthiness of reinsurers to update reinsurance purchase strategies and ascertains suitable allowance for doubtful accounts.

The Company sets the maximum amounts and limits that may be advanced to place with individual corporate counterparties which are set by reference to their long-term rating.

The Company's standard business terms are set out at 90-day credit terms to licensed agents and brokers and deferred payments should not exceed 20% of their total production. Commissions due to intermediaries are netted off against amounts receivable from them to reduce the risk of doubtful debts. The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions, will only persist during the grace period specified in the policy document or trust deed on the expiry of which the policy is either paid up or terminated.

As of December 31, 2022 and 2021, the Company did not have any significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments.

Generally, the maximum credit risk exposure of financial assets is the gross amount of the financial assets as shown in the statements of financial position (or the detailed analysis provided in the notes to the financial statement) as summarized below.

| | Notes | 2022 | 2021 |
|---|---|---|---|
| Cash and cash equivalents | 4 | **P 410,633,839** | P 275,763,811 |
| Insurance receivables – gross: | 5 | | |
| Due from agents and brokers | | **678,868,087** | 571,476,982 |
| Due from ceding companies | | **293,683,829** | 265,361,908 |
| Funds held by ceding companies | | **11,049,854** | 10,262,922 |
| HTM securities | 7 | **343,203,183** | 244,879,448 |
| AFS financial assets – Debt securities | 8 | **135,664,509** | 438,186,930 |
| Loans and receivables - gross: | 9 | | |
| Accounts receivable | | **126,842,560** | 91,951,547 |
| Surety loss recoverable | | **106,950,615** | 63,793,882 |
| Mortgage, collateral and guaranteed loans | | **73,434,652** | 84,671,204 |
| Accrued income | | **5,224,874** | 3,623,759 |
| Due from related parties | | **2,286,423** | 1,806,817 |
| Reinsurance assets - gross – Paid losses recoverable from reinsurers | 11 | **1,008,038,861** | 573,040,278 |
| Other assets: | 17 | | |
| Security deposit | | **4,904,957** | 5,993,474 |
| Short-term investments | | **1,173,584** | 1,168,263 |
| Security fund | | **48,439** | 48,440 |
| Claims fund | | **-** | 15,986,534 |
| | | **P 3,202,008,266** | P 2,648,016,199 |

The table below provides information regarding the credit risk exposure of the Company as of December 31, 2022 and 2021 by classifying assets according to the Company's credit grading of counterparties.

| | | December 31, 2022 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Neither Past Due nor Impaired | | | | | | |
| | Notes | Investment High-grade | Non-investment Grade Satisfactory | Non-investment Grade Unsatisfactory | Past Due but not Impaired | Total | Past Due and Impaired | Total |
| Cash and cash equivalents | 4 | P 410,633,839 | P - | P - | P - | P 410,633,839 | P - | P 410,633,839 |
| Insurance receivables | 5 | | | | | | | |
| Due from agents and brokers | | - | 660,367,039 | - | - | 660,367,039 | 18,501,048 | 678,868,087 |
| Due from ceding companies | | - | 255,529,808 | - | - | 255,529,808 | 38,154,021 | 293,683,829 |
| Funds held by ceding companies | | - | - | - | 1,744,952 | 1,744,952 | 9,304,902 | 11,049,854 |
| HTM securities | 7 | 343,203,183 | - | - | - | 343,203,183 | - | 343,203,183 |
| AFS financial assets | 8 | | | | | | | |
| Debt securities | | 135,664,509 | - | - | - | 135,664,509 | - | 135,664,509 |
| Loans and receivables | 9 | | | | | | | |
| Accounts receivable | | - | 22,567,587 | - | - | 22,567,587 | 104,274,973 | 126,842,560 |
| Surety loss recoverable | | - | 106,950,615 | - | - | 106,950,615 | - | 106,950,615 |
| Mortgage, collateral and guaranteed loans | | - | 69,454,502 | - | - | 69,454,502 | 3,980,150 | 73,434,652 |
| Accrued income | | - | 5,224,874 | - | - | 5,224,874 | - | 5,224,874 |
| Due from affiliates | | - | 2,286,423 | - | - | 2,286,423 | - | 2,286,423 |
| Reinsurance assets | 11 | | | | | | | |
| Paid losses recoverable from reinsurers | | - | 93,967,842 | - | 727,414,818 | 821,382,660 | 186,656,201 | 1,008,038,861 |
| Other assets | 17 | | | | | | | |
| Security deposit | | - | 4,904,957 | - | - | 4,904,957 | - | 4,904,957 |
| Short-term investments | | 1,173,584 | - | - | - | 1,173,584 | - | 1,173,584 |
| Security fund | | 48,440 | - | - | - | 48,440 | - | 48,440 |
| | | **P 890,723,555** | **P 1,221,253,647** | **P -** | **P 729,159,770** | **P 2,841,136,972** | **P 360,871,295** | **P 3,202,008,267** |

