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Asia Insurance (Philippines) Corporation

Financial Statements
As at and for the years ended December 31, 2020 and 2019

Isla Lipana & Co.

Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholders of
Asia Insurance (Philippines) Corporation
15th Floor, Tytana Plaza
Plaza Lorenzo Ruiz
Binondo, Manila

Report on the Audits of the Financial Statements

Our Opinion

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

What we have audited

The financial statements of the Company comprise:

- the statements of financial position as at December 31, 2020 and 2019;
- the statements of total comprehensive income for the years ended December 31, 2020 and 2019;
- the statements of changes in equity for the years ended December 31, 2020 and 2019;
- the statements of cash flows for the years ended December 31, 2020 and 2019; and
- •the notes to the financial statements, which include a summary of significant accounting policies.

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

Report on Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 23 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

Imelda Dela Vega-Mangundaya
Partner
CPA Cert. No. 0090670
PTR No. 0024586, issued on January 5, 2021, Makati City
SEC A.N. (individual) as general auditors 90670-SEC, Category A, valid to audit 2019 to 2023 financial statements
SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024 financial statements
TIN 152-015-124
BIR A.N. 08-000745-047-2018, issued on December 10, 2018; effective until December 9, 2021
BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
May 31, 2021

Asia Insurance (Philippines) Corporation

Statements of Financial Position
December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2020	2019
ASSETS			
Cash and cash equivalents	3	512,445,071	421,421,865
Receivables, net	4	238,727,342	207,657,716
Available-for-sale securities	5	76,171,199	66,387,016
Held-to-maturity securities	5	940,453,965	803,325,356
Reinsurance recoverable on unpaid losses	6	232,966,817	251,379,557
Deferred reinsurance premiums	6	135,576,990	154,543,644
Deferred acquisition costs, net	6	100,855,290	106,315,107
Retirement benefit asset	14	20,215,722	-
Investment property, net	7	14,817,491	16,573,101
Property and equipment, net	8	9,717,135	9,012,481
Deferred income tax assets, net	9	9,671,532	31,886,379
Other assets		8,693,144	8,157,664
Total assets		**2,300,311,698**	**2,076,659,886**
LIABILITIES AND EQUITY			
Losses and claims payable	6	375,594,864	403,092,967
Reserve for unearned premiums	6	275,907,232	325,584,159
Due to reinsurers and ceding companies		269,699,707	196,944,955
Funds held for reinsurers		43,492,346	47,038,696
Commissions payable		31,000,451	17,498,431
Accounts payable and other liabilities	10	144,409,361	115,826,353
Income tax payable		18,815,167	12,020,085
Total liabilities		**1,158,919,128**	**1,118,005,646**
Share capital	11	350,000,000	350,000,000
Contingency surplus	11	40,000,000	-
Contributed surplus	11	500,000	500,000
Accumulated other comprehensive gain (loss)	11	7,750,168	(283,750)
Retained earnings	11	743,142,402	608,437,990
Total equity		**1,141,392,570**	**958,654,240**
Total liabilities and equity		**2,300,311,698**	**2,076,659,886**

(The notes on pages 1 to 55 are integral part of these financial statements)

Asia Insurance (Philippines) Corporation

Statements of Total Comprehensive Income
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2020	2019
UNDERWRITING INCOME			
Premiums written, net of returns	2	856,611,002	922,982,543
Reinsurance premiums ceded		(438,549,885)	(442,820,104)
Premiums retained		418,061,117	480,162,439
Decrease (increase) in reserve for unearned premiums, net	6	30,710,273	(9,886,437)
Premiums earned		448,771,390	470,276,002
Commissions earned		84,199,252	72,231,171
Other underwriting income		1,241,427	623,777
GROSS UNDERWRITING INCOME		**534,212,069**	**543,130,950**
UNDERWRITING EXPENSES			
Commissions and other underwriting expenses		212,323,266	227,907,602
Losses and claims, net	6	91,849,151	192,529,940
		304,172,417	420,437,542
NET UNDERWRITING INCOME		**230,039,652**	**122,693,408**
INVESTMENT AND OTHER INCOME, NET			
Interest income	12	42,488,850	44,967,002
Foreign exchange loss	21	(20,090,012)	(14,518,395)
Rent	7	5,619,562	6,211,905
Dividend	5	1,883,384	2,305,141
Loss on sale of investments	5	(357,595)	(1,996,975)
Miscellaneous		2,036,619	1,576,928
		31,580,808	38,545,606
NET UNDERWRITING AND INVESTMENT INCOME		**261,620,460**	**161,239,014**
GENERAL AND ADMINISTRATIVE EXPENSES			
Salaries and employee benefits	13	44,156,066	51,896,630
Occupancy and equipment-related costs		9,188,700	10,789,538
Representation and entertainment		4,496,333	5,250,602
Transportation and travel		4,215,685	4,986,713
Printing, stationery and supplies		1,958,894	2,291,756
Taxes, licenses and fees		1,926,005	1,605,286
Professional and directors' fees		1,766,249	1,848,165
Association dues	7	1,663,626	1,391,341
Communication and postage		1,157,420	1,197,470
Interest expense on lease liability	18	55,386	95,524
Advertising and promotion		25,576	25,880
Miscellaneous		3,595,521	4,731,022
		74,205,461	**86,109,927**
INCOME BEFORE INCOME TAX		**187,414,999**	**75,129,087**
PROVISION FOR INCOME TAX	15	(52,710,587)	(18,654,096)
NET INCOME FOR THE YEAR		**134,704,412**	**56,474,991**
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will be subsequently reclassified to profit or loss			
Net change in fair value of available-for-sale securities, net of tax	5,11	6,743,634	1,180,281
Item that will not be subsequently reclassified to profit or loss			
Remeasurement gain on retirement benefit obligation, net of tax	11,14	1,290,284	718,696
		8,033,918	**1,898,977**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**142,738,330**	**58,373,968**

(The notes on pages 1 to 55 are integral part of these financial statements)

Asia Insurance (Philippines) Corporation

Statements of Changes in Equity
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Share capital (Note 11)	Contingency surplus (Note 11)	Contributed surplus (Note 11)	Accumulated other comprehensive income (Note 11)	Retained earnings (Note 11)	Total
Balances at January 1, 2019	**350,000,000**	**-**	**500,000**	**(2,182,727)**	**551,962,999**	**900,280,272**
Comprehensive income						
Net income for the year	-	-	-	-	56,474,991	56,474,991
Other comprehensive loss	-	-	-	1,898,977	-	1,898,977
Total comprehensive income for the year	-	-	-	1,898,977	56,474,991	58,373,968
Balances at December 31, 2019	**350,000,000**	**-**	**500,000**	**(283,750)**	**608,437,990**	**958,654,240**
Transaction with owners						
Contributions for contingency surplus	-	40,000,000	-	-	-	40,000,000
Comprehensive income						
Net income for the year	-	-	-	-	134,704,412	134,704,412
Other comprehensive income	-	-	-	8,033,918	-	8,033,918
Total comprehensive income for the year	-	-	-	8,033,918	134,704,412	142,738,330
Balances at December 31, 2020	**350,000,000**	**40,000,000**	**500,000**	**7,750,168**	**743,142,402**	**1,141,392,570**

(The notes on pages 1 to 55 are integral part of these financial statements)

Asia Insurance (Philippines) Corporation

Statements of Cash Flows
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	16	211,455,526	148,530,721
Interest received		6,665,210	9,662,441
Contributions to the retirement fund	14	(20,395,436)	
Income taxes paid		(15,226,876)	(23,737,850)
Net cash from operating activities		**182,498,424**	**134,455,312**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Held-to-maturity securities	5	(422,039,056)	(85,722,887)
Available-for-sale securities	5	(4,846,411)	(5,112,000)
Property and equipment	8	(2,478,111)	(3,438,487)
Proceeds from:			
Maturities of held-to-maturity securities	5	271,302,863	64,503,381
Disposal of available-for-sale securities	5	3,501,020	1,512,690
Interest received		29,966,189	35,165,168
Advances to related parties	17	(1,350,082)	5,401,801
Dividends received	5	1,883,384	2,305,141
Net cash (used in) from investing activities		**(124,060,204)**	**14,614,807**
CASH FLOWS FROM FINANCING ACTIVITIES			
Contributions for contingency surplus	11	40,000,000	-
Payments on lease liabilities	18	(1,635,103)	(1,564,291)
Net cash from (used in) financing activities		38,364,897	(1,564,291)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**96,803,117**	**147,505,828**
CASH AND CASH EQUIVALENTS			
At January 1		421,421,865	273,888,688
Effects of exchange rate changes on cash and cash equivalents		(5,779,911)	27,349
At December 31	**3**	**512,445,071**	**421,421,865**

(The notes on pages 1 to 55 are integral part of these financial statements)

Asia Insurance (Philippines) Corporation

Notes to Financial Statements
As at and for the years ended December 31, 2020 and 2019
(All amounts are shown in Philippine Peso, unless otherwise stated)

Note 1 - General information

Asia Insurance (Philippines) Corporation (the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) primarily to engage in selling of non-life insurance policies on fire, marine cargo, motor vehicle, casualty, surety bond, personal accident, comprehensive general liability, engineering lines and miscellaneous insurances.

As at reporting dates, the Company is 20% owned by Asian Insurance International (Holdings) Ltd., which is domiciled and incorporated in Bermuda, 11% owned by APIC Holdings, Inc., which is domiciled and incorporated in the Philippines, 10% owned by Bangkok Bank Public Company, Ltd., which is domiciled and incorporated in Thailand, and a number of domestic corporate and individual shareholders.

The Company's registered office, which is also its principal place of business, is located at the 15th Floor, Tytana Plaza, Plaza Lorenzo Ruiz, Binondo, Manila.

The Company has 88 employees as at December 31, 2020 (2019 - 82).

The pandemic which broke out in March 2020 forced governments all over the world, including the Philippines, to implement community lockdowns and quarantines to mitigate the spread of the virus. Unfortunately, these lockdowns caused the demands for goods and services to plummet which ultimately led to the contraction of both the global and domestic economies.

The pandemic remains the topmost concern of the government and businesses alike. The Philippine economy is gradually opening with the imposition of less stringent community quarantine protocols. Likewise, the vaccination program of the government already commenced in the first quarter of 2021 and is expected to ramp up, which is hoped to slow down the spread of the virus and boost confidence among businesses and consumers.

The Company has taken actions to minimize the risk to its employees, including restricting travel and instituting extensive work from home protocols. The Company also seeks to minimize any disruption to its clients and operations while ensuring the safety of its employees.

The COVID-19 pandemic did not have a significant impact on the Company's results of operations, financial position, and cash flows as at and for the year ended December 31, 2020. As at reporting date, the pandemic still poses some risks and uncertainties, the Company, however, remains confident on its ability to absorb some conceivable financial shocks that may arise due to volatile economic conditions.

The financial statements have been approved and authorized for issuance by the Company's Board of Directors on May 31, 2021.

Note 2 - Additional information on the results of operations by line of business

The following information shows the financial information by line of business for the years ended December 31:

	Fire	Marine	Motor Car	Casualty	Bond	Total
2020						
UNDERWRITING INCOME						
Premiums written, net of returns	336,739,682	10,831,277	367,216,698	110,590,326	31,233,019	856,611,002
Reinsurance premium ceded	(309,520,496)	(7,959,174)	(3,347,199)	(99,852,056)	(17,870,960)	(438,549,885)
Premiums retained	27,219,186	2,872,103	363,869,499	10,738,270	13,362,059	418,061,117
Decrease (increase) in reserve for unearned premiums, net	3,941,228	72,584	17,992,883	4,222,576	4,481,002	30,710,273
Premiums earned	31,160,414	2,944,687	381,862,382	14,960,846	17,843,061	448,771,390
Commissions earned	43,560,756	2,861,199	277,919	29,806,975	7,692,403	84,199,252
Other underwriting income	1,550	-	25,909	957,007	256,961	1,241,427
GROSS UNDERWRITING INCOME	74,722,720	5,805,886	382,166,210	45,724,828	25,792,425	534,212,069
UNDERWRITING EXPENSES						
Commissions and other underwriting expenses	37,054,711	3,926,072	127,790,575	32,947,477	10,604,431	212,323,266
Losses and claims, net	2,879,971	229,313	87,405,760	1,324,707	9,400	91,849,151
	39,934,682	4,155,385	215,196,335	34,272,184	10,613,831	304,172,417
NET UNDERWRITING INCOME	34,788,038	1,650,501	166,969,875	11,452,644	15,178,594	230,039,652
INVESTMENT AND OTHER INCOME, NET						31,580,808
NET UNDERWRITING AND INVESTMENT INCOME						261,620,460
GENERAL AND ADMINISTRATIVE EXPENSES						(74,205,461)
INCOME BEFORE INCOME TAX						187,414,999
PROVISION FOR INCOME TAX						(52,710,587)
NET INCOME FOR THE YEAR						134,704,412
OTHER COMPREHENSIVE INCOME						8,033,918
TOTAL COMPREHENSIVE INCOME FOR THE YEAR						142,738,330

	Fire	Marine	Motor Car	Casualty	Bond	Total
2019						
UNDERWRITING INCOME						
Premiums written, net of returns	300,679,756	14,230,533	409,302,094	160,272,268	38,497,892	922,982,543
Reinsurance premiums ceded	(266,488,061)	(10,466,687)	(4,173,142)	(142,332,957)	(19,359,257)	(442,820,104)
Premiums retained	34,191,695	3,763,846	405,128,952	17,939,311	19,138,635	480,162,439
(Increase) decrease in reserve for unearned premiums, net	(1,413,624)	130,377	(3,830,002)	(760,811)	(4,012,377)	(9,886,437)
Premiums earned	32,778,071	3,894,223	401,298,950	17,178,500	15,126,258	470,276,002
Commissions earned	35,098,153	3,722,418	355,632	26,245,304	6,809,664	72,231,171
Other underwriting income	4,977	-	22,938	217,248	378,614	623,777
GROSS UNDERWRITING INCOME	67,881,201	7,616,641	401,677,520	43,641,052	22,314,536	543,130,950
UNDERWRITING EXPENSES						
Commissions and other underwriting expenses	40,071,786	5,405,933	142,754,681	30,350,597	9,324,605	227,907,602
Losses and claims, net	10,394,760	(72,676)	173,335,457	7,948,473	923,926	192,529,940
	50,466,546	5,333,257	316,090,138	38,299,070	10,248,531	420,437,542
NET UNDERWRITING INCOME	17,414,655	2,283,384	85,587,382	5,341,982	12,066,005	122,693,408
INVESTMENT AND OTHER INCOME, NET						38,545,606
NET UNDERWRITING AND INVESTMENT INCOME						161,239,014
GENERAL AND ADMINISTRATIVE EXPENSES						(86,109,927)
INCOME BEFORE INCOME TAX						75,129,087
PROVISION FOR INCOME TAX						(18,654,096)
NET INCOME FOR THE YEAR						56,474,991
OTHER COMPREHENSIVE INCOME						1,898,977
TOTAL COMPREHENSIVE INCOME FOR THE YEAR						58,373,968

Note 3 - Cash and cash equivalents

The details of the account at December 31 are as follows:

	Interest rate (%)		Amount	
	2020	2019	2020	2019
Cash on hand	-	-	27,660,790	33,575,810
Cash in banks				
Philippine Peso	0.05 – 0.50	0.05 - 0.50	66,653,901	54,375,686
US Dollar	0.13 - 0.25	0.13 - 0.25	30,367,874	9,098,199
Time deposits				
Philippine Peso	1.16	0.69 - 1.73	359,794,954	302,442,840
US Dollar	0.16 – 3.52	1.00 - 2.60	27,615,006	21,850,840
Canadian Dollar	0.35 – 2.31	0.23	352,546	78,490
			512,445,071	421,421,865

The maturities of cash equivalents which consist of time deposits from reporting dates are as follows:

	2020	2019
US Dollar	30-63 days	30-63 days
Philippine Peso	30-90 days	30-90 days

The related interest earned on cash and cash equivalents is presented in Note 12.

