INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Corporate Guarantee & Insurance Company, Incorporated
Doing business under the name and style of
Corporate Guarantee (A Non-Life Insurance Company)
2nd Floor, CGIC Building
Jose Abad Santos Avenue, San Jose
City of San Fernando, Pampanga, 2000

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of Corporate Guarantee & Insurance Company, Incorporated doing business under the name and style of Corporate Guarantee (A Non-Life Insurance Company) (the Company), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes and licenses in Note 26 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Corporate Guarantee & Insurance Company, Incorporated. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements and in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

REYES TACANDONG & CO.

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Issued January 5, 2021, Makati City

April 15, 2021
Makati City, Metro Manila

CORPORATE GUARANTEE & INSURANCE COMPANY, INCORPORATED

Doing business under the name and style of Corporate Guarantee

(A Non-Life Insurance Company)

STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	**2020**	2019
ASSETS			
Current Assets			
Cash and cash equivalents	4	**₱278,633,004**	₱517,295,763
Short-term investments	4	**175,334,711**	–
Insurance receivables	5	**177,780,993**	320,315,621
Held-to-maturity (HTM) investments	6	**162,230,321**	140,555,946
Loans and receivables	6	**11,888,894**	8,084,823
Reinsurance assets	7	**21,434,496**	22,598,434
Deferred acquisition costs	8	**19,118,917**	24,871,362
Other current assets	9	**22,611,181**	27,964,547
Total Current Assets		**869,032,517**	1,061,686,496
Noncurrent Assets			
HTM investments - net of current portion	6	**176,628,496**	117,702,458
Available-for-sale (AFS) investments	6	**112,304,820**	108,501,784
Investment properties	10	**292,004,978**	255,955,011
Property and equipment:	11		
At revalued amount		**203,280,022**	198,153,992
At cost		**7,332,387**	8,846,464
Right-of-use (ROU) asset	23	**41,553,738**	46,086,873
Total Noncurrent Assets		**833,104,441**	735,246,582
		₱1,702,136,958	₱1,796,933,078
LIABILITIES AND EQUITY			
Current Liabilities			
Insurance contract liabilities	12	**₱287,310,707**	₱400,691,086
Premiums due to reinsurers	13	**2,904,026**	3,809,878
Deferred reinsurance commissions	8	**2,154,634**	2,284,287
Accounts and other payables	14	**129,485,027**	135,629,157
Current portion of lease liability	23	**3,556,568**	4,468,047
Income tax payable		**1,338,250**	20,339,774
Total Current Liabilities		**426,749,212**	567,222,229
Noncurrent Liabilities			
Net retirement liability	21	**12,310,857**	5,542,690
Noncurrent portion of lease liability	23	**40,050,551**	41,618,826
Net deferred tax liabilities	22	**53,937,438**	51,981,086
Total Noncurrent Liabilities		**106,298,846**	99,142,602
Total Liabilities		**533,048,058**	666,364,831
Equity			
Capital stock		**311,000,000**	311,000,000
Contingency surplus	16	**209,000,000**	209,000,000
Retained earnings		**546,113,083**	507,799,838

(Forward)

	Note	December 31 2020	2019
Other components of equity:			
Revaluation reserve for property and equipment	11	**₱103,558,941**	₱98,558,159
Cumulative fair value changes on AFS investments	6	**3,368,030**	4,674,718
Remeasurement loss on net retirement liability	21	**(3,951,154)**	(464,468)
Total Equity		**1,169,088,900**	1,130,568,247
		₱1,702,136,958	₱1,796,933,078

See accompanying Notes to the Financial Statements.

CORPORATE GUARANTEE & INSURANCE COMPANY, INCORPORATED

Doing business under the name and style of Corporate Guarantee

(A Non-Life Insurance Company)

STATEMENTS OF COMPREHENSIVE INCOME

	Note	Years Ended December 31 2020	2019
REVENUE			
Gross earned premiums on insurance contracts	17	**₱468,541,415**	₱543,019,344
Reinsurers' share of gross earned premiums on insurance contracts	17	**(19,895,668)**	(22,681,311)
		448,645,747	520,338,033
BENEFITS, CLAIMS AND EXPENSES			
Net insurance benefits and claims	18	**204,643,647**	249,951,374
Operating expenses	19	**200,989,995**	119,765,118
Commission expense	8	**39,992,564**	49,746,978
		445,626,206	419,463,470
INTEREST EXPENSE	23	**(2,120,246)**	–
OTHER INCOME - Net	20	**45,439,358**	65,262,963
INCOME BEFORE INCOME TAX		**46,338,653**	166,137,526
PROVISION FOR INCOME TAX	22		
Current		**7,478,273**	31,754,044
Deferred		**1,079,359**	4,232,451
		8,557,632	35,986,495
NET INCOME		**37,781,021**	130,151,031
OTHER COMPREHENSIVE INCOME			
To be reclassified to profit or loss when realized –			
Net unrealized gain (loss) on fair value changes of AFS investments	6	**(1,306,688)**	1,644,373
Not to be reclassified to profit or loss:			
Revaluation reserve for property and equipment - net of tax effect	11	**5,533,006**	3,719,428
Remeasurement loss on net retirement liability - net of tax effect	21	**(3,486,686)**	(1,691,763)
		739,632	3,672,038
TOTAL COMPREHENSIVE INCOME		**₱38,520,653**	₱133,823,069

See accompanying Notes to the Financial Statements.

CORPORATE GUARANTEE & INSURANCE COMPANY, INCORPORATED

Doing business under the name and style of Corporate Guarantee

(A Non-Life Insurance Company)

STATEMENTS OF CHANGES IN EQUITY

	Note	Years Ended December 31 2020	2019
CAPITAL STOCK - ₱1,000 par value			
Authorized - 500,000 shares			
Issued and outstanding - 311,000 shares		**₱311,000,000**	₱311,000,000
CONTINGENCY SURPLUS			
Balance at beginning of year		**209,000,000**	189,000,000
Additions during the year	16	**–**	20,000,000
Balance at end of year		**209,000,000**	209,000,000
RETAINED EARNINGS			
Balance at beginning of year		**507,799,838**	377,089,813
Net income		**37,781,021**	130,151,031
Transfer of revaluation reserve	11	**532,224**	558,994
Balance at end of year		**546,113,083**	507,799,838
OTHER COMPONENTS OF EQUITY			
Revaluation reserve for property and equipment			
Balance at beginning of year		**98,558,159**	95,397,725
Revaluation increment	11	**5,533,006**	3,719,428
Transfer of revaluation reserve	11	**(532,224)**	(558,994)
Balance at end of year		**103,558,941**	98,558,159
Cumulative fair value changes on AFS investments			
Balance at beginning of year		**4,674,718**	3,030,345
Net unrealized gain (loss) on fair value changes on AFS investments	6	**(1,306,688)**	1,644,373
Balance at end of year		**3,368,030**	4,674,718
Remeasurement loss on net retirement benefit liability			
Balance at beginning of year		**(464,468)**	1,227,295
Actuarial loss during the year	21	**(3,486,686)**	(1,691,763)
Balance at end of year		**(3,951,154)**	(464,468)
		102,975,817	102,768,409
		₱1,169,088,900	₱1,130,568,247

See accompanying Notes to the Financial Statements.

CORPORATE GUARANTEE & INSURANCE COMPANY, INCORPORATED
Doing business under the name and style of Corporate Guarantee
(A Non-Life Insurance Company)

STATEMENTS OF CASH FLOWS

		Years Ended December 31	
	Note	**2020**	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**₱46,338,653**	₱166,137,526
Adjustments for:			
Provision for impairment losses on insurance receivables	5	**95,887,624**	15,081,196
Interest income	6	**(12,751,128)**	(15,958,692)
Fair value gain on investment property	10	**(9,426,502)**	(10,693,181)
Depreciation and amortization	11	**6,388,240**	6,175,090
Dividend income	6	**(5,951,750)**	(7,632,081)
Amortization of ROU asset	23	**4,533,135**	–
Interest expense	23	**2,120,246**	–
Retirement benefit expense	21	**1,787,187**	426,000
Realized loss (gain) on sale of AFS investments	6	**629,997**	(378,047)
Gain on sale of property and equipment	11	**(449,998)**	(164,911)
Unrealized foreign exchange loss (gain)	20	**202,901**	(23,886)
Reversal of a liability		**–**	22,485,000
Operating income before changes in working capital		**129,308,605**	175,454,014
Decrease (increase) in:			
Insurance receivables		**46,647,004**	(53,145,843)
Loans and receivables		**(4,516,253)**	36,682,801
Reinsurance assets		**1,163,938**	(3,951,792)
Deferred acquisition costs		**5,752,445**	(2,043,836)
Other current assets		**5,353,366**	3,338,424
Increase (decrease) in:			
Insurance contract liabilities		**(113,380,379)**	(23,524,247)
Accounts and other payables		**(6,144,130)**	(42,341,017)
Deferred reinsurance commissions		**(129,653)**	(317,733)
Premiums due to reinsurers		**(905,852)**	9,268
Net cash generated from operations		**63,149,091**	90,160,039
Income tax paid		**(26,479,797)**	(34,219,852)
Contributions to the retirement fund	21	**–**	(210,000)
Net cash provided by operating activities		**36,669,294**	55,730,187
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
HTM investments	6	**(218,927,400)**	(59,938,300)
Short-term investments		**(174,808,568)**	–
Investment property	10	**(26,623,465)**	–
AFS investments	6	**(10,263,770)**	(19,667,408)
Property and equipment	11	**(2,095,899)**	(83,262,041)

(Forward)

	Note	Years Ended December 31 **2020**	 2019
Proceeds from disposal or maturities of:			
HTM investments	6	**₱141,480,000**	₱122,302,705
AFS investments	6	**5,154,046**	17,562,571
Property and equipment	11	**449,998**	704,911
Interest received		**9,782,674**	6,450,008
Dividend received		**5,953,229**	7,623,167
Net cash used in investing activities		**(270,529,152)**	(8,224,387)
CASH FLOW FROM FINANCING ACTIVITIES			
Payments of lease liability	23	**(4,600,000)**	–
Receipt of contingency surplus	16	**–**	20,000,000
Net cash provided by (used in) financing activities		**(4,600,000)**	20,000,000
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(202,901)**	23,886
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(238,662,759)**	67,529,686
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**517,295,763**	449,766,077
CASH AND CASH EQUIVALENTS AT END OF YEAR		**₱278,633,004**	₱517,295,763
NONCASH FINANCIAL INFORMATION			
Amortization of lease liability	23	**₱2,120,246**	₱–
Reversal of a liability	20	**–**	(22,485,000)

See accompanying Notes to the Financial Statements.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

1. Corporate Information

Corporate Guarantee & Insurance Company, Incorporated doing business under the name and style of Corporate Guarantee (A Non-Life Insurance Company) (the Company) was incorporated with the Philippine Securities and Exchange Commission (SEC) on June 19, 1997 and is primarily engaged in property and casualty insurance business.