| | | December 31, 2021 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Neither Past Due nor Impaired | | | | | | |
| | Notes | Investment High-grade | Non-investment Grade Satisfactory | Non-investment Grade Unsatisfactory | Past Due but not Impaired | Total | Past Due and Impaired | Total |
| Cash and cash equivalents | 4 | P 275,763,811 | P - | P - | P - | P 275,763,811 | P - | P 275,763,811 |
| Insurance receivables | 5 | | | | | | | |
| Due from agents and brokers | | - | 294,441,151 | - | 258,534,783 | 552,975,934 | 18,501,048 | 571,476,982 |
| Due from ceding companies | | - | 63,738,364 | - | 163,469,523 | 227,207,887 | 38,154,021 | 265,361,908 |
| Funds held by ceding companies | | - | - | - | 727,527 | 727,527 | 9,535,395 | 10,262,922 |
| AFS financial assets | 8 | | | | | | | |
| Debt securities | | 438,186,930 | - | - | - | 438,186,930 | - | 438,186,930 |
| HTM securities | 7 | 244,879,448 | - | - | - | 244,879,448 | - | 244,879,448 |
| Loans and receivables | 9 | | | | | | | |
| Accounts receivable | | - | 25,452,427 | - | - | 25,452,427 | 66,499,120 | 91,951,547 |
| Mortgage, collateral and guaranteed loans | | - | 80,647,223 | - | - | 80,647,223 | 4,023,981 | 84,671,204 |
| Surety loss recoverable | | - | 63,793,882 | - | - | 63,793,882 | - | 63,793,882 |
| Accrued income | | - | 3,623,759 | - | - | 3,623,759 | - | 3,623,759 |
| Due from affiliates | | - | 1,806,817 | - | - | 1,806,817 | - | 1,806,817 |
| Reinsurance assets | 11 | | | | | | | |
| Paid losses recoverable from reinsurers | | - | 44,206,554 | - | 342,207,522 | 386,414,076 | 186,626,202 | 573,040,278 |
| Other assets | 17 | | | | | | | |
| Claims fund | | 15,986,534 | - | - | - | 15,986,534 | - | 15,986,534 |
| Security deposit | | - | 5,993,474 | - | - | 5,993,474 | - | 5,993,474 |
| Short-term investments | | 1,168,263 | - | - | - | 1,168,263 | - | 1,168,263 |
| Security fund | | 48,440 | - | - | - | 48,440 | - | 48,440 |
| | | P 976,033,426 | P 583,703,651 | P - | P 764,939,355 | P 2,324,676,432 | P 323,339,767 | P 2,648,016,199 |

The Company uses a credit rating concept based on the borrowers and counterparties overall credit worthiness, as described below.

*Investment High Grade*
This pertains to accounts with a very low probability of default as demonstrated by the borrower's strong financial position and reputation. The borrower has the ability to raise substantial amounts of funds through credit facilities with financial institutions. The borrower has a strong debt service record and a moderate use of leverage.

*Non-investment Grade - Satisfactory*
This pertains to current accounts with no history of default or which may have defaulted in the past, but the conditions and circumstances directly affecting the borrower's ability to pay has abated already. The borrower is expected to be able to adjust to the cyclical downturns in its operations. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues. The use of leverage may be above industry or credit standards but remains stable.

*Past Due but not Impaired*
This pertains to principal amounts that are past due but the Company believes that impairment is not appropriate based on the status of collection of the Company.

*Past Due and Impaired*
This pertains to principal amounts that are past due and the Company believes impairment is appropriate based on the assessment of a very low probability of collection.

| | Notes | December 31, 2022<br>Past Due but not Impaired<br>Current | <30 Days | 31 to 60 Days | 61 to 120 Days | More than 120 Days | Total | Past Due and Impaired | Total |
|---|---|---|---|---|---|---|---|---|---|
| Insurance receivables | 5 | | | | | | | | |
| Due from agents and brokers | | P - | P - | P - | P - | P - | P - | P 18,501,048 | P 18,501,048 |
| Due from ceding companies | | - | - | - | - | - | - | 34,154,021 | 34,154,021 |
| Funds held by ceding companies | | - | 342,370 | - | 243,463 | 1,159,119 | 1,744,952 | 9,304,902 | 11,049,854 |
| Loans and receivables | 9 | | | | | | | | |
| Accounts receivable | | - | - | - | - | - | - | 104,274,973 | 104,274,973 |
| Mortgage, collateral and guaranteed loan | | - | - | - | - | - | - | 3,980,150 | 3,980,150 |
| Reinsurance assets | 11 | | | | | | | | |
| Paid losses recoverable from reinsurers | | - | - | - | 17,461,172 | 709,953,645 | 727,414,818 | 186,656,201 | 914,071,019 |
| Total | | P - | P 342,370 | P - | P 17,704,635 | P 711,112,764 | P 729,159,770 | P 356,871,295 | P 1,086,031,065 |

| | Notes | December 31, 2021<br>Past Due but not Impaired<br>Current | <30 Days | 31 to 60 Days | 61 to 120 Days | More than 120 Days | Total | Past Due and Impaired | Total |
|---|---|---|---|---|---|---|---|---|---|
| Insurance receivables | 5 | | | | | | | | |
| Due from agents and brokers | | P 258,534,783 | P - | P - | P - | P - | P 258,534,783 | P 18,501,048 | P 277,035,831 |
| Due from ceding companies | | - | 752,611 | 171,191 | 1,118,195 | 161,427,526 | 163,469,523 | 38,154,021 | 201,623,544 |
| Funds held by ceding companies | | - | 273,539 | - | 29,958 | 424,030 | 727,527 | 9,535,395 | 10,262,922 |
| Loans and receivables | 9 | | | | | | | | |
| Accounts receivable | | - | - | - | - | - | - | 66,499,120 | 66,499,120 |
| Mortgage, collateral and guaranteed loan | | - | - | - | - | - | - | 4,023,981 | 4,023,981 |
| Reinsurance assets | 11 | | | | | | | | |
| Paid losses recoverable from reinsurers | | - | - | - | 7,274,739 | 334,932,783 | 342,207,522 | 186,626,202 | 528,833,724 |
| Total | | P 258,534,783 | P 1,026,150 | P 171,191 | P 8,422,892 | P 496,784,339 | P 764,939,355 | P 323,339,767 | P 1,088,279,122 |

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained for securities lending and for cash purposes. Credit risk is also mitigated by entering into collateral agreements. Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.