Cash on hand represents undeposited cash collections and various cash funds as at December 31, 2020 and 2019.

Cash and cash equivalents are available for normal business operations and classified as current.

Note 4 - Receivables, net

The account at December 31 consists of:

	2020	2019
Receivables arising from insurance contracts		
Premium receivable	45,836,645	24,417,444
Reinsurance recoverable on paid losses	132,578,944	134,690,757
Due from reinsurers and ceding companies	21,537,668	9,652,490
Funds held by ceding companies	10,713,080	10,713,080
	210,666,337	179,473,771
Other receivables		
Accounts receivable	21,455,265	21,306,685
Accrued interest income	8,039,891	8,311,411
Refundable deposits	69,700	69,700
Security fund	49,149	49,149
	29,614,005	29,736,945
Total receivables	240,280,342	209,210,716
Allowance for impairment on premium receivable	(1,553,000)	(1,553,000)
	238,727,342	207,657,716

The maturity profile of the Company's receivables is disclosed in Note 21.2.3.

Accounts receivable is mainly composed of advances to employees.

The security fund is maintained in compliance with Sections 365 and 367 of the Insurance Code of the Philippines (Insurance Code). The amount of security fund is determined by and deposited with the Insurance Commission (IC) to pay valid claims against insolvent insurance companies.

There are no movements in allowance for impairment on premium receivable in 2020 and 2019.

There is no concentration of credit risk to a single counterparty with respect to receivables arising from insurance contracts.

Note 5 - Investments

Details and classification of the Company's investments at December 31 follow:

	2020	2019
Available-for-sale securities	76,171,199	66,387,016
Held-to-maturity securities	940,453,965	803,325,356
	1,016,625,164	869,712,372

The movements in investments are summarized as follows:

	Available-for-sale securities	Held-to-maturity securities
Balances at January 1, 2019	66,166,032	793,447,450
Additions	5,112,000	85,722,887
Disposals	(3,509,665)	-
Maturities	-	(64,503,381)
Fair value adjustment	1,686,115	-
Foreign currency revaluation	(3,067,466)	(11,557,379)
Amortization of bond discount, net	-	215,779
Balances at December 31, 2019	66,387,016	803,325,356
Additions	4,846,411	422,039,056
Disposals	(3,858,615)	-
Maturities	-	(271,302,863)
Fair value adjustment	9,633,763	-
Foreign currency revaluation	(837,376)	(13,059,150)
Amortization of bond premium, net	-	(548,434)
Balances at December 31, 2020	76,171,199	940,453,965

Available-for-sale securities as at December 31 consist of:

	2020	2019
Equity securities	29,790,040	22,512,310
Investment in mutual funds	46,381,159	43,874,706
	76,171,199	66,387,016

Proceeds from the disposals of available-for-sale securities amount to P3,501,020 in 2020 (2019 - P1,512,690). Loss on sale of available-for-sale securities recognized in the statement of total comprehensive income amounts to P357,595 for the year ended December 31, 2020 (2019 - P1,996,975).

Dividend income on equity securities recognized in the statement of total comprehensive income amounts to P1,883,384 for the year ended December 31, 2020 (2019 - P2,305,141).

Available-for-sale securities are intended to be held for more than 12 months.

As at December 31, held-to-maturity securities are as follows:

	2020	2019
Debt securities		
US Dollar	269,059,406	284,245,539
Philippine Peso	466,879,000	282,706,000
Corporate bonds	130,200,000	115,700,000
Time deposits		
Philippine Peso	30,689,629	76,551,131
US Dollar	41,216,427	42,027,726
	938,044,462	801,230,396
Unamortized bond premiums, net	2,409,503	2,094,960
	940,453,965	803,325,356

Debt securities are in the form of treasury bonds and notes.

The Company's held-to-maturity securities earn interest rates (in %) as follows:

	2020	2019
Debt securities		
Philippine Peso	1.65 - 6.38	3.25 - 7.38
US Dollar	1.00 - 7.38	2.97 - 6.98
Corporate bonds	2.44 - 7.82	3.03 - 7.82
Time deposits	0.16 - 3.52	0.13 - 5.00

Interest income earned from held-to-maturity securities is presented in Note 12.

The maturity profile of the Company's held-to-maturity securities at December 31 is as follows:

	2020	2019
Short-term (within one year)	287,870,287	263,090,504
Medium-term (more than one year to five years)	529,631,817	387,749,170
Long-term (more than five years)	122,951,861	152,485,682
	940,453,965	803,325,356

As at December 31, 2020, government securities, classified as held-to-maturity securities with face amount of P231,879,000 (2019 - P261,436,706) are deposited with the IC in accordance with the provisions of the Insurance Code for the benefit of policyholders and creditors of the Company.

Note 6 - Insurance liabilities and reinsurance assets

The account at December 31 consists of:

	2020	2019
Reserve for outstanding losses		
Reported claims	330,449,834	357,063,990
Incurred but not yet reported (IBNR) claims, gross of reinsurance	45,145,030	46,028,977
Losses and claims payable	375,594,864	403,092,967
Reserve for unearned premiums	275,907,232	325,584,159
Total insurance liabilities	651,502,096	728,677,126
Reinsurance recoverable on unpaid losses	232,966,817	251,379,557
Deferred reinsurance premiums	135,576,990	154,543,644
Total reinsurance assets	368,543,807	405,923,201
Insurance liabilities, net	282,958,289	322,753,925

The maturity profile of the Company's insurance liabilities is disclosed in Note 21.2.3.

Deferred reinsurance premiums and deferred acquisition costs, net are recoverable and to be applied in the next 12 months.

The movements in the insurance liabilities and reinsurance assets at December 31 are shown below:

	2020			2019		
(Amounts in thousands)	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Reported claims	357,064	251,380	105,684	361,061	236,037	125,024
IBNR claims	46,029	-	46,029	4,091	-	4,091
Balances at January 1	403,093	251,380	151,713	365,152	236,037	129,115
Claims and loss adjustment expenses						
Cash paid for claims settled during the year	184,420	83,485	100,935	383,684	213,752	169,932
Decreases in liabilities arising from current year claims	(211,918)	(101,898)	(110,020)	(345,743)	(198,409)	(147,334)
	(27,498)	(18,413)	(9,085)	37,941	15,343	22,598
Balances at December 31	375,595	232,967	142,628	403,093	251,380	151,713

The Company utilizes reinsurance agreements to minimize its exposure to large losses in all aspects of its insurance business. Reinsurance permits recovery of a portion of losses from the reinsurer. However, it does not discharge the primary liability of the Company as direct insurer of the risk reinsured.

As disclosed in Note 22.6.8, the Company sells damaged property (salvage) or pursues third parties for some or all of the costs (subrogation). These are deducted from claims and losses. The Company's total salvage and subrogation reimbursements for the year ended December 31, 2020 amount to P2,298,814 (2019 - P1,916,685).

Movements in reserve for unearned premiums, net, at December 31 follow:

	2020			2019		
(Amounts in thousands)	Gross	Reinsurance	Net	Gross	Reinsurance	Net
At January 1	325,584	154,544	171,040	276,135	114,981	161,154
Increase (decrease) during the year	(49,677)	(18,967)	(30,710)	49,449	39,563	9,886
At December 31	275,907	135,577	140,330	325,584	154,544	171,040

Movements in deferred acquisition costs, net, at December 31 follow:

	2020	2019
At January 1	106,315,107	86,225,114
Costs deferred during the year	100,855,290	106,315,107
Amortization during the year	(106,315,107)	(86,225,114)
At December 31	100,855,290	106,315,107

Amortization of deferred acquisition costs is presented as part of commissions and other underwriting expenses in the statement of total comprehensive income.

The Company considers commissions paid to agents and reinsurers as part of its acquisition costs and deducts commissions received from cedants under its reinsurance business, subject to the same amortization method as the related acquisition costs (Note 22.6.4).

Note 7 - Investment property, net

The movements of the account at December 31 are as follows:

	Land	Condominium units and parking lots	Total
Cost			
Balances at December 31, 2019 and 2020	2,288,822	43,890,250	46,179,072
Accumulated depreciation			
Balances at January 1, 2019	-	27,850,361	27,850,361
Depreciation	-	1,755,610	1,755,610
Balances at December 31, 2019	-	29,605,971	29,605,971
Depreciation	-	1,755,610	1,755,610
Balances at December 31, 2020	-	31,361,581	31,361,581
Net book value			
December 31, 2019	2,288,822	14,284,279	16,573,101
December 31, 2020	2,288,822	12,528,669	14,817,491

Rental income derived from these properties for the year ended December 31, 2020 amounts to P5,619,562 in the statement of total comprehensive income (2019 - P6,211,905). Expenses incurred in relation to the Company's investment properties, which mainly relate to association dues, amount to P1,663,626 for the year ended December 31, 2020 (2019 - P1,391,341).

Investment properties consist of land and four (4) condominium units located in Makati City and one (1) office condominium in Pasig City. The total fair market value of the real properties is at P110,621,000 as at December 31, 2020 (2019 - P107,762,222), based on the latest appraisal report submitted by an independent asset valuation expert.

On May 4, 2021, the Company submitted a letter to the IC seeking approval to recognize its investment property at fair value and include the revaluation surplus as part of its net worth to further strengthen its capital build up plan (Note 21.3.1).

The above fair value fall under Level 2 of the fair value hierarchy.

Note 8 - Property and equipment, net

The account at December 31 consists of:

	Building	EDP equipment	Leasehold improvements	Transportation equipment	Furniture, fixture and office equipment	Office premise	Total
Cost							
At January 1, 2019	25,510,250	2,522,762	9,372,981	4,988,191	3,890,765	2,671,244	48,956,193
Additions	-	1,697,194	135,689	1,560,000	45,604	-	3,438,487
At December 31, 2019	25,510,250	4,219,956	9,508,670	6,548,191	3,936,369	2,671,244	52,394,680
Additions	-	1,457,789	-	1,017,321	3,001	3,162,863	5,640,974
Retirement	-	(375,078)	(5,282,518)	(778,200)	(1,675,718)	(2,671,244)	(10,782,758)
At December 31, 2020	25,510,250	5,302,667	4,226,152	6,787,312	2,263,652	3,162,863	47,252,896
Accumulated depreciation							
At January 1, 2019	22,687,875	1,155,002	7,637,944	3,386,709	2,729,251	-	37,596,781
Depreciation and amortization	940,741	564,875	1,179,726	1,067,179	506,472	1,526,425	5,785,418
At December 31, 2019	23,628,616	1,719,877	8,817,670	4,453,888	3,235,723	1,526,425	43,382,199
Depreciation and amortization	1,047,385	866,569	225,198	919,832	337,159	1,540,177	4,936,320
Retirement	-	(375,078)	(5,282,518)	(778,200)	(1,675,718)	(2,671,244)	(10,782,758)
At December 31, 2020	24,676,001	2,211,368	3,760,350	4,595,520	1,897,164	395,358	37,535,761
NET BOOK VALUE							
December 31, 2019	1,881,634	2,500,079	691,000	2,094,303	700,646	1,144,819	9,012,481
December 31, 2020	834,249	3,091,299	465,802	2,191,792	366,488	2,767,505	9,717,135

Depreciation and amortization is included as part of occupancy and equipment-related costs in the statement of total comprehensive income.

Note 9 - Deferred income taxes, net

The significant components of deferred income tax assets and liabilities at December 31 are as follows:

	2020	2019
Deferred income tax assets		
Reserve for unearned premiums, net	42,099,073	51,312,155
Unrealized foreign exchange loss	5,897,054	4,379,249
Allowance for impairment	465,900	465,900
IBNR, net	265,184	5,131,687
Retirement benefit obligation	-	3,396,464
Total deferred income tax assets	48,727,211	64,685,455
Deferred income tax liabilities		
Deferred acquisition cost, net	30,256,587	31,894,532
Retirement benefit asset	4,992,557	-
Unrealized fair value loss in available-for-sale securities	3,734,721	844,592
Leases (PFRS 16)	71,814	59,952
Total deferred income tax liabilities	39,055,679	32,799,076
Deferred income tax assets, net	9,671,532	31,886,379

The movements in the deferred income tax account at December 31 are summarized as follows:

	2020	2019
At January 1	31,886,379	21,541,442
Amounts credited (charged) to profit or loss	(18,771,739)	11,158,784
Amounts (charged) credited to other comprehensive income	(3,443,108)	(813,847)
At December 31	9,671,532	31,886,379

The deferred tax credited (charged) to profit or loss comprises the following temporary differences at December 31:

	2020	2019
Reserve for unearned premium	(9,213,082)	2,965,932
Unrealized foreign exchange loss	1,517,805	9,564,803
IBNR	(4,866,503)	3,904,536
Deferred acquisition cost	1,637,945	(6,026,998)
Retirement benefit obligation	(7,836,042)	810,463
Leases (PFRS 16)	(11,862)	(59,952)
	(18,771,739)	11,158,784

Note 10 - Accounts payable and other liabilities

The account at December 31 consists of:

	Notes	2020	2019
Accounts payable		80,588,272	63,058,969
Accrued expenses	14	20,373,260	2,363,566
Taxes payable		14,557,218	17,655,354
Deferred output VAT		11,352,752	6,423,852
Dividend payable	11	8,384,912	8,384,912
Miscellaneous fees payable		5,435,034	5,626,999
Lease liability	18	2,528,126	944,980
Retirement benefit obligation	14	-	10,229,473
Others		1,189,787	1,138,248
		144,409,361	115,826,353

Accounts payable includes overpayment of premium receivables.

Accrued expenses in 2020 include accruals of benefits due to retired employees in 2020.

Taxes payable is comprised of documentary stamp taxes payable, output value-added tax (VAT), withholding taxes payable and local and national taxes due.

Miscellaneous fees payable pertains to amounts collected from motor car insurance holders for compulsory third party liability, and authentication and other registration costs to Land Transportation Office which will be subsequently paid to the appropriate agencies.

Other liabilities pertain mainly to employee-related benefit payables such as contributions to SSS, Philhealth and HDMF.

