

**Alliedbankers Insurance
Corporation**

Financial Statements
December 31, 2020 and 2019

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Alliedbankers Insurance Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Alliedbankers Insurance Corporation (the Company), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of income, 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 and other explanatory information.

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

Basis for Opinion

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

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

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

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



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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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



Report on the Supplementary Information Required Under Revenue Regulations 34-2020 and 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 34-2020 and Revenue Regulations 15-2010 in Note 31 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 Alliedbankers Insurance Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Bernalette L. Ramos

Partner

CPA Certificate No. 0091096

SEC Accreditation No. 0926-AR-3 (Group A),

July 25, 2019, valid until July 24, 2022

Tax Identification No. 178-486-666

BIR Accreditation No. 08-001998-081-2021,

February 1, 2021, valid until January 31, 2024

PTR No. 8534351, January 4, 2021, Makati City

April 16, 2021



ALLIEDBANKERS INSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2020	2019
ASSETS		
Cash and cash equivalents (Notes 4, 25 and 26)	₱279,368,949	₱439,538,290
Short-term investments (Notes 5 and 25)	–	126,589,724
Insurance receivables – net (Notes 7, 25 and 26)	755,717,240	577,869,893
Investment in associate (Note 6)	523,712,275	–
Financial assets (Note 8 and 25)		
Financial assets at fair value through profit or loss	122,575,315	227,151,152
Available-for-sale financial assets	763,303,043	929,238,723
Loans and receivables	258,958,502	161,311,498
Accrued income (Note 9)	4,503,240	7,969,168
Reinsurance assets (Notes 10 and 15)	544,362,536	443,426,725
Deferred acquisition costs (Note 11)	32,910,587	30,036,624
Property and equipment – net (Note 12)	34,555,573	27,051,184
Deferred tax assets – net (Note 24)	42,564,773	36,264,920
Other assets (Note 13)	128,742,549	133,387,761
	₱3,491,274,582	₱3,139,835,662
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 15, 17 and 25)	₱848,896,169	₱782,051,725
Accounts payable and accrued expenses (Notes 14, 25, and 26)	458,797,876	380,744,527
Insurance payables (Notes 16 and 25)	313,304,660	229,154,062
Income tax payable	2,234,983	21,961,624
Deferred reinsurance commissions (Note 11)	30,856,193	19,585,277
Dividends payable (Note 18)	19,237,343	19,237,343
Net pension liability (Note 23)	25,624,707	4,156,157
	1,698,951,931	1,456,890,715
Equity		
Capital stock (Notes 18 and 28)	470,000,000	470,000,000
Subscribed capital stock (Note 18)	165,537,500	165,537,500
Contributed surplus (Note 18)	441,615,510	441,615,510
Revaluation reserve on AFS financial assets (Note 8)	55,895,525	40,705,126
Remeasurement losses on defined benefit plan (Note 23)	(17,567,838)	(3,335,096)
Retained earnings	676,841,954	568,421,907
	1,792,322,651	1,682,944,947
	₱3,491,274,582	₱3,139,835,662

See accompanying Notes to Financial Statements.



ALLIEDBANKERS INSURANCE CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31	
	2020	2019
REVENUES		
Gross earned premiums	₱851,674,375	₱743,634,926
Reinsurers' share of gross earned premiums	(411,022,882)	(369,800,235)
Net earned premiums (Note 19 and 26)	440,651,493	373,834,691
Investment income - net (Note 20)	65,596,288	71,856,240
Commission income (Note 11)	60,394,625	57,000,772
Other underwriting income	12,398,143	17,491,946
Foreign exchange gain (loss) – net	(1,461,308)	(642,913)
Miscellaneous income (Note 14)	14,059,299	24,709,486
Other income	150,987,047	170,415,531
	591,638,540	544,250,222
BENEFITS, CLAIMS AND EXPENSES		
Gross insurance benefits and claims paid	94,591,995	120,808,636
Reinsurers' share of gross insurance benefits and claims paid	(51,279,189)	(49,196,085)
Gross change in insurance contract liabilities	114,742,893	71,291,355
Reinsurers' share of gross change in insurance contract liabilities	(85,001,797)	(56,204,828)
Net insurance benefits and claims (Notes 10, 15 and 21)	73,053,902	86,699,078
General and administrative expenses (Notes 22 and 27)	165,751,343	157,214,655
Underwriting expenses	138,432,829	62,730,171
Commission expense (Notes 11 and 26)	64,420,859	67,315,665
Interest expense (Notes 16 and 23)	1,794,006	1,069,860
Expenses	370,399,037	288,330,351
	443,452,939	375,029,429
INCOME BEFORE INCOME TAX	148,185,601	169,220,793
PROVISION FOR INCOME TAX (Note 24)	39,765,554	40,956,748
NET INCOME	₱108,420,047	₱128,264,045

See accompanying Notes to Financial Statements.



ALLIEDBANKERS INSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2020	2019
NET INCOME	₱108,420,047	₱128,264,045
OTHER COMPREHENSIVE INCOME		
<i>To be reclassified to profit or loss in subsequent periods:</i>		
Net change in the fair value of AFS financial assets (Note 8)	17,409,639	28,407,673
Valuation gain (loss) realized through profit or loss:		
Impairment loss (Notes 8 and 20)	2,557,229	11,470,015
Gain on sale of AFS financial assets (Notes 8 and 20)	(4,776,469)	(9,220,746)
	15,190,399	30,656,942
<i>Not to be reclassified to profit and loss in subsequent periods:</i>		
Change in remeasurement losses on defined benefit plan (Note 23)	(20,332,488)	(11,305,015)
Income tax effect (Note 23)	6,099,746	3,391,505
	(14,232,742)	(7,913,510)
	957,657	22,743,432
TOTAL COMPREHENSIVE INCOME	₱109,377,704	₱151,007,477

See accompanying Notes to Financial Statements.



ALLIEDBANKERS INSURANCE CORPORATION
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Capital stock (Note 18)	Subscribed capital stock (Note 18)	Contributed surplus (Note 18)	Revaluation reserve on AFS financial assets (Note 8)	Remeasurement gain (loss) on defined benefit plan (Note 23)	Retained earnings	Total
Balance at January 1, 2020	₱470,000,000	₱165,537,500	₱441,615,510	₱40,705,126	(₱3,335,096)	₱568,421,907	₱1,682,944,947
Net income for the year	–	–	–	–	–	108,420,047	108,420,047
Other comprehensive income (loss)	–	–	–	15,190,399	(14,232,742)	–	957,657
Total comprehensive income	–	–	–	15,190,399	(14,232,742)	108,420,047	109,377,704
Balance at December 31, 2020	₱470,000,000	₱165,537,500	₱441,615,510	₱55,895,525	(₱17,567,838)	₱676,841,954	₱1,792,322,651
Balance at January 1, 2019	₱470,000,000	₱165,537,500	₱441,615,510	₱10,048,184	₱4,578,414	₱440,157,862	₱1,531,937,470
Net income for the year	–	–	–	–	–	128,264,045	128,264,045
Other comprehensive income (loss)	–	–	–	30,656,942	(7,913,510)	–	22,743,432
Total comprehensive income	–	–	–	30,656,942	(7,913,510)	128,264,045	151,007,477
Balance at December 31, 2019	₱470,000,000	₱165,537,500	₱441,615,510	₱40,705,126	(₱3,335,096)	₱568,421,907	₱1,682,944,947

See accompanying Notes to Financial Statements.



ALLIEDBANKERS INSURANCE CORPORATION

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱148,185,601	₱169,220,793
Adjustments for:		
Provision for claims IBNR and MfAD (Note 15)	(5,147,192)	23,755,573
Provision for bad debts (Notes 7 and 22)	8,002,547	27,192,124
Impairment loss on AFS financial assets (Notes 8 and 20)	2,557,229	11,470,015
Pension expense (Notes 22 and 23)	10,906,706	4,542,043
Depreciation and amortization (Notes 12 and 22)	5,208,010	3,798,872
Interest expense (Notes 16 and 23)	1,794,006	1,069,860
Unrealized foreign exchange loss (gain)	(897,790)	1,018,128
Gain on disposal of property and equipment	–	(15,429)
Changes in fair value of financial assets at FVPL (Notes 8 and 20)	(2,176,226)	(6,467,173)
Gain on sale of AFS financial assets (Notes 8 and 20)	(4,776,469)	(9,220,746)
Dividend income (Notes 8 and 20)	(15,800,302)	(14,080,943)
Interest income (Notes 8, 20 and 23)	(45,400,520)	(53,628,608)
Operating income before changes in working capital	102,455,600	158,654,509
Decrease (increase) in:		
Insurance receivables	(185,849,894)	(27,745,293)
Loans and receivables	(97,395,665)	14,168,196
Reinsurance assets	(78,222,001)	(21,920,187)
Deferred acquisition costs	(2,873,963)	(3,498,936)
Other assets	4,645,212	(68,738,267)
Increase (decrease) in:		
Insurance contract liabilities	49,277,826	110,210,146
Accounts payable and accrued expenses	78,053,349	96,800,049
Insurance payables	84,150,598	(72,102,508)
Deferred reinsurance commissions	11,270,916	4,878,558
Net cash generated from (used in) operations	(34,488,022)	190,706,267
Contributions to plan assets (Note 23)	(9,979,283)	(10,656,015)
Income taxes paid	(59,692,302)	(37,420,440)
Interest paid	(1,585,367)	(1,069,860)
Net cash provided by (used in) operating activities	(105,744,974)	141,559,952
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received	15,548,963	13,160,841
Interest received	47,328,591	55,025,934
Proceeds from disposal/maturities of:		
Short-term investments (Note 5)	126,589,724	–
Financial assets at FVPL (Note 8)	143,724,360	–
AFS financial assets (Note 8)	605,639,313	246,496,453
Property and equipment (Note 12)	–	256,500
Acquisitions of:		
Short-term investments (Note 5)	–	(126,589,724)
Investment in associate (Note 6)	(523,712,275)	–
Financial assets at FVPL (Note 8)	(36,972,297)	–
AFS financial assets (Note 8)	(420,756,137)	(419,726,447)
Property and equipment (Note 12)	(12,712,399)	(6,620,722)
Net cash used in investing activities	(55,322,157)	(237,997,165)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	897,790	(1,018,128)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(160,169,341)	(97,455,341)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	439,538,290	536,993,631
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱279,368,949	₱439,538,290

See accompanying Notes to Financial Statements.