On July 19, 2019, the SEC approved the amendment of the Company's Articles of Incorporation to change the corporate name from Corporate Guarantee & Insurance Company, Incorporated to Corporate Guarantee & Insurance Company, Incorporated doing business under the name and style of Corporate Guarantee (A Non-Life Insurance Company).

The registered office address of the Company is 2nd Floor, CGIC Building, Jose Abad Santos Avenue, San Jose, City of San Fernando, Pampanga, 2000.

On January 1, 2019, the Insurance Commission (IC) renewed the Company's license to operate as an Insurance Company with Certificate of Authority No. 2019/14-R valid until December 31, 2021.

The Company is owned by proprietors of the LausGroup of Companies.

Status of Operations
In 2020, the country experienced the coronavirus (COVID-19) pandemic crisis resulting in a slowdown in the Philippine economy because of mandated lockdowns all over the country. The global pandemic did not have a significant impact on the Company's operations and financial performance for the year ended December 31, 2020.

It is not practicable, however, to estimate the potential impact of the still prevailing crisis. Management believes that with the Company's strong financial position and ability to obtain financial support from its stockholders, it can readily meet its maturing obligations and continue as a going concern.

Approval of the Financial Statements
The financial statements as at and for the years then ended December 31, 2020 and 2019 were approved and authorized for issue by the Board of Directors (BOD) on April 15, 2021.

2. Summary of Significant Accounting Policies

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

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

The financial statements have been prepared on the historical cost basis of accounting, except for AFS investments and investment properties which are stated at fair value, land, building and other equipment included as part of "Property and equipment" in the statement of financial position which are stated at revalued amounts. Historical cost is generally based on the fair value of the consideration given in exchange for an asset and fair value of the consideration received in exchange for incurring a liability.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

Level 1 - Quoted (unadjusted) market prices in active market for identical assets or liabilities;

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

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

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

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

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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

- Note 6 - Financial Assets
- Note 10 - Investment Properties
- Note 11 - Property and Equipment
- Note 25 – Fair Value of Financial Instruments

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

- Amendments to References to the Conceptual Framework in PFRS – The amendments include a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance-in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurements uncertainty in financial reporting. The amendments should be applied retrospectively unless retrospective application would be impracticable or involve undue cost or effort.

- Amendments to PFRS 3 - *Definition of a Business* – This amendment provides a new definition of a "business" which emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. To be considered a business, 'an integrated set of activities and assets' must now include 'an input and a substantive process that together significantly contribute to the ability to create an output'. The distinction is important because an acquirer may recognize goodwill (or a bargain purchase) when acquiring a business but not a group of assets. An optional simplified assessment (the concentration test) has been introduced to help companies determine whether an acquisition is of a business or a group of assets.

- Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material* – The amendments clarify the definition of "material" and how it should be applied by companies in making materiality judgments. The amendments ensure that the new definition is consistent across all PFRS standards. Based on the new definition, an information is "material" if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Effective for annual periods beginning on or after June 1, 2020 –

- Amendments to PFRS 16, Leases – *COVID-19 Related Rent Concessions* – The amendments provide practical expedient to lessees from applying the requirements on lease modifications under PFRS 16 for eligible rent concessions that is a direct consequence of COVID-19 pandemic. A lessee may elect not to assess whether eligible rent concessions from a lessor is a lease modification. A lessee that makes this election account for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment. The amendments do not affect lessors. Earlier application of the amendments is permitted.

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

New and Amended PFRS Issued But Not Yet Effective
Relevant new and amended PFRS which are not yet effective for the year ended December 31, 2020 and have not been applied in preparing the financial statements are summarized below.

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

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

- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds Before Intended Use* – The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for its intended use. Instead, the proceeds and related costs from such items shall be recognized in profit or loss. The amendments must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when an entity first applies the amendment.

- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract* – The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling a contract comprises both the incremental costs of fulfilling that contract and an allocation of costs directly related to contract activities. The amendments apply to contracts existing at the date when the amendments are fist applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other components of equity. Accordingly, the comparatives are not restated. Earlier application is permitted.

- Annual Improvements to PFRS 2018 to 2020 Cycle:

    - Amendments to PFRS 9, *Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities* – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognize a financial liability (i.e. whether the terms of a new or modified financial liability is substantially different from the terms of the original financial liability). These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf. The amendments apply to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendments. Earlier application is permitted.

    - Amendments to PFRS 16, *Leases - Lease Incentives* – The amendment removes from the Illustrative Example 13 the illustration of the reimbursement of leasehold improvements by the lessor. The objective of the amendment is to avoid any potential confusion regarding the treatment of lease incentives because of how the requirements for lease incentives are illustrated.

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

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

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

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

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

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

Financial Instruments

The Company availed of the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*, issued in September 2016. The temporary exemption permits entities whose activities are predominantly connected with insurance to continue applying PAS 39 instead of PFRS 9 until the effectivity of the new insurance standards beginning January 1, 2025.

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

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

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

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

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

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

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

The Company classifies its financial assets into the following categories: financial assets at FVPL, HTM investments, AFS investments, and loans and receivables. The Company classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities.

The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its financial instruments at initial recognition, and where allowed and appropriate, re-evaluates the designation at each reporting date.

The Company has no financial assets and liabilities at FVPL as at December 31, 2020 and 2019.

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

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

The Company's HTM investments consist of investments in government bonds (see Note 6).

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

After the initial measurement, AFS investments are carried at fair value in the statement of financial position. Changes in the fair value of AFS investments are reported as part of other comprehensive income (OCI) and accounted for in equity under "Cumulative fair value changes on AFS investments" account, until the investment is derecognized or the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in profit or loss. AFS investments with no available published prices in the active market are stated at cost less impairment, if any.

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

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

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

The Company's AFS investments include investments in equity securities (see Note 6).

Loans and Receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

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

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

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

Short-term Investments. Short-term investments pertain to investments with maturity periods of more than three months but less than one year, measured at face value, and earn interest at the respective short-term investment rates.

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

Other Financial Liabilities. Financial liabilities which are not held for trading or are not designated at FVPL are classified as financial liabilities carried at amortized cost where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

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

This category includes premiums due to reinsurers, accounts and other payables (excluding statutory payables) and lease liability (see Notes 13, 14 and 23).

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

Loans and Receivables. The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor’s ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the assets' effective interest rate. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset shall be reduced directly or through the use of an allowance account. The amount of loss shall be recognized in profit or loss.

If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

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

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

In the case of debt instrument classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost.

Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of "interest income" account in profit or loss. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

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

Derecognition of Financial Assets and Financial Liabilities

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

- The right to receive cash flows from the asset has expired;

- The Company retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

- The Company has transferred its right to receive cash flows from the financial asset and either has transferred substantially all the risks and rewards incidental to ownership of the financial asset; or

- Has neither transferred nor retained substantially all the risks and rewards incidental to ownership of the financial asset, but has transferred control of the financial asset.

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

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

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

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

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

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

Offsetting of Financial Assets and Liabilities
Financial assets and liabilities are offset and the net amount is reported in the statement of financial position, if and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Other Current Assets
This account includes deferred input value-added tax (VAT), prepaid taxes, prepayments, security funds and deposits, among others, which are stated at face value.

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

- Where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable; or

- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT payable to the taxation authority is included as part of “Accounts and other payables” in the statement of financial position.

Deferred Input VAT. Deferred input VAT represents input VAT on unpaid services and unamortized amount of input VAT on purchased capital goods amounting to more than ₱1.0 million a month which is to be amortized over 60 months or estimated useful life of related asset, whichever is shorter. Deferred input VAT that is expected to be claimed against output VAT for no more than 12 months after the reporting date is classified under “Other current assets”. Otherwise, these are classified as noncurrent assets.

Prepaid taxes. Prepaid taxes are taxes paid in advance and recorded as asset before these are utilized and is measured at the amount of cash paid. This will be applied as payment against taxes in the following year.

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

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

Security Funds and Deposits. Security funds and deposits pertain to amount advances to lessors under operating lease agreement and to suppliers. Security deposits and deposits on lease agreement renewable annually are included under current assets. Otherwise, this is presented under noncurrent assets.

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

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

Investment Properties

Investment properties pertain to a parcel of land and buildings which are held to earn rentals or for capital appreciation or for both.

Investment properties are measured initially at cost. Cost includes the acquisition cost of the investment properties plus incidental costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects the prevailing market conditions as at report date. Gains or losses resulting from changes in fair value of the investment properties are recognized in profit or loss in the period in which they arise.

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

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

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

Property and Equipment

Property and equipment, except for land, building and other equipment, are stated at cost less accumulated depreciation and amortization and any impairment losses. Land, building and other equipment are stated at revalued amounts. Under the revaluation model, these are initially recorded at cost and subsequently carried at appraised values, as determined by independent appraisers, less any subsequent accumulated depreciation and amortization and any accumulated impairment losses. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Additions subsequent to the last appraisal date are stated at acquisition cost.

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

Expenditures incurred after the assets have been put into operations, such as repairs and maintenance, are normally charged to profit or loss in the year the cost are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of the assets.