The maturity profile of the Company's accounts payable and other liabilities is disclosed in Note 21.2.3.

Taxes payable are expected to be settled in the next 12 months.

Note 11 - Share capital

Details of the account at December 31 follow:

	2020		2019	
	Number of shares	Amount	Number of shares	Amount
Authorized, at P100 par value per share	4,000,000	400,000,000	4,000,000	400,000,000
Subscribed shares				
Balance, beginning of the year	3,500,000	350,000,000	3,500,000	350,000,000
Subscription during the year	-	-	400,000	40,000,000
Less: Subscription receivable	-	-	(400,000)	(40,000,000)
Issued and outstanding shares	3,500,000	350,000,000	3,500,000	350,000,000

On December 29, 2019, the shareholders initially agreed to subscribe additional 400,000 shares at P100 par value amounting to P40 million but the contributions which were fully paid on February 28, 2020 were eventually set aside by the shareholders as a contingency surplus to support their capital build-up plan and to cover any possible impairment in the Company's net worth consistent with the P1.3 billion net worth requirement at the end of 2022 under the amended Code.

Contributed surplus represents additional capital contribution from shareholders to demonstrate the commitment and strong support of shareholders to the local operations. Such amount is presented as part of contributed surplus in accordance with the guidelines of the IC.

As disclosed in Note 21.4, the Company is subject to externally imposed capital requirement by the IC.

Retained earnings

As at December 31, 2020 and 2019, the Company has excess retained earnings over its paid-up capital.

In 2008, the SEC issued Memorandum Circular No. 11 providing the guidelines in determining the appropriate amount of retained earnings available for dividend distribution taking into consideration the effective accounting standards and rules of the SEC. Stock corporations are prohibited from retaining surplus profits in excess of 100% of their paid-in capital.

On October 3, 2019, the SEC published the Revised SRC Rule 68 which prescribed the required schedule of the Reconciliation of Retained Earning for Dividend Declaration.

BIR Revenue Regulations No. 2-2001 provides that insurance companies are exempted from the 10% improperly accumulated earnings tax imposed on improperly accumulated taxable income.

Section 201 of the amended Code provides that no domestic insurance corporation shall declare or distribute any dividend on its outstanding stocks unless it has met the minimum paid-up capital and net worth requirements of the amended Code.

As at December 31, 2020, the Company plans to retain the excess retained earnings over its paid-up capital of P392,642,402 (2019 - P258,437,990) for the following:

- As an additional reserve for future contingencies, especially for catastrophe losses;
- To comply with the more robust Risk Based Capital ("RBC") and reserving requirements implemented by the IC effective January 1, 2017.

Management will continue to evaluate the plans to retain the excess retained earnings over its paid-up capital after considering the amended regulatory capital requirements of the IC on fixed capitalization and RBC2 framework.

Cash dividend (Note 10)

- In 2012, the Company declared P10 million cash dividend (P2.86 per share) to its shareholders which was settled partially in 2013. As at December 31, 2020 and 2019, dividends payable amounting to P3,065,188 remained outstanding.
- In 2013, the Company declared another cash dividend amounting to P17.5 million (P5.00 per share) to its shareholders, which was settled partially in 2014. As at December 31, 2020 and 2019, dividends payable amounting to P710,622 remained outstanding.
- In 2014, the Company declared P15 million cash dividend (P4.29 per share) to its shareholders which was partially settled in 2016. As at December 31, 2020 and 2019, dividends payable amounting to P759,102 remained outstanding.
- In 2015, the Company declared P17.5 million cash dividend (P5.00 per share) to its shareholder which was partially settled in 2015. As at December 31, 2020 and 2019, dividends payable amounting to P1,225,000 remained outstanding.
- In 2017, the Company declared P17.5 million cash dividend (P5.00 per share) to its shareholders which was partially settled in 2018. As at December 31, 2020 and 2019, dividends payable amounting to P2,625,000 remained outstanding.

The movements in accumulated other comprehensive income (loss) for the years ended December 31 are as follows:

	2020	2019
At January 1	(283,750)	(2,182,727)
Net change in fair value of available-for-sale securities, net of tax	6,743,634	1,180,281
Remeasurement loss on retirement benefit obligation, net of tax	1,290,284	718,696
At December 31	7,750,168	(283,750)

Note 12 - Interest income

Details of interest income for the years ended December 31 are as follows:

	2020	2019
Cash and cash equivalents	6,665,210	9,662,441
Held-to-maturity securities		
Treasury bonds and notes		
Philippine Peso	6,811,003	12,491,255
US Dollar	10,842,243	11,985,761
Corporate bonds	16,483,572	6,423,399
Time deposits	1,686,822	4,404,146
	42,488,850	44,967,002

Note 13 - Salaries and employee benefits

The details of the account for the years ended December 31 are as follows:

	Note	2020	2019
Salaries and wages		32,260,763	31,867,557
Retirement benefit expense	14	2,635,348	2,974,565
Other employee benefits		9,259,955	17,054,508
		44,156,066	51,896,630

Other employee benefits pertain to payments to Health and Maintenance Organizations (HMO) providers, social security contributions and allowance and bonuses.

Note 14 - Retirement benefit obligation

The Company has a funded, non-contributory defined benefit plan providing death, disability, and retirement benefits for all its employees. The fund is being managed and administered by a financial institution on the basis of a duly executed trust agreement and governed by local regulations in the Philippines. Under the plan, qualified officers and employees are entitled to retirement benefits when they reach the normal retirement age of 60 years with an option for early retirement at 50 years of age provided that they have completed at least 10 years of continuous service. Normal and early retirement benefits consist of a lump sum benefit equivalent to one month's final pay for every year of service. The plan also provides late retirement, death, disability and voluntary separation benefits.

The Company's obligation under the defined benefit plan may significantly vary depending on a number of market, economic and demographic conditions, such as yields on government debt, return on plan assets invested in debt and equity securities as well as pooled funds, employee turnover and retiree mortality rates.

These risk factors may affect the Company's future cash outflows to fund its obligation, amounts of periodic benefit cost used in calculating net profit and remeasurement charges reported in other comprehensive income.

Following are the amounts based on the latest actuarial valuation as at December 31, 2020 and 2019 using the projected unit cost method.

Retirement benefit expense recognized as part of salaries and employee benefits in the statement of total comprehensive income for the years ended December 31 is as follows:

	2020	2018
Retirement benefit cost recognized in profit or loss		
Current service cost	2,137,172	2,365,038
Net interest cost	498,176	609,527
	2,635,348	2,974,565
Retirement benefit gain recognized in other comprehensive income		
Remeasurement gain - retirement benefit obligation	(1,587,877)	(1,509,048)
Remeasurement (gain) loss - plan assets	(255,386)	482,339
	(1,843,263)	(1,026,709)
Deferred tax effect	552,979	308,013
	(1,290,284)	(718,696)

Retirement benefit (asset) obligation as at December 31 is determined as follows:

	2020	2019
Present value of defined benefit obligation	36,755,590	46,910,279
Fair value of plan assets	(56,971,312)	(36,680,806)
Retirement benefit (asset) obligation	(20,215,722)	10,229,473

The movements in the present value of defined benefit obligation for the years ended December 31 are as follows:

	2020	2019
Beginning of year	46,910,279	46,253,983
Current service cost	2,137,172	2,365,038
Interest cost	2,284,531	3,404,293
Benefits due	(12,988,515)	(3,603,987)
Remeasurements		
Effect of changes in financial assumptions	544,983	(180,315)
Experience adjustments	(2,132,860)	(1,328,733)
End of year	36,755,590	46,910,279

The movements in the fair value of plan assets for the years ended December 31 are as follows:

	2020	2019
Beginning of the year	36,680,806	37,972,366
Interest income	1,786,355	2,794,766
Contributions	20,395,436	-
Remeasurement		
Return on plan assets, excluding amount recognized as interest	255,386	(482,339)
Benefits paid	(2,146,671)	(3,603,987)
End of year	56,971,312	36,680,806

Benefit due reported under the present value of defined benefit obligation in 2020 include benefits due to employees of the Company who have retired in 2020 but were subsequently paid in 2021. The Company has accrued for the benefits due which is included as part of accrued expenses under accounts payable and other liabilities (Note 10) in the statement of financial position.

The Company has no transactions with the plan other than the contributions and benefit payments presented above for the years ended December 31, 2020 and 2019.

The details of the plan assets at December 31 are as follows:

	2020	2019
Mutual funds and unit investment trust funds	56,971,312	36,680,539
Cash	-	267
	56,971,312	36,680,806

The carrying value of plan assets as at December 31, 2020 and 2019 is the same as its fair value. There are no plan assets invested in debt or equity securities of the Company or its related entity.

The movements in remeasurement losses on retirement benefit obligation, net of tax, presented as part of accumulated other comprehensive gain (loss) within equity for the years ended December 31 are as follows:

	2020	2019
Beginning of the year	(3,220,666)	(4,247,375)
Remeasurement gain - retirement benefit obligation	1,587,877	1,509,048
Remeasurement gain (loss) - plan assets	255,386	(482,339)
Total	(1,377,403)	(3,220,666)
Deferred tax effect	413,221	966,200
End of year	(964,182)	(2,254,466)

The principal actuarial assumptions used in determining the retirement benefit obligation for the years ended December 31 are shown below:

	2020	2019
Discount rate	3.69%	4.87%
Salary increase rate	3.00%	1.00%

Discount rate

The discount rate was determined in accordance with the Philippine Interpretations Committee (PIC) - approved Q&A 2008-01(Revised), which mandates that discount rates reflect benefit cash flows and use of zero-coupon rates, even though theoretically derived.

The reinvestment method was applied to the PH BVAL benchmark government bonds to arrive at the theoretical zero-coupon yield curve. These derived rates were then used to compute the present value of the expected future benefit cash flows across valuation years.

Finally, the single-weighted discount rate was calculated as the uniform discount rate that produced the same present value.

Future salary increases

This is the expected long-term average rate of salary increase taking into account inflation, seniority, promotion and other market factors. Salary increases comprise of the general inflationary increases plus a further increase for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period over which benefits are expected to be paid.

Demographic assumptions

Assumptions regarding future mortality and disability rates are based on published statistics generally used for local actuarial valuation purposes.

The defined benefit plan typically exposes the Company to a number of risks such as investment risk, interest rate risk and salary risk. The most significant of which relate to investment and interest rate risks. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. A decrease in government bond yields will increase the defined benefit obligation. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the Company. However, the Company believes that due to the long-term nature of the retirement benefit liability and the strength of the Company itself, the mix of debt and equity securities holdings of the plan under its mutual and unit investment trust funds is an appropriate element of the Company's long term strategy to manage the plan efficiently.

The Company ensures that the investment positions are managed within an asset-liability matching framework that has been developed to achieve long-term investments that are in line with the obligations under the plan. The Company's main objective is to match assets to the defined benefit obligation by investing primarily long-term debt securities which offer the best returns over the long term with an acceptable level of risk. The asset-liability matching is being monitored on a regular basis and potential change in investment mix is being discussed with the trustee bank, as necessary to better ensure the appropriate asset-liability matching.

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

Weighted average duration of the retirement benefit obligation is 19 years (2019 - 18 years).

The projected maturity analysis of undiscounted retirement benefit payments as at December 31 is as follows:

	2020	2019
Less than 1 year	2,387,076	14,418,755
1 to 5 years	13,969,848	14,216,846
6 to 10 years	13,833,116	8,004,799
11 to 20 years	14,658,314	23,431,428
Over 20 years	107,006,700	58,862,841

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions for the years ended December 31 is as follows:

2020	Change in assumption	Impact on pension liability	
		Increase in assumption	Decrease in assumption
Discount rate	0.50%	Decrease by 48,966	Increase by 239,110
Salary increase rate	1.00%	Increase by 641,315	Decrease by 256,498

2019	Change in assumption	Impact on pension liability	
		Increase in assumption	Decrease in assumption
Discount rate	0.50%	Decrease by P39,936	Increase by P47,049
Salary increase rate	1.00%	Increase by P104,134	Decrease by P75,925

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement benefit obligation recognized within the statement of financial position.

Note 15 - Provision for income tax

Provision for income tax for the years ended December 31 follows:

	Note	2020	2019
Current		28,181,791	29,812,880
Deferred	9	24,528,796	(11,158,784)
		52,710,587	18,654,096

Current tax expense for the year ended December 31, 2020 includes final tax amounting to P6,405,885 (2019 - P7,300,377).

A reconciliation of the provision for income tax computed at the statutory rate to the actual provision for income tax for the years ended December 31 follows:

	2020	2019
Income before income tax	187,414,999	75,129,087
Income tax calculated at 30%	56,224,500	22,538,726
Income subject to final tax rate, net	(3,088,097)	(2,593,995)
Tax-exempt income	(425,816)	(1,290,635)
Actual provision for income tax	52,710,587	18,654,096

Note 16 - Cash generated from operations

The details of cash generated from operations for the years ended December 31 are as follows:

	Notes	2020	2019
Income before income tax		187,414,999	75,129,087
Adjustments for:			
Unrealized foreign exchange loss	21	19,656,847	14,597,496
Depreciation	7,8	6,691,930	7,541,028
Loss on sale of available-for-sale securities	5	357,595	1,996,975
Retirement benefit expense	14	2,635,348	2,974,565
Interest expense	18	55,386	95,524
Interest income	12	(42,488,850)	(44,967,002)
Dividend income	5	(1,883,384)	(2,305,141)
Operating income before changes in operating assets and liabilities		172,439,871	55,062,532
Changes in operating assets and liabilities			
(Increase) decrease in:			
Receivables, net		(29,719,544)	35,813,418
Reinsurance recoverable on unpaid losses		16,767,180	(15,342,811)
Deferred reinsurance premiums		18,966,654	(39,562,375)
Deferred acquisition costs, net		5,459,817	(20,089,993)
Other assets		(6,046,485)	(2,613,297)
(Decrease) increase in:			
Losses and claims payable		(25,832,953)	37,940,986
Reserve for unearned premiums		(49,676,927)	49,448,812
Due to reinsurers and ceding companies		72,754,752	773,549
Funds held for reinsurers		(3,546,350)	5,644,119
Commissions payable		13,502,020	7,201,220
Accounts payable and other liabilities		26,387,491	34,254,561
Cash generated from operations		211,455,526	148,530,721

Note 17 - Related party transactions

In the ordinary course of business, the Company cedes reinsurance businesses under various reinsurance contracts (mainly treaty) with its related reinsurance companies.

Premiums paid to related party reinsurers are booked as reinsurance premiums ceded in profit or loss and the related payables are included as part of due to reinsurers and ceding companies in the statement of financial position. Commissions out of these reinsurance transactions are included as part of commissions earned and any outstanding uncollected commissions are offset with due to reinsurers and ceding companies.

The share of the related party reinsurer in incurred losses is included as part of reinsurance recoverable on unpaid losses or reinsurance recoverable on paid losses under net receivables in the statement of financial position.