*(b) Liquidity risk*

Liquidity risk is the risk that the Company 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.

The major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Company manages liquidity through a liquidity risk policy which determines what constitutes liquidity risk for the Company; controls maturity distribution of the investment portfolio and sets forth based on the cash flow experience for the last two years; specifies minimum proportion of funds to meet emergency calls; sets up contingency funding plans; specifies the sources of funding and the events that would trigger the plan; determines concentration of funding sources; reports liquidity risk exposures; monitors compliance with liquidity risk policy and reviews liquidity risk policy for pertinence and changing environment.

It is unusual for a company primarily transacting insurance business to predict the requirements of funding with absolute certainty as theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are thus based on management's best estimate using information that develops during the course of the loss adjustment process.

The analysis of the maturity groupings of the Company's financial assets and financial liabilities as of December 31, 2022 and 2021 as presented below.

| | Less than One Year | One to Five Years | Over Five Years | Total |
|---|---|---|---|---|
| **December 31, 2022** | | | | |
| ***Financial assets*** | | | | |
| Cash and cash equivalents | P 410,633,839 | P - | P - | P 410,633,839 |
| Insurance receivables | 645,519,705 | 338,082,065 | - | 983,601,770 |
| AFS financial assets | 52,241,519 | 63,103,700 | 20,319,290 | 135,664,509 |
| HTM financial assets | 105,124,023 | 40,931,879 | 197,147,280 | 343,203,182 |
| Loans and receivables – gross | 7,511,295 | 73,434,654 | 233,793,175 | 314,739,124 |
| Reinsurance assets – gross | 1,008,038,861 | - | - | 1,008,038,861 |
| Other assets | - | 6,126,981 | - | 6,126,981 |
| *Balance carried forward* | **P2,229,069,242** | **P 521,679,279** | **P 451,259,745** | **P3,202,008,266** |

| | Less than One Year | One to Five Years | Over Five Years | Total |
|---|---|---|---|---|
| *Balance brought forward* | **P2,229,069,242** | **P 521,679,279** | **P 451,259,745** | **P3,202,008,266** |
| ***Financial Liabilities*** | | | | |
| Insurance contract liabilities | P2,692,310,150 | - | - | P2,692,310,150 |
| Insurance payables | 716,626,616 | - | - | 716,626,616 |
| Accounts payable and accrued expenses | - | 317,901,706 | - | 317,901,706 |
| Deferred reinsurance commission | 47,972,040 | - | - | 47,972,040 |
| Lease liabilities | 13,852,003 | 24,932,417 | - | 38,784,420 |
| | **3,470,760,809** | **342,834,123** | **-** | **3,813,594,932** |
| Liquidity gap | **(P1,241,691,567)** | **P 178,845,156** | **P 451,259,745** | **(P 611,586,666)** |
| December 31, 2021 | | | | |
| *Financial assets* | | | | |
| Cash and cash equivalents | P 275,763,811 | P - | P - | P 275,763,811 |
| Insurance receivables | 683,531,205 | 163,570,607 | - | 847,101,812 |
| AFS financial assets | 363,638,470 | 67,053,324 | 7,495,136 | 438,186,930 |
| HTM financial assets | 147,596,569 | 8,031,521 | 89,251,358 | 244,879,448 |
| Loans and receivables – gross | 165,831,942 | 37,891,252 | 42,124,015 | 245,847,209 |
| Reinsurance assets – gross | 573,040,278 | - | - | 573,040,278 |
| Other assets | 23,196,711 | - | - | 23,196,711 |
| | P 2,232,598,986 | P 276,546,704 | P 138,870,509 | P 2,648,016,199 |
| *Financial Liabilities* | | | | |
| Insurance contract liabilities | P2,348,452,491 | - | - | P2,348,452,491 |
| Insurance payables | 714,369,700 | - | - | 714,369,700 |
| Accounts payable and accrued expenses | 251,547,208 | - | - | 251,547,208 |
| Deferred reinsurance commission | 51,165,756 | - | - | 51,165,756 |
| Lease liabilities | 10,763,418 | 16,223,777 | - | 26,987,195 |
| | 3,376,298,573 | 16,223,777 | - | 3,392,522,350 |
| Liquidity gap | (P1,143,699,587) | P 260,322,927 | P 138,870,509 | (P 744,506,151) |

(c) *Market risk*

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

The Company structures levels of market risk it accepts through a market risk policy that determines what constitutes market risk for the Company; defines basis used to determine fair value financial assets and liabilities; determines asset allocation and portfolio limit structure; determines diversification benchmarks by type of instrument and geographical area; sets out the net exposure limits by each counterparty or group of counterparties, geographical and industry segments; reports market risk exposures; monitors compliance with market risk policy; and reviews market risk policy for pertinence and changing environment.

*(i) Currency risk*

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's principal transactions are carried out in Philippine peso and its exposure to foreign currency exchange rate risk arises primarily with respect to the USD, as it deals with foreign reinsurers in the 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 currency exchange rate risk arises from recognized assets and liabilities denominated in currencies other than those in which insurance liabilities are expected to be settled.