Any revaluation reserve is credited to "Revaluation reserve for property and equipment" account presented under the equity section of the statement of financial position. Any revaluation deficit directly offsetting a previous surplus in the same asset is charged to OCI to the extent of any revaluation surplus in equity relating to this asset and the remaining deficit, if any, is recognized in profit or loss.

Annually, an amount from the "Revaluation reserve for property and equipment" account is transferred to "Retained earnings" under the equity section in the statement of financial position for the depreciation relating to the revaluation reserve, net of related taxes. Upon disposal, any revaluation reserve relating to the particular asset sold is transferred to "Retained earnings." Revaluations are performed with sufficient regularity ensuring that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

Asset type	Number of Years
Building	40
Office furniture and equipment	5
Transportation equipment	5
Other equipment	5
Leasehold improvements	5 or lease term, whichever is shorter

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

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

Construction in-progress (CIP) represents properties under construction and is stated at cost, including costs of construction, equipment and other direct costs. CIP is not depreciated until such time that the relevant assets are completed and ready for operational use.

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

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

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

Impairment of Nonfinancial Assets

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

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in profit or loss.

Insurance Contracts

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

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

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

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

Premiums and claims on assumed reinsurance are recognized in profit or loss in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the reinsurance contract.

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

Insurance Contract Liabilities

Provision for Unearned Premiums. The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as unearned premiums. The change in the provision for unearned premiums is recognized in profit or loss in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

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

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

Benefits and Claims

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

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

Equity

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

Contingency Surplus. Contingency surplus, which is measured at amount received, represents contributions to cover any deficiency in the net worth requirement under the Insurance Code and can be withdrawn upon the approval of the IC.

Retained Earnings. Retained earnings represent the cumulative balance of the Company's net income.

Other Components of Equity. Other components of equity comprise of revaluation reserve for property and equipment, cumulative fair value changes of AFS investments and cumulative remeasurement gain on net retirement liability that were not recognized in profit or loss. These income and expenses, when earned or incurred for the period, are classified as OCI and presented after net income in the statement of comprehensive income.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

The following are the recognition criteria for revenues of the Company outside the scope of PFRS 15, *Revenues from Contracts with Customers.*

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

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of premiums written that relate to the unexpired periods of the policies at reporting date are accounted for as provisions for unearned premiums and included as part of "insurance contract liabilities" in the statement of financial position. The net changes in these accounts during the year are recognized in profit or loss for the year.

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

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

Rent Income. Rent income is recognized as earned on a straight-line basis over the lease term.

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

Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Association perform its obligations; (b) the Association's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Association's performance does not create an asset with an alternative use to the Association and the Association has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

The Company also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Company has assessed that it acts as principal in all of its revenue sources.

The following specific recognition criteria must also be met before revenue is recognized:

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

Expense Recognition

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

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

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

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

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

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

Employee Benefits

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

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

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

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

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

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

Plan assets are assets that are held in trust and managed by a trustee bank. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. The fair value of the plan assets is based on the market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Related Party Transactions and Relationships

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

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

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

Leases

The Company assesses whether the contracts is, or contains, a lease. To assess whether a contract conveys the right to control the use of an identified assets for a period of time, the Company assesses whether, throughout the period of use, it has both of the following:

a. The right to obtain substantially all of the economic benefits from the use of the identified asset; and

b. The right to direct the use of the identified asset.

If the Company has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that portion of the term.

The Company also assesses whether a contract contains a lease for each potential separate lease component.

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

The Company as a Lessee. At the commencement date, the Company recognizes ROU asset and lease liability for all leases, except for leases with lease terms of 12 months or less (short-term leases) and leases for which the underlying asset is of low value in which case the lease payments associated with those leases are recognized as an expense on a straight-line basis.

ROU Asset. At commencement date, the Company measures ROU asset at cost. The cost comprises:

a. The amount of the initial measurement of lease liability;

b. Any lease payments made at or before the commencement date less any lease incentives received;

c. Any initial direct costs; and

d. An estimation of costs to be incurred by the Company in dismantling and removing the underlying asset, when applicable.

The ROU asset is recognized at the present value of the liability at the commencement date of the lease, adding any directly attributable costs. After the commencement date, the ROU asset is carried at cost less any accumulated amortization and accumulated impairment losses, and adjusted for any remeasurement of the related lease liability. The ROU asset is amortized over the shorter of the lease term or the useful life of the underlying asset of ten years.

Lease Liability. At commencement date, the Company measures a lease liability at the present value of future lease payments using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of a lease liability comprise the following:

a. Fixed payments, including in-substance fixed payments;

b. Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

c. Amounts expected to be payable by the lessee under residual value guarantees; and

d. The exercise price under a purchase option that the Company is reasonably certain to exercise; lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option; and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

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

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

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

For income tax reporting purposes, expenses under operating lease agreements are treated as deductible expenses in accordance with the terms of the lease agreements.

Foreign Currency Denominated Transactions

The Company determines its own functional currency and items included in the financial statements are measured using that functional currency. Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of each reporting date. All differences are taken to statement of comprehensive income.

For income tax reporting purposes, foreign exchange gains or losses are treated as taxable income or deductible expenses in the year such are realized.

Income Tax

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

Deferred Tax. Deferred tax is provided, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is recognized in statement of comprehensive income except to the extent of items recognized as OCI or items directly recognized in equity.

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

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

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

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

Provisions

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

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

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

Contingencies

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

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

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

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

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

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

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

Identifying Product Classification. The Company has determined that the policies it issues have significant insurance risk and therefore meets the definition of an insurance contract and are accounted for as such. Insurance contracts are those contracts when the Company has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts also transfer financial risk.

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

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

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

Classifying Leases – The Company as a Lessor. The Company has entered into contracts of lease with related parties covering office spaces for various periods ranging between one to five years and has determined that it retains all the significant risks and rewards incidental to ownership of the leased properties. The leases are therefore accounted for as operating leases.

Rent income amounted to ₱11.5 million and ₱2.2 million in 2020 and 2019, respectively (see Note 23).

Classifying Leases – The Company as Lessee. The Company, as a lessee, has entered into operating lease agreements for the land where its newly-constructed building is located and several branch offices. For the Company's non-cancellable lease, the Company recognizes ROU assets and lease liabilities measured at the present value of lease payments to be made over the lease term using the Company's incremental borrowing rate. The Company availed exemption for short-term leases with term of 12 months or less. Accordingly, lease payments on the short-term lease are recognized as expense on a straight-line basis over the lease term.

The carrying amount of ROU assets amounted to ₱41.6 million and million ₱46.1 million as at December 31, 2020 and December 31, 2019, respectively (see Note 23).

The carrying amount of lease liability amounted to ₱43.6 million and million ₱46.1 million as at December 31, 2020 and December 31, 2019, respectively (see Note 23).

Rent expense on short-term lease in 2020 and 2019 amounted to ₱1.0 million and ₱1.5 million, respectively (see Note 23).

Determining the Incremental Borrowing Rate on Lease. The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate to measure lease liabilities.

The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. The Company estimates the IBR using available observable inputs, such as the prevailing Bloomberg Valuation Service (BVAL) interest rates, adjusted for entity-specific estimates, to reflect the terms and conditions of the lease.

Estimates and Assumptions

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

Estimating the Claims Liability Arising from Insurance Contracts. For non-life insurance contracts, estimates have been made both for the expected ultimate costs of claims reported at the end of the reporting period and for the expected ultimate cost of the IBNR claims at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty and for some type of policies, IBNR claims form the majority of the statements of financial position claims provision. The IBNR provision of the Company has been calculated using standard actuarial projection techniques using past development patterns to determine the expected future development and project the claim amounts for each accident year to its ultimate value. A number of different valuation methodologies have been adopted, each with their own strengths and blended them together which include incurred chain ladder/development approach, paid chain ladder/development method, the Bornheutter-Ferguson incurred approach and the Bornheutter-Ferguson paid approach. At each reporting date, prior year claims estimates are reassessed for adequacy and changed made are charged to provision.

The main assumptions underlying the estimation of the claims provision is that a Company's past claims development experience can be used to project future claims development and hence, ultimate claims costs. Historical claims development is mainly analyzed by accident years, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserve at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation and loss ratio. Instead, the assumptions used are those implicit in the historic claims development data on which projections are based.

The total carrying value of provision for outstanding claims and IBNR amounted to ₱98.7 million and ₱103.1 million as at December 31, 2020 and 2019, respectively (see Note 12).

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

The carrying amount of AFS investments measured at fair value amounted to ₱110.6 million and ₱106.8 million as at December 31, 2020 and 2019, respectively (see Note 6).

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

No impairment loss was recognized in 2020 and 2019. The carrying amount of AFS investments amounted to ₱112.3 million and ₱108.5 million as at December 31, 2020 and 2019, respectively (see Note 6).

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

No impairment loss was recognized in 2020 and 2019. The carrying amount of HTM investments amounted to ₱338.9 million and ₱258.3 million as at December 31, 2020 and 2019, respectively (see Note 6).

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

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

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

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

Provision for impairment losses recognized on insurance receivables amounted to ₱95.9 million and ₱15.1 million in 2020 and 2019, respectively. Amounts written-off amounted to ₱92.1 million and ₱23.0 million in 2020 and 2019, respectively. The carrying amount of insurance receivables amounted to ₱177.8 million and ₱320.3 million as at December 31, 2020 and 2019, respectively. Allowance for impairment losses amounted to ₱10.0 million and ₱6.2 million as at December 31, 2020 and 2019, respectively (see Note 5).

No provision for impairment loss on loans and receivables was recognized in 2020 and 2019. The carrying amount of loans and receivables amounted to ₱11.9 million and ₱8.1 million as at December 31, 2020 and 2019, respectively. Allowance for impairment losses amounted to ₱3.4 million as at December 31, 2020 and 2019 (see Note 6).

Determining the Fair Value of Investment Properties. Investment properties are carried at fair value, which has been determined based on arm's length transactions as at the reporting period, as certified by the an independent appraiser using income and market data approach for buildings and land, respectively.

The fair value of investment properties amounted to and ₱292.0 million and ₱256.0 million as at December 31, 2020 and 2019, respectively (see Note 10).