Outstanding balances under treaty and facultative contracts with such related parties as at December 31 are as follows:

	2020	2019	Terms and conditions
Shareholders			
Reinsurance recoverable on paid losses	14,934,595	14,901,139	- Unsecured and unguaranteed - Non-interest bearing - Collectible in cash within 15 days after reinsurer's confirmation
Reinsurance recoverable on unpaid losses	3,936,650	5,403,944	- Unsecured and unguaranteed - Non-interest bearing - Collectible in cash at net within 15 days after reinsurer's confirmation
	18,871,245	20,305,083	
Due to reinsurers and ceding companies	(21,486,259)	(20,602,484)	- Unsecured and unguaranteed - Non-interest bearing - Payable in cash within 15 days after reinsurer's confirmation
Funds held for reinsurers	-	(1,048,786)	- Unsecured and unguaranteed - Non-interest bearing - Payable in cash at net within one year after the end of the quarter
	(21,486,259)	(21,651,270)	
	(2,615,014)	(1,346,187)	

Transactions under treaty and facultative contracts with such related parties for the years ended December 31 are as follows:

	2020	2019	Terms and conditions
Shareholders			
Reinsurance premiums ceded	-	2,621,965	- Represents premiums ceded out to reinsurers - Unsecured and unguaranteed - Due and demandable - Payable in cash at net amount
Losses and claims	7,662	955,531	- Represents share of reinsurers in incurred loss - Unsecured and unguaranteed - Due and demandable - Payable in cash at gross amount
Commissions earned	-	584,932	- Represents commissions earned from reinsurance - Unsecured and unguaranteed - Due and demandable - Payable in cash at net amount
	7,662	4,162,428	

The following table shows the transactions of the Company with its retirement fund for the years ended December 31:

	2020	2019	Terms and conditions
Contribution to the retirement fund	20,395,436	-	- Represents contributions made and benefits paid by the Company to and from its retirement fund
Benefits paid from the retirement fund	(2,146,671)	(3,603,987)	

The table below shows transactions and outstanding balances with the Company's key management personnel as at and for the years ended December 31:

	2020		2019		
	Transactions	Outstanding Balance	Transactions	Outstanding Balance	Terms and conditions
Advances	1,350,082	8,126,458	(5,401,801)	6,776,376	- Secured and guaranteed up to the amount of the officer's retirement benefit - Interest-bearing at 8% per annum - Collectible in cash over a period of one year or more through salary deduction
Salaries and other benefits	12,175,680	-	11,880,655	-	- Represents salaries and other benefits paid to key management personnel during the year - No provisions for termination, post-employment and other long-term benefits for key management personnel, except for such benefits to which they are entitled under the Company's retirement plan
Directors' fees	377,429	-	407,329	-	- Fees paid to directors during the year which are settled during the Board of Directors meeting

Note 18 - Contingencies and commitments

Contingencies

In the ordinary course of business, the Company, as plaintiff, is currently pursuing a number of collection-related cases against certain customers. Any asset or income arising from the ultimate resolution of these cases will be recognized when actual settlement is received or when collection is virtually certain.

Lease commitments

The Company has entered into various lease arrangements covering its office space and branches with terms ranging from one to two years.

The lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. The leased asset may not be used as security for borrowing purposes. Refundable deposits are collectible at the end of the lease term.

Details of right-of-use asset and lease liability at December 31 are as follows:

	2020	2019
Right-of-use assets (Note 8)		
Office premise	2,767,505	1,144,819
Lease liabilities (Note 10)		
Current	1,549,820	944,980
Non-current	978,306	-
	2,528,126	944,980

The movements in the lease liability for the years ended December 31 are as follows:

	2020	2019
As at January 1	944,980	2,413,747
Additions to lease liability	3,162,863	-
Interest accretion on lease liability	55,386	95,524
Payments during the year		
Principal portion of the lease liability	(1,579,717)	(1,468,767)
Interest expense on lease liability	(55,386)	(95,524)
As at December 31	2,528,126	944,980

The statement of total comprehensive income shows the following amounts relating to leases for the year ended December 31:

	2020	2019
Depreciation expense		
Office premise (Note 8)	1,540,177	1,526,425
Interest expense on lease liability	55,386	95,524
Expense relating to short-term leases (included in Occupancy and equipment-related expenses)	413,803	416,491

Note 19 - Subsequent event

On March 26, 2021, RA No. 11534, otherwise known as CREATE Act, was signed into law effective April 11, 2021. Among the salient provisions of CREATE include changes to the Corporate Income Tax (CIT) rates as follows:

- Reduction of corporate income tax (CIT) rate to 20% applicable to domestic corporations with total net taxable income not exceeding P5,000,000 and with total assets not exceeding P100 Million (excluding land on which the business entity's office, plant and equipment are situated);
- Reduction of CIT rate to 25% shall be applicable to all other corporations subject to regular CIT; and,
- Minimum Corporate Income Tax (MCIT) rate shall also be amended to 1%, instead of 2%, for the period beginning July 1, 2020 until June 30, 2023.

For financial reporting purposes, the enactment of CREATE after the reporting date is deemed a non-adjusting subsequent event. Had the new CIT rates been applied on the December 31, 2020 financial statements of the Company, the financial impact would have been as follows:

Increase (decrease) in:	Amount
Deferred tax assets, net	(805,961)
Total assets	(805,961)
Income tax payable	(2,294,414)
Total liabilities	(2,294,414)
Increase (decrease) in:	
Provision for income tax	(1,488,453)
Net income	1,488,453

Note 20 - Critical accounting estimate, assumptions and judgments

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimate, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

20.1 Critical accounting estimate and assumptions

Liability arising from claims made under insurance contracts (Note 6)

Management makes the best estimate of its insurance liability at reporting date using the adjuster's report and other available information relating to claims. However, 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. The major uncertainties are the frequency of claims due to the contingencies covered and the timing of benefit payments (Note 21.1).

The carrying value of losses and claims payable as at December 31, 2020 amounts to P375,594,864 (2019 - P403,092,967). IBNR claims, gross of reinsurance, as at December 31, 2020 amount to P45,145,030 (2019 - P46,028,977). Net losses and claims for the year ended December 31, 2020 amount to P91,849,151 (2019 - P192,529,940).

Sensitivity analysis is further disclosed in Note 21.1.7.

Unexpired risk reserves ("URR")

The Company calculates for the URR at 75^{th} level percentile of sufficiency using the best estimate of future claims and expenses for all classes of business, including margin for adverse deviation to address uncertainty in the estimate of unexpired risks. In order to arrive at the URR, the Unearned Premium Reserve ("UPR") for each class of business is multiplied by the expected loss ratio, adjusted for future expenses and Margin for Adverse Deviation ("MfAD").

The expected future claims include all claims which might occur during the unexpired period including: claims which are reported after the end of the unexpired exposure period, but have occurred within the unexpired exposure period; and claims which are reopened at any date, but have occurred within the unexpired exposure period. The expected future expenses include estimates of claims expenses and general policy maintenance expenses based on actual historical experience. The claims expense ratio is being applied to the gross unexpired risk reserves while the policy maintenance expense ratio is applied on the provision for unearned premiums.

The process of establishing liability estimates is subject to considerable variability as it requires the use of informed estimates and judgments. These estimates and judgments are based on numerous factors, and may be revised as additional experience becomes available or as regulations change. The Company takes all reasonable steps to ensure that it has appropriate information regarding its unexpired risk exposures.

Following the requirements of CL 2018-18, the Company's premium liabilities are based on the UPR values as at December 31, 2020 and 2019, as the UPR is significantly higher based on the assessment made by management. As such, the Company no longer presented the necessary sensitivities related to URR.

Estimated useful lives (EUL) of assets (Notes 7 and 8)

The useful life of each of the Company's property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of practices of similar businesses, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and 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 asset. It is possible however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment would increase the recorded operating expenses and decrease the carrying value of non-financial assets.

The sensitivity of depreciation expense to changes in estimated useful life of property and equipment as at December 31 follows:

	2020	2019
Increase by 10%	(482,414)	(230,257)
Decrease by 10%	589,617	665,018

The carrying value of the Company's property and equipment as at December 31, 2020 amounts to P9,717,134 (2019 - P9,012,481).

The Company reviews annually the EUL of the investment properties based on expected asset utilization and market behavior. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned.

The sensitivity of depreciation expense to changes in estimated useful life of investment properties as at December 31 follows:

	2020	2019
Increase by 10%	(159,601)	(159,601)
Decrease by 10%	195,068	195,068

The carrying value of investment properties amounts to P14,817,491 as at December 31, 2020 (2019 - P16,573,101).

Measurement of retirement benefit obligation (Note 14)

The determination of the Company's retirement benefit obligation at reporting date is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

In determining the appropriate discount rate, the Company considers the market yield of government bonds with terms to maturity approximating the terms of the retirement benefit obligation as well as the expected rate of return on plan assets based on the average historical earnings of the fund assets. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at reporting date. Other key assumptions for retirement benefit obligation are based in part on current market conditions.

While the Company believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect pension and other retirement obligations and employee benefits.

The sensitivity analyses for the significant actuarial assumptions are disclosed in Note 14.

Determination of incremental borrowing rate (Note 18)

The lease payments for lease of office premise are discounted using the lessee's incremental borrowing rate, being the rate that the Branch would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received as a starting point, adjusted to reflect changes in financing conditions since third party financing was received; or
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held which do not have recent third party financing, and
- makes adjustments specific to the lease, (e.g. term, currency and security).

The Company's weighted average incremental borrowing rate applied to the lease liability was 6.25% (2019- 5.88%). As at December 31, 2020, if the Company's incremental borrowing rate increased/decreased by 10% while holding all other assumptions constant, the Company's lease liabilities would be lower/higher by P10,727 and P10,658, respectively (2019 - P19,714 and P9,888, respectively).

20.2 Critical accounting judgments

Determination of lease term (Note 18)

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The Company's existing contract has enforceable extension option provisions.

Recoverability of receivables (Note 4)

The Company reviews its receivables at each reporting date to assess whether an allowance for impairment or write-off should be recorded. In these cases, management uses judgment based on the best available facts and circumstances, including but not limited to, the length of relationship with the counterparty and the counterparty's payment history. These also include factors, such as, but not limited to, age of balances and financial status of the counterparty. The amount and timing of recorded impairment losses for any period would therefore differ based on the judgments made. Based on management's assessment, there is no provision needed to be recognized on the Company's receivables for the years ended December 31, 2020 and 2019. Management did not identify any indications that these receivables will not be recovered.

Net receivables of the Company amount to P238,727,342 as at December 31, 2020 (2019 - P207,657,716). Allowance for impairment remained at P1,553,000 as at December 31, 2020 and 2019.

Impairment of available-for-sale and held-to-maturity securities (Note 5)

The Company determines that available-for-sale securities are impaired when there has been a significant or prolonged decline in the fair value below its cost for equity securities. For debt securities classified as available-for-sale and held-to-maturity, the Company first assesses at each reporting date whether an objective evidence of impairment exists. A financial asset or group of financial asset is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The determination of what is significant or prolonged decline or objective evidence of impairment requires judgment (Note 22.2.4). Impairment may be appropriate when there is an evidence of deterioration in the financial health and near-term business outlook of the investee or issuer, including factors such as industry and sector performance, changes in technology, and financing and operational cash flows.

As at December 31, 2020 and 2019, the Company believes, based on its assessment, that there is no required impairment on its available-for-sale and held-to-maturity securities.

Impairment of non-financial assets (Notes 7 and 8)

The Company's property and equipment and investment property are carried at cost less accumulated depreciation and amortization and impairment losses, if any. The carrying value is reviewed and assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Changes in those judgments could have a significant effect on the carrying value of the properties and the amount and timing of recorded provision for any period.

As at December 31, 2020 and 2019, management believes, based on its assessment, that there are no indications of impairment or changes in circumstances indicating that the carrying value of its property and equipment and investment property may not be recoverable.

Classification to held-to-maturity securities (Note 5)

The Company follows the guidance of PAS 39, *Financial Instruments: Recognition and measurement* in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Company evaluates its intention and ability to hold such investments to maturity. If the Company fails to keep these investments to maturity other than for the specific circumstances (for example, selling an insignificant amount close to maturity) it will be required to reclassify the entire class as available-for-sale securities. The investments would therefore be measured at fair value and not at amortized cost.

If the entire class of held-to-maturity investments is tainted, the carrying amount of investment would increase by P15,216,050 (2019 - P9,836,303), as a result of the fair value adjustment, with a corresponding entry in reserve for available-for-sale securities in the equity section of the statement of financial position.

Provision for income tax and recoverability of deferred income tax assets (Notes 9 and 15)

Significant judgment is required in determining the income tax expense. There are many transactions and calculations for which the ultimate tax determination is uncertain in the ordinary course of business.

The Company recognizes liabilities based on careful evaluation of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the Company's current and deferred income tax provisions in the period in which such determination is made. Further, recognition of deferred income taxes depends on management's assessment of the probability of available future taxable income against which the temporary difference can be applied. The components of deferred income tax are shown in Note 9.

The Company reviews at each reporting date the carrying amounts of DIT assets. The carrying amount of DIT assets is reduced to the extent that the related tax assets cannot be utilized due to insufficient taxable profit against which the deferred tax losses will be applied. The Company believes that sufficient taxable profit will be generated to allow all or part of the deferred income tax assets to be utilized.

Based on management's assessment and judgment, income tax expense for the year ended December 31, 2020 amounting to P52,710,587 is reasonable (2019 - P18,654,096).

Net deferred income tax assets amount to P9,671,532 as at December 31, 2020 (2019 - P31,886,379).

Note 21 - Insurance and financial risk and capital management

This section summarizes the Company's insurance and financial risks and the way the Company manages them, including the Company's capital management objectives.

21.1 Insurance risk

Insurance is a form of contract whereby periodic payments (also known as insurance premiums) are made to an insurance company, in order to provide an individual or business compensation in the event of property loss or damage. The risk under any one insurance contract is the uncertainty about an unfavorable outcome in a given situation. Insurance risk is an uncertainty over the likelihood of an insured event occurring, the quantum of the claim, or the time when claims payments will fall due.

The principal risk the Company is facing under insurance contracts is when the actual claims and benefit payments exceeds the carrying amount of the insurance liabilities. This could happen when there are numerous claims that occur in a particular period and the actual payment exceeds the estimated amount.

Factors that aggravate insurance risk include reduction in rates of premium, geographical location, and type of industry covered. One way of reducing insurance risk is by transfer and sharing of risk.

The Company has developed its insurance underwriting strategy to expand the type of insurance risk accepted in order to attain premium income growth and above-average underwriting profit.

21.1.1 Casualty insurance contracts

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. Estimated inflation is a significant factor due to the long period typically required to settle these cases. Another factor is the political and economic stability of the country which could result to numerous theft claims. The Company manages these risks through its well-designed underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography in order to spread possible losses fairly between the Company (retention) and the reinsurers.

Management continues to review the loss experience and premium payment record of existing agencies to identify and weed out the bad agencies and motivate the good agencies to produce more business.

Sources of uncertainty in the estimation of future claim payments

The claims outstanding provision is the estimated ultimate cost of all claims and the related claims handling expenses in respect of events up to the accounting date less amounts already paid.