ALLIEDBANKERS INSURANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Alliedbankers Insurance Corporation (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on December 22, 2010 primarily to engage in the business of non-life insurance, indemnifying others against loss, damage or liability arising from unknown or contingent events and to act as agent to other insurance or surety companies, or any of its branches, including life insurance. It includes lines such as health, accident, fire and allied lines, motor vehicle, casualty, surety, marine cargo, marine hull, comprehensive liability insurance and allied risks.

The registered office address of the Company is 17th Floor Federal Tower Condominium, Dasmariñas St. corner Muelle de Binondo, Binondo, Manila.

Combination/merger/acquisition of PNB General Insurers, Inc. (“PNB Gen”)

On October 11, 2017, the BOD approved the combination/merger/acquisition by the Company of PNB Gen by way of share swap or combination of share swap and cash, subject to regulatory compliance and acceptable independent valuation ranges.

In 2019, the parties discussed the form of the combination and the BOD approved the terms of the final offer for a cash acquisition of 100% of PNB Gen’s shares owned by PNB and PNB Holdings, based on independent valuation ranges in September 2019. PNB and PNB Holdings, in their letter dated September 20, 2019, declined the offer, in view of PNB’s mandate to conduct the required price discovery process with other possible acquirers.

The parties subsequently cancelled the original offer of combination through merger and/or acquisition of PNB Gen.

In 2020, the parties resumed negotiations and agreed on a 100% cash acquisition by the Company of PNB Gen shares owned by PNB and PNB Holdings. Based on the valuation of an independent valuator, the parties agreed on the purchase price of PNB Gen.

On December 29, 2020, with the approval of the Insurance Commission, the Company entered into a “Share Purchase Agreement” (SPA) with PNB and PNB Holdings wherein the Company agreed to acquire 100% shareholdings of PNB Gen in exchange for a total purchase price of ₱1.5 billion, the completion of which is subject to regulatory and other approvals. As of December 31, 2020, the Company closed and completed the purchase of 34.25% shareholdings of PNB Gen from PNB Holdings while the acquisition of the remaining 65.75% from PNB shall be completed in 2021 (see Notes 6 and 30).

The accompanying financial statements were authorized for issuance by the Board of Directors (BOD) on April 16, 2021.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets and fair value through profit or loss (FVPL) which have been measured at fair value and pension liability which is measured at the present value of the defined benefit obligation.



The Company's presentation and functional currency is the Philippine peso (₱). All amounts are rounded off to the nearest peso unit, unless otherwise indicated.

The Company presents its statements of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve (12) months after the reporting date and more than twelve (12) months after the reporting date is presented in Note 29.

The financial statements provide comparative information in respect of the previous period.

Statement of Compliance

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments and improvements to PFRSs which became effective on January 1, 2020. The Company did not early adopt any other standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise indicated, these new and revised accounting standards did not have an impact on the Company's financial statements.

- *Amendments to PFRS 3, Business Combinations, Definition of a Business*
The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments may impact future periods should the Company enter into any business combinations.
- *Amendments to PFRS 7, Financial Instruments: Disclosures and PFRS 9, Financial Instruments, Interest Rate Benchmark Reform*
The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.
- *Amendments to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*
The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

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

- *Conceptual Framework for Financial Reporting* issued on March 29, 2018
The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent



accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

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

- Amendments to PFRS 16, *COVID-19-related Rent Concessions*
The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:
 - The rent concession is a direct consequence of COVID-19;
 - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
 - Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
 - There is no substantive change to other terms and conditions of the lease.

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

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

Future Changes in Accounting Policies

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

Effective beginning on or after January 1, 2021

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

Effective beginning on or after January 1, 2022

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

Effective beginning on or after January 1, 2023

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*



- *PFRS 17, Insurance Contracts*

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

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

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

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

The Company has an ongoing project to implement PFRS 17 and has been performing an impact assessment of the new standard. The Company expects that the new standard will result in a significant change to its accounting policies for insurance contract liabilities and is likely to have a significant impact on profit and total equity together with the presentation and disclosure. Initial assessment using the 2018 audited financial statements determined that there will be an insignificant impact on profit and total equity together with the presentation and disclosure. Another assessment is currently being undertaken to determine the operational and financial impact of the adoption of the standard.

Deferred effectivity

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

Product Classification

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

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



Foreign Currency Transactions and Translations

Transactions in foreign currencies are initially recorded in Philippine peso at exchange rate at the date of the transaction. Outstanding foreign currency denominated monetary assets and liabilities are retranslated at the closing exchange rate at the reporting date. Outstanding foreign currency denominated nonmonetary items that are measured in terms of historical cost are translated using the exchange rate at the date of initial transaction and are not subsequently restated. Outstanding foreign currency denominated nonmonetary items measured at fair value are translated using the exchange rate at the date when the fair value was determined. All foreign exchange differences are taken to profit or loss, except where it relates to equity securities where gains or losses are recognized directly in other comprehensive income.

Fair Value Measurement

The Company measures financial instruments, including AFS financial assets and financial assets at FVPL, at fair value at each reporting date.

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

- In the principal market for the asset or liability, or
 - In the absence of a principal market, in the most advantageous market for the asset or liability.
- The principal or the most advantageous market must be accessible to by the Company.

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

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

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

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

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

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



Cash and Cash Equivalents

Cash and cash equivalents are carried in the statement of financial position at face amount or nominal amount. Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and that are subject to an insignificant risk of changes in value and are free of any encumbrances.

Short-term Investments

Short-term investments are made for periods ranging more than three (3) months and up to twelve (12) months and earn interest at the respective short-term investment rates which is not restricted as to use.

Insurance Receivables

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

Insurance receivables are derecognized following the derecognition criteria of financial assets.

Financial Instruments – Recognition and Measurement

Date of recognition

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

Initial recognition

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in the case of a liability). The initial measurement of financial assets includes transaction costs except for financial assets at fair value through profit or loss (FVPL).

The Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets, held-to-maturity (HTM) investments, and loans and receivables. The Company classifies its financial liabilities as other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting period.

As of December 31, 2020 and 2019, the Company's financial instruments include AFS financial assets, financial assets at FVPL, loans and receivables and other financial liabilities.

'Day' 1 difference

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



AFS financial assets

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

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in profit or loss. Interest earned on holding AFS debt securities are reported as interest income using the effective interest method. Dividends earned on holding AFS equity securities are recognized in profit or loss as dividend income when the right to receive the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported in the statement of comprehensive income. Losses arising from impairment of such investments are recognized in profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized in profit or loss.

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

Loans and receivables

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

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Amortization is included in the interest income in profit or loss. The losses arising from impairment of such loans and receivables are recognized in the profit or loss.

Other financial liabilities

Issued financial instruments or their components, which are not held for trading or designated as FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. This includes investment contracts which mainly transfer financial risk and has no significant insurance risk.

After initial measurement, 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 profit or loss when the liabilities are derecognized as well as through the amortization process.



As of December 31, 2020 and 2019, the Company's other financial liabilities include insurance contract liabilities, insurance payables, accounts payable and accrued expenses that meet the above definition (other than liabilities covered by other accounting standards, such as provisions, pension liability and income tax payable), and dividends payable.

Classification of Financial Instruments between Debt and Equity

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interests, dividends, gains and losses relating to a financial instrument or a component that is financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefit.

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

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- if the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counter parties.

Impairment of Financial Assets

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

AFS financial assets carried at fair value

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



In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of “Investment income” in profit or loss. If, in a subsequent period, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

AFS financial assets carried at cost

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

Loans and receivables

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as a difference between the assets’ carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate. The carrying amount of the asset shall be reduced 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 impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the date of reversal.

Derecognition of Financial Assets and Liabilities

Financial asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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



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

Financial liability

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

Reinsurance Assets

The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balance 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.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exist that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. Any impairment loss is charged against profit or loss.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

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

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

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired, or when the contract is transferred to another party.

Deferred Acquisition Costs and Deferred Reinsurance Commission

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

Subsequent to initial recognition, these costs are amortized using the 24th method for policies with a term of exactly one year, otherwise, 365th method is used. Amortization is charged to profit or loss. The unamortized acquisition costs are shown as "Deferred acquisition costs" in the statement of financial position. Reinsurance commissions are deferred and shown in the statement of financial position as "Deferred reinsurance commissions", subject to the same amortization method as the related acquisition costs.



Prepayments

Prepayments represent 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 profit or loss as these are consumed in operations or expire with the passage of time depending on the terms of the related agreements, if covered by a contract.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged against the profit or loss during the reporting period in which they are incurred.

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

	Years
Condominium units	50
Furniture, fixtures and equipment	10
Electronic data processing (EDP) equipment	5-10
Leasehold improvements	10 or the term of the lease, whichever is shorter
Transportation equipment	5

The assets' residual values estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the method, residual value and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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

Fully depreciated assets are retained in accounts until they no longer in use and no further depreciation is credited or charged against current operations.

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

Investment in Associate

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.