Foreign currency denominated financial assets and liabilities translated to Philippine peso at the closing rate are as follows:

| | USD | Peso |
|---|---|---|
| **December 31, 2022** | | |
| Assets: | | |
| Cash and cash equivalents | $ 7,364,969 | P 410,633,837 |
| Insurance receivables | 17,641,499 | 983,601,771 |
| Financial assets at FVTPL | 288,316 | 16,075,070 |
| | 25,294,784 | 1,410,310,678 |
| Liabilities: | | |
| Insurance contract liabilities | 48,288,228 | 2,692,310,150 |
| Insurance payables | 12,853,136 | 716,626,615 |
| | 61,141,364 | 3,408,936,765 |
| | **($ 35,846,580)** | **(P 1,998,626,087)** |

| | USD | Peso |
|---|---|---|
| December 31, 2021 | | |
| Assets: | | |
| Cash and cash equivalents | $ 892,463 | P 45,313,924 |
| Insurance receivables | 5,853,177 | 297,189,209 |
| Financial assets at FVTPL | 339,526 | 17,239,115 |
| | 7,085,166 | 359,742,248 |
| Liabilities: | | |
| Insurance contract liabilities | 5,085,406 | 258,206,404 |
| Insurance payables | 19,577,474 | 994,026,665 |
| | 24,662,880 | 1,252,233,069 |
| | ($ 17,577,714) | (P 892,490,821) |

The following table illustrates the sensitivity of the net result for the year and equity with regard to the Company's financial assets and financial liabilities and the USD – Philippine peso exchange rate. It assumes a +/-15.89% change and +/-13.96% change of the Philippine peso/USD exchange rate at December 31, 2022 and 2021, respectively. These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months at a 99% confidence level. The sensitivity analysis is based on the Company's foreign currency financial instruments held at the end of each reporting period.

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Depreciation of Peso** | **Appreciation of Peso** | Depreciation of Peso | Appreciation of Peso |
| Profit before tax | **(P 105,892,164)** | **P 105,892,164** | (P 124,591,719) | P 124,591,719 |
| Equity | **( 79,419,123)** | **79,419,123** | ( 93,443,789) | 93,443,789 |

The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear.

The Company determined the reasonably possible change in foreign currency using the one year volatility of the USD and PHP in reference to Philippine Dealing & Exchange Corp. (PDEx) as this will best represent the movement in foreign exchange rate until the next reporting date.

Reasonably possible movements in foreign exchange rates are computed based on the percentage change of the highest and lowest exchange rates during the year compared to the previous year.

*(ii) Interest rate risk*

Fair value interest rate risk is the risk that the value 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 risk. The Company's fixed rate investments and receivables in particular are exposed to fair value risk.

The following tables show the information relating to the Company's exposure to fair value interest rate risk presented by maturity profile:

| Financial Assets: AFS Debt Securities | Range of Interest Rates | Up to a Year | One to Three Years | Three to Five Years | Over Five Years | Total |
|---|---|---|---|---|---|---|
| **2022** | **2.86%-8.63%** | **P 52,241,519** | **P 29,476,332** | **P 33,627,367** | **P 20,319,291** | **P 135,664,509** |
| 2021 | 1.03%-7.82% | P 363,638,470 | P 53,749,344 | P 13,303,980 | P 7,495,136 | P 438,186,930 |

| Financial Assets: HTM Debt Securities | Range of Interest Rates | Up to a Year | One to Three Years | Three to Five Years | Over Five Years | Total |
|---|---|---|---|---|---|---|
| **2022** | **1.38%-9.25.00%** | **P 105,124,023** | **P 33,983,865** | **P 6,948,014** | **P 197,147,281** | **P343,203,183** |
| 2021 | 1.45%-15.00% | P 147,596,569 | P 8,031,521 | P - | P 89,251,358 | P244,879,448 |

| Financial Assets: Loans and Receivables | Range of Interest Rates | Up to a Year | One to Three Years | Three to Five Years | Over Five Years | Total |
|---|---|---|---|---|---|---|
| **2022** | **5.00%-12.00%** | **P 11,290,967** | **P 6,461,609** | **P 9,765,418** | **P 51,141,532** | **P 78,659,526** |
| 2021 | 5.00%-12.00% | P 12,476,193 | P 17,691,591 | P 16,003,164 | P 42,124,015 | P 88,294,963 |

The following analysis is performed for reasonably possible movements in interest rate (due to changes in fair value of AFS financial assets) with all other variables held constant, showing the impact on equity.

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Impact on Change in Interest Rate** | **Equity Increase (Decrease)** | Impact on Change in Interest Rate | Equity Increase (Decrease) |
| PHP rate | **+110 basis point** | **P 13,566,451** | +107 basis point | P 7,303,694 |
| PHP rate | **-110 basis points** | **( 13,566,451)** | -107 basis points | ( 7,303,694) |

In 2022 and 2021, the Company determined the reasonably possible change in interest rate based on the historical change in weighted average yield rates of outstanding investments of the Company.

The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear.

Reasonably possible movements in interest rates are computed based on the percentage changes in weighted average yield rates.

*(iv) Equity Price Risk*

Equity price risk is the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally AFS equity financial assets.

The Company manages and monitors its market risk exposures in such a way as to maintain a portfolio that the Company believes is well-diversified in the aggregate with respect to market risk factors and reflects the Company's aggregate risk tolerance as established by the Company's senior management.