The provision will relate to all events that have occurred up to the accounting date, whether or not the Company has been notified of the claims in question before the close of the accounting period. The latter category of claims is referred to as IBNR claims.

It is impossible for an insurance company to predict its outstanding claims provision with 100% accuracy. If understated, the Company may distribute assets or otherwise act in a way that could lead to severe financial problems, and possible insolvency, when claims come to be paid.

The provision for reported and IBNR claims are the Company's estimate of the amount which it will have to pay at reporting date.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures.

21.1.2 Property insurance contracts

Frequency and severity of claims

For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events (for example, flooding, typhoons, etc.) and their consequences.

Cost of rebuilding properties, replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm or flood damage.

The Company has the right to reprice the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. Moreover, it has the right not to accept a certain risk by not engaging in any form of hazardous enterprise at all. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claim payment limits are always included to cap the amount payable on occurrence of the insured event.

Sources of uncertainty in the estimation of future claims payments

Risk continue to be concentrated in the property business, particularly on the motor line. Treaty cession limits and underwriting strategies are being implemented to protect the Company and reinsurers from high exposures to possible losses. Property claims are analyzed separately for its exposures and risk accumulation.

This is estimated within the definition of the crest zone exposures. The shorter settlement period for these claims allows the Company to achieve a higher degree of certainty about the estimated cost of claims.

21.1.3 Marine insurance contracts

Frequency and severity of claims

All marine insurance policies issued are covered by the Company's reinsurance program. The Company sees to it that the name of the vessel is stated to determine whether the vessel is acceptable and to ensure that it is insuring a shipment that is loaded in a sea worthy vessel.

Sources of uncertainty in the estimation of future claims payments

For marine claims, it is the marine adjusters who make valuations and recommendations for the estimated loss reserves including direct expenses, subrogation value and recoveries that will be incurred in settling the claims. The Company sees to it that the underwriting guidelines in accepting a marine risk is being implemented to mitigate exposure to an amount which is beyond the Company's capacity to write involving one vessel.

21.1.4 Motor insurance contracts

Frequency and severity of claims

Motor insurance contracts are underwritten by placing underwriting limits to enforce appropriate risk selection criteria. For example, the Company has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (i.e., subrogation). All motor insurance policies issued are covered by a reinsurance program.

Sources of uncertainty in the estimation of future claim payments

Claims on motor insurance contracts are payable on a claims occurrence and claims made basis. The Company is liable for all insured events that occurred during the term of the contract.

The Company makes valuations and recommendations for the estimated loss reserves which include direct expenses to be incurred in settling claims, the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. The Actuary provides reasonable estimates of the ultimate cost of claims using the Company's past experience and recognized estimation techniques.

21.1.5 New valuation standards for insurance liabilities beginning January 1, 2017

On December 28, 2016, the IC, through its CL No. 2016-67, issued the New Valuation Standard for Insurance Policy Reserve with effect beginning January 1, 2017 and onwards. Among others, the New Valuation Standard for Insurance Policy Reserve provides for:

(i) the determination of premium liabilities based on the higher of UPR and the URR;
(ii) consideration of the claims handling expense ("CHE");
(iii) consideration of MfAD to allow for inherent uncertainty of the best estimate of policy reserve; and,
(iv) certification of an actuary on the calculation of the insurance policy reserve in accordance with the New Valuation Standard for Insurance Policy Reserve prescribed by the IC.

Beginning January 1, 2017, the initial year of implementation of the New Valuation Standard for Insurance Policy Reserve, the IC through its CL 2016-69 issued on December 28, 2016, has relaxed the valuation requirements in determining the Insurance Policy Reserve to consider:

(i) set up of premium liabilities using UPR alone, instead of the higher of UPR (net of DAC) and URR; and,
(ii) set up MfAD to zero, instead of company-specific MfAD.

On March 9, 2018, the IC, through its CL No. 2018-18, issued the New Valuation Standards for Non-life Insurance Policy Reserves and replaced CL No. 2016-67. Beginning January 1, 2018, among others, the new valuation standards provides for the determination of premium liabilities on an aggregate basis. A computation should be performed to determine whether an additional reserve is required to be booked on top of the UPR. Therefore, premium liabilities should be valued equal to the UPR plus the sum of the higher amount between the (1) URR and UPR, net of related DAC component, and (2) zero. UPR shall be calculated for all classes of business, on a gross of reinsurance basis while URR shall be calculated as the best estimate of future claims and expenses for all classes of business and with MfAD.

On the same date, IC issued its CL No. 2018-19 which amends certain provisions of CL No. 2016-69 as it relates to the calculation of MfAD. IC mandates that MfAD should be company-specific, and allows insurance entities to set MfAD as follows:

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

As at December 31, 2020 and 2019, the Company's UPR, net of DAC, is determined to be higher than the URR. As such, the Company did not require any additional provision in respect to the unearned premiums. Moreover, the Company has applied entity-specific MfAD for both claims and premiums liabilities, which is based on the bootstrapping method using the Company's own data at 75% sufficiency level for policy reserves.

21.1.6 Losses and claims payable

In 2017, the Company has adopted certain provisions of the Implementing Requirements for the New Valuation Standard for Insurance Policy Reserve through IC CL 2016-69 as its accounting policy for reserving, particularly the incorporation of MfAD and CHE in determining its claims obligation. The Company has engaged an external actuary in determining its Insurance Policy Reserve, who has considered actual historical claims data for the last 10 years, CHE of 2% and MfAD of 0%.

The Company has applied entity-specific MfAD at 100% of claims and premiums liabilities, which is based on the Stochastic Chain Ladder method using the Company's own data at 75% sufficiency level for policy reserves. Entity-specific CHE assumption, on the other hand, is computed at the best estimate of IBNR and outstanding claims while policy maintenance expenses is computed ay one-third of the Company's general and administrative expenses.

This resulted to the recognition of additional claims reserve as at December 31, 2020 of nil (2019 - P23.0 million).

21.1.7 Sensitivities

The general insurance claims provision is sensitive to the Company's past claims development experiences. The sensitivity of certain variables like legislative change, uncertainty in the estimation process, etc., is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claims provisions are not known with certainty at the reporting date.

Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessments of the ultimate liabilities are recognized in subsequent financial statements.

Following the Company's adoption of certain provisions of the new valuation standards on insurance policy reserve, the analysis below is performed for a reasonable possible movement in key assumption with all other assumptions held constant, on income and 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. It should also be stressed that these assumptions are non-linear and larger or smaller impacts cannot easily be gleamed from these results.

The key assumptions considered in the sensitivity analysis are as follows:

- 12-24 month Loss Development Factor (LDF)
- Initial Loss and Allocated Loss Adjustment Expenses (ALAE) Ratios

The LDF is used to estimate the ultimate losses under the Incurred Chain Ladder/Development Approach and Paid Chain Ladder Development approach. The LDF is based on the Company's historical loss experience supplemented with industry loss triangles.

Initial loss and ALAE Ratios are used to estimate the ultimate loss under Bornhuetter-Ferguson Incurred Approach and Bornheutter-Ferguson Paid Approach.

Based on CL No. 2016-67, *Valuation Standards for Non-life Insurance Policy Reserves*, standard actuarial projection techniques, or combination of which, include but not limited to the chain ladder method, the expected loss ratio approach and the Bornheutter-Ferguson method.

To show the sensitivity of this assumption, the impact of changing LDF and Initial and ALAE ratios by 10% as at December 31 is shown in the table below.

2020	Change in assumption	% impact on claims liability Gross	Net
Loss Development Factor	+10%	+28.03%	+15.51%
	-10%	-14.15%	-12.14%
Initial Loss and ALAE Ratio	+10%	+6.92%	+6.67%
	-10%	-6.92%	-6.59%

2019	Change in assumption	% impact on claims liability Gross	Net
Loss Development Factor	+10%	+6.40%	+2.97%
	-10%	-1.16%	-0.43%
Initial Loss and ALAE Ratio	+10%	+0.49%	+0.46%
	-10%	-0.39%	-0.32%

Loss development triangle

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

Gross reinsurance basis

As at December 31, 2020

	Accident Year						
Year of Payment	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
2013 and prior	3,510,730,579	1,205,007,504	1,195,995,064	1,194,662,062	1,202,525,751	1,206,329,167	1,206,295,920
2014	233,415,444	196,067,852	185,410,598	182,811,609	182,413,584	182,196,062	181,197,935
2015	-	202,707,922	210,242,766	199,949,061	184,186,427	183,820,173	182,128,224
2016	-	-	226,398,519	208,624,564	200,577,402	200,897,625	197,830,924
2017	-	-	-	233,689,130	209,707,661	207,633,386	200,251,936
2018	-	-	-	-	443,885,767	442,076,474	431,559,988
2019	-	-	-	-	-	380,030,344	334,618,090
2020	-	-	-	-	-	-	226,905,697
Cumulative estimate of claim	3,744,146,023	1,603,783,278	1,818,046,947	2,019,736,426	2,423,296,592	2,802,983,231	2,960,788,714
Cumulative payments to date	2,794,192,961	1,365,007,460	1,521,821,462	1,759,696,159	2,062,235,115	2,445,919,241	2,630,338,880
Liability recognized in the statement of financial position	949,953,062	238,775,818	296,225,485	260,040,267	361,061,477	357,063,990	330,449,834
IBNR claims, gross of reinsurance							45,145,030
Reserve for outstanding losses, net (Note 6)							375,594,864

As at December 31, 2019

Year of Payment	Accident Year 2013	2014	2015	2016	2017	2018	2019
2012 and prior	2,116,006,520	943,438,558	994,440,637	998,416,603	990,926,990	998,808,481	1,000,268,602
2013	232,428,496	218,857,005	210,566,867	197,578,461	203,735,072	203,717,271	206,060,565
2014	-	233,415,444	196,067,852	185,410,598	182,811,609	182,413,584	182,196,062
2015	-	-	202,707,922	210,242,766	199,949,061	184,186,427	183,820,173
2016	-	-	-	226,398,519	208,624,564	200,577,402	200,897,625
2017	-	-	-	-	233,689,130	209,707,661	207,633,386
2018	-	-	-	-	-	443,885,766	442,076,474
2019	-	-	-	-	-	-	380,030,344
Cumulative estimate of claim	2,348,435,016	1,395,711,007	1,603,783,278	1,818,046,947	2,019,736,426	2,423,296,592	2,802,983,231
Cumulative payments to date	1,620,318,397	1,173,874,564	1,365,007,460	1,521,821,459	1,759,696,159	2,062,235,115	2,445,919,241
Liability recognized in the statement of financial position	728,116,619	221,836,443	238,775,818	296,225,488	260,040,267	361,061,477	357,063,990
IBNR claims, gross of reinsurance							46,028,977
Reserve for outstanding losses, net (Note 6)							403,092,967

Net reinsurance basis

As at December 31, 2020

Year of Payment	Accident Year 2014	2015	2016	2017	2018	2019	2020
2013 and prior	1,397,753,791	493,478,960	486,813,072	488,840,426	494,847,150	497,397,447	496,911,540
2014	133,410,276	106,655,012	100,476,926	101,098,872	100,548,018	100,454,157	99,453,121
2015	-	147,431,447	121,876,508	120,980,300	118,653,177	118,543,669	116,854,126
2016	-	-	156,044,616	144,197,807	140,729,888	141,270,628	138,232,311
2017	-	-	-	167,876,947	158,231,877	159,052,225	151,947,017
2018	-	-	-	-	182,758,686	186,273,477	181,201,306
2019	-	-	-	-	-	172,296,531	179,342,969
2020	-	-	-	-	-	-	99,913,648
Cumulative estimate of claim	1,531,164,067	747,565,419	865,211,122	1,022,994,352	1,195,768,796	1,375,288,134	1,463,856,038
Cumulative payments to date	1,243,762,245	636,283,390	753,119,260	904,471,075	1,070,744,065	1,240,680,346	1,341,611,860
Liability recognized in the statement of financial position	287,401,822	111,282,029	112,091,862	118,523,277	125,024,731	134,607,788	122,244,178
IBNR claims, net of reinsurance							20,383,869
Reserve for outstanding losses, net (Note 6)							142,628,047

As at December 31, 2019

Year of Payment	Accident Year 2013	2014	2015	2016	2017	2018	2019
2012 and prior	767,029,945	382,391,856	378,686,953	375,402,145	377,956,921	383,939,688	384,070,095
2013	127,494,723	120,837,267	114,792,007	111,410,926	110,883,504	110,907,463	113,324,351
2014	-	133,410,276	106,655,012	100,476,926	101,098,872	100,548,018	100,454,157
2015	-	-	147,431,447	121,876,508	120,980,300	118,653,177	118,543,669
2016	-	-	-	156,044,616	144,197,807	140,729,888	141,270,628
2017	-	-	-	-	167,876,947	158,231,877	159,052,225
2018	-	-	-	-	-	182,758,686	186,273,477
2019	-	-	-	-	-	-	172,296,531
Cumulative estimate of claim	894,524,668	636,639,399	747,565,419	865,211,121	1,022,994,351	1,195,768,797	1,375,285,133
Cumulative payments to date	716,790,158	526,972,088	636,283,390	753,119,260	904,471,074	1,070,744,066	1,240,677,345
Liability recognized in the statement of financial position	177,734,510	109,667,311	111,282,029	112,091,861	118,523,277	125,024,731	134,607,788
IBNR claims, net of reinsurance							17,105,622
Reserve for outstanding losses, net (Note 6)							151,713,410

21.1.8 Reserve for unearned premiums

The determination of the Company's reserve for unearned premium balance as at December 31 following the requirement of CL No. 2018-18 (Note 21.1.5) is shown below:

		2020			2019		
	Note	Gross	Reinsurance	Net	Gross	Reinsurance	Net
UPR		275,907,232	135,576,990	140,330,242	325,584,159	154,543,644	171,040,515
Add: The higher of (a) or (b),							
(a) (1) URR (with MfAD), less		114,232,214	60,004,512	54,227,702	161,407,458	72,780,968	88,626,490
(2) UPR, net of DAC		154,142,760	114,667,808	39,474,952	192,342,539	127,617,131	64,725,408
		(39,910,546)	(54,663,296)	14,752,750	(30,935,081)	(54,836,163)	23,901,082
(b)Zero		-	-	-	-	-	-
Reserve for unearned premiums	6	275,907,232	135,576,990	140,330,242	325,584,159	154,543,644	171,040,515

The Company's UPR, net of DAC, is determined to be higher than the URR. As such, the Company did not require any additional provision for premium liability as the actuarial estimate of URR is less than the Company's UPR, net of DAC.

21.2 Financial risk

The Company is exposed to financial risk through its financial assets and financial liabilities. The most important components of this financial risk are market risk, credit risk and liquidity risk.

21.2.1 Market risk

Interest rate risk

This is the type of risk that the Company primarily faces due to the nature of its financial assets and liabilities. The interest rate risk is the only financial risk that has a materially different impact across the assets and liabilities categorized in the Company's asset liability management framework.