Determining the Fair Value of Property and Equipment. The Company carries certain property and equipment at revalued amounts. The values of properties were arrived at by using market data approach. With this approach, the valued of the properties are based on sales and listings of comparable properties registered in the vicinity.

The fair value of property and equipment carried at revalued amount amounted to ₱203.3 million and ₱198.2 million as at December 31, 2020 and 2019, respectively (see Note 11).

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

The carrying amount of depreciable property and equipment amounted to ₱95.4 million and ₱96.9 million as at December 31, 2020 and 2019, respectively (see Note 11).

Assessing the Impairment Losses on Property and Equipment. The Company assesses impairment on property and equipment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

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

There were no impairment indicators on property and equipment in 2020 and 2019. Accordingly, no impairment loss was recognized. The carrying amount of property and equipment amounted to ₱210.6 million and ₱207.0 million as at December 31, 2020 and 2019, respectively (see Note 11).

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

The assumptions for determining retirement expense are described in the Note 21 and include, among others, discount rate and expected rate of salary increase. Actual results that differ from certain assumptions are accumulated and are recognized as part of equity. While management believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in management assumptions may materially affect the retirement liability.

Retirement expense amounted to ₱1.8 million and ₱0.4 million in 2020 and 2019, respectively. Net retirement liability amounted to ₱12.3 million and ₱5.5 million as at December 31, 2020 and 2019, respectively (see Note 21).

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

The Company's deferred tax assets amounted to ₱11.9 million and ₱8.9 million as at December 31, 2020 and 2019, respectively (see Note 22).

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

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

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

Based on the assessment of the Company's management, ultimate outcome of unasserted claims will not have a material impact on the statements of financial position and statements of comprehensive income.

Outstanding provision for probable losses amounting to ₱9.4 million as at December 31, 2020 and 2019 is included under "Accounts and other payables" account (see Note 14).

4. Cash and Cash Equivalents and Short-term Investments

This account consists of:

	2020	2019
Cash on hand	**₱2,154,082**	₱2,274,797
Cash in banks	**222,142,221**	223,145,800
Cash equivalents	**54,336,701**	291,875,166
	₱278,633,004	₱517,295,763

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

Cash equivalents pertain to short-term placements made in varying periods with maturity of up to 90 days, depending on the immediate cash requirements of the Company, and earn interest ranging from 1.50% to 2.00% and from 2.25% to 5.50% in 2020 and 2019, respectively.

Short-term placements with maturity of more than 90 days up to one year amounting to ₱175.3 million as at December 31, 2020 earn interest ranging from 1.13% to 5.50%.

Interest income earned from cash and cash equivalents and short-term placements amounted to ₱5.2 million and ₱9.6 million in 2020 and 2019, respectively (see Note 6).

5. Insurance Receivables

This account consists of:

	Note	**2020**	2019
Premium receivables:			
Related parties	15	**₱97,402,685**	₱124,702,237
Third parties		**65,456,649**	173,268,767
Reinsurance recoverable on paid losses		**23,291,417**	26,941,519
Premiums due from ceding companies		**1,637,614**	1,632,005
		187,788,365	326,544,528
Less allowance for impairment losses		**(10,007,372)**	(6,228,907)
		₱177,780,993	₱320,315,621

Premium receivables arise from unpaid premiums from policyholders and intermediaries. Normal credit term of these receivables is 30 to 90 days.

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

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

Movements in allowance for impairment losses on insurance receivables follow:

	Note	**2020**	2019
Balance at beginning of year		**₱6,228,907**	₱14,176,085
Provision for impairment losses	19	**95,887,624**	15,081,196
Write-off		**(92,109,159)**	(23,028,374)
Balance at end of year		**₱10,007,372**	₱6,228,907

6. Financial Assets

This account consists of:

	2020	2019
HTM investments:		
Current portion	**₱162,230,321**	₱140,555,946
Noncurrent portion	**176,628,496**	117,702,458
	338,858,817	258,258,404
AFS investments	**112,304,820**	108,501,784
Loans and receivables	**11,888,894**	8,084,823
	₱463,052,531	₱374,845,011

HTM Investments

HTM investments are investments in retail treasury bonds and Peso-denominated government debt securities. Government debt securities deposited with the IC in accordance with the Insurance Code (the Code) amounted to ₱243.5 million and ₱248.3 million as at December 31, 2020 and 2019, respectively. These government securities serve as security for the benefit of policyholders and creditors of the Company.

Movements of the HTM investments are as follows:

	2020	2019
Balance at beginning of year	**₱258,258,404**	₱310,428,061
Additions	**218,927,400**	59,938,300
Disposals	**(141,480,000)**	(122,302,705)
Net premium amortization	**3,153,013**	10,194,748
Balance at end of year	**₱338,858,817**	₱258,258,404

Interest income earned from HTM investments amounted to ₱7.6 million and ₱6.4 million in 2020 and 2019, respectively.

The maturity profile of the HTM investments is as follows:

	2020	2019
Within one year	**₱162,230,321**	₱140,555,946
Two to five years	**105,449,498**	19,695,957
Four to five	**39,483,094**	52,479,846
Beyond five years	**31,695,904**	45,526,655
	₱338,858,817	₱258,258,404

As at December 31, 2020 and 2019, the Company has no HTM investments pledged as collateral.

AFS Investments
AFS investments in equity securities follow:

	2020	2019
Quoted	**₱110,615,215**	₱106,812,179
At cost	**1,689,605**	1,689,605
	₱112,304,820	₱108,501,784

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

Movements of the AFS investments are as follows:

	2020	2019
Balance at beginning of year	**₱108,501,784**	₱104,374,527
Additions	**10,893,767**	19,667,408
Disposals	**(5,784,043)**	(17,184,524)
Net change in fair value of AFS investments	**(1,306,688)**	1,644,373
Balance at end of year	**₱112,304,820**	₱108,501,784

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

	2020	2019
Balance at beginning of year	**₱4,674,718**	₱3,030,345
Change in fair value of AFS investments	**(1,936,685)**	2,022,420
Fair value of AFS investments reclassified to profit or loss	**629,997**	(378,047)
Balance at end of year	**₱3,368,030**	₱4,674,718

Dividends earned from AFS investments amounted to ₱6.0 million and ₱7.6 million in 2020 and 2019, respectively.

Loans and Receivables
Loans and receivables consist of:

	Note	2020	2019
Due from related parties	15	**₱7,884,006**	₱3,949,215
Accrued interest receivable		**2,490,805**	3,202,986
Reinsurance premium receivable		**1,739,371**	1,766,353
Accounts receivable		**989,579**	712,306
Advances to officers and employees		**549,307**	536,970
Commissions receivable		**190,997**	202,292
Others		**1,410,133**	1,080,005
		15,254,198	11,450,127
Less allowance for impairment losses		**(3,365,304)**	(3,365,304)
		₱11,888,894	₱8,084,823

Investment Income
Investment income arises from the following:

	Note	2020	2019
Interest income on:			
HTM investments		**₱7,590,489**	₱6,359,340
Cash and cash equivalents	4	**4,634,496**	9,599,352
Short-term investments	4	**526,143**	–
		12,751,128	15,958,692
Dividend income		**5,951,750**	7,632,081
Realized gain (loss) on sale of AFS investments		**(629,997)**	378,047
	20	**₱18,072,881**	₱23,968,820

7. Reinsurance Assets

This account consists of:

	Note	2020	2019
Reinsurance recoverable on unpaid losses	12	**₱10,451,707**	₱11,353,192
Deferred reinsurance premiums	12	**10,982,789**	11,245,242
		₱21,434,496	₱22,598,434

8. Deferred Acquisition Costs and Deferred Reinsurance Commissions

Deferred Acquisition Costs
Movement in this account follows:

	2020	2019
Balance at beginning of year	**₱24,871,362**	₱22,827,526
Cost deferred during the year	**34,240,119**	51,790,814
Amortization during the year	**(39,992,564)**	(49,746,978)
Balance at end of year	**₱19,118,917**	₱24,871,362

Deferred Reinsurance Commissions
Movement in this account follows:

	2020	2019
Balance at beginning of year	**₱2,284,287**	₱2,602,020
Income deferred during the year	**3,942,551**	4,131,287
Amortization during the year	**(4,072,204)**	(4,449,020)
Balance at end of year	**₱2,154,634**	₱2,284,287

9. Other Current Assets

This account consists of:

	2020	2019
Deferred input VAT	**₱11,547,805**	₱13,499,022
Prepaid taxes	**4,950,545**	8,813,000
Prepayments	**3,637,498**	3,170,666
Security funds and deposits	**1,995,333**	2,001,859
Others	**480,000**	480,000
	₱22,611,181	₱27,964,547

Deferred input tax pertains to input VAT arising from claims incurred which remain unpaid at the end of the year.

Prepayments pertain to taxes, insurance and service fees paid in advance by the Company.

Security funds and deposits pertain to amounts advanced to lessors for rented properties and to suppliers.

10. Investment Properties

Investment properties, which are carried at fair value, pertain to parcels of land and buildings held to earn rentals. Details are as follow:

	2020	2019
Building	**₱230,041,978**	₱193,992,011
Land	**61,963,000**	61,963,000
	₱292,004,978	₱255,955,011

Movement in this account follows:

	Note	2020	2019
Cost			
Balance at beginning of year		**₱194,003,322**	₱101,993,463
Additions		**26,623,465**	–
Reclassification	11	**–**	92,009,859
Balance at end of year		**220,626,787**	194,003,322
Cumulative Gain on Fair Value Changes			
Balance at beginning of year		**61,951,689**	51,258,508
Fair value gain	20	**9,426,502**	10,693,181
Balance at end of year		**71,378,191**	61,951,689
Carrying Amount		**₱292,004,978**	₱255,955,011

In 2019, a new office building was completed and reclassified to investment property.

Rental income earned from investment properties amounted to ₱11.5 million and ₱2.2 million in 2020 and 2019, respectively (see Note 23).