The Company's investment in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is carried at cost plus post-acquisition changes in the share of net assets of the associate less any impairment in value. Post-acquisition changes in the share of net assets of the associate include the share in the: (1) income or losses; and (b) unrealized gain or loss on investment securities, remeasurement of retirement plans and others. Dividends received are treated as a reduction in the carrying values of the investments.

The financial statements of the associate are prepared for the same reporting period as the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is an objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss in the statement of comprehensive income.

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

As of December 31, 2020, the Company's investment in associate pertains to its 34.25% ownership interest in PNB Gen. As the investment was only acquired on December 29, 2020, no share in net income of the associate was recognized in the statements of comprehensive income in 2020 (Note 6).

Impairment of Non-Financial Assets

At each reporting period, the Company assesses whether there is any indication that nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed for the cash generating unit to which the asset belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash generating unit). An impairment loss is charged against operations in the year in which it arises.

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



Creditable Withholding Taxes

Creditable withholding pertains to the taxes paid by the Company that is withheld by its counterparty for the payment of its expenses and other purchases. Creditable withholding taxes are recorded at cost as “Other Assets” in the statement of financial position.

At each end of the tax reporting deadline, creditable withholding taxes may either be offset against future income tax payable or be claimed as a refund from taxation authorities at the option of the Company. If creditable withholding taxes are claimed as a refund, these will be recorded as a receivable under “Loans and receivable” in the statement of financial position.

At each end of the reporting period, an assessment for impairment is performed as to the recoverability of creditable withholding taxes. If any indication of impairment exists, the Company makes an estimate of the asset’s recoverable amount. The Company provides the unrecoverable creditable withholding taxes through valuation account. Factors which primarily affect the recoverability of these assets include the completeness of the supporting documentation (certificates of creditable tax withheld at source subject to rules on Philippine income taxation). A review to determine the adequacy of allowance is made by the Company on a continuing basis year on year.

Value-Added Tax (VAT)

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

Insurance Contract Liabilities

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

Provisions for claims reported, provision for claims Incurred But Not Reported (IBNR) losses, claims handling expense (CHE) and Margin for Adverse Deviation (MfAD)

Provisions for claims reported are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, 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 end of each reporting date. The liability is not discounted for the time value of money.

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



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

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

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

Claim cost recognition

Liabilities for unpaid claim costs and claim adjustment expenses relating to insurance contracts are accrued when the insured events occur.

An insurance contract remains in force at the inception date of policy until its maturity or expiry regardless of the number of the claims reported and, for as long as the coverage is sufficient.

Premium liabilities

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

Provision for unearned premiums

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from policy contracts with a term of exactly one year are recognized as revenue over the period of the contracts using the 24th method, otherwise, 365th method is used. The portion of the premiums written that relate to the unexpired periods of the policies at the reporting date are accounted for as provision for unearned premiums and presented as part of "Insurance contract liabilities" in statement of financial position. The change in the provision for unearned premiums is taken to 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 unexpired risk

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

Pension Cost

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



The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

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

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

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

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

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

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

Equity

Capital stock

Capital stock represents the value of shares that have been issued at par. The transaction costs incurred as a necessary part of completing an equity transaction are accounted for as part of the transaction and are deducted first from additional paid-in-capital

Contributed surplus

Contributed surplus represents the original contribution of the stockholders of the Company, in addition to the paid-up capital stock.



Retained earnings

Retained earnings represent the cumulative balance of net income or loss of the Company, effects of any change in accounting policy and other adjustment affecting the account such as dividend distribution.

Revenue Recognition

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

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

Other income

Income from other sources is recognized when earned.

Other underwriting income

Other underwriting income pertains to income other than premiums but related to the issuance of insurance policies. These are recognized as income when earned.

The following revenue accounts are outside the scope of PFRS 15:

Premiums

Gross insurance written premiums comprise the total premiums receivable for the whole cover period provided by contracts entered into during the reporting period. Premiums include any adjustments arising in the reporting period for premium receivable in respect of business written in prior periods. Premiums from policies with a term of exactly one year are recognized as revenue over the period of the contracts using the 24th method, otherwise 365th method is used. The portion of the premiums written that relate to the unexpired periods of the policies at the end of the reporting period are accounted for as provision for unearned premiums and is presented under “Insurance contract liabilities” in the statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at reporting date are accounted for as deferred reinsurance premiums shown under “Reinsurance assets” in the statement of financial position. The net changes in these accounts between reporting dates are credited or charged against profit or loss for the year.

Commission income

Reinsurance commissions are recognized as revenue over the period of the contracts using the 24th method for policies with a term of exactly one year, otherwise, 365th method is used. 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 reinsurance commissions” in the statement of financial position.

Interest income

Interest income is recognized in the profit or loss as it accrues, taking into account the effective yield of the asset. Interest income includes the amortization of any discount or premium using the effective interest method.

Dividend income

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



Expense Recognition

Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

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

Benefits and claims

Benefits and claims consist of benefits and claims paid to policyholders and which include changes in valuation of insurance contract liabilities, except for changes in the provision for unearned premiums which are included in net earned premiums. It further includes internal and external claims handling cost that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered and are offset against related claims. Insurance claims are recorded on the basis of notifications received.

Commission expense

Commissions are recognized as expense over the period of the contracts using the 24th method for policies with a term of exactly one year, otherwise, 365th method is used. The portion of the commissions that relates to the unexpired periods of the policies at reporting date is accounted for as “Deferred Acquisition Cost” and presented in the asset section of the statement of financial position.

Underwriting expense and general and administrative expense

These expenses are recognized in profit or loss as they are incurred.

Interest expense

Interest expense is recognized as incurred, taking into account the effective yield of the liabilities.

Leases

Company as a lessee – Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of office and parking spaces (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below ₱216,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Income Tax

Income tax for the year consists of current and deferred tax. Income tax is determined in accordance with Philippine tax laws. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current income tax

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

Deferred income tax

Deferred income tax is provided, using the liability method, 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 income tax liabilities are recognized for all taxable temporary differences, including assets revaluations, with certain exceptions. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences, carryforward of unused tax credits from excess MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting income nor taxable income or loss.

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

Deferred tax assets and liabilities are measured at the tax rate that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted as of end of the reporting date. Movements in the deferred income tax assets and liabilities arising from changes in the rates are charged against or credited to profit or loss for the period.

Deferred income tax relating to items recognized in other comprehensive income is also recognized in other comprehensive income and not in profit or loss.

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

Provisions

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

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in profit or loss.



Events after the Reporting Date

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

3. Significant Accounting Judgments and Estimates

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

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

Judgments

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

Product classification

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

Classification of financial instruments

The Company classifies a financial instrument depending on the purpose for which the financial instruments was acquired or originated. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

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

The classification of the Company's financial instrument by categories is shown in Note 8.

Assessment of significant influence

The Company classifies its investee company as an associate if the Company has significant influence in the investee company. Significant influence is presumed to exist if the Company has a holding of 20% or more of the voting power of the investee.



In making an assessment, the Company applies significant judgment and considers the following: (a) representation to the board of directors or equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions between the investor and the investees; (d) interchange of managerial personnel; (e) provision of essential technical information; or (f) existence of potential voting rights.

As of December 31, 2020, the Company holds 34.25% interest in PNB Gen. By the terms of the SPA, upon PNB Holdings Closing (i.e., on 29 December 2020), ABIC is already entitled to two (2) out of seven (7) seats in PNB Gen's Board of Directors and able to exercise voting rights over the shares representing 34.25% interest in PNB Gen. Given this, the Company assessed that it has significant influence over PNB Gen beginning on the PNB Holdings Closing (Note 6).

Estimates

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

Valuation of insurance contract liabilities

Estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting date and for the expected ultimate cost of claims IBNR at the end of the reporting date. It can take a significant period of time before the ultimate claim cost can be established with certainty. Non-life liabilities are not discounted for the time value of money.

The main assumption underlying estimation of the claims provision is that a company's past claim 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 claims types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

In addition to the use of loss development triangles per class of business as basis for projection of future claims, the independent actuary also considers the information gathered from the Company's Underwriting and Claims Departments in the actuarial computation of the policy reserves including claims IBNR and ultimate cost of CHE. This information includes, among others, large loss experience, concerns and uncertainties, operation changes in claims and underwriting processes, and external conditions such as market outlook, inflation and current catastrophes.

The carrying value of claims reported and IBNR included in the insurance contract liabilities account amounted to ₱482.19 million and ₱367.45 million as of December 31, 2020 and 2019, respectively (see Note 15).

Impairment of AFS financial assets

The Company assesses its AFS financial assets for impairment when there has been a significant or prolonged decline in the fair value below cost. This determination of what is significant or prolonged requires judgment. The Company treats 'significant' generally as 20% or more of the original cost of investment, and 'prolonged' as being more than twelve (12) months. In making this judgment, the Company evaluates, among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.



The carrying value of the Company's AFS equity financial assets amounted to ₱160.98 million and ₱205.28 million as of December 31, 2020 and 2019, respectively. The Company recognized impairment loss on its investment in equity securities amounting to ₱2.56 million and ₱11.47 million in 2020 and 2019, respectively (see Note 8).

In case of AFS debt securities, impairment is assessed based on the same criteria as financial assets at amortized cost. An amount comprising the difference between its cost, net of any principal payment and amortization, and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Future interest income is based on the reduced carrying amount and is accrued based on the rate on interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of interest income in profit or loss. If, in subsequent year, the fair value of a debt instrument increases 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.

The carrying value of AFS debt securities amounted to ₱602.33 million and ₱723.96 million as of December 31, 2020 and 2019, respectively. The Company did not recognize impairment loss on its debt securities in 2020 and 2019 (see Note 8).