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

Given that the Company's debt securities classified as held-to-maturity are carried at amortized cost and have fixed interest rates, these are not exposed to fair value and cash flow interest rate risks.

Foreign currency risk

The insurance business of the Company is mostly denominated in local currency.

Currency exposures arise primarily from the holding of monetary assets and liabilities denominated in US Dollar. The Company does not enter into derivatives to manage foreign currency risks.

The Company's foreign currency assets and liabilities denominated in US Dollars as at December 31 are as follows:

	Notes	2020	2019
Assets			
Cash and cash equivalents	3		
Cash in banks		631,844	179,682
Time deposits		1,223,487	431,536
Available-for-sale securities	5	965,811	866,490
Held-to-maturity securities	5	5,595,000	6,423,882
Reinsurance recoverable on unpaid losses		630,000	630,000
Total assets		9,046,142	8,531,590
Liability			
Losses and claims payable		637,500	637,500
Net asset		8,408,642	7,894,090
Exchange rate		48.023	50.635
Peso equivalent		403,808,215	399,717,247

For the years ended December 31, the Company's foreign exchange loss (gain) are as follows:

	2020	2019
Unrealized foreign exchange loss	19,656,847	14,597,496
Realized foreign exchange loss (gain)	433,165	(79,101)
	20,090,012	14,518,395

A sensitivity analysis was performed on the US Dollar denominated assets and liabilities. The fluctuation rate is based on the historical movement of US Dollar year on year.

Year	Change in currency	Effect on net income and equity in Philippine Peso
2020	+/- 5.16%	+/- 14,585,553
2019	+/- 1.36%	+/- 3,805,308

Price risk

The Company is exposed to price risk in respect of listed equity securities classified as available-for-sale securities.

The Company manages such risk by setting and monitoring objectives and diversification plan.

Net change in fair value of available-for-sale equity securities for the years ended December 31, 2019 would change by P9,186,510 (2019 - P3,032,684) as a result of an increase/decrease of 32.54% (2019 - 14.47%) in market prices which is based on the average historical fluctuation in the stock price index year-on-year.

21.2.2 Credit risk

Credit risk management, risk limit and mitigation policies

(i) Insurance and reinsurance receivable balances

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or group of counterparties, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved annually by the Board of Directors.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. For facultative reinsurers, only approved companies are being used after taking into consideration their paying habit and reciprocal business.

Key areas where the Company is exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders; and
- amounts due from insurance intermediaries.

(ii) Available-for-sale and held-to-maturity debt securities and time deposits

One of the Company's primary investment objectives is to seek the preservation of its portfolio by mitigating the credit risk which is the risk of loss due to failure of the issuer to make good on its obligation when maturity becomes due. This is mitigated by investing in safe securities and diversifying its investment portfolio so that the failure of any one issuer would not materially affect the cash flow of the Company. Within the guidelines provided by the IC, the Company's Investment Committee ensures that the Company invests in allowable categories of investment instruments and provides limitation as to the percentage of the portfolio which can be invested in certain category. Presently, the Company has significant investments in government securities and time deposits with local banks.

For time deposits and debt securities, external ratings such as those provided by Philippine Rating Services Corporation (Philratings) and Standard & Poor (S&P) or their equivalent are used by the Company for managing credit risk exposures. Investments in these deposits and securities are viewed as a way to gain better credit quality mix and at the same time, maintain a readily available source to meet funding requirements.

(iii) Cash

The Company manages credit risk on its cash by depositing largely in universal banks.

(iv) Other receivables

The Company continuously monitors the financial health and status of its counterparties to ascertain that other receivables from these counterparties will be substantially collected on due date. Credit risk on receivables is assessed on an on-going basis.

Maximum exposure to credit risk

Credit risk exposures relating to financial assets at December 31 are as follows:

	2020	2019
Cash and cash equivalents (excluding cash on hand)	484,784,282	387,846,055
Receivable arising from insurance contracts		
Premium receivable	44,283,645	24,417,444
Reinsurance recoverable on paid losses	132,578,944	134,690,757
Due from reinsurers and ceding companies	21,537,668	9,652,490
Funds held by ceding companies	10,713,080	10,713,080
Other receivables		
Accounts receivable	21,455,265	21,306,685
Accrued interest income	8,039,891	8,311,411
Refundable deposits	69,700	69,700
Security fund	49,149	49,149
Available-for-sale securities	46,381,159	43,874,706
Held-to-maturity securities	940,453,965	803,325,356
Reinsurance recoverable on unpaid losses	232,966,817	251,379,557
	1,943,313,565	1,695,636,390

Credit quality of receivables arising from insurance contracts and other loans and receivables

Amounts in thousands	Neither past due nor impaired (1-30 days)	Past due but not impaired			Overdue and impaired	Total
		31-180 days	181-360 days	More than 360 days		
December 31, 2020						
Receivable arising from insurance contracts						
Premium receivable	7,335	19,024	11,250	5,122	1,553	44,284
Reinsurance recoverable on paid losses	5,240	14,125	9,409	103,805	-	132,579
Due from reinsurers and ceding companies	3,275	10,322	2,794	5,146	-	21,537
Funds held by ceding companies	-	-	-	10,713	-	10,713
Other loans and receivables						
Accounts receivable	482	4,448	1,490	15,035	-	21,455
Accrued interest income	1,236	414	40	6,350	-	8,040
Refundable deposits	70	-	-	-	-	70
Security fund	49	-	-	-	-	49
Reinsurance recoverable on unpaid losses	233,967	-	-	-	-	233,967
	251,654	48,333	24,983	146,171	1,553	472,694

Amounts in thousands	Neither past due nor impaired (1-30 days)	Past due but not impaired 31-180 days	181-360 days	More than 360 days	Overdue and impaired	Total
December 31, 2019						
Receivable arising from insurance contracts						
Premium receivable	1,806	13,389	5,245	2,424	1,553	24,417
Reinsurance recoverable on paid losses	6,578	40,931	7,997	79,185	-	134,691
Due from reinsurers and ceding companies	7,928	668	1,026	30	-	9,652
Funds held by ceding companies	604	2,392	3,582	4,135	-	10,713
Other loans and receivables						
Accounts receivable	592	1,859	2,166	16,690	-	21,307
Accrued interest income	756	5,769	1,786	-	-	8,311
Refundable deposits	70	-	-	-	-	70
Security fund	49	-	-	-	-	49
Reinsurance recoverable on unpaid losses	251,379	-	-	-	-	251,379
	269,762	65,008	21,802	102,464	1,553	460,589

The credit quality of receivables can be assessed by reference to historical information about the counterparties' default rates. Currently, there is no history of default for these counterparties, and, hence, no impairment needs to be recognized on these receivables, other than those receivables which were classified under overdue and impaired category which have been fully provided for.

Receivables from insurance and reinsurance contracts and other loans and receivables which are neither past due nor impaired are assessed to be collectible and that no impairment indicators exist for such items.

As at December 31, 2020, receivables from insurance and reinsurance contracts and other loans and receivables of P219,490 thousand (2019 - P189,274 thousand) are past due but not impaired. These relate to a number of independent counterparties for whom there is no recent history of default.

As at December 31, 2020 and 2019, allowance for impairment on premium receivable amounts to P1,553,000.

Credit quality of cash and cash equivalents, available-for-sale securities and held-to-maturity securities

	A+ to AAA*	BBB- to BB+**	Camel3***	Unrated****	Total
December 31, 2020					
Available-for-sale securities	46,381,159	-	-	-	46,381,159
Held-to-maturity securities					
Treasury bonds and notes					
Philippine Peso	467,302,107	-	-	-	467,302,107
US Dollar	63,314,340	207,731,962	-	-	271,046,302
Corporate bonds	128,199,500	2,000,000	-	-	130,199,500
Short-term time deposits	52,129,505	13,346,765	6,429,786	-	71,906,056
	710,945,452	223,078,727	6,429,786	-	940,453,965
Cash and cash equivalents					
Universal bank	62,269,010	224,399,488	7,108,916	-	293,777,414
Commercial bank	716,919	160,930,761	-	323,897	161,971,577
Thrift bank	3,001,358	24,965,071	-	496,816	28,463,245
Rural bank	-	-	-	572,046	572,046
	65,987,287	410,295,320	7,108,916	1,392,759	484,784,282

	A+ to AAA*	BBB- to BB+**	Camel3***	Unrated****	Total
December 31, 2019					
Available-for-sale securities	43,874,706	-	-	-	43,874,706
Held-to-maturity securities					
Treasury bonds and notes					
Philippine Peso	283,648,142	-	-	-	283,648,142
US Dollar	53,768,851	231,629,706	-	-	285,398,557
Corporate bonds	100,699,800	14,000,000	-	1,000,000	115,699,800
Short-term time deposits	71,438,112	47,140,745	-	-	118,578,857
	509,554,905	292,770,451	-	1,000,000	803,325,356
Cash and cash equivalents					
Universal bank	40,442,446	166,351,107	6,711,135	-	213,504,688
Commercial bank	1,448,503	139,956,236	-	322,725	141,727,464
Thrift bank	9,004,291	22,962,941	-	494,800	32,462,032
Rural bank	-	-	-	151,871	151,871
	50,895,240	329,270,284	6,711,135	969,396	387,846,055

** Based on Philratings*
*** Based on Standard & Poor's rating*
**** Based on CAMELS rating*
****Unrated short-term deposits and cash and cash equivalents are issued by local commercial, thrift and rural banks.*

The credit quality of cash and cash equivalents is based on the Bangko Sentral ng Pilipinas classification of banks operating in the Philippines. To minimize credit risk, the Company invests only in financial institutions which are reputable and in good credit standing.

Philratings and Standard & Poor's are reputable credit rating agencies used in the market to determine credit risk of local and international companies respectively.

Unrated counterparties have no history of default and hence, no provisions are required.

21.2.3 Liquidity risk

The Company is exposed to daily calls on its available cash resources mainly from claims arising from short-term insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The IC as well as the Board of Directors have issued certain guidelines to comply with to ensure that the Company maintains liquidity at all times.

The amounts disclosed in the table are the expected undiscounted cash flows of assets and liabilities, which the Company uses to manage the inherent liquidity risk.

Amounts in thousands	Up to one year	Over one year	Total
December 31, 2020			
Assets			
Cash and cash equivalents	512,445	-	512,445
Receivables arising from insurance contracts			
Premium receivable	37,609	6,675	44,284
Reinsurance recoverable on paid losses	28,774	103,805	132,579
Due from reinsurers and ceding companies	16,392	5,146	21,538
Funds held by ceding companies	-	10,713	10,713
Other loans and receivables			
Accounts receivable	6,420	15,035	21,455
Accrued interest income	8,040	-	8,040
Refundable deposits	70	-	70
Security fund	49	-	49
Available-for-sale securities	76,171	-	76,171
Held-to-maturity securities	287,870	652,584	940,454
	973,840	793,958	1,767,798
Liabilities			
Losses and claims payable	201,029	174,566	375,595
Due to reinsurers and ceding companies	250,130	19,570	269,700
Funds held for reinsurers	43,492	-	43,492
Commissions payable	31,000	-	31,000
Accounts payable and other liabilities (excluding tax-related payables)	74,999	43,500	118,499
	600,650	237,636	838,286
Net assets	373,190	556,322	929,512

Amounts in thousands	Up to one year	Over one year	Total
December 31, 2019			
Assets			
Cash and cash equivalents	421,422	-	421,422
Receivables arising from insurance contracts			
Premium receivable	11,692	11,172	22,864
Reinsurance recoverable on paid losses	55,506	79,185	134,691
Due from reinsurers and ceding companies		9,652	9,652
Funds held by ceding companies	6,578	4,135	10,713
Other loans and receivables			
Accounts receivable	4,617	16,690	21,307
Accrued interest income	8,311	-	8,311
Refundable deposits	70	-	70
Security fund	49	-	49
Available-for-sale securities	66,387	-	66,387
Held-to-maturity securities	263,090	540,235	803,325
	837,722	661,069	1,498,791
Liabilities			
Losses and claims payable	122,105	280,988	403,093
Due to reinsurers and ceding companies	169,061	27,884	196,945
Funds held for reinsurers	47,039	-	47,039
Commissions payable	17,498	-	17,498
Accounts payable and other liabilities (excluding tax-related payables and retirement benefit obligation)	55,342	26,176	81,518
	411,045	335,048	746,093
Net assets	466,677	326,021	792,698

21.3 Fair value of financial assets and financial liabilities

The aggregate fair value of the Company's available-for-sale securities at December 31, 2020 amounting to P76.17 million (2019 - P66.39 million), which is determined based on market prices, include investment in mutual funds and listed equity securities aggregating P74.60 million (2019 - P64.72 million) under Level 1 and unquoted equity securities amounting to P1.57 million (2019 - P1.67 million) under Level 2 of the fair value hierarchy.

There are no other financial instruments measured at fair value at December 31, 2019 and 2018.

The carrying amounts of the Company's other financial assets approximate their respective fair values as at December 31, 2020 and 2019 due to their short term maturities.

As at December 31, 2020, the fair value of held-to-maturity securities amounts to P955.67 million (2019 - P813.16 million). Such valuation falls under Level 2 of the fair value hierarchy.

As at reporting dates, there are no financial instruments that fall under the Level 3 hierarchy. There were also no transfers between categories during the reporting period.

The method and assumptions used by the Company in estimating the fair value of financial instruments are as follows:

Cash in banks and cash equivalents

The estimated fair value of interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity. The carrying values of interest-bearing deposits in which the interest rates are repriced approximate their fair values.

Receivables

The estimated fair value of receivables represents 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. Due to the short term nature of the receivables, the carrying amount approximates fair value.

Held-to-maturity and available-for-sale securities

Fair values of held-to-maturity and available-for-sale securities are based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Financial liabilities

The estimated fair value of liabilities with no stated maturity is the amount repayable on demand. Due to the short-term nature of the liabilities, the carrying values already approximate their fair values at reporting date.

21.4 Capital management

The Company's objectives when managing capital are:

- to comply with the minimum net worth requirement and Risk-Based Capital (RBC) model set by the IC;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide security for its policyholders, returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

The Company calculates its capital as equity as shown in the statement of financial position. The Company maintains a certain level of capital to ensure solvency margin in excess of regulatory requirements, which in turn, protects its policyholders.

To ensure compliance with these externally imposed capital requirements, it is the Company's policy to assess its position, at least on a quarterly basis, against set minimum capital requirements. The Company elevates any requirement for additional capital infusion to its shareholders to address any foreseen capital deficiency.

21.4.1 Minimum statutory net worth

The Company also manages its capital through its compliance with Republic Act No. 10607 - Amended Insurance Code, effective September 20, 2013. Under this Act, the requirement for domestic insurance companies to maintain a minimum statutory net worth amounts to:

June 30, 2013	P250 million
December 31, 2016	P550 million
December 31, 2019	P900 million
December 31, 2022	P1,300 million

Net worth shall consist of paid-up capital, retained earnings, unimpaired surplus, and revaluation of assets as may be approved by the Insurance Commissioner.