Direct costs incurred related to the investment property mainly pertains to the real property taxes amounting to ₱0.3 million and ₱0.4 million in 2020 and 2019, respectively.

The fair value of investment properties are based on a valuation made by an independent qualified appraiser as at December 31, 2020.

The fair value of the parcel of land was based on “Market Value” approach, using unobservable inputs such as average selling price per square meter. Estimated price per square meter based on this approach and unobservable input amounted to ₱45,000 per square meter. Significant increases (decreases) in estimated price per square meter would result in a significantly higher (lower) fair value of the properties.

The fair value of the building was determined using “Income Approach” based on what an investor is willing to pay for a particular investment. Estimated rental rate ranges from ₱400 to ₱550 per square meter and uses a discount rate of 7.70% to 12.00%. Significant changes in estimated rental rate per square meter and discount rate would significantly affect the fair value of the properties.

The fair value measurement considers the concept of value in use of the investment properties which is based on the highest and best use of the asset or that which may reasonably be expected to produce the highest return over a given period of time. The fair value measurement is categorized under Level 3 of the fair value hierarchy.

11. Property and Equipment

This account consists of:

	2020	2019
At revalued amount	**₱203,280,022**	₱198,153,992
At cost	**7,332,387**	8,846,464
	₱210,612,409	₱207,000,456

Movements of property and equipment carried at revalued amount are as follows:

	2020			
	Land	**Building**	**Other Equipment**	**Total**
Cost				
Balance at beginning of year	**₱110,080,000**	**₱104,895,032**	**₱4,802,889**	**₱219,777,921**
Revaluation	**5,120,000**	**2,314,294**	**470,000**	**7,904,294**
Balance at end of year	**115,200,000**	**107,209,326**	**5,272,889**	**227,682,215**
Accumulated Depreciation				
Balance at beginning of year	–	**18,321,040**	**3,302,889**	**21,623,929**
Depreciation	–	**2,278,264**	**500,000**	**2,778,264**
Balance at end of year	–	**20,599,304**	**3,802,889**	**24,402,193**
Carrying Amount	**₱115,200,000**	**₱86,610,022**	**₱1,470,000**	**₱203,280,022**

	2019			
	Land	Building	Other Equipment	Total
Cost				
Balance at beginning of year	₱107,520,000	₱102,717,120	₱4,227,333	₱214,464,453
Revaluation	2,560,000	2,177,912	575,556	5,313,468
Balance at end of year	110,080,000	104,895,032	4,802,889	219,777,921
Accumulated Depreciation				
Balance at beginning of year	–	16,100,090	2,707,333	18,807,423
Depreciation	–	2,220,950	595,556	2,816,506
Balance at end of year	–	18,321,040	3,302,889	21,623,929
Carrying Amount	₱110,080,000	₱86,573,992	₱1,500,000	₱198,153,992

The reconciliation of revaluation reserve on property and equipment is as follows:

	2020		
	Revaluation Reserve	**Deferred Tax Liability** (see Note 22)	**Net**
Balance at beginning of year	**₱140,797,370**	**₱42,239,211**	**₱98,558,159**
Revaluation increment	**7,904,294**	**2,371,288**	**5,533,006**
Transfer to retained earnings	**(760,320)**	**(228,096)**	**(532,224)**
Balance at end of year	**₱147,941,344**	**₱44,382,403**	**₱103,558,941**

	2019		
	Revaluation Reserve	Deferred Tax Liability (see Note 22)	Net
Balance at beginning of year	₱136,282,465	₱40,884,740	₱95,397,725
Revaluation increment	5,313,468	1,594,040	3,719,428
Transfer to retained earnings	(798,563)	(239,569)	(558,994)
Balance at end of year	₱140,797,370	₱42,239,211	₱98,558,159

Land, building and other equipment are stated at revalued amounts based on the latest independent property revaluation performed by an independent appraiser as at December 31, 2020.

The valuation for parcel of land was derived through "Market Value" approach based upon prices paid in actual market transactions. This approach relies on the comparison of recent sale transactions or offerings of similar properties which have occurred or offered with close proximity to the subject property adjusted based on certain elements of comparison (e.g. market conditions, location, physical condition and amenities). Estimated price per square meter based on this approach and unobservable input amounted to ₱45,000.00 per square meter. Significant changes in estimated price per square meter would significantly affect the fair value of the properties.

The valuation for the building was arrived using cost approach and straight-line depreciation-effective age methods. In this approach, the value of the building is determined by deducting the estimated total accrued depreciation from the estimated total reproduction cost of similar new improvements. Reproduction cost figures are based on present day costs.

If land, building and other equipment were carried at cost less accumulated depreciation, the amounts would be as follows:

	2020	2019
Cost	**₱155,723,819**	₱155,723,819
Accumulated depreciation	**(100,385,141)**	(98,367,197)
Carrying Amount	**₱55,338,678**	₱57,356,622

Movements of property and equipment carried at cost are as follows:

	2020			
	Office Furniture and Equipment	**Transportation Equipment**	**Leasehold Improvements**	**Total**
Cost				
Balance at beginning of year	**₱49,028,305**	**₱14,457,863**	**₱265,810**	**₱63,751,978**
Additions	**1,705,346**	**390,553**	**–**	**2,095,899**
Disposals	**–**	**(1,720,312)**	**–**	**(1,720,312)**
Balance at end of year	**50,733,651**	**13,128,104**	**265,810**	**64,127,565**
Accumulated Depreciation				
Balance at beginning of year	**44,103,968**	**10,535,736**	**265,810**	**54,905,514**
Depreciation	**2,274,852**	**1,335,124**	**–**	**3,609,976**
Disposals	**–**	**(1,720,312)**	**–**	**(1,720,312)**
Balance at end of year	**46,378,820**	**10,150,548**	**265,810**	**56,795,178**
Carrying Amount	**₱4,354,831**	**₱2,977,556**	**₱–**	**₱7,332,387**

	2019				
	Office Furniture and Equipment	Transportation Equipment	CIP	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱46,050,123	₱14,428,395	₱13,555,468	₱265,810	₱74,299,796
Additions	2,978,182	1,829,468	78,454,391	–	83,262,041
Disposal	–	(1,800,000)	–	–	(1,800,000)
Reclassification	–	–	(92,009,859)	–	(92,009,859)
Balance at end of year	49,028,305	14,457,863	–	265,810	63,751,978
Accumulated Depreciation					
Balance at beginning of year	41,786,920	10,754,200	–	265,810	52,806,930
Depreciation	2,317,048	1,041,536	–	–	3,358,584
Disposals	–	(1,260,000)	–	–	(1,260,000)
Balance at end of year	44,103,968	10,535,736	–	265,810	54,905,514
Carrying Amount	₱4,924,337	₱3,922,127	₱–	₱–	₱8,846,464

CIP pertains to construction of a new office building which was completed in December 2019 and reclassified as investment property when it was leased out to related parties (see Note 10).

Details of disposal of various property and equipment are as follows:

	Note	2020	2019
Proceeds		**₱449,998**	₱704,911
Carrying amount		**–**	540,000
Gain on sale	20	**₱449,998**	₱164,911

Gain on sale of property and equipment is presented under “Other income” account in the statements of comprehensive income.

Depreciation and amortization arise from the following:

	Note	**2020**	2019
At cost		**₱2,778,264**	₱3,358,584
At revalued amount		**3,609,976**	2,816,506
	19	**₱6,388,240**	₱6,175,090

The cost of fully depreciated property and equipment still being used in operations amounted to ₱48.3 million and ₱48.4 million as at December 31, 2020 and 2019, respectively.

12. **Insurance Contract Liabilities**

Insurance contract liabilities consist of:

	2020		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities** (see Note 7)	**Net**
Provision for claims reported by policyholders	**₱97,556,343**	**₱10,451,707**	**₱87,104,636**
Provision for IBNR	**11,588,259**	**–**	**11,588,259**
Outstanding claims provision	**109,144,602**	**10,451,707**	**98,692,895**
Provision for unearned premiums	**178,166,105**	**10,982,789**	**167,183,316**
	₱287,310,707	**₱21,434,496**	**₱265,876,211**

	2019		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (see Note 7)	Net
Provision for claims reported by policyholders	₱100,079,698	₱11,353,192	₱88,726,506
Provision for IBNR	14,365,759	–	14,365,759
Outstanding claims provision	114,445,457	11,353,192	103,092,265
Provision for unearned premiums	286,245,629	11,245,242	275,000,387
	₱400,691,086	₱22,598,434	₱378,092,652

Movements of outstanding claims provision follow:

		2020		
	Note	**Insurance Contract Liabilities**	**Reinsurers' Share of Liabilities**	**Net**
Balance at beginning of year		**₱114,445,457**	**₱11,353,192**	**₱103,092,265**
Claims incurred during the year		**231,614,047**	**22,389,932**	**209,224,115**
Claims paid, net of recoveries	18	**(234,137,402)**	**(23,291,417)**	**(210,845,985)**
Increase in IBNR	18	**(2,777,500)**	**–**	**(2,777,500)**
Balance at end of year		**₱109,144,602**	**₱10,451,707**	**₱98,692,895**

		2019		
	Note	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Balance at beginning of year		₱152,399,002	₱5,244,534	₱147,154,468
Claims incurred during the year		266,057,398	33,050,177	233,007,221
Claims paid, net of recoveries	18	(308,737,782)	(26,941,519)	(281,796,263)
Increase in IBNR	18	4,726,839	–	4,726,839
Balance at end of year		₱114,445,457	₱11,353,192	₱103,092,265

Claims payable settled by related parties on behalf of the Company amounted to ₱50.6 million and ₱70.6 million as at December 31, 2020 and 2019, respectively (see Note 15).