The analysis below is performed for reasonably possible movements in Philippine Stock Exchange (PSE) index with all other variables held constant, showing the impact on income before income tax due to changes in fair value of financial assets whose fair values are recorded in the statements of comprehensive income and changes in equity (changes in fair value of AFS financial assets).

| **2022** | | 2021 | |
|---|---|---|---|
| **Change in PSE Index** | **Impact on Equity Increase (Decrease)** | Change in PSE Index | Impact on Equity Increase (Decrease) |
| **+7.14%** | **P 19,360,615** | +6.21% | P 18,421,754 |
| **-7.14%** | **( 19,360,615)** | -6.21% | ( 18,421,754) |

## 34. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

### *34.1 Regulatory Framework*

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

The operations of the Company are subject to regulatory requirements of the IC. The IC does not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g., margin of solvency, fixed capitalization requirements, and risk-based capital requirements) to minimize the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

### *34.2 Capital Management*

The Company's capital includes capital stock, contributed surplus and retained earnings.

The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is always higher than the minimum capital requirements set by the IC and the amount computed under the Risk-based Capital (RBC) model.

The Company manages capital through a process that determines future projected capital requirements through the development of long-term financial plans and projections that consider the impact on surplus of new businesses, profitability of in-force business and other major corporate initiatives that will affect capitalization levels.

The IC is interested in protecting the rights of the policyholders and maintaining close vigil to ensure that the Company is satisfactorily managing the affairs for policyholders' benefits.

As of December 31, 2022 and 2021, there were no changes made to the Company's objectives, policies and processes.

As of December 31, 2022 and 2021, the Company's capital stock, contributed surplus and retained earnings are as follows:

| | 2022 | 2021 |
|---|---|---|
| Capital stock | **P 650,000,000** | P 650,000,000 |
| Deposit for future stock subscription | **157,020,178** | - |
| Contributed surplus | **240,000,000** | 240,000,000 |
| Retained earnings | **732,492,395** | 509,114,605 |
| | **P1,779,512,573** | P1,399,114,605 |

The estimated non-admitted assets as defined in the Code are included in the statements of financial position. These assets which are subject to final determination by the IC are as follows:

| | 2022 | 2021 |
|---|---|---|
| Premiums receivable | **P 67,766,352** | P 69,995,216 |
| Advances to brokers and agents | **-** | 3,745,604 |
| Due from officers and employees | **-** | 5,378,579 |
| Loans receivable | **786,932** | - |
| Accounts receivable | **7,021,982** | 11,703,049 |
| Surety loss recoverable | **54,805,832** | 63,793,882 |
| Leasehold improvements | **3,790,371** | 7,268,928 |
| Furniture, fixture and equipment | **6,821,218** | 8,794,536 |
| Transportation equipment | **19,787,595** | 19,020,882 |
| IT equipment | **27,326,092** | 13,925,954 |
| Prepayments | **72,544,920** | 78,692,961 |
| Deferred tax assets | **166,290,491** | 192,304,448 |
| Other assets | **14,645,054** | 48,739,817 |
| Real estate | **5,913,333** | 30,424,338 |
| Other investments | **7,391,300** | 11,181,040 |
| | **P 454,891,472** | P 564,969,234 |

In accordance with pertinent provisions of the Code, the Company is restricted from declaring on its outstanding capital stock, except from profits attested to be remaining on hand after retaining unimpaired its entire capital stock, provision for unearned premiums and a sum sufficient to pay all net losses, or in the course of settlement, and all other liabilities.

On August 5, 2013, the President of the Philippines approved the R.A. No. 10607, *The Insurance Code*, which provides the new capitalization requirements of all existing life, non-life and reinsurance insurance companies based on the net worth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required net worth and the schedule of compliance per the Code.

| Net worth | Compliance Date |
|---|---|
| P 250,000,000 | June 30, 2013 |
| 550,000,000 | December 31, 2016 |
| 900,000,000 | December 31, 2019 |
| 1,300,000,000 | December 31, 2022 |

As of December 31, 2021, the Company is not in compliance with the required minimum net worth requirement of P900.0 million. Consequently, in March 2022, the parent company provided additional capital infusion amounting to P157.0 million to enable the Company to meet the minimum net worth requirement.

As of December 31, 2022, the Company has complied with the net worth requirements based on its internal computation.

### *34.3 Risk-Based Capital Requirements*

IC CL No. 2016-68 or Amended Risk Based Capital (RBC2) Framework requires non-life insurance industry to establish the required amount of capital to be maintained by the companies in relation to their investment and insurance risks. Every non-life insurance company is required to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as Total Available Capital divided (TAC) by the RBC requirement.

TAC is determined as the aggregate of Tier 1 and Tier 2 capital less deductions, subject to the limits stated in RBC2 Framework.

Tier 1 capital consists of capital that is fully available to cover losses of insurer at all times on a going-concern and winding up basis. This capital includes the capital stock, subscribed capital stock, contributed surplus, capital paid in excess of par, retained earnings, treasury stock, statutory deposit, reserve accounts, cost of share-based payments and fifty percent (50%) of the value of future bonus applicable for life companies.

Tier 2 capital serves as the additional buffer to the insurer to cover the losses that it may incur. This is comprised of reserve for appraisal increment of property and equipment, remeasurement gains (losses) on retirement pension asset (obligation), change in reserve estimates due to change in interest rate assumption, cumulative irredeemable preferred stocks, mandatory capital loan stock and other similar capital instruments, irredeemable subordinated debts, revenue reserves and subordinated term debts.

As of December 31, 2022 and 2021, the following table shows the RBC ratio of the Company based on internal computation:

| | **2022** | 2021 |
|---|---|---|
| Total available capital | **P 1,374,697,415** | P 1,041,483,804 |
| RBC requirement | **550,520,462** | 517,869,843 |
| | **250%** | 201% |

As at December 31, 2022 and 2021, the Company is compliant with RBC2-QIS based on internal calculations with an RBC ratio of 101% and 201%, respectively. The final RBC2-QIS ratio can be determined only after the accounts of the Company have been examined by IC.