On May 15, 2020, the IC issued CL No. 2020-60, which provides regulatory relief on net worth requirements where all insurance companies already in compliance with the net worth requirements under Section 194 of the amended Code before the declaration of the enhanced community quarantine affected by the crisis are relieved from the quarterly compliance of net worth requirements of P900 million. Provided however that for all insurance companies who are not compliant with the net worth requirements prescribed under the amended Code before the declaration of the enhanced community quarantine, they are required to put up additional funds to cover the deficiency before availing the relief.

The Company's net worth as at December 31, 2020 amounts to P1,131,592,568 (2019 - P923,281,912). The Company is compliant with the minimum statutory net worth as at December 31, 2020 and 2019.

21.4.2 RBC2 Framework

On December 28, 2016, the IC issued CL No. 2016-68 which provides for the Amended RBC 2 Framework with effect beginning January 1, 2017. The CL provides that the RBC ratio of a non-life insurance company is calculated by dividing the total available capital by the RBC requirement. Total available capital is the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits and deductions prescribed by the IC. The non-life RBC requirement considered the following components set by the IC:

(i) credit risk capital charge;
(ii) insurance risk capital charge;
(iii) market risk capital charge for equities;
(iv) market risk capital charge for other than equities;
(v) operational risk capital charge; and,
(vi) catastrophe risk capital charge.

The minimum RBC ratio is to be established at 100%. All non-life insurance companies are required to maintain the minimum RBC ratio and not fail the trend test. Failure to meet the minimum RBC ratio will trigger regulatory intervention by the IC.

On the same date, the IC issued CL No. 2016-69 which provides that on the year of implementation of the Amended RBC2 Framework, the RBC requirement will be relaxed to consider the level of sufficiency to be 95th percentile for year 2017, 97.5th percentile for year 2018 and 99.5th percentile for year 2019.

The following table shows how the RBC ratio as at December 31 was determined by the Company:

	2020	2019
Net worth	1,131,592,568	923,281,912
RBC requirement	270,887,096	284,368,688
RBC ratio	418%	325%

The 2020 Annual Statement of the Company has not yet been approved by the IC. The final amount of the 2020 net worth and RBC can be determined only after the accounts of the Company have been examined by the IC specifically as to admitted and non-admitted assets as defined in the previous insurance code.

In addition to the regulatory relief on net worth requirements prescribed by the IC though CL No. 2020-60 issued on May 15, 2020, the IC has provided further guidelines on the implementation of the Amended RBC framework for the calendar year 2020 in order for insurance companies to better utilize their capital requirements while they continue to work on their recovery from the implications of the pandemic. Applying the revised regulatory intervention on the RBC ratio, no regulatory action is needed for the Company as its RBC ratio as at December 31, 2019, before the declaration of the enhanced community quarantine is over 100%.

The Company is compliant with the requirements of the RBC2 framework and will not require capital call from shareholders as at December 31, 2020 and 2019.

Note 22 - Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

22.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRSs, Philippine Accounting Standards (PASs) and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by SEC.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities.

The preparation of financial statements in conformity with PFRSs require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 20.

Changes in accounting policy and disclosures

(a) Amendments to existing standards and the revised Conceptual Framework adopted by the Company

The Company has applied the following amendments to existing standards and the revised Conceptual Framework for the first time for their annual reporting period commencing January 1, 2020:

- Amendments to IAS 1, *'Presentation of Financial Statements'*, and IAS 8, *'Accounting Policies, Changes in Accounting Estimates and Errors'*

  The amendments clarify that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and; the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

  The adoption of the above amendments did not have a material impact on the Company's financial statements as its materiality assessment is already made in the context of the financial statements as a whole.

- *Amendment to PFRS 16, "Leases"*

  The amendment provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

  The adoption of the above amendment did not have a material impact on the Company's financial statements as it was not provided with any rent concessions during the year ended December 31, 2020.

- *Adoption of the Revised Conceptual Framework for Financial Reporting*

  The revised Framework includes the following changes:
  - increasing the prominence of stewardship in the objective of financial reporting
  - reinstating prudence as a component of neutrality
  - defining a reporting entity, which may be a legal entity, or a portion of an entity
  - revising the definitions of an asset and a liability
  - removing the probability threshold for recognition and adding guidance on derecognition
  - adding guidance on different measurement basis, and
  - stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

  No changes are made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards need to apply the revised Framework from January 1, 2020.

  The adoption of the above revised framework did not have a material impact on the Company's financial statements as the accounting policies of the Company already consistent with the revised framework.

There are no other standards, interpretations and amendments effective January 1, 2020 that are considered relevant to the Company's financial statements.

(b) New standards and amendments to existing standards not yet adopted by the Company

The following relevant new accounting standards and interpretations are not mandatory for the December 31, 2020 reporting period and has not been early adopted by the Company:

- *PFRS 17, 'Insurance Contracts' (effective January 1, 2025)*

  PFRS 17 was issued in May 2018 as replacement for PFRS 4, "Insurance Contracts". PFRS 17 represents a fundamental change in the accounting framework for insurance contracts requiring liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of (1) discounted probability-weighted cash flows, (2) an explicit risk adjustment, and (3) a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period. The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under PFRS 9, "Financial instruments." An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

On March 17, 2020, the IASB has decided to further defer the effective date of the standard to annual reporting periods beginning on or after January 1, 2023. The IC, considering the extension of IFRS 17 and the challenges of the COVID-19 pandemic to the insurance industry, has deferred the implementation of PFRS 17 further to January 1, 2025, granting an additional two-year period from the date of effectivity proposed by the IASB.

The IC, in coordination with Philippine Insurers and Reinsurers Association, is currently reviewing the impact of PFRS 17 across the entire industry and has established a project team to manage the implementation approach.

- *PFRS 9 'Financial instruments' and its interaction with PFRS 4 'Insurance Contracts'.*

PFRS 9 replaces the multiple classification and measurement models for financial assets in PAS 39 with a single model that has three classification categories: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL). Classification under PFRS 9 is driven by the entity's business model for managing and holding the financial assets and whether the contractual characteristics of the financial assets represent solely payments of principal and interest. Investments in equity instruments are required to be measured at FVTPL with the irrevocable option at inception to present changes in fair value in other comprehensive income. The classification and measurement of financial liabilities under PFRS 9 remains the same as in PAS 39 except where an entity has chosen to measure a financial liability at fair value through profit or loss. For such liabilities, changes in fair value arising from changes in the entity's own credit risk are presented separately in other comprehensive income.

The impairment rules of PFRS 9 introduce an 'expected credit loss' (ECL) model that replaces the 'incurred credit loss' model used in PAS 39. Such new impairment model will generally result in earlier recognition of losses compared to PAS 39.

The hedging rules of PFRS 9 better align hedge accounting with an entity's risk management strategies. Also, some of the prohibitions and rules in PAS 39 are removed or changed, making hedge accounting easier or less costly to achieve for many hedges.

In September 2016, 'Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts (Amendments to PFRS 4)' was issued, which provides optional relief to insurers meeting certain criteria from any adverse impact that may arise from the different effective dates of PFRS 9 and PFRS 17. The two options for entities that issue contracts within the scope of PFRS 4 permit an entity to either:

(1) reclassify from profit or loss to other comprehensive income some of the income or expenses arising from designated financial assets; referred to as the 'overlay approach', or
(2) for entities whose predominant activity is issuing contracts within the scope of PFRS 4, defer the application of PFRS 9 entirely; referred to as the 'deferral approach'.

<u>Deferral of adoption of PFRS 9</u>

The Company has elected to apply the temporary option since it satisfies the following criteria:

- The Company has not previously applied any versions of PFRS 9; and,
- The Company's activities are predominantly connected with insurance at annual reporting date that immediately precedes April 1, 2016, i.e., December 31, 2015, based on the eligibility assessment that:
  - the carrying amount of liabilities arising from contracts within the scope of PFRS 4 is greater than 90% of the total carrying amount of all its liabilities; or,
  - the carrying amount of liabilities arising from contracts within the scope of PFRS 4 is less than 90% and the total carrying amount of liabilities connected with insurance is equal to or less than 90% but greater than 80% of the total carrying amount of all its liabilities.

The Company made the assessment based on the financial position as at December 31, 2015, concluding that the carrying amount of the Company's liabilities arising from contracts within the scope of PFRS 4 was significant compared to the total carrying amount of all its liabilities. The percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities as at December 31, 2015 is assessed to be 90%. After the date of eligibility assessment, there has been no change in the Company's activities that requires a reassessment of the eligibility assessment.

All of the Company's financial assets, excluding those financial assets that are defined as 'held-for-trading' or that are managed and evaluated on a fair value basis (AFS equity securities), are with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. As at December 31, 2020 and 2019, the financial assets that are carried at fair value, are shown in Note 5. Changes in the fair value of these financial assets for the year ended December 31, 2020 and 2019 are disclosed in Note 11. Information about the credit risk exposure of these assets is disclosed in Note 21.2.2.

The following tables set out the fair value at December 31, 2020 and 2019 and changes in fair values for the years ended December 31, 2020 and 2019, of financial assets separately for the following groups:

- Financial assets that meet the SPPI criteria in PFRS 9, excluding those financial assets that are defined as 'held-for-trading' or that are managed and evaluated on a fair value basis; and
- All other financial assets, including those assets that do not meet the SPPI criteria in PFRS 9 and those financial assets that are defined as 'held-for-trading' or that are managed and evaluated on a fair value basis.

Financial assets that meet the SPPI criteria in PFRS 9 are those whose cash flows comprise solely payments of principal and interest on principal outstanding (SPPI).

The fair value of financial instruments at December 31 classified between those that meet and those that fail the SPPI criterion are described as follow:

	Financial assets that meet the SPPI criteria	Financial assets that fail the SPPI criteria	Total
2020			
Cash and cash equivalents	512,445,071	-	512,445,071
Available-for-sale securities	-	76,171,199	76,171,199
HTM financial assets	955,670,015	-	955,670,015
Other receivables			
Accounts receivables	21,455,265	-	21,455,265
Accrued interest income	8,039,891	-	8,039,891
Refundable deposits	69,700	-	69,700
Security fund	49,149	-	49,149
	1,497,729,091	76,171,199	1,573,900,290

	Financial assets that meet the SPPI criteria	Financial assets that fail the SPPI criteria	Total
2019			
Cash and cash equivalents	421,421,865	-	421,421,865
Available-for-sale securities	-	66,387,016	66,387,016
HTM financial assets	813,161,659	-	813,161,659
Other receivables			
Accounts receivables	21,306,685	-	21,306,685
Accrued interest income	8,311,411	-	8,311,411
Refundable deposits	69,700	-	69,700
Security fund	49,149	-	49,149
	1,264,320,469	66,387,016	1,330,707,485

For financial assets as at December 31, 2020 and 2019 that meet the SPPI criteria, the current carrying values measured in accordance with PAS 39 are analyzed in the following tables by credit rating:

	Neither past due nor impaired					
	High	Medium	Low	Past due	Impaired	Total
December 31, 2020						
Cash and cash equivalents	512,445,071	-	-	-	-	512,445,071
Available-for-sale securities	46,381,159	-	-	-	-	46,381,159
HTM financial assets	940,453,965	-	-	-	-	940,453,965
Other receivables						
Accounts receivables	21,455,265	-	-	-	-	21,455,265
Accrued interest income	8,039,891	-	-	-	-	8,039,891
Refundable deposits	69,700	-	-	-	-	69,700
Security fund	49,149	-	-	-	-	49,149
	1,528,894,200	-	-	-	-	1,528,894,200

	Neither past due nor impaired					
	High	Medium	Low	Past due	Impaired	Total
December 31, 2019						
Cash and cash equivalents	421,421,865	-	-	-	-	421,421,865
Available-for-sale securities	43,874,706	-	-	-	-	43,874,706
HTM financial assets	803,325,356	-	-	-	-	803,325,356
Other receivables						
Accounts receivables	21,306,685	-	-	-	-	21,306,685
Accrued interest income	8,311,411	-	-	-	-	8,311,411
Refundable deposits	69,700	-	-	-	-	69,700
Security fund	49,149	-	-	-	-	49,149
	1,298,358,872	-	-	-	-	1,298,358,872

22.2 Financial assets

22.2.1 Classification

The Company classifies its financial assets in the following categories: loans and receivables, held-to-maturity investments, at FVTPL and available-for-sale securities. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Company has no investments classified as at FVTPL during and at the end of each reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The Company's loans and receivables consists of cash and cash equivalents (Note 3) and receivables (Note 4) in the statement of financial position.

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less from the date of acquisition and are subject to an insignificant risk of changes in value.

Receivables consist of receivables arising from insurance contracts, such as premium receivable, reinsurance recoverable on paid losses, due from reinsurers and ceding companies and funds held by ceding companies, and other receivables, such as accounts receivable, accrued interest income, refundable deposits and security fund.

Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity.

Held-to-maturity securities of the Company consist of treasury bonds and notes, corporate bonds and time deposits (Note 5).

Available-for-sale securities

Available-for-sale securities are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Available-for sale securities consist of equity shares and investments in mutual funds.

22.2.2 Initial recognition and subsequent measurement

Financial assets, consisting of loans and receivables, held-to-maturity securities and available-for-sale securities, are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition.

Loans and receivables and held-to-maturity securities are subsequently carried at amortized cost using the effective interest rate method.

Available-for-sale securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale securities are recognized directly in equity, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest earned on these securities is recognized using the effective interest rate in profit or loss. Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company's right to receive payment is established. Changes in the fair value of monetary securities denominated in foreign currency and classified as available-for-sale 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. The translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognized in equity.

22.2.3 Derecognition

Financial assets, consisting of loans and receivables, held-to-maturity securities and available-for-sale securities, are derecognized when the contractual right to receive cash flows from the financial assets has ceased to exist or where the Company has transferred substantially all risks and rewards of ownership.

22.2.4 Impairment

Financial assets classified as loans and receivables and held-to-maturity securities

The Company assesses at each reporting date whether there is an objective evidence that a financial asset or group of financial asset is impaired. A financial asset or a group of financial asset is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is an objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in interest or principal payments; and
- it becomes probable that the debtor will enter bankruptcy or other financial reorganization.

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

The amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate (recoverable amount). The calculation of recoverable amount of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable. Impairment loss, if any, is recognized in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Company and historical loss experience for assets with credit risk characteristics similar to those in the Company. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss as a reduction of impairment losses for the year.

Loans and receivables are written-off in the year in which they are determined to be uncollectible. Loans and receivables are determined to be uncollectible after exerting effort to collect the accounts and upon approval by the Company's Board of Directors.

Financial assets classified as available-for-sale securities

The Company assesses at the end of each reporting period whether there is an objective evidence that available-for-sale debt securities are impaired using similar criteria and process applied to financial assets carried at amortized cost as described above.

For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence that the assets are impaired. A decline in the fair value of the instrument by more than 20 percent is considered significant and a period of 12 months or greater is considered to be a 'prolonged' decline. If any such evidence exists for available-for-sale equity securities, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) is removed from equity and recognized in profit or loss. Impairment losses on equity investment are not reversed in profit or loss. Increases in fair value after impairment are recognized directly in equity.