Movements of provision for unearned premiums follow:

		2020		
	Note	**Insurance Contract Liabilities**	**Reinsurers' Share of Liabilities**	**Net**
Balance at beginning of year		**₱286,245,629**	**₱11,245,242**	**₱275,000,387**
Premiums written during the year		**360,461,891**	**19,633,215**	**340,828,676**
Premiums earned during the year	17	**(468,541,415)**	**(19,895,668)**	**(448,645,747)**
Balance at end of year		**₱178,166,105**	**₱10,982,789**	**₱167,183,316**

		2019		
	Note	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Balance at beginning of year		₱271,816,331	₱13,402,108	₱258,414,223
Premiums written during the year		557,448,642	20,524,445	536,924,197
Premiums earned during the year	17	(543,019,344)	(22,681,311)	(520,338,033)
Balance at end of year		₱286,245,629	₱11,245,242	₱275,000,387

13. **Premiums Due to Reinsurers**

Premiums due to reinsurers pertains to premiums ceded to reinsurers under the Company's reinsurance contracts. This amounted to ₱2.9 million and ₱3.8 million as at December 31, 2020 and 2019, respectively.

14. Accounts and Other Payables

This account consists of:

	Note	2020	2019
Accounts payable		**₱15,066,336**	₱16,183,353
Statutory payables		**58,478,236**	76,861,133
Commissions payable			
Related parties	15	**11,919,229**	10,755,557
Third parties		**1,038,592**	2,055,252
Premium deposits		**12,500,628**	7,984,727
Accrued expenses		**12,443,188**	6,018,823
Due to related parties	15	**8,595,116**	6,326,610
Others		**9,443,702**	9,443,702
		₱129,485,027	₱135,629,157

Accounts payable pertain to amounts due to agents, reinsurers, employees and individuals arising from non-insurance transactions. These are normally settled within one year after the reporting date.

Statutory payables consist of government contributions and withholding, premium and fire service tax payable which are normally settled within the subsequent month. These payables also consist of deferred output taxes which are settled upon collection of premium receivables.

Premium deposits pertain to advanced collections from policyholders which remain unapplied to the related policies at the end of the year.

Commissions payable pertain to amounts due to affiliates and agents arising from sale of insurance premiums.

Accrued expenses consist of unpaid utilities, rent, transportation and travel, employee leave incentive payables and bonuses. These are normally settled within one year after the reporting date.

15. Related Party Transactions

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

			Amount of Transactions		Outstanding Balance	
Relationship	Nature of transactions	Note	**2020**	2019	**2020**	2019
Entities under common control	Premiums receivable	5	**₱191,269,329**	₱372,161,441	**₱97,402,685**	₱124,702,237
	Loans and receivables	6	**77,479,659**	136,755,867	**7,884,006**	3,949,215
	Losses and claims payable	12	**149,095,064**	191,343,493	**50,607,101**	70,586,198
	Commission payable	14	**26,876,462**	42,437,581	**11,919,229**	10,755,557
	Accounts payable	14	**15,391,040**	11,994,567	**8,595,116**	6,326,610

Outstanding balances as at year-end are unsecured, noninterest-bearing, and payable and collectible on demand and are normally settled in cash. The Company did not recognize any impairment loss on outstanding receivables in 2020 and 2019. The assessment is undertaken each financial year by examining the financial position of related parties and the market in which they operate.

Compensation of Key Management Personnel

The aggregate compensation of key management personnel of the Company pertains to short-term benefits amounting to ₱8.1 million and ₱6.9 million in 2020 and 2019, respectively.

16. Contingency Surplus

Contingency surplus are received from the Company's stockholders.

On December 21, 2019, the Company received an additional cash contribution from a stockholder amounting to ₱20.0 million. On January 27, 2020, the IC acknowledged the cash infusion made.

Contingency surplus amounted to ₱209.0 million as at December 31, 2020 and 2019.

Pursuant to Circular Letter (CL) 2016-65 issued by IC, contingency surplus represents contributions of stockholders to cover any impairment in net worth requirement and can be withdrawn upon the approval of the IC.

17. Net Earned Insurance Premiums

Gross earned insurance premiums on insurance contracts follow:

	Note	**2020**	2019
Gross premiums on insurance contracts:			
Direct insurance		**₱358,432,796**	₱554,080,210
Assumed reinsurance		**2,029,095**	3,368,433
Total gross premium on insurance contracts		**360,461,891**	557,448,643
Total reinsurer's share of gross change in insurance contract liabilities		**108,079,524**	(14,429,299)
Total gross earned premiums on insurance contracts	12	**₱468,541,415**	₱543,019,344

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

	Note	**2020**	2019
Reinsurers' share of gross premiums on direct insurance contracts		**₱19,633,215**	₱20,524,445
Reinsurers' share of gross change in provision for unearned premiums		**262,453**	2,156,866
Total reinsurer's share of gross earned premiums on insurance contracts	12	**₱19,895,668**	₱22,681,311

18. **Net Insurance Benefits and Claims**

This account consist of:

	Note	**2020**	2019
Gross benefits and claims paid on insurance contracts	12	**₱234,137,402**	₱308,737,782
Reinsurers' share of general insurance contract benefits and claims paid on insurance contracts	12	**(23,291,417)**	(26,941,519)
Net benefits and claims paid		**210,845,985**	281,796,263
Gross change in outstanding claims provisions:			
Direct insurance		**(2,523,353)**	(42,680,386)
Increase (decrease) in IBNR	12	**(2,777,500)**	4,726,839
Total gross change in insurance contract liabilities		**(5,300,853)**	(37,953,547)
Total reinsurer's share of gross change in insurance contract liabilities		**(901,485)**	6,108,658
Net change in insurance contract liabilities		**(6,202,338)**	(31,844,889)
Net insurance benefits and claims		**₱204,643,647**	₱249,951,374

19. **Operating Expenses**

This account consists of:

	Note	**2020**	2019
Provision for impairment losses on insurance receivables	5	**₱95,887,624**	₱15,081,196
Personnel costs		**28,365,165**	26,598,233
Outside services		**16,983,336**	16,697,549
Insurance		**13,409,047**	12,590,111
Fuel, light and water		**10,003,781**	11,808,848
Depreciation and amortization	11	**6,388,240**	6,175,090
Amortization of ROU asset	23	**4,533,135**	–
Communication		**3,606,818**	5,100,422
Taxes and license fees		**3,151,889**	2,698,201
Repairs and maintenance		**2,930,972**	2,776,413
Bank charges		**2,276,418**	2,680,971
Supplies		**2,187,271**	2,995,633
Advertising and promotions		**1,165,982**	2,614,096
Transportation		**1,021,549**	1,858,164
Rent	23	**1,019,120**	1,512,870
Association dues		**995,693**	896,266
Employee welfare		**903,218**	1,163,012
Entertainment, amusement and recreation		**524,224**	1,383,968
Service fees		**396,000**	623,810
Others		**5,240,513**	4,510,265
		₱200,989,995	₱119,765,118

Others include service charges, professional fees and investment expenses.

Personnel costs consist of:

	Note	2020	2019
Salaries, wages and other employee benefits		**₱26,577,978**	₱26,172,233
Retirement expense	21	**1,787,187**	426,000
		₱28,365,165	₱26,598,233

20. **Other Income** - Net

This account consists of:

	Note	2020	2019
Investment income	6	**₱18,072,881**	₱23,968,820
Rent income	23	**11,537,322**	2,192,857
Fair value gain on investment property	10	**9,426,502**	10,693,181
Commission income		**4,072,204**	4,595,067
Gain on sale of property and equipment	11	**449,998**	164,911
Unrealized foreign exchange gain (loss)		**(202,901)**	23,886
Reversal of a liability		**–**	22,485,000
Others		**2,083,352**	1,139,241
		₱45,439,358	₱65,262,963

In 2019, the Company reversed a liability amounting to ₱22.5 million which is not expected to be settled.

21. **Retirement Benefits**

The Company has a funded, noncontributory and defined benefit retirement plan for its qualified employees. The benefits are based on the years of service and percentage of latest monthly salary. The latest actuarial valuation for the period ended December 31, 2020 is as at April 14, 2021.

The following tables summarize the components of retirement benefit expense recognized in the statements of comprehensive income and the movements and amounts recognized in the statements of financial position.

Retirement benefit expense recognized in the statements of comprehensive income and presented in "Personnel costs" account under "Operating expenses" consists of:

	2020	2019
Current service cost	**₱1,520,584**	₱214,451
Net interest cost	**266,603**	211,549
	₱1,787,187	₱426,000

Net retirement liability recognized in the statements of financial position amounted to ₱12.3 million and ₱5.5 million as at December 31, 2020 and 2019, respectively.

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

	2020	2019
Balance at beginning of year	**₱5,542,690**	₱2,967,263
Remeasurement loss on defined benefits obligation	**4,980,980**	2,365,994
Current service cost	**1,520,584**	214,451
Interest cost	**266,603**	215,720
Benefits paid	**–**	(220,738)
Balance at end of year	**₱12,310,857**	₱5,542,690

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

	2020	2019
Balance at beginning of year	**₱–**	₱57,377
Benefits paid	**–**	(220,738)
Contributions	**–**	210,000
Remeasurement loss on plan assets	**–**	(50,810)
Interest income	**–**	4,171
Balance at end of year	**₱–**	₱–

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

	2020		
	Cumulative Remeasurement Loss	**Deferred Tax**	**Net**
Balance at beginning of year	**(₱663,526)**	**(₱199,058)**	**(₱464,468)**
Remeasurement loss	**(4,980,980)**	**(1,494,294)**	**(3,486,686)**
Balance at end of year	**(₱5,644,506)**	**(₱1,693,352)**	**(₱3,951,154)**

	2019		
	Cumulative Remeasurement Gain (Loss)	Deferred Tax	Net
Balance at beginning of year	₱1,753,278	₱525,983	₱1,227,295
Remeasurement loss	(2,416,804)	(725,041)	(1,691,763)
Balance at end of year	(₱663,526)	(₱199,058)	(₱464,468)

The Company is not expected to contribute to its retirement fund in 2021.

The plan exposes the Company to the following risks:

- *Salary risk* - any increase in the retirement plan participants' salary will increase the retirement plan's liability.

- *Longevity risk* - any increase in the plan participants' life expectancy will increase the retirement plan's liability.

- *Interest rate risk* - a decrease in the bond interest rate will increase the present value of the retirement liability. However, partially counterbalanced by an increase in the return on the plan assets.