Estimation of allowance for credit losses on loans and receivables

The Company reviews its insurance receivables and loans and receivables at each reporting date to assess whether an allowance for credit losses should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the debtor, the debtor's payment behavior and known market forces. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis.

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for credit losses would increase recorded expenses and decrease the asset's carrying values.

The carrying value of insurance receivables amounted to ₱755.72 million and ₱577.87 million as of December 31, 2020 and 2019, respectively (see Note 7). The allowance for credit losses amounted to ₱40.16 million and ₱35.94 million as of December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the carrying value of loans and receivables amounted to ₱258.96 million and ₱161.31 million, respectively. The Company did not recognize allowance for credit losses on loans and receivables in 2020 and 2019 (see Note 8).

Impairment of property and equipment

The Company assesses the impairment of its property and equipment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.



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

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

As of December 31, 2020 and 2019, the carrying value of property and equipment amounted to ₱34.56 million and ₱27.05 million, respectively. The Company did not recognize impairment loss on its property and equipment in 2020 and 2019 (see Note 12).

Recognition of deferred tax assets

Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that the taxable profit will be available against which these can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

As of December 31, 2020 and 2019, the Company recognized deferred tax assets amounting to ₱42.56 million and ₱36.45 million, respectively (see Note 24).

Pension benefits

The determination of obligation and cost of pension benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rate and salary increase rate. In accordance with PFRS, actual results that differ from the Company's assumptions are recognized outright in the statement of comprehensive income.

While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligation.

As of December 31, 2020 and 2019, net pension liability amounted to ₱25.62 million and net pension asset amounted to ₱4.16 million, respectively (Note 23).

4. Cash and Cash Equivalents

This account consists of:

	2020	2019
Cash on hand	₱35,900	₱30,900
Cash in banks (Note 25)	157,803,049	308,254,245
Cash equivalents (Note 25)	121,530,000	131,253,145
	₱279,368,949	₱439,538,290

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Company, and earned interest at annual rates that ranged from 0.75% to 4.00% and from 1.25% to 4.00% in 2020 and 2019, respectively.



Interest income earned from cash in banks and cash equivalents amounted to ₱10.87 million and ₱6.86 million in 2020 and 2019, respectively (see Note 20).

5. Short-term Investments

Short-term investments consist of time deposits with maturities of more than three months but less than one year from the date of placement and earned interest at annual rates of 3.25% to 3.50% in 2019 and 2020.

The rollforward of this account follows:

	2020	2019
Balance at beginning of year	₱126,589,724	₱—
Additions	—	126,589,724
Disposal/maturities	(126,589,724)	—
Balance at end of year	₱—	₱126,589,724

Interest income earned from these short-term investments amounted to ₱1.33 million and ₱1.50 million in 2020 and 2019, respectively (Note 20).

6. Investment in Associate

This account pertains to 34.25% interest or equivalent to 3,126,000 ordinary shares in PNB Gen amounting to ₱523.71 million, including directly attributable transaction costs, as of December 31, 2020.

As disclosed in Note 1, on December 29, 2020, with the approval of the Insurance Commission, the Company entered into a “Share Purchase Agreement” (SPA) with PNB and PNB Holdings wherein the Company agreed to acquire 100% shareholdings of PNB Gen in exchange for a total purchase price of ₱1.5 billion, the completion of which is subject to regulatory and other approvals. As of December 31, 2020, the Company closed and completed the purchase of 34.25% shareholdings of PNB Gen from PNB Holdings. Under the SPA, the remaining 65.75% of PNB Gen held by PNB shall be payable in three tranches on January 21, March 21, and June 21, 2021, respectively. As of December 31, 2020, the purchase of the 65.75% interest in PNB Gen is still conditional on the approvals of certain regulatory requirements.

PNB Gen was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on December 29, 1965 to engage in fire, aviation, motor car, marine cargo, marine hull, engineering, accident, surety and casualty insurance. On August 29, 2014, the SEC approved the Company’s Amended Articles of Incorporation extending its corporate term for another fifty (50) years after December 29, 2015. The Company’s principal place of business is 2nd Floor, PNB Financial Center, Pres. Diosdado Macapagal Boulevard, Pasay City.



The summarized financial information of PNB Gen as of December 31, 2020 follows:

	2020
Total assets	₱7,462,933,922
Total liabilities	5,945,764,572
Revenue	806,364,587
Net income	84,032,975
Total equity	1,517,169,350
Ownership interest	34.25%
Company's share in equity	519,630,502
Capitalized transaction costs	1,895,495
Other adjustments	2,186,278
Carrying value of investment	₱523,712,275

There are no significant restrictions on the ability of PNB Gen to transfer funds to the Company in the form of cash dividends in relation to the Company's 34.25% interest in PNB Gen. PNB Gen is a private company and there is no quoted market price available for its shares. The Company also has no share in the commitments and contingencies of its associate.

7. Insurance Receivables

This account consists of:

	2020	2019
Premiums receivable (Note 26)	₱488,033,943	₱366,655,087
Due from ceding companies (Note 26)	167,283,961	103,957,558
Reinsurance recoverable on paid losses (Note 26)	84,044,099	108,501,722
Commissions receivable	47,331,467	23,959,031
Fund held by ceding companies	9,185,576	10,733,911
	795,879,046	613,807,309
Less: allowance for credit losses	40,161,806	35,937,416
	₱755,717,240	₱577,869,893

The aging analysis of insurance receivables as of December 31 follows:

	2020					Total
	Less than 30 days	31 to 60 days	61 to 120 days	121 to 180 Days	More than 180 days	
Premiums receivable	₱29,543,660	₱45,207,035	₱32,131,858	₱80,651,520	₱300,499,870	₱488,033,943
Reinsurance recoverable on paid losses	32,860,752	1,604,560	10,580,400	232,247	38,766,140	84,044,099
Due from ceding companies	44,885,067	16,983,881	46,644,257	12,035,066	46,735,690	167,283,961
Commissions receivable	84,349	9,066,307	11,386,006	7,443,842	19,350,963	47,331,467
Funds held by ceding companies	69,610	-	458,858	-	8,657,108	9,185,576
	₱107,443,438	₱72,861,783	₱101,201,379	₱100,362,675	₱414,009,771	₱795,879,046



	2019					Total
	Less than 30 days	31 to 60 days	61 to 120 days	121 to 180 Days	More than 180 days	
Premiums receivable	₱68,011,703	₱34,152,816	₱16,488,288	₱57,683,739	₱190,318,541	₱366,655,087
Reinsurance recoverable on paid losses	52,134	425,945	49,328,977	–	58,694,666	108,501,722
Due from ceding companies	24,502,586	6,937,639	23,187,148	9,236,810	40,093,375	103,957,558
Commissions receivable	967,777	926,144	654,659	3,148,791	18,261,660	23,959,031
Funds held by ceding companies	–	9,601	1,226,509	674,817	8,822,984	10,733,911
	₱93,534,200	₱42,452,145	₱90,885,581	₱70,744,157	₱316,191,226	₱613,807,309

As of December 31, 2020 and 2019, allowance for doubtful accounts for insurance receivables follows:

	2020			Total
	Premiums receivable	Due from ceding companies	Reinsurance recoverable on paid losses	
Balance at beginning of year	₱10,827,183	₱12,129,237	₱12,980,996	₱35,937,416
Provision for bad debts (Note 22)	4,224,390	3,778,157	–	8,002,547
Direct write-off		(3,778,157)		(3,778,157)
Balance at end of year	₱15,051,573	₱12,129,237	₱12,980,996	₱40,161,806

	2019			Total
	Premiums receivable	Due from ceding companies	Reinsurance recoverable on paid losses	
Balance at beginning of year	₱4,599,194	₱852,181	₱3,293,917	₱8,745,292
Provision for bad debts (Note 22)	6,227,989	11,277,056	9,687,079	27,192,124
Balance at end of year	₱10,827,183	₱12,129,237	₱12,980,996	₱35,937,416

During 2020, the Board of Directors approved the write-off of receivables from HDMF Fire Insurance Pool amounting to ₱3.78 million.

8. Financial Assets

As of December 31, 2020 and 2019, the Company's financial assets are summarized by measurement categories as follows:

	2020	2019
Financial assets at FVPL	₱122,575,315	₱227,151,152
AFS financial assets	763,303,043	929,238,723
Loans and receivables	258,958,502	161,311,498
	₱1,144,836,860	₱1,317,701,373

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

Financial assets at FVPL

This account consists of quoted preferred shares and peso-denominated term notes. These financial assets were designated as at FVPL at initial recognition. The fair value gains on financial assets at FVPL amounted to ₱2.18 million and ₱6.47 million in 2020 and 2019, respectively, reported under 'Investment income – net' in the statements of income (Note 20).