22.3 Financial liabilities

22.3.1 Classification

The Company classifies its financial liabilities in the following categories: at FVTPL and at amortized cost. The classification depends on the purpose for which the financial liabilities were acquired or incurred. Management determines the classification of its financial liabilities at initial recognition.

The Company's financial liabilities include losses and claims payable (excluding IBNR) (Note 6), due to reinsurers and ceding companies (Note 6), funds held for reinsurers, commissions payable, and accounts payable and other liabilities (excluding tax-related payables and retirement benefit obligation).

The Company has no financial liabilities classified as at FVTPL during and at the end of each reporting period.

22.3.2 Initial recognition subsequent measurement

Financial liabilities are initially recognized at fair value of the consideration received plus transaction costs. Financial liabilities at amortized cost are subsequently measured at amortized cost using the effective interest rate method.

22.3.3 Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or has expired.

22.4 Fair value measurement

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

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

Financial assets

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and,
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The fair values were determined in reference to observable market inputs reflecting orderly transactions, i.e. market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions.

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

Non-financial assets

For non-financial assets, the Company uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Common used valuation techniques are as follows:

- Market approach - A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as a business.
- Income approach - Valuation techniques that convert future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The fair value of a non-financial asset is measured based on its highest and best use. The asset’s current use is presumed to be its highest and best use.

22.5 Offsetting of financial instruments

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

There are no financial assets and liabilities which have been offset at reporting date.

22.6 Insurance contracts

22.6.1 Recognition and measurement

Short-term insurance contracts of the Company mainly include motor car, marine and casualty insurance contracts, while long-term insurance contracts of the Company mainly include fire and bond insurance.

For all these contracts, premiums are recognized as revenue as follows:

Direct business

Gross premiums written are recognized at the inception date of the risks underwritten and are earned over the period of cover in accordance with the incidence of risk using the 24th method, except for marine cargo where the provision for unearned premiums pertain to the premiums for the last two months of the year. The portion of the gross premiums written that relates to the unexpired periods of the policies at year-end is presented as reserve for unearned premiums in the statement of financial position.

Inward reinsurance business

Gross premiums written are recognized based on the date of notification by the ceding companies and are earned over the period of cover in accordance with the incidence of risk using the 24th method. The portion of the gross premiums written that relates to the unexpired periods of the policies at year-end is presented as reserve for unearned premiums in the statement of financial position.

Outward reinsurance business

The related reinsurance premiums ceded that pertain to the unexpired periods at year-end are reported as deferred reinsurance premiums in the statement of financial position.

The net change in the reserve for unearned premiums and deferred reinsurance premiums during the reporting period is recognized in profit or loss.

Reinsurance premiums are recognized based on notification of inception of the underlying risks underwritten and are allocated over the period of cover in accordance with the incidence of risk using the 24th method.

22.6.2 Insurance contracts liabilities

(a) Premium liabilities

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risk that have not yet expired, is deferred as provision for unearned premiums using the 24th method.

The change in provision for unearned premiums is taken to profit or loss in the order that revenue is recognized over the period of risk. Further provision is made to cover any deficiency to the extent that the URR exceeds the UPR, net of DAC. The URR represents the premiums to match future claims and expenses in the unexpired coverage period of in-force contracts. The future claims and expenses are adjusted for potential changes or uncertainties *(b) Claims liabilities (losses and claims payable)*

Losses and claims payable are recognized when the contracts are entered into and the premiums are charged. Loss and claims adjustment expenses are recognized in profit or loss based on the estimated liability for compensation owed to contract holders or to third parties damaged by the contract holders. These include direct and indirect claim settlement costs arising from events that have occurred up to the reporting date even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims.

Liabilities for unpaid claim costs, including those for IBNR, are estimated and accrued and considers actual claims reported in the succeeding year but for which the related insured event occurred in the year under coverage. The liabilities for unpaid claims are based on the estimated ultimate cost of settling the claims using the input of assessment for individual cases reported to the Company. The method of determining such estimates and establishing reserves is continually reviewed and updated.

Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expenses in the year in which the estimates are changed or payments are made. Estimated recoveries on settled and unsettled claims are evaluated in terms of estimated realizable values of the salvage recoverable and deducted from the liability for unpaid claims.

Outstanding claims and IBNR losses are presented in the statement of financial position as part of losses and claims payable.

22.6.3 Reinsurance commission

Reinsurance commission is initially recognized upon acceptance of the premium cession by reinsurers. Reinsurance commission is presented as commissions earned in the statement of income.

22.6.4 Deferred acquisition costs

Costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts such as commissions are deferred and charged to expense in proportion to premium revenue recognized. Unamortized acquisition costs are shown in the statement of financial position as deferred acquisition costs.

Reinsurance commissions are deferred and deducted from the applicable deferred acquisition costs, and recognized in profit or loss using the same amortization method as the related acquisition costs.

22.6.5 Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities, net of related deferred acquisition costs. In performing these tests, current best estimate of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing-off deferred acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired provision). There were no deficiencies recognized in profit or loss during the reporting periods. Any deferred acquisition costs written off as a result of this test cannot be subsequently reinstated.

22.6.6 Reinsurance contracts held

Contracts entered by the Company with reinsurers, which compensate the Company for losses in one or more contracts issued and meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the Company under which the contract holder is another insurer (inward reinsurance) are classified as insurance contracts. Contracts that do not meet these classification requirements are classified as financial contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of reinsurance recoverable on paid and unpaid losses, due from reinsurers and ceding companies and funds held by ceding companies (classified within receivables).

The Company assesses its reinsurance assets for impairment annually. If there is an objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes an impairment loss in profit or loss. The Company gathers the objective evidence that a reinsurance asset is impaired using the same policies adopted for financial assets held at amortized cost. The impairment loss is also calculated following the same method used for these financial assets. These policies are described in Note 22.2.4.

Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense upon recognition of related premiums. These liabilities pertain to due to reinsurers and ceding companies and funds held for reinsurers.

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.

22.6.7 Receivables and payables related to insurance contracts

Receivables and payables, such as premium receivable, losses and claims payable and commissions payable, are recognized when the right to receive payment is established or when the obligation becomes due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is an objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognizes that impairment loss in profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same policies adopted for loans and receivables. The impairment loss is also calculated under the same method used for financial assets. These policies are described in Note 22.2.4.

22.6.8 Salvage and subrogation reimbursements

Some insurance contracts permit the Company to sell usually damaged property acquired in settling a claim (i.e., salvage). The Company also have the right to pursue third parties for payment of some or all costs (i.e., subrogation).

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are charged against losses and claims payable when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

22.7 Investment properties

Properties 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 servicing costs. Replacement cost is capitalized if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured. Subsequently, at each reporting date, investment properties, except for land, are carried at cost less accumulated depreciation and impairment loses, if any.

Land is carried at cost less any impairment in value. Land is not depreciated.

Depreciation of investment property is computed using the straight-line method over its useful life. The estimated useful life and the depreciation method is reviewed periodically to ensure that the period and the method of depreciation is consistent with the expected pattern of economic benefits from items of investment properties. The estimated useful life of the investment properties is 25 years.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. There were no transfers made to investment property during and at the end of each reporting period.

Investment property is derecognized when it has been disposed of or when permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment property is recognized in profit or loss in the year of derecognition.

Rental income from investment property is recognized in profit or loss on a straight-line basis over the lease term. Lease incentives are recognized as an integral part of the total rent income. Expenses with regard to investment property are treated as ordinary operating expenses and are recognized when incurred.

22.8 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and any impairment in value. Historical cost includes expenditures that are directly attributable to the acquisition of items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Building	27 years
EDP equipment	5 years
Transportation equipment	5 years
Furniture, fixtures and office equipment	5 to 7 years
Leasehold improvements	5 years or lease term, whichever is shorter
Office premise	5 years or lease term, whichever is shorter

The assets' residual values and useful lives are reviewed, and adjusted as appropriate, at each reporting date.

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. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal at which time the cost and their related accumulated depreciation are removed from the accounts. Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are recognized as part of miscellaneous income or expense in the statement of total comprehensive income.

22.9 Impairment of non-financial assets

Assets that are subject to depreciation or amortization, such as property and equipment and investment property, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Value-in-use requires the Company to make estimates of future cash flows to be derived from a particular asset, and discount them using a pre-tax market rate that reflects current assessments of the time value of money and the risks specific to the asset. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

22.10 Income taxes

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using the tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess of minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred income tax liabilities are recognized in full for all taxable temporary differences, except to the extent that the deferred income tax liability arises from the initial recognition of goodwill.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority and where there is an intention to settle the balances on a net basis.

Deferred income tax expense or credit included in provision for income tax is recognized for the changes during the year in the deferred income tax assets and liabilities.

The Company reassesses the carrying amount of deferred income tax assets at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilized.

22.11 Provisions

Provisions for legal claims are recognized when the following are present:

- the Company has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Provisions are not recognized for future operating losses.

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

22.12 Retirement benefit obligation

The Company maintains a funded defined benefit plan for all its regular employees. A defined benefit plan is a retirement plan that defines an amount of retirement benefit that an employee will receive upon retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statement of financial position in respect of defined benefit plan is the present value of the defined benefit obligation less the fair value of plan assets at reporting dates. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds 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 retirement obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against equity in other comprehensive income (shown as part of accumulated other comprehensive income in the statement of financial position) in the period in which they arise.

Past service cost, if any, are recognized immediately in profit or loss.

22.13 Equity

Share capital

Share capital represents share issued and outstanding. Subscription receivable is presented as deduction to share capital when there is no fixed payment date indicated in the subscription agreement.

Share premium

Any amount received by the Company in excess of par value of its shares is credited to share premium which forms part of the non-distributable reserve of the Company and can be used only for purposes specified under corporate legislation.

Retained earnings

Retained earnings pertain to the unrestricted portion of the accumulated profit from operations of the Company, which are available for dividend declaration.

Contingency surplus

This represents contributions of the shareholders to cover any possible impairment in net worth as required under the amended Code. The contributions made can either be converted into share capital or returned to the shareholders at the option of the shareholders, subject to the approval of IC.

22.14 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's Board of Directors.

22.15 Revenue recognition

Revenue is recognized to the extent that it is a probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Premium revenue

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method, except for marine cargo where the provision for unearned premiums pertain to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at reporting date is accounted for as reserve for unearned premiums in the statement of financial position. The related reinsurance premiums that pertain to the unexpired periods at reporting date are accounted for as deferred reinsurance premiums presented in the statement of financial position. The net changes in these accounts between reporting dates are included in the determination of net premium earned.

Commission income

Reinsurance commissions are recognized as revenue over the period of the contracts using the 24th method, except for marine cargo where the deferred reinsurance commission pertains to the premiums for the last two months of the year. The portion of the commissions that relates to the unexpired periods of the policies at the reporting date is accounted for as deferred reinsurance commissions and offset against deferred acquisition costs in the statement of financial position.

22.16 Leases

22.16.1 The Company is the lessee

The Company recognizes lease as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the lease commencement date plus any initial direct costs incurred, less any lease incentives received. The right-of-use asset is subsequently amortized on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the lease term. The estimated useful life of the right-of-use asset is determined on the same basis as those of the related property and equipment category. The right-of-use asset may be reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

22.16.2 The Company is the lessor

Properties leased out under operating leases are included in investment properties in the statement of financial position. Rental income under operating leases is recognized as part of investment and other income in the statement of total comprehensive income on a straight-line basis over the period of the lease.

22.17 General and administrative expenses

General and administrative expenses are recognized when incurred.

22.18 Foreign currency transactions and translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The Company's financial statements are presented in Philippine Peso, which is the Company's functional currency.

Transactions and balances

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains or 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. Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate as at the date of initial recognition. Non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rate at the date when the fair value is determined.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale securities 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 are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities classified as available-for-sale are included in other comprehensive income.

22.19 Related party transactions and relationships

Related party relationships exist when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

22.20 Events after the reporting date

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

Note 23 - Supplementary information required by the Bureau of Internal Revenue (BIR)

Below is the additional information required by Revenue Regulation No. 15-2010 that is relevant to the Company. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements. All amounts are in Philippine Pesos.

(i) Output VAT

Output VAT declared for the year ended December 31, 2020 and the revenues upon which the same was based consist of:

	Gross amount of revenues	Output VAT
Premiums (non-life)	733,371,223	88,004,547
Commission income	61,234,737	7,348,168
Rental income	4,393,970	527,276
	798,999,930	95,879,991

The gross revenues shown above are based on gross receipts of the Company for VAT purposes while gross revenues presented in the statement of total comprehensive income are measured in accordance with the policy in Notes 22.15 and 22.16. Output VAT presented as part of taxes payables under Accounts payable and other liabilities in the statement of financial position amounts to P12,554,250.

(ii) Input VAT

Movements in input VAT for the year ended December 31, 2020 follow:

	Amount
Beginning balance	4,251,041
Input tax on services	28,234,415
Deferred input tax	(27,987,034)
Ending balance	4,498,422

The above input VAT is presented as part of other assets in the statement of financial position.

(iii) Documentary stamp tax

Documentary stamp taxes (DST) paid for the year ended December 31, 2020 amounts to P46,000,000. The overpayment in DST as at December 31, 2020 which amounts to P279,215 is netted against taxes payable under Accounts payable and other liabilities in the statement of financial position.

(iv) All other local and national taxes

All other local and national taxes paid and accrued for the year ended December 31, 2020 consist of:

	Paid	Accrued	Total
Fire service tax	2,109,303	946,958	3,056,261
Local government tax on premiums	-	1,646,509	1,646,509
Real property tax	900,781	-	900,781
IC supervision/filing fees	276,090	-	276,090
IC Certificate of Authority renewal fees	142,410	-	142,410
Premium tax (non-life)	51,864	36,543	88,407
Municipality taxes	68,059	-	68,059
Community tax	10,500	-	10,500
Others	528,165	-	528,165
	4,087,172	2,630,010	6,717,182

The above local and national taxes are charged to taxes, licenses and fees the statement of total comprehensive income, except for fire service tax, local government tax on premiums and premium tax (non-life) which are passed on to the policyholders.

The accrued other local and national taxes are presented as part of taxes payable under Accounts payable and other liabilities in the statement of financial position.

(v) Withholding taxes

Withholding taxes paid and accrued for the year ended December 31, 2020 consist of:

	Paid	Accrued	Total
Expanded withholding tax	18,458,694	2,524,114	20,982,808
Withholding tax on compensation	1,905,252	1,347,929	3,253,181
Final withholding tax	195,727	95,943	291,670
	20,559,673	3,967,986	24,527,659

The accrued withholding taxes are included as part of taxes payable under Accounts payable and other liabilities in the statement of financial position.

(vi) Tax assessments and cases

As at December 31, 2020, the Company's open tax years are 2018 and 2019. The Company has no pending tax cases as at and for the year ended December 31, 2020.

All other information required to be disclosed by the BIR have been included in this note.