## 35. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### *35.1 Comparison of Carrying Amounts and Fair Values*

The carrying values and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

| | Classes | | | |
|---|---|---|---|---|
| | **At Amortized Cost** | **At Fair Value** | **Carrying Amount** | **Fair Value** |
| **December 31, 2022** | | | | |
| ***Financial Assets*** | | | | |
| At amortized cost: | | | | |
| Cash and cash equivalents | P 410,633,839 | P - | P 410,633,839 | P 410,633,839 |
| Insurance receivables - net | 917,641,799 | - | 917,641,799 | 917,641,799 |
| HTM securities | 343,203,183 | - | 343,203,183 | 327,219,779 |
| Loans and receivables - net | 206,484,001 | - | 206,484,001 | 206,484,001 |
| Reinsurance assets - net | 858,914,188 | - | 858,914,188 | 858,914,188 |
| Other assets | 6,126,980 | - | 6,126,980 | 6,126,980 |
| At fair value: | | | | |
| Financial assets at FVTPL | - | 250,579,298 | 250,579,298 | 250,579,298 |
| AFS financial assets | - | 449,065,776 | 449,065,776 | 449,065,776 |
| | **P 2,743,003,990** | **P 699,645,074** | **P 3,442,649,064** | **P 3,426,665,660** |
| ***Financial Liabilities*** | | | | |
| At amortized cost: | | | | |
| Insurance payables | P 716,626,616 | P - | P 716,626,616 | P 716,626,616 |
| Accounts payable and accrued expenses | 318,287,181 | - | 318,287,181 | 318,287,181 |
| Lease liabilities | 38,784,420 | - | 38,784,420 | 38,784,420 |
| | **P 1,073,689,217** | **P -** | **P 1,073,689,217** | **P 1,073,689,217** |

| | Classes | | | |
|---|---|---|---|---|
| | At Amortized Cost | At Fair Value | Carrying Amount | Fair Value |
| December 31, 2021 | | | | |
| *Financial Assets* | | | | |
| At amortized cost: | | | | |
| Cash and cash equivalents | P 275,763,811 | P - | P 275,763,811 | P 275,763,811 |
| Insurance receivables - net | 780,911,348 | - | 780,911,348 | 780,911,348 |
| HTM securities | 244,879,448 | - | 244,879,448 | 243,554,508 |
| Loans and receivables - net | 175,324,108 | - | 175,324,108 | 175,324,108 |
| Reinsurance assets - net | 386,414,076 | - | 386,414,076 | 386,414,076 |
| Other assets | 23,196,711 | - | 23,196,711 | 23,196,711 |
| At fair value: | | | | |
| Financial assets at FVTPL | - | 263,149,341 | 263,149,341 | 263,149,341 |
| AFS financial assets | - | 804,680,243 | 804,680,243 | 804,680,243 |
| | P 1,886,489,502 | P 1,067,829,584 | P 2,954,319,086 | P 2,952,994,146 |
| *Financial Liabilities* | | | | |
| At amortized cost: | | | | |
| Insurance payables | P 714,369,700 | P - | P 714,369,700 | P 714,369,700 |
| Accounts payable and accrued expenses | 251,547,208 | - | 251,547,208 | 251,547,208 |
| Lease liabilities | 26,987,195 | - | 26,987,195 | 26,987,195 |
| | P 992,904,103 | P - | P 992,904,103 | P 992,904,103 |

Management considers that the carrying amounts of other financial assets and financial liabilities, which are measured at amortized cost, approximate the fair values either because those instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material.

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

The Company has not set-off financial instruments in 2022 and 2021 and does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) will have the option to settle all such amounts on a net basis in the event of default of the other party through approval by the BOD and stockholders of both parties.

## 36. FAIR VALUE MEASUREMENT AND DISCLOSURE

### *36.1 Fair Value Hierarchy*

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those financial assets and financial liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy is presented in the succeeding page.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or financial liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Company uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates.

If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

### *36.2 Financial Instruments Measured at Fair Value*

As of December 31, 2022 and 2021, financial instruments measured at fair value is comprised of financial assets at FVTPL and AFS securities. The details of these financial assets are grouped into fair value hierarchy as follows:

| | Notes | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| **December 31, 2022** | | | | | |
| *Financial assets:* | | | | | |
| Financial assets at FVTPL: | 6 | | | | |
| Mutual funds | | P - | P 108,063,591 | P - | P 108,063,591 |
| UITF | | - | 80,225,477 | - | 80,255,477 |
| Trust fund | | 58,480,357 | - | 3,809,873 | 62,290,230 |
| AFS financial assets: | 8 | | | | |
| Listed equity securities: | | | | | |
| Common | | 261,747,072 | - | - | 261,747,072 |
| Preferred | | 39,306,695 | - | - | 39,306,695 |
| Debt securities: | | | | | |
| Corporate securities | | 85,601,054 | - | - | 85,601,054 |
| Government securities | | 50,063,455 | - | - | 50,063,455 |
| Unlisted equity securities | | - | 6,957,500 | - | 6,957,500 |
| Club shares | | - | 5,390,000 | - | 5,390,000 |
| | | **P 495,198,633** | **P 200,636,568** | **P 3,809,873** | **P 699,645,074** |

| | Notes | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| December 31, 2021 | | | | | |
| *Financial assets:* | | | | | |
| Financial assets at FVTPL: | 6 | | | | |
| Mutual funds | | P - | P 116,777,689 | P - | P 116,777,689 |
| UITF | | - | 84,784,013 | - | 84,784,013 |
| Trust fund | | 57,781,721 | - | 3,805,918 | 61,587,639 |
| AFS financial assets: | 8 | | | | |
| Listed equity securities: | | | | | |
| Common | | 306,706,264 | - | - | 306,706,264 |
| Preferred | | 47,329,549 | - | - | 47,329,549 |
| Debt Securities: | | | | | |
| Government securities | | 327,533,867 | - | - | 327,533,867 |
| Corporate securities | | 110,653,063 | - | - | 110,653,063 |
| Unlisted equity securities | | - | 6,957,500 | - | 6,957,500 |
| Club shares | | - | 5,500,000 | - | 5,500,000 |
| | | P 850,004,464 | P 214,019,202 | P 3,805,918 | P 1,067,829,584 |

Unlisted equity securities measured at cost comprise of preferred shares of unlisted companies.