The rollforward of FVPL have been determined as follows:

	2020	2019
Balance at beginning of year	P227,151,152	P220,683,979
Additions	36,972,297	-
Disposal/maturities	(143,724,360)	-
Changes in fair value of financial assets at FVPL	2,176,226	6,467,173
Balance at end of year	P122,575,315	P227,151,152

AFS financial assets

This account consists of the following:

	2020	2019
Government debt securities	P288,560,899	P286,699,587
Private debt securities	313,765,752	437,257,475
Equity securities:		
Listed common shares– net of allowance for impairment losses amounting to P20 million and P24.94 million as of December 31, 2020 and 2019, respectively	159,956,392	204,261,661
Private common shares	1,020,000	1,020,000
	P763,303,043	P929,238,723

The rollforward of allowance for impairment losses follow:

	2020	2019
Balance at beginning of year	P24,939,876	P40,600,000
Additions	2,557,229	11,470,015
Disposal/maturities	(7,498,451)	(27,130,139)
Balance at end of year	P19,998,654	P24,939,876

The cost of AFS financial assets are as follows:

	2020	2019
Government debt securities	P273,271,581	P280,500,000
Private debt securities	314,901,171	442,336,080
Equity securities:		
Listed common shares– net of allowance for impairment losses amounting to P20 million and P24.94 million as of December 31, 2020 and 2019, respectively	118,214,766	164,677,517
Private common shares	1,020,000	1,020,000
	P707,407,518	P888,533,597



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

	2020	2019
Balance at beginning of year	₱929,238,723	₱727,715,509
Additions	420,756,137	419,726,447
Disposal/maturities	(605,639,313)	(246,496,453)
Amortization of premium (discount)	1,537,857	(114,453)
Changes in fair value of AFS financial assets	17,409,639	28,407,673
Balance at end of year	₱763,303,043	₱929,238,723

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

	2020	2019
Balance at beginning of year	₱40,705,126	₱10,048,184
Change in fair value of AFS financial assets	17,409,639	28,407,673
Transferred to profit and loss:		
Impairment loss (Note 20)	2,557,229	11,470,015
Gain on sale of AFS financial assets (Note 20)	(4,776,469)	(9,220,746)
Balance at end of year	₱55,895,525	₱40,705,126

In 2020 and 2019, provision for impairment loss amounting to ₱2.56 million and ₱11.47 million pertains to investments in listed equity securities (Note 20).

Interest income earned from AFS financial assets in 2020 and 2019 amounted to ₱28.52 million and ₱41.60 million, respectively (see Note 20).

In 2020 and 2019, dividend income earned from investments in equity securities amounted to ₱15.80 million and ₱14.08 million, respectively (Note 20).

Loans and receivables

This account consists of the following:

	2020	2019
Money market placements	₱239,095,701	₱150,000,000
Accounts receivable	19,668,436	10,703,402
Advances to employees	194,365	608,096
	₱258,958,502	₱161,311,498

Money market placements are composed of time deposits which have been acquired with original maturities of more than one year. These time deposits earn annual interest ranges from 0.75% to 4.00% and 1.25% to 4.5% in 2020 and 2019 and with maturity dates from 2020 to 2021. Interest income from money market placements amounted to ₱4.69 million and ₱3.60 million in 2020 and 2019, respectively (Note 20).



9. Accrued Income

This account consists of accrued interest on the following accounts:

	2020	2019
AFS financial assets	₱3,385,329	₱465,934
Loans and receivables	984,767	706,337
Cash and cash equivalents	133,144	5,294,938
Short-term investments	–	1,501,959
	₱4,503,240	₱7,969,168

10. Reinsurance Assets

This account consists of:

	2020	2019
Reinsurance recoverable on unpaid losses (Note 15)	₱352,075,165	₱267,073,368
Deferred reinsurance premiums (Note 15)	192,287,371	176,353,357
	₱544,362,536	₱443,426,725

11. Deferred Acquisition Costs and Deferred Reinsurance Commissions

The rollforward analysis of deferred acquisition costs follows:

	2020	2019
Balance at beginning of year	₱30,036,624	₱26,537,688
Cost deferred during the year	67,294,822	70,814,601
Cost incurred during the year	(64,420,859)	(67,315,665)
Balance at end of year	₱32,910,587	₱30,036,624

The rollforward analysis of deferred reinsurance commissions follows:

	2020	2019
Balance at beginning of year	₱19,585,277	₱14,706,719
Income deferred during the year	71,665,541	61,879,330
Income earned during the year	(60,394,625)	(57,000,772)
Balance at end of year	₱30,856,193	₱19,585,277



12. Property and Equipment– net

The composition of and movements of this account follows:

2020						
	Condominium units	Furniture, fixtures and equipment	EDP equipment	Leasehold improvements	Transportation equipment	Total
Cost						
Balance at beginning of year	₱24,721,098	₱2,980,208	₱15,147,800	₱3,929,654	₱9,909,878	₱56,688,638
Additions	–	862,374	2,847,232	6,004,612	2,998,181	12,712,399
Balance at end of year	24,721,098	3,842,582	17,995,032	9,934,266	12,908,059	69,401,037
Accumulated depreciation						
Balance at beginning of year	₱13,225,787	₱1,202,444	₱11,193,183	₱1,318,548	₱2,697,492	₱29,637,454
Depreciation (Note 22)	494,422	335,776	1,588,415	606,525	2,182,872	5,208,010
Balance at end of year	13,720,209	1,538,220	12,781,598	1,925,073	4,880,364	34,845,464
Net book value	₱11,000,889	₱2,304,362	₱5,213,434	₱8,009,193	₱8,027,695	₱34,555,573

2019						
	Condominium units	Furniture, fixtures and equipment	EDP equipment	Leasehold improvements	Transportation equipment	Total
Cost						
Balance at beginning of year	₱24,721,098	₱2,825,266	₱12,174,919	₱3,888,954	₱7,261,248	₱50,871,485
Additions	–	154,942	2,972,881	40,700	3,452,199	6,620,722
Disposals	–	–	–	–	(803,569)	(803,569)
Balance at end of year	24,721,098	2,980,208	15,147,800	3,929,654	9,909,878	56,688,638
Accumulated depreciation						
Balance at beginning of year	₱12,731,365	₱926,829	₱10,157,554	₱922,835	₱1,662,497	₱26,401,080
Depreciation (Note 22)	494,422	275,615	1,035,629	395,713	1,597,493	3,798,872
Disposals	–	–	–	–	(562,498)	(562,498)
Balance at end of year	13,225,787	1,202,444	11,193,183	1,318,548	2,697,492	29,637,454
Net book value	₱11,495,311	₱1,777,764	₱3,954,617	₱2,611,106	₱7,212,386	₱27,051,184

The cost of fully depreciated property and equipment still in use amounted to ₱5.54 million and ₱2.26 million as of December 31, 2020 and 2019 respectively.

13. Other Assets

This account consists of:

	2020	2019
Escrow fund	₱45,378,625	₱44,790,169
Prepaid expenses	41,522,933	64,321,245
Deferred input VAT	12,685,743	8,160,434
Documentary stamps fund	11,009,143	11,302,315
Deposits	7,752,952	1,198,992
Others	10,393,153	3,614,606
	₱128,742,549	₱133,387,761

The escrow fund was established pursuant to the requirement of the Land Transportation Franchising and Regulatory Board (LTFRB) wherein the Company, being accredited for the Personal Passenger Accident Insurance Program (PPAI), is required to establish an escrow to guaranty the payment of the claims of insured Public Utility Vehicles. The escrow agreement was entered by the Company, LTFRB, and PNB Trust Banking Group (escrow agent) on November 15, 2013 to set up a fund amounting to ₱40.00 million with accumulated interest amounting to ₱5.38 million as of 2020.



Prepaid expenses pertain to prepayments for various expenses. The account also includes deferred commission expenses related to other underwriting expenses which is accounted for using the 24th method.

Documentary stamps fund pertains to fund set aside for payment of documentary stamps tax to Bureau of Internal Revenue (BIR).

Deferred input VAT arises from purchases of goods and services from VAT registered suppliers which were not yet paid as of reporting date.

Miscellaneous deposits represent security rent deposits of branches, professional fees to Towers Watson and fund set aside as per requirement of the Supreme Court for the issuance of bonds for the Company's assured.

Others pertain to security fund, other receivables from reinsurers and stationery and supplies.

14. Accounts Payable and Accrued Expenses

This account consists of:

	2020	2019
Commissions payable (Note 26)	₱151,133,668	₱123,803,717
Accounts payable	87,949,454	93,124,797
Premium deposits	64,437,902	62,446,120
Deferred output VAT	63,738,495	49,741,588
Taxes payable	40,722,232	35,676,378
Accrued expenses	38,474,736	14,457,890
Output VAT	10,620,597	1,143,865
Others	1,720,792	350,172
	₱458,797,876	₱380,744,527

Commissions payable pertain to commissions to agents, brokers and ceding companies. These are settled within 90 days from policy issuance date.

Accounts payable and accrued expenses pertain to operating expenses of the Company which are non-interest bearing and due and demandable. Accrued expenses also include accruals for bonus.

During 2020, the Company reversed long-outstanding accounts payable amounting to ₱6.70 million. These reversals were recorded as part of "Miscellaneous income" in the statements of income.

Premium deposits pertain to collections from policyholders which were received but were not yet properly applied due to incomplete reference.

Deferred output VAT consists of VAT incurred from policy issuances where the corresponding premiums remain unpaid as of reporting date.

Taxes payable pertain to documentary stamps payable, withholding taxes payable, fire service tax payable and other taxes and licenses that are due for settlement within one month after the reporting date.



Other liabilities mainly consist of contribution and loan payable to SSS, Pag-ibig and Medicare.