- *Investment risk* - if the actual return on plan assets is below the discount rate used in calculating the present value of the retirement liability, a plan deficit will arise. However, the compositions of plan assets are balanced enough not to expose the Company to significant concentrations of investment risk.

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

	2020	2019
Discount rates	**4.15%**	4.81%
Salary increase rate	**5.00%**	10.00%

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

	Change in Assumption	Effect on Net Retirement Liability	Present Value of Net Retirement Liability
Discount rate	+1.0%	(₱1,756,570)	₱10,554,287
	-1.0%	2,212,128	14,522,985
Salary increase rate	+1.0%	2,230,026	14,540,883
	-1.0%	(1,804,582)	10,506,275

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

Period	**2020**	2019
Less than one year	**₱65,161**	₱–
Between one to five years	**2,436,962**	694,254
Between five and 10 years	**5,704,893**	3,123,491
Between 10 to 15 years	**2,933,714**	–
Between 15 to 20 years	**9,272,553**	7,470,036
Over 20 years	**120,726,251**	19,682,920
	₱141,139,534	₱30,970,701

The weighted average duration of the net retirement liability is 29 years.

22. **Income Taxes**

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

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

	2020	2019
Deferred tax liabilities on:		
Revaluation of property and equipment carried at fair value	**₱44,382,403**	₱42,239,211
Fair value gain on investment property	**21,413,457**	18,585,507
Unrealized foreign exchange gain	**–**	7,166
	65,795,860	60,831,884
Deferred tax assets on:		
Allowance for impairment losses on receivables	**4,011,803**	2,878,263
Net retirement liability	**3,693,257**	1,662,807
Provision for IBNR losses	**3,476,478**	4,309,728
Excess of lease liability over ROU asset	**616,014**	–
Unrealized foreign exchange loss	**60,870**	–
	11,858,422	8,850,798
Net deferred tax liabilities	**₱53,937,438**	₱51,981,086

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

	2020	2019
In profit or loss	**₱1,079,359**	₱4,232,451
In OCI	**876,993**	629,430
	₱1,956,352	₱4,861,881

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

	2020	2019
Provision for income tax at statutory income tax rate	**₱13,901,596**	₱49,841,258
Income tax effects of:		
Interest income already subjected to final tax	**(3,636,339)**	(4,901,022)
Dividend income exempted from tax	**(1,785,525)**	(2,289,624)
Investment expenses	**77,900**	81,383
Reversal of a liability	**–**	(6,745,500)
	₱8,557,632	₱35,986,495

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

However, the income tax rates used in preparing the financial statements as at and for the year ended December 31, 2020 are 30% and 2% for RCIT and MCIT, respectively. The approval of the law is considered a non-adjusting event for financial reporting.

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

	Balances Using Revised Income Tax Rate	Audited Balances (Based on Old Income Tax Rate)	Differences
Income tax payable	₱715,060	₱1,338,250	(₱623,190)
Net deferred tax liabilities	44,947,865	53,937,438	(8,989,573)
Retained earnings	548,611,004	546,113,083	2,497,921
Other components of equity:			
Revaluation reserve for property and equipment	110,956,008	103,558,941	7,397,067
Remeasurement loss on net retirement liability	4,233,379	3,951,154	282,225
Provision for current income tax	6,855,083	7,478,273	(623,190)
Provision for deferred income tax:			
Recognized in profit or loss	(757,357)	1,079,359	(1,836,716)
Recognized in OCI	(6,275,864)	876,993	(7,152,857)
Net income	40,240,927	37,781,021	2,459,906

23. Operating Lease Commitments

Operating Lease Commitments - The Company as a Lessor

The Company, as a lessor, has entered into several operating lease agreements with related parties covering office spaces for various periods ranging between one to five years.

Rental income earned by the Company amounted to ₱11.5 million and ₱2.2 million in 2020 and 2019, respectively (see Note 10). These amounts are presented under "Other income" account in the statements of comprehensive income.

Future minimum rental receivables in 2020 and 2019 under the said lease agreements are as follows:

	2020	2019
Within one year	**₱17,141,077**	₱921,000
After one year but not more than five years	**47,412,322**	3,642,000
More than five years	**34,239,286**	–
	₱98,792,685	₱4,563,000

Operating Lease Commitments - The Company as a Lessee

The Company, as a lessee, has entered into operating lease agreements for the land where its newly-constructed building is located and several of its branch offices with varying terms ranging between one to ten years with and escalation rate of 5% every three years. The leases are renewable under certain terms and conditions.

Lease payments for short-term operating lease agreements with third party lessors for its branch offices are recognized as expense on a straight-line basis over the lease term. Rental expense arising from these lease agreements amounted to ₱1.0 million and ₱1.5 million in 2020 and 2019, respectively (see Note 19).

In 2019, the Company entered into a lease agreement with a related party covering the land for its newly-constructed building. The ROU asset and lease liability are measured at the present value of lease payments to be made over the lease term using the Company's incremental borrowing rate of 4.68% at adoption date.

Movements in ROU asset follows:

	Note	**2020**	2019
Balance at beginning of year		**₱46,086,873**	₱–
Amortization	19	**(4,533,135)**	–
Additions		**–**	46,086,873
Carrying amount		**₱41,553,738**	₱46,086,873

Movements in lease liability follows:

	2020	2019
Balance as at beginning of year	**₱46,086,873**	₱–
Payments	**(4,600,000)**	–
Interest expense	**2,120,246**	–
Additions	**–**	46,086,873
Balance at end of year	**43,607,119**	46,086,873
Current portion	**(3,556,568)**	(4,468,047)
Noncurrent portion	**₱40,050,551**	₱41,618,826

Lease-related accounts recognized in the statements of comprehensive income are as follows:

	Note	**2020**	2019
Amortization of ROU asset	19	**₱4,533,135**	₱–
Interest expense on lease liabilities		**2,120,246**	–
Rent expense	19	**1,019,120**	1,512,870
		₱7,672,501	₱1,512,870

Future minimum payments on lease liability follows:

	2020	2019
Within one year	**₱3,556,568**	₱4,468,047
After one year but not more than five years	**16,842,945**	19,603,413
More than five years	**23,207,606**	22,015,413
	₱43,607,119	₱46,086,873

24. **Insurance and Financial Risk Management Objectives and Capital Management**

Insurance Risk

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

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

	2020		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities**	**Net**
Motor	**₱89,551,215**	**₱ 7,503,312**	**₱82,047,903**
Fire	**7,904,459**	**181,340**	**7,723,119**
Casualty	**3,972,945**	**307,622**	**3,665,323**
Marine	**1,988,468**	**136,950**	**1,851,518**
Bond	**152,000**	**52,000**	**100,000**
Accident	**2,208,431**	**79,113**	**2,129,318**
Engineering	**3,367,084**	**2,191,370**	**1,175,714**
	₱109,144,602	**₱10,451,707**	**₱98,692,895**

	2019		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Motor	₱108,182,275	₱7,967,382	₱100,214,893
Fire	1,548,005	728,497	819,508
Casualty	652,476	188,000	464,476
Marine	487,578	125,000	362,578
Bond	113,000	32,000	81,000
Accident	119,062	32,208	86,854
Engineering	3,343,061	2,280,105	1,062,956
	₱114,445,457	₱11,353,192	₱103,092,265

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

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

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

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

The majority of reinsurance business ceded is placed on a surplus and excess-of-loss basis with retention limits varying by the product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statements of financial position as reinsurance assets.

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

The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon a single reinsurance contract. There is no single counterparty exposure that exceeds 5% of the total reinsurance assets at the reporting date.

Financial Risk Management Objectives

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

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

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

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

	2020	2019
Cash in banks	**₱222,142,221**	₱223,145,800
Cash equivalents	**54,336,701**	291,875,166
Short-term investments	**175,334,711**	–
Insurance receivables	**177,780,993**	320,315,621
HTM investments	**338,858,817**	258,258,404
Loans and receivables	**11,888,894**	8,084,823
	₱980,342,337	₱1,101,679,814

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

	2020							
	Neither past due or impaired			**Past due but not impaired**				
	High Grade	**Substandard Grade**	**Standard Grade**	**Over 30 Days**	**Over 90 Days**	**Over 180 Days**	**Impaired**	**Total**
Cash in banks	**₱222,142,221**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱222,142,221**
Cash equivalents	**54,336,701**	**–**	**–**	**–**	**–**	**–**	**–**	**54,336,701**
Short-term investments	**175,334,711**							**175,334,711**
Insurance receivables	**–**	**177,780,993**	**–**	**–**	**–**	**–**	**10,007,372**	**187,788,365**
HTM investments	**338,858,817**	**–**	**–**	**–**	**–**	**–**	**–**	**338,858,817**
Loans and receivables	**11,888,894**	**–**	**–**	**–**	**–**	**–**	**3,365,304**	**15,254,198**
	₱802,561,344	**₱177,780,993**	**₱–**	**₱–**	**₱–**	**₱–**	**₱13,372,676**	**₱993,715,013**

	2019							
	Neither past due or impaired			Past due but not impaired				
	High Grade	Substandard Grade	Standard Grade	Over 30 Days	Over 90 Days	Over 180 Days	Impaired	Total
Cash in banks	₱223,145,800	₱–	₱–	₱–	₱–	₱–	₱–	₱223,145,800
Cash equivalents	291,875,166	–	–	–	–	–	–	291,875,166
Insurance receivables	–	320,315,621	–	–	–	–	6,228,907	326,544,528
HTM investments	258,258,404	–	–	–	–	–	–	258,258,404
Loans and receivables	8,084,823	–	–	–	–	–	3,365,304	11,450,127
	₱781,364,193	₱320,315,621	₱–	₱–	₱–	₱–	₱9,594,211	₱1,111,274,025

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

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

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

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

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

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

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

	2020				
	Within 1 Year	**1 to 3 Years**	**3 to 5 Years**	**Over 5 Years**	**Total**
Premiums due to reinsurers	**₱2,904,026**	**₱–**	**₱–**	**₱–**	**₱2,904,026**
Accounts and other payables*	**71,006,791**	**–**	**–**	**–**	**71,006,791**
Lease liability**	**3,556,568**	**7,865,062**	**8,977,883**	**23,207,606**	**43,607,119**
	₱77,467,385	**₱7,865,062**	**₱8,977,883**	**₱23,207,606**	**₱117,517,936**

** Excluding statutory payables amounting to ₱58.5 million.*

*** Excluding future interest payments amounting to ₱10.4 million.*

	2019				
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Premiums due to reinsurers	₱3,809,878	₱–	₱–	₱–	₱3,809,878
Accounts and other payables*	58,768,024	–	–	–	58,768,024
Lease liability**	2,479,754	11,421,630	8,977,883	23,207,606	46,086,873
	₱65,057,656	₱11,421,630	₱8,977,883	₱23,207,606	₱108,664,775

** Excluding statutory payables amounting to ₱76.9 million.*
*** Excluding future interest payments amounting to ₱12.5 million.*

Foreign Currency Risk. The Company's exposure to foreign currency risk results from its cash in banks denominated in United States Dollar (US$) which management believes that such risk is minimal. The exposure in US foreign currency risk is managed by monitoring the foreign exchange movement on a monthly basis.