The Company has no financial liabilities measured at fair value as of December 31, 2022 and 2021.

### *36.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed*

The table below summarizes the fair value hierarchy of the Company's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

| | Notes | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|---|
| **December 31, 2022** | | | | | |
| ***Financial assets:*** | | | | | |
| Cash and cash equivalents | 4 | P 410,633,839 | P - | P - | P 410,633,839 |
| Insurance receivables - net | 5 | - | - | 917,641,799 | 917,641,799 |
| HTM securities | 7 | 327,219,779 | - | - | 327,219,779 |
| Loans and receivables - net | 9 | - | - | 206,484,001 | 206,484,001 |
| Reinsurance assets - net | 11 | - | - | 858,914,188 | 858,914,188 |
| Other assets | 17 | - | - | 6,126,980 | 6,126,980 |
| | | **P 737,853,618** | **P -** | **P 1,989,166,968** | **P 2,727,020,586** |
| ***Financial liabilities:*** | | | | | |
| Insurance payables | 20 | P - | P - | P 716,626,616 | P 716,626,616 |
| Accounts payable and accrued expenses | 21 | - | - | 318,287,181 | 318,287,181 |
| Lease liabilities | 15 | - | - | 38,784,420 | 38,784,420 |
| | | **P -** | **P -** | **P 1,073,698,217** | **P 1,073,698,217** |

| | Notes | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| December 31, 2021 | | | | | |
| *Financial assets:* | | | | | |
| Cash and cash equivalents | 4 | P 275,763,811 | P - | P - | P 275,763,811 |
| Insurance receivables - net | 5 | - | - | 780,911,348 | 780,911,348 |
| HTM securities | 7 | 243,554,508 | - | - | 243,554,508 |
| Loans and receivables - net | 9 | - | - | 175,324,108 | 175,324,108 |
| Reinsurance assets - net | 11 | - | - | 386,414,076 | 386,414,076 |
| Other assets | 17 | - | - | 23,196,711 | 23,196,711 |
| | | P 519,318,319 | P - | P 1,365,846,243 | P 1,885,164,562 |
| *Financial liabilities:* | | | | | |
| Insurance payables | 20 | P - | P - | P 714,369,700 | P 714,369,700 |
| Accounts payable and accrued expenses | 21 | - | - | 251,547,208 | 251,547,208 |
| Lease liabilities | 15 | - | - | 26,987,195 | 26,987,195 |
| | | P - | P - | P 992,904,103 | P 992,904,103 |

Fair values of the foregoing financial assets and financial liabilities measured and presented in the statements of financial position at amortized cost are estimated as follows:

*(a)* *Cash and Cash Equivalents*

The estimated fair value of cash in banks and cash equivalents with fixed interest-bearing is based on the discounted cash flows using prevailing money market interest rates for debt with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

*(b)* *Insurance Receivables, Loans and Receivables and Reinsurance Assets*

Insurance receivables, loans and receivables and reinsurance assets are net of provisions for impairment. The estimated fair values of insurance receivables and reinsurance assets represent the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

*(c)* *HTM Securities*

HTM securities consist of government securities and corporate notes. The fair value of these investment securities is determined by direct reference to published price quoted in an active market for traded securities.

*(d)* *Insurance Payables*

The estimated fair value is the amount payable on demand.

(e) *Other Assets, Accounts Payable and Accrued Expenses, and Deposit for Future Stock Subscription*

Due to their short duration, the carrying amounts of other financial assets, accounts payable and accrued expenses, and deposit for future stock subscription in the statements of financial position are considered to be reasonable approximation of their fair values.

*(f)* *Lease Liabilities*

The estimated fair values of lease liabilities represent the discounted amount of estimated future cash flows expected to be received or paid. Expected cash flows are discounted at current market rates to determine fair value.

The fair value of financial assets and financial liabilities included in Level 3 which are not based in an active market is determined based on the expected cash flows of the underlying net asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments are not based on observable data.

### *36.4 Fair Value Measurement for Investment Properties*

The fair value of the Company's investment properties amounting to P141.1 million and P198.4 million as of December 31, 2022 and 2021, respectively, are determined on the basis of the appraisals performed by an independent appraiser with appropriate qualification and recent experience in the valuation of similar properties in the relevant locations (see Note 13). The properties were valued using the Market Data Approach every two years, which considers the sales and listings of comparable properties registered within the vicinity. The fair value of investment properties are categorized under Level 2 of the fair value hierarchy.

There had been no change in the valuation techniques used by the Company in 2022 and 2021 for its non-financial assets. Also, there were no transfers into or out of Level 2 fair value hierarchy in 2022 and 2021.