15. Insurance Contract Liabilities

Insurance contract liabilities may be analyzed as follows:

	2020			2019		
	Insurance contract liabilities	Reinsurers' share of liabilities (Note 10)	Net	Insurance contract liabilities	Reinsurers' share of liabilities (Note 10)	Net
Provision for claims reported	₱334,355,802	₱243,586,950	₱90,768,852	₱237,179,527	₱181,298,963	₱55,880,564
Provision for claims IBNR and MfAD	147,838,289	108,488,215	39,350,074	130,271,671	85,774,405	44,497,266
Total provision for claims reported, claims IBNR and MfAD	482,194,091	352,075,165	130,118,926	367,451,198	267,073,368	100,377,830
Provision for unearned premiums	366,702,078	192,287,371	174,414,707	414,600,527	176,353,357	238,247,170
	₱848,896,169	₱544,362,536	₱304,533,633	₱782,051,725	₱443,426,725	₱338,625,000

The provision for claims reported, claims IBNR and MfAD may be analyzed as follows:

	2020			2019		
	Insurance contract liabilities	Reinsurers' share of liabilities (Note 10)	Net	Insurance contract liabilities	Reinsurers' share of liabilities (Note 10)	Net
Balance at beginning of year	₱367,451,198	₱267,073,368	₱100,377,830	₱296,159,843	₱210,868,540	₱85,291,303
Claims incurred during the year	191,768,270	113,567,176	78,201,094	114,929,236	51,985,731	62,943,505
Claims paid during the year (Note 21)	(94,591,995)	(51,279,189)	(43,312,806)	(120,808,636)	(49,196,085)	(71,612,551)
Increase (decrease) in IBNR and MfAD (Note 21)	17,566,618	22,713,810	(5,147,192)	77,170,755	53,415,182	23,755,573
Balance at end of year	₱482,194,091	₱352,075,165	₱130,118,926	₱367,451,198	₱267,073,368	₱100,377,830

The provision for unearned premiums may be analyzed as follows:

	2020			2019		
	Insurance contract liabilities	Reinsurers' share of liabilities (Note 10)	Net	Insurance contract liabilities	Reinsurers' share of liabilities (Note 10)	Net
Balance at beginning of year	₱414,600,527	₱176,353,357	₱238,247,170	₱298,510,980	₱157,222,816	₱141,288,164
Policies written during the year (Note 19)	803,775,926	426,956,896	376,819,030	859,724,473	388,930,776	470,793,697
Premiums earned during the year (Note 19)	(851,674,375)	(411,022,882)	(440,651,493)	(743,634,926)	(369,800,235)	(373,834,691)
Balance at end of year	₱366,702,078	₱192,287,371	₱174,414,707	₱414,600,527	₱176,353,357	₱238,247,170



16. Insurance Payables

This account consists of:

	2020	2019
Premiums due to reinsurers (Note 26)	₱263,928,405	₱175,761,445
Funds held for reinsurers	49,376,255	53,392,617
	₱313,304,660	₱229,154,062

Premiums due to reinsurers represent the reinsurance premiums due and payable by the Company to all its reinsurers whether by treaty or facultative.

Funds held for reinsurers represent the amounts pertaining to a certain percentage of the total reinsurance premiums due to reinsurers within one (1) year from date of retention being held by the Company as reserves for unpaid losses

The rollforward analysis of insurance payables follows:

	2020		
	Premiums due to reinsurers	Funds held for reinsurers	Total
Balance at beginning of year	₱175,761,445	₱53,392,617	₱229,154,062
Arising during the year	426,956,896	48,381,164	475,338,060
Paid during the year	(338,789,936)	(52,397,526)	(391,187,462)
Balance at end of year	₱263,928,405	₱49,376,255	₱313,304,660

	2019		
	Premiums due to reinsurers	Funds held for reinsurers	Total
Balance at beginning of year	₱263,464,342	₱37,792,229	₱301,256,571
Arising during the year	388,930,776	96,263,675	485,194,451
Paid during the year	(476,633,673)	(80,663,287)	(557,296,960)
Balance at end of year	₱175,761,445	₱53,392,617	₱229,154,062

Interest expense on funds held for reinsurers amounted to ₱1.59 million and ₱1.07 million in 2020 and 2019, respectively.

17. Insurance Contract Liabilities and Reinsurance Assets – Terms, Assumptions and Sensitivities

Terms and Conditions

The major classes of general insurance written by the Company include aviation, fire, surety, casualty, and engineering. Risks under these policies usually cover one-month to three-year periods.

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

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



The measurement process primarily includes projections of future claims through use of historical experience statistics. In certain cases, where there is lack of reliable historical data on which to estimate claims development, relevant benchmarks of similar business are used in developing claims estimates. Claims are usually assessed by loss adjusters.

Assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs and claim numbers for each accident year. Judgment is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Sensitivities

The general insurance claims provision is sensitive to the above key assumptions. The sensitivity of certain assumptions such as legislative change and uncertainty in the estimation process is not possible to quantify. As a result, the final liabilities may change as result of succeeding developments. Differences from recomputation of the final liabilities are taken up in subsequent financial statements.

The sensitivity analysis below is performed for a reasonably possible movement in key assumptions with all other assumptions held constant. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumption changes had to be done on an individual basis.

2020				
	Change in assumption	Impact on gross insurance contract liabilities	Impact on net insurance contract liabilities	Impact on income before income tax
Average claim costs	+7.12%	P16,115,996	(P4,768,336)	(P4,768,336)
Average number of claims	+14.49%	42,350,700	(11,817,285)	(11,817,285)
2019				
	Change in assumption	Impact on gross insurance contract liabilities	Impact on net insurance contract liabilities	Impact on income before income tax
Average claim costs	+4.55%	P10,746,010	(P3,102,531)	(P3,102,531)
Average number of claims	+22.97%	61,135,921	(16,770,774)	(16,770,774)

Claims Development Tables

The tables in the next page show the development of claims over a period of time. These reflect the cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date.

The Company aims to maintain strong reserves in respect of its general insurance in order to protect against adverse future claims experience and development. As claims develop and ultimate costs of claims become more certain, the absence of adverse claims experience will then result in a release of reserves from earlier accident years.



Reproduced below is an exhibit that shows the development of claims over a period of time on a gross and net reinsurance basis:

	Gross insurance contract liabilities for 2020							Total
	2014 and prior	2015	2016	2017	2018	2019	2020	
Estimate of ultimate claim costs								
At the end of accident year	₱791,077,270	₱183,096,949	₱226,914,246	₱185,555,200	₱257,842,370	₱289,795,963	₱368,003,269	₱368,003,269
One year later	238,384,524	113,393,160	95,650,913	80,547,563	162,241,453	141,737,091	–	141,737,091
Two years later	30,324,030	48,233,431	23,965,136	30,849,539	61,825,428	–	–	61,825,428
Three years later	14,373,035	47,659,984	1,608,316	4,917,856	–	–	–	4,917,856
Four years later	2,375,972	3,671,493	206,051	–	–	–	–	206,051
Five years later	208,991	50,410	–	–	–	–	–	50,410
Six years later	45,981	–	–	–	–	–	–	45,981
Current estimate of cumulative claims	45,981	50,410	206,051	4,917,856	61,825,428	141,737,091	368,003,269	576,786,086
Cumulative payments to date	–	14,203	–	3,236,723	1,749,620	73,450,555	16,140,894	94,591,995
Total gross insurance contract liabilities in the statement of financial position	₱45,981	₱36,207	₱206,051	₱1,681,133	₱60,075,808	₱68,286,536	₱351,862,375	₱482,194,091

	Net insurance contract liabilities for 2020							Total
	2014 and prior	2015	2016	2017	2018	2019	2020	
Estimate of ultimate claim costs								
At the end of accident year	₱147,712,396	₱31,041,306	₱47,784,542	₱73,141,896	₱105,939,336	₱110,876,308	₱122,745,282	₱122,745,282
One year later	137,821,824	19,492,864	36,379,292	38,061,088	50,630,178	44,923,187	–	44,923,187
Two years later	24,022,710	1,786,540	7,291,195	8,066,870	3,911,021	–	–	3,911,021
Three years later	11,141,889	1,541,423	789,878	1,755,963	–	–	–	1,755,963
Four years later	2,023,394	1,544,077	23,133	–	–	–	–	23,133
Five years later	191,131	37,165	–	–	–	–	–	37,165
Six years later	35,981	–	–	–	–	–	–	35,981
Current estimate of cumulative claims	35,981	37,165	23,133	1,755,963	3,911,021	44,923,187	122,745,282	173,431,732
Cumulative payments to date	–	14,203	–	483,904	1,254,524	25,534,442	16,025,733	43,312,806
Total reinsurers' share on gross insurance contract liabilities in the statement of financial position	₱35,981	₱22,962	₱23,133	₱1,272,059	₱2,656,497	₱19,388,745	₱106,719,549	₱130,118,926



18. Equity

Capital stock

Details of the Company's common shares as of December 31, 2019 and 2018 follow:

	2020		2019	
	Number of shares	Amount	Number of shares	Amount
Authorized capital stock – ₱1 par value per share	1,000,000,000	₱1,000,000,000	1,000,000,000	₱1,000,000,000
Issued and fully paid	470,000,000	470,000,000	470,000,000	470,000,000
Subscribed		165,537,500		165,537,500
Paid-up capital		635,537,500		635,537,500
Contributed surplus		441,615,510		441,615,510
		<u>₱1,077,153,010</u>		<u>₱1,077,153,010</u>

The details of the Company's subscribed capital stock follow:

	2020	2019
Subscribed capital stock	₱155,000,000	₱155,000,000
Additional paid-in capital in excess of par	314,650,000	314,650,000
Subscription receivable	(304,112,500)	(304,112,500)
Subscribed capital stock	<u>₱165,537,500</u>	<u>₱165,537,500</u>

Contributed surplus amounting to ₱0.44 billion as of December 31, 2020 and 2019 represents the original contribution of the stockholders of the Company, in addition to the paid-up capital stock.

Out of the ₱125.00 million cash dividends declared in 2016, ₱19.24 million remain outstanding as of December 31, 2020 and 2019 and is included under "Dividends payable" in the statements of financial position.