The carrying amount of the Company's monetary assets denominated in US dollars at the reporting date are as follows:

	December 31, 2020		December 31, 2019	
	US Dollar	**Peso**	US Dollar	Peso
Cash in bank	**US$8,272**	**₱397,355**	US$3,315	₱168,224

The sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Company's net income before income tax and equity for the years ended December 31, 2020 and 2019 are as follows:

	2020		
	Increase (decrease) in Foreign Exchange Rate	**Effect on Income Before Income Tax**	**Effect on Equity**
US$	**5.34%**	**₱21,219**	**₱14,853**
	-5.34%	**(21,219)**	**(14,853)**

	2019		
	Increase (decrease) in Foreign Exchange Rate	Effect on Income Before Income Tax	Effect on Equity
US$	3.49%	₱5,871	₱4,110
	(3.49%)	(5,871)	(4,110)

The exchange rate used for conversion of US$ amounts to its Peso equivalent is ₱48.04 and ₱50.74 in 2020 and 2019, respectively.

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

Capital Management

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

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

Networth	**Compliance Date**
₱250,000,000	June 30, 2013
550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

On January 13, 2015, the IC issued CL No. 2015-02-A which provides for the clarification of minimum capital requirements under Sections 194, 197, 200 and 289 of The New Insurance Code. The said circular supersedes the Department Order Nos. 27-06 and 15-2012 and CL Nos. 22-2008 and 26-2008.

The minimum net worth requirements must remain unimpaired for the continuance of the license. Pursuant to Section 202 of the Code, the estimated amount of non-admitted assets as at December 31, 2020 and the actual non-admitted assets as at December 31, 2019 follows:

	2020 (Estimated)	2019
Insurance receivables	**₱89,795,762**	₱158,332,076
Loans and receivables	**12,763,392**	8,247,140
Other assets	**12,514,576**	28,468,642
	₱115,073,730	₱195,047,858

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

	2020 (Estimated)	2019
Total assets	**₱1,702,136,958**	₱1,796,933,078
Total liabilities	**533,048,058**	666,364,831
Equity	**1,169,088,900**	1,130,568,247
Less: Non-admitted assets	**115,073,730**	195,047,858
Net worth	**1,054,015,170**	935,520,389
Less: Net worth requirements	**900,000,000**	900,000,000
Excess over net worth requirement	**₱154,015,170**	₱35,520,389

In 2020, the IC issued CL No. 2020-58 which provided regulatory relief on admittance of receivables from 90 days to 180 days from the date of issuance of the policies. The relief was applied for annual reports for the year 2020 unless extended or changed as deemed necessary.

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

Risk-based Capital (RBC) Requirements

The RBC ratio shall be computed as net worth divided by the RBC requirement. Net worth shall include the Company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve shall form part of the net worth only to the extent authorized by the IC. The RBC requirement is the ratio of the number of insurers which are able to meet the corresponding RBC Hurdle Rate requirement for a given year to the total number of insurers in the industry.

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

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

	2020 (Estimated)	2019
Total available capital	**₱1,160,286,511**	₱1,120,221,779
RBC requirement	**222,179,220**	230,080,109
RBC ratio	**522%**	487%

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

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

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

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

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

25. **Fair Value of Financial Instruments**

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

	2020		2019	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	278,633,004	278,633,004	₱517,295,763	₱517,295,763
Short-term investments	175,334,711	175,334,711	–	–
Insurance receivables	177,780,993	177,780,993	320,315,621	320,315,621
HTM investments	338,858,817	339,059,894	258,258,404	265,666,921
AFS investments	112,304,820	112,304,820	108,501,784	108,501,784
Loans and receivables	11,888,894	11,888,894	8,084,823	8,084,823
	₱1,094,801,239	**₱1,095,002,316**	₱1,212,456,395	₱1,219,864,912
Financial Liabilities				
Premiums due to reinsurers	2,904,026	2,904,026	₱3,809,878	₱3,809,878
Accounts and other payables*	71,006,791	71,006,791	58,768,021	58,768,021
Lease liability**	43,607,119	47,125,472	46,086,873	46,086,873
	₱117,517,936	**₱121,036,289**	₱108,664,772	₱108,664,772

** Excluding statutory payables amounting to ₱58.5 million and ₱76.9 million in 2020 and 2019, respectively.*
*** Excluding future interest payments amounting to ₱10.4 million and ₱12.5 million in 2020 and 2019, respectively.*

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Short-term investments, Insurance Receivables, Loans and Receivables, Premiums Due to Reinsurers and Accounts and Other Payables (excluding Statutory Payables). The carrying amounts of these instruments approximate their fair values due to their short-term maturities.

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

Lease Liability. Fair value is generally based upon quoted market prices. If the market prices are not readily available, fair value is estimated using adjusted quoted market prices of comparable investments or using the discounted cash flow methodology. As at December 31, 2020 and 2019, the discount rate used in determining the fair value of lease liability is 2.94% and 4.68%, respectively. Lease liability is measured using level 2 valuation technique.

Fair Value Hierarchy

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

26. **Supplementary Information Required under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue**

VAT
The Company's revenue is subject to output VAT based on receipts while its purchases from other VAT-registered individuals or corporations are subject to input VAT.

a. Output VAT

	Net Receipts	Output VAT
Vatable revenues	₱384,367,582	₱46,124,110
Zero-rated revenues	4,515,288	–
	₱388,882,870	₱46,124,110

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

b. Input VAT

Balance at beginning of year	₱–
Current year's domestic purchases of goods	419,577
Current year's domestic purchases of services	29,617,178
Allowable input VAT	30,036,755
Applied against output VAT	30,036,755
Balance at end of year	₱–

Total VAT payments in 2020 amounted to ₱12.5 million. Outstanding balance of net output VAT payable amounted to ₱3.6 million and is included under "Statutory liabilities" line item under "Trade and other payables" account.

All Other Local and National Taxes
The Company's local and national taxes for the year ended December 31, 2020 consist of:

Local business permits	₱1,658,471
Insurance commission fees	546,895
Annual VAT registration fees	2,000
Others	944,523
	₱3,151,889

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

	Paid	Accrued	Total
Expanded withholding taxes	₱8,516,120	₱1,131,181	₱9,647,301
Withholding taxes on compensation	699,397	83,182	782,579
	₱9,215,517	₱1,214,363	₱10,429,880

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

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

The Stockholders and the Board of Directors
Corporate Guarantee & Insurance Company, Incorporated
Doing business under the name and style of
Corporate Guarantee (A Non-Life Insurance Company)
2nd Floor, CGIC Building
Jose Abad Santos Avenue, San Jose
City of San Fernando, Pampanga, 2000

We have audited the accompanying financial statements of Corporate Guarantee & Insurance Company, Incorporated doing business under the name and style of Corporate Guarantee (A Non-Life Insurance Company) (the Company) as at and for the years then ended December 31, 2020 and 2019, on which we have rendered our report dated April 15, 2021.

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

REYES TACANDONG & CO.

Pamela Ann P. Escuadro
PAMELA ANN P. ESCUADRO
Partner
CPA Certificate No. 128829
Tax Identification No. 216-321-918-000
BOA Accreditation No. 4782; Valid until August 15, 2021
SEC Accreditation No. 128829-SEC Group A
Issued March 23, 2021
Valid for Financial Periods 2020 to 2024
IC Accreditation No. 128829-IC
Issued February 22, 2021
Valid for Financial Periods 2020 to 2024
BIR Accreditation No. 08-005144-013-2020
Valid until January 1, 2023
PTR No. 8534282
Issued January 5, 2021, Makati City

April 15, 2021
Makati City, Metro Manila

Corporate Guarantee
(A NON-LIFE INSURANCE COMPANY)
"We Value Our Commitment."

SGS ISO 9001 UKAS MANAGEMENT SYSTEMS 0005

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The Management of **CORPORATE GUARANTEE AND INSURANCE COMPANY.** is responsible for all information and representation contained in the Annual Income Tax Return for the year ended December 31, 2020. Management is likewise responsible for all information and representation contained in the financial statements accompanying the Annual Income Tax Return or Annual Information Return covering the same reporting period. Furthermore, the Management is responsible for all information and representation contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2020 and the accompanying Annual Income Tax Return are in accordance with the books and records of CORPORATE GUARANTEE AND INSURANCE COMPANY, complete and correct in all material respects. Management likewise affirms that:

(a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

(b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;

(c) the CORPORATE GUARANTEE AND INSURANCE COMPANY has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

LISSET L. VELASCO
Chairman and Chief Executive Officer

RAYMUND S. MUNGKAL
Chief Financial Officer

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **CORPORATE GUARANTEE AND INSURANCE COMPANY** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2020 and 2019, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

REYES TACANDONG AND CO., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

LISSET L. VELASCO
Chairman

LISSET L. VELASCO
Chief Executive Officer

MA. THERESA A. LAUS
Treasurer

Signed this 14th day of April, 2021.