## 37. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled:

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Within One Year** | **Beyond One Year** | **Total** | Within One Year | Beyond One Year | Total |
| Cash and cash equivalents | P 410,633,839 | P - | P 410,633,839 | P 275,763,811 | P - | P 275,763,811 |
| Insurance receivables - net | 579,559,733 | 338,082,066 | 917,641,799 | 617,340,741 | 163,570,607 | 780,911,348 |
| Financial assets at FVTPL | 250,579,298 | - | 250,579,298 | 263,149,341 | - | 263,149,341 |
| AFS financial assets | 365,642,786 | 83,422,990 | 449,065,776 | 730,131,783 | 74,548,460 | 804,680,243 |
| HTM securities | 105,124,023 | 238,079,160 | 343,203,183 | 147,596,569 | 97,282,879 | 244,879,448 |
| Loans and receivables - net | 53,156,617 | 153,327,384 | 206,484,001 | 95,308,841 | 80,015,267 | 175,324,108 |
| Reinsurance assets - net | 2,148,283,389 | - | 2,148,283,389 | 1,343,923,663 | - | 1,343,923,663 |
| Deferred acquisition costs | 164,613,244 | 16,981,753 | 181,594,997 | 156,785,075 | 7,028,509 | 163,813,584 |
| Investment properties - net | - | 61,590,996 | 61,590,996 | - | 94,569,154 | 94,569,154 |
| Property and equipment - net | - | 358,038,053 | 358,038,053 | - | 356,708,380 | 356,708,380 |
| Intangible assets - net | - | 17,205,830 | 17,205,830 | - | 15,880,209 | 15,880,209 |
| Right-of-use assets - net | - | 37,772,421 | 37,772,421 | - | 25,944,956 | 25,944,956 |
| Deferred tax assets - net | - | 166,290,491 | 166,290,491 | - | 192,304,448 | 192,304,448 |
| Other assets | - | 87,743,234 | 87,743,224 | 23,196,711 | 116,960,901 | 140,157,612 |
| Total Assets | **P 4,077,592,930** | **P 1,558,534,374** | **P 5,636,127,297** | P 3,653,196,535 | P 1,224,813,770 | P 4,878,010,305 |
| Insurance contract liabilities | P 2,692,310,150 | P - | P 2,692,310,150 | P 2,348,452,491 | P - | P 2,348,452,491 |
| Insurance payables | 716,626,616 | - | 716,626,616 | 714,369,700 | - | 714,369,700 |
| Accounts payable and accrued expenses | 439,483,782 | - | 439,483,782 | 338,836,210 | - | 338,836,210 |
| Deferred reinsurance commissions | 37,670,535 | 10,301,505 | 47,972,040 | 45,224,480 | 5,941,276 | 51,165,756 |
| Lease liabilities | 13,852,004 | 24,932,416 | 38,784,420 | 10,763,418 | 16,223,777 | 26,987,195 |
| Net pension liability | - | 5,478,789 | 5,478,789 | - | - | - |
| Total Liabilities | **P 3,899,943,086** | **P 40,712,710** | **P 3,940,655,797** | P 3,457,646,299 | P 22,165,053 | P 3,479,811,352 |

## 38. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below and in the succeeding page is the supplementary information which is required by the BIR under RR No. 15-2010 to be disclosed as part of the notes to financial statement. This supplementary information is not a required disclosure under PFRS.

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR No. 15-2010 are as follows:

*(a) Output VAT*

In 2022, the Company declared output VAT of P225,457,896 from its vatable transactions amounting to P1,878,815,801. The tax base is based on the Company's gross receipts for the period; hence, may not be the same as the amounts of revenues reported in the 2022 statement of comprehensive income.

The Company has deferred output VAT as of December 31, 2022 amounting to P37,462,933, which is presented as part of Taxes payable under Accounts Payable and Accrued Expenses account in the 2022 statement of financial position.

*(b) Input VAT*

The movements in input VAT in 2022 are summarized below.

| | |
|---|---|
| Balance at beginning of year | P 5,614,074 |
| Goods other than for resale or manufacture | 101,524,700 |
| Input VAT on exempt sales | ( 7,935,268) |
| Applied against output VAT | ( 84,936,682) |
| Balance at end of year | P 14,266,824 |

The Company has deferred input VAT as of December 31, 2022 amounting to P4,843,549, which is presented as deduction against Taxes payable under Accounts Payable and Accrued Expenses account in the 2022 statement of financial position.

*(c) Taxes on Importation*

The Company did not have any transactions in 2022 related to importations.

*(d) Excise Tax*

The Company did not have any transactions in 2022 which are subject to excise tax.

*(e) Documentary Stamp Taxes (DST)*

The total DST accrued and paid in 2022 amounted to P7,994, which pertains to execution of loan instruments and lease contracts [see Note 38(f)].

*(f) Taxes and Licenses*

The details of Taxes and licenses, which is presented as part of Operating Expenses account in the 2022 statement of comprehensive income, are broken down as follows:

| | Note | | |
|---|---|---|---|
| Real property taxes | | P | 1,490,692 |
| Fringe benefit | | | 1,335,090 |
| Municipal licenses and permits | | | 869,726 |
| DST | 38(e) | | 7,994 |
| Others | | | 2,188,628 |
| | | **P** | **5,892,130** |

*(g) Withholding Taxes*

The details of total withholding taxes in 2022 are shown below.

| | | |
|---|---|---|
| Expanded | P | 107,938,056 |
| Compensation and benefits | | 16,387,271 |
| Final | | 305,040 |
| | **P** | **124,630,368** |

*(h) Deficiency Tax Assessments and Tax Cases*

As of December 31, 2022, the Company does not have any final deficiency tax assessments with the BIR nor does it have tax cases outstanding or pending in courts or bodies outside the BIR in any of the open taxable years.