19. Net Earned Premiums

Total gross earned premiums on insurance contracts follows:

	2020	2019
Gross premiums written		
Direct	₱647,985,554	₱699,082,982
Assumed	155,790,372	160,641,491
Total gross premiums written	803,775,926	859,724,473
Gross change in provision for unearned premiums	47,898,449	(116,089,547)
Total gross earned premiums (Note 15)	<u>₱851,674,375</u>	<u>₱743,634,926</u>



Total reinsurers' share of gross earned premiums on insurance contracts follows:

	2020	2019
Reinsurers' share of gross premiums written		
Direct	₱426,956,896	₱388,930,776
Assumed	-	-
Total reinsurers' share of gross premiums written	426,956,896	388,930,776
Reinsurers' share of gross change in provision for unearned premiums	(15,934,014)	(19,130,541)
Total reinsurers' share of gross earned premiums (Note 15)	₱411,022,882	₱369,800,235

20. Investment Income– net

This account consists of:

	2020	2019
Interest income on:		
AFS financial assets (Note 8)	₱28,518,436	₱41,597,813
Cash and cash equivalents (Note 4)	10,870,419	6,861,906
Money market placements (Note 8)	4,685,941	3,595,715
Short-term investments (Note 5)	1,325,724	1,501,959
Dividend income (Note 8)	15,800,302	14,080,943
Gain on sale of AFS financial assets (Note 8)	4,776,469	9,220,746
Changes in fair value of financial assets at FVPL (Note 8)	2,176,226	6,467,173
Impairment loss on AFS financial assets (Note 8)	(2,557,229)	(11,470,015)
	₱65,596,288	₱71,856,240

21. Net Insurance Benefits and Claims

Gross insurance contract benefits and claims paid:

	2020	2019
Direct	₱49,061,603	₱117,830,897
Assumed	45,530,392	2,977,739
	₱94,591,995	₱120,808,636

Reinsurers' share of gross insurance contracts benefits and claims paid:

	2020	2019
Direct	₱20,232,904	₱51,759,962
Assumed	31,046,285	(2,563,877)
	₱51,279,189	₱49,196,085



Gross change in insurance contract liabilities:

	2020	2019
Change in provision for claims reported:		
Direct	₱104,763,478	(₱39,141,385)
Assumed	(7,587,203)	33,261,985
	97,176,275	(5,879,400)
Provision for claims IBNR and MfAD	17,566,618	77,170,755
	₱114,742,893	₱71,291,355

Reinsurers' share of gross change in insurance contract liabilities:

	2020	2019
Change in provision for claims reported:		
Direct	₱68,735,471	(₱22,766,120)
Assumed	(6,447,484)	25,555,766
	62,287,987	2,789,646
Provision for claims IBNR and MfAD	22,713,810	53,415,182
	₱85,001,797	₱56,204,828

22. General and Administrative Expenses

This account consists of:

	2020	2019
Salaries and allowances (Note 26)	₱91,004,683	₱61,996,366
Professional fees	11,503,030	14,730,572
Pension expense (Note 23)	10,906,706	4,542,043
Provision for doubtful accounts (Note 7)	8,002,547	27,192,124
Advertising, promotion and marketing expense	5,970,555	12,878,326
Depreciation and amortization (Note 12)	5,208,010	3,798,872
Taxes and licenses	5,083,174	3,542,646
Board meeting expenses and directors' fees	4,459,804	4,979,411
Social security and other contributions	2,625,222	1,689,015
Hospitalization contribution	1,987,315	1,131,624
Representation and entertainment	1,855,578	1,733,139
Bank, trust and other fees	1,800,364	1,012,594
Communication and postage	1,746,367	1,614,852
Transportation and travel	1,323,597	2,399,565
Rent (Note 27)	1,147,406	530,347
Professional and technical development	1,121,587	4,120,818
Stationery and supplies	956,777	1,336,556
Other employee benefits	848,855	542,718
Association dues	805,976	741,443
Repairs and maintenance	756,032	401,964
Fringe benefit tax	676,292	658,256
Light and water	625,274	1,045,003
Others	5,336,192	4,596,401
	₱165,751,343	₱157,214,655



Others include payments made to agency, software and maintenance, books and periodicals, donations and charitable contributions.

23. Pension Cost

The Company has an unfunded, non-contributory defined benefit retirement plan covering substantially all of its regular employees.

The following tables summarize the components of retirement cost recognized in the statements of income and pension obligation recognized in the statements of financial position:

	2020		
	Present value of defined benefit obligation	Fair value of plan assets	Total Net pension liability (asset)
Balance at beginning of the year	₱40,820,361	(₱36,664,204)	₱4,156,157
Current service cost (Note 22)	10,906,706	-	10,906,706
Net interest expense (income)	2,049,182	(1,840,543)	208,639
Total pension expense	12,955,888	(1,840,543)	11,115,345
Actuarial loss on defined benefit obligation	19,048,967	-	19,048,967
Remeasurement loss on plan assets	-	1,283,521	1,283,521
Total remeasurement loss (gain) to other comprehensive income	19,048,967	1,283,521	20,332,488
Benefits paid	(4,184,420)	4,184,420	-
Contributions	-	(9,979,283)	(9,979,283)
Balance at the end of the year	₱68,640,796	(₱43,016,089)	₱25,624,707

	2019		
	Present value of defined benefit obligation	Fair value of plan assets	Total Net pension liability (asset)
Balance at beginning of the year	₱25,443,061	(₱26,406,732)	(₱963,671)
Current service cost (Note 22)	4,542,043	-	4,542,043
Net interest expense (income)	1,880,242	(1,951,457)	(71,215)
Total pension expense	6,422,285	(1,951,457)	4,470,828
Actuarial gain on defined benefit obligation	10,896,450	-	10,896,450
Remeasurement loss on plan assets	-	408,565	408,565
Total remeasurement loss (gain) to other comprehensive income	10,896,450	408,565	11,305,015
Benefits paid	(1,941,435)	1,941,435	-
Contributions	-	(10,656,015)	(10,656,015)
Balance at the end of the year	₱40,820,361	(₱36,664,204)	₱4,156,157

Details of accumulated remeasurement loss on defined benefit plan as of December 31 follows:

	2020	2019
Balance at beginning of year	(₱3,335,096)	₱4,578,414
Remeasurement loss recognized in other comprehensive income during the year	(20,332,488)	(11,305,015)
	(23,667,584)	(6,726,601)
Income tax effect	6,099,746	3,391,505
Balance at end of year	(₱17,567,838)	(₱3,335,096)



Pension expense and the present value of the defined benefit obligation are determined using actuarial valuation. The actuarial valuation involves making various assumptions. The latest actuarial valuation report is as of December 31, 2020.

The principal assumptions used to determine pension for the defined benefit plans follows:

	2020	2019
Discount rate	3.78%	5.02%
Salary increase rate	10.00%	10.00%
Average years of service	4.49	5.56

The discount rate used to determine the defined benefit obligation is determined by reference to the approximated zero-coupon yields of government bonds with remaining period to maturity approximating the estimated average duration of the benefit payment.

The salary increase rate takes into consideration the prevailing inflation rate and Company policy.

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

	Change in variables	Increase (decrease) in present value of defined benefit obligation	
		2020	2019
Discount rate	+0.50%	(₱5,640,338)	(₱2,731,849)
	-0.50%	6,391,108	3,039,135
Salary increase rate	+1.00%	12,234,649	5,794,479
	-1.00%	(9,870,843)	(4,827,318)

There were no significant changes from the previous period in the methods and assumptions used in preparing the sensitivity analysis.

Shown below is the maturity analysis of the undiscounted benefit payments:

	2020	2019
Less than 1 year	₱3,934,812	₱-
More than 1 year to 5 years	8,639,484	16,866,786
More than 5 years to 10 years	30,597,253	24,790,888
More than 10 years to 15 years	74,073,170	66,338,266
More than 15 years to 20 years	99,191,687	36,468,589
More than 20 years	2,123,586,622	1,311,873,536

The Company expects to contribute at least ₱28.11 million to the define benefit plan in 2020.

The average expected future working lives of the employees of the Company is 23 years and 23 years as of December 31, 2020 and 2019.



The distribution of the plan assets as of December 31, 2020 and 2019 follows:

	2020		2019	
	Amount	%	Amount	%
Savings deposit	₱500	0.00%	₱5,316	0.01%
Investment in unit investment trust fund	42,994,311	99.95%	22,435,060	61.19%
Investment in government securities	12,187	0.03%	9,062,586	24.72%
Investment in corporate debt securities	9,092	0.02%	5,063,589	13.81%
Accrued interest	–	0.00%	97,659	0.27%
	43,016,090	100.00%	36,664,210	100%
Less: provision for credit losses	(1)	0.00%	(6)	0.00%
	₱43,016,089	100.00%	₱36,664,204	100%

The carrying values of plan assets approximate their fair values as of December 31, 2020 and 2019.

24. Income Tax

a. Details of the provision for income tax follows:

	2020	2019
Current		
RCIT	₱31,232,350	₱48,012,511
Final	8,733,311	11,369,553
	39,965,661	59,382,064
Deferred	(200,107)	(18,425,316)
	₱39,765,554	₱40,956,748

b. Components of net deferred tax assets follow:

	2020	2019
Presented in profit or loss		
Deferred income tax assets on:		
Unamortized past service cost	₱5,109,820	₱6,512,204
Provision for claims IBNR, CHE and MfAD	14,554,181	14,791,737
Allowance for credit losses	12,048,541	10,781,225
Net pension asset	158,339	–
Accrued expenses	2,895,481	2,740,032
Unrealized foreign exchange loss	269,337	192,874
	35,035,699	35,018,072
Deferred income tax liability on		
Unrealized foreign exchange gain	–	–
Net pension liability	–	(182,480)
	–	(182,480)
	35,035,699	34,835,592
Presented in other comprehensive income		
Deferred income tax asset on remeasurement loss on defined benefit obligation	7,529,074	1,429,328
	₱42,564,773	₱36,264,920



Movements in net deferred tax assets comprise of:

	2020	2019
Balance at beginning of year	₱36,264,920	₱14,448,099
Deferred income tax recognized in profit or loss	200,107	18,425,316
Deferred income tax recognized in other comprehensive income	6,099,746	3,391,505
Balance at end of the year	₱42,564,773	₱36,264,920

- c. The reconciliation of the statutory corporate income tax rate to the effective income tax rate follows:

	2020	2019
Statutory corporate income tax	₱44,455,680	₱50,766,238
Add (deduct) the tax effects of:		
Tax paid income	(9,165,580)	(4,593,380)
Non-deductible expenses	5,286,794	3,776,964
Non-taxable income	(811,340)	(8,993,074)
Effective income tax	₱39,765,554	₱40,956,748

25. Management of Insurance and Financial Risks

Governance Framework

The primary objective of the Company's risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failure to exploit opportunities. The Company recognizes the importance of having efficient and effective risk management systems in place.

Regulatory Framework

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

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

Fair Value Measurement

As of December 31, 2020 and 2019, the carrying values of the Company's assets and liabilities as reflected in the statements of financial position and related notes approximate their respective fair values as of the statements of financial position date.



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

Cash and cash equivalents, insurance receivables, accrued income and loans and receivables

Due to the short-term nature of these accounts, the fair values approximate the carrying amounts as of the reporting date.

AFS financial assets and financial assets at FVPL

The fair values of equity securities that are actively traded in organized financial markets are determined using quoted market prices within the bid-offer price change at reporting date. Unquoted equity securities are carried at cost subject to impairment when the fair value could not be reliably determined.

Financial liabilities

The fair values of insurance contract liabilities, accounts payable and accrued expenses (excluding statutory liabilities) and insurance payables approximate their carrying values due to either the demandable feature or the relatively short-term maturities of these liabilities.

The fair value hierarchy of the Company's financial assets are summarized in the table below.

	2020			
	Level 1	Level 2	Level 3	Total
Financial assets at FVPL	P122,575,315	P-	P-	P122,575,315
AFS financial assets:				
Government debt securities	288,560,899	-	-	288,560,899
Private debt securities	313,765,752	-	-	313,765,752
Listed equity securities	159,956,392	-	-	159,956,392
	P884,858,358	P-	P-	P884,858,358
	2019			
	Level 1	Level 2	Level 3	Total
Financial assets at FVPL	P227,151,152	P-	P-	P227,151,152
AFS financial assets				
Government debt securities	286,699,587	-	-	286,699,587
Private debt securities	437,257,475	-	-	437,257,475
Listed equity securities	204,261,661	-	-	204,261,661
	P1,155,369,875	P-	P-	P1,155,369,875

In 2020 and 2019, there were no transfers between Level 1 and Level 2 of fair value measurements, and no transfer into and out of Level 3 fair value measurement.

Financial Risk

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



These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company manages the level of credit risk by setting up exposure limits for each counterparty or group of counterparties and industry segments; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collaterals and guarantees; reporting of credit risk exposures; monitoring compliance with credit risk policy; and review of credit risk policy for pertinence and changing environment.

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

Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties. Commissions due to intermediaries are set off against amounts receivable from them to reduce the risk of doubtful accounts.

As of December 31, 2020 and 2019, the carrying values of the Company's financial instruments represent maximum exposure to credit risk as of reporting date.

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties as of December 31:

	2020			Total
	Neither past due nor impaired	Investment grade	Non-investment grade	
Loans and receivables:				
Cash and cash equivalents*	₱279,333,049	₱–	₱–	₱279,333,049
Short term investments	–	–	–	–
Insurance receivables:				
Premiums receivable	–	106,111,116	381,922,827	488,033,943
Due from ceding companies	–	61,868,948	105,415,013	167,283,961
Reinsurance recoverable on paid losses	–	36,072,380	47,971,719	84,044,099
Commissions receivable	–	13,772,333	33,559,134	47,331,467
Funds held by ceding companies	–	69,610	9,115,966	9,185,576
Accounts receivable	–	19,668,436	–	19,668,436
Advances to employees	–	194,365	–	194,365
Money market placements	239,095,701	–	–	239,095,701
Accrued income	4,503,240	–	–	4,503,240
Financial assets at FVPL	122,575,315	–	–	122,575,315
AFS financial assets:				
Government debt securities	288,560,899	–	–	288,560,899
Private debt securities	313,765,752	–	–	313,765,752
Listed common shares	159,956,392	–	–	159,956,392
Private common shares	1,020,000	–	–	1,020,000
	₱1,408,810,348	₱237,757,188	₱577,984,659	₱2,224,552,195

*excludes cash on hand



	2019			
	Neither past due nor impaired		Past due or impaired	Total
	Investment Grade	Non-investment Grade		
Loans and receivables:				
Cash and cash equivalents*	P439,507,390	P-	P-	P439,507,390
Short term investments	126,589,724	-	-	126,589,724
Insurance receivables:				
Premiums receivable	-	98,448,220	268,206,867	366,655,087
Due from ceding companies	-	31,440,226	72,517,332	103,957,558
Reinsurance recoverable on paid losses	-	478,078	108,023,644	108,501,722
Commissions receivable	-	1,893,921	22,065,110	23,959,031
Funds held by ceding companies	-	9,601	10,724,310	10,733,911
Accounts receivable	-	10,703,402	-	10,703,402
Advances to employees	-	608,096	-	608,096
Money market placements	150,000,000	-	-	150,000,000
Accrued income	7,969,168	-	-	7,969,168
Financial assets at FVPL	227,151,152	-	-	227,151,152
AFS financial assets:				
Government debt securities	286,699,587	-	-	286,699,587
Private debt securities	437,257,475	-	-	437,257,475
Listed common shares	204,261,661	-	-	204,261,661
Private common shares	1,020,000	-	-	1,020,000
	P1,880,456,157	P143,581,544	P481,537,263	P2,505,574,964

*excludes cash on hand

The credit quality of the financial assets was determined as follows:

a. *Cash and cash equivalents and accrued income*

These are classified as investment grade. These are deposited, placed or invested in foreign and local banks belonging to the top banks in the Philippines in terms of resources and profitability.

b. *Insurance receivables and loans and receivables*

The Company uses a credit rating concept based on the borrower's overall credit worthiness. Investment grade is given to borrowers and counterparties having good standing in terms of credit and paying habits and their outstanding account balance does not exceed 30% of their total production. Non-investment grade is given to borrowers and counterparties having low standing in terms of credit and paying habits and their outstanding balance exceeds 50% of their total production.

c. *Debt securities*

These are classified as investment grade. The government debt securities are issued by the local government authority and are considered as risk-free debt securities. The private debt securities are issued by the stable companies and are considered to be high credit worthiness.

d. *Equity securities*

Equity securities not subjected to other than temporary decline are classified as investment grade.

The table below shows the aging analysis of financial assets that are past due but not impaired:

	2020					Past due and impaired	Total
	Past due but not impaired				Total		
	Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days			
Insurance receivables:							
Premiums receivable	P-	P-	P-	P366,871,254	P366,871,254	P15,051,573	P381,922,827
Due from ceding companies	-	-	-	93,285,776	93,285,776	12,129,237	105,415,013
Reinsurance recoverable on paid losses	-	-	-	34,990,723	34,990,723	12,980,996	47,971,719
Commissions receivable	-	-	-	33,559,134	33,559,134	-	33,559,134
Funds held by ceding companies	-	-	-	9,115,966	9,115,966	-	9,115,966
	P-	P-	P-	P537,822,853	P537,822,853	P40,161,806	P577,984,659



	2019						
	Past due but not impaired				Total	Past due and impaired	Total
	Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days			
Insurance receivables:							
Premiums receivable	P-	P-	P-	P257,379,684	P257,379,684	P 10,827,183	P 268,206,867
Due from ceding companies	-	-	-	60,388,095	60,388,095	12,129,237	72,517,332
Reinsurance recoverable on paid losses	-	-	-	95,042,648	95,042,648	12,980,996	108,023,644
Commissions receivable	-	-	-	22,065,110	22,065,110	-	22,065,110
Funds held by ceding companies	-	-	-	10,724,310	10,724,310	-	10,724,310
	P-	P-	P-	P445,599,847	P445,599,847	P 35,937,416	P481,537,263

The Company has a significant concentration of credit risk with the Lucio Tan Group as of December 31, 2020 and 2019 (Note 26).

Liquidity risk

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

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

The Company manages liquidity risk by specifying minimum proportion of funds to meet emergency calls; specifying the sources of funding and the events that would trigger the plan; determining concentration of funding sources; reporting of liquidity risk exposures; monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

The following tables analyze financial assets and liabilities of the Company into their relevant maturity groups based on the remaining period at the reporting dates to their contractual maturities or expected repayment dates.

	2020				
	Up to a year	2-5 years	Over 5 years	No term	Total
Financial assets					
Loans and receivables:					
Cash and cash equivalents*	P279,333,049	P-	P-	P-	P279,333,049
Short term investments	-	-	-	-	-
Insurance receivables:					
Premiums receivable	488,033,943	-	-	-	488,033,943
Due from ceding companies	167,283,961	-	-	-	167,283,961
Reinsurance recoverable on paid losses	84,044,099	-	-	-	84,044,099
Commissions receivable	47,331,467	-	-	-	47,331,467
Funds held by ceding companies	9,185,576	-	-	-	9,185,576
Accounts receivable	19,668,436	-	-	-	19,668,436
Advances to employees	194,365	-	-	-	194,365
Money market placements	119,095,701	120,000,000	-	-	239,095,701
Accrued income	4,503,240	-	-	-	4,503,240
Financial assets at FVPL	122,575,315	-	-	-	122,575,315
AFS financial assets:					
Government debt securities	-	180,574,998	107,985,901	-	288,560,899
Private debt securities	121,221,657	168,490,127	24,053,968	-	313,765,752
Listed common shares	-	-	-	159,956,392	159,956,392
Private common shares	-	-	-	1,020,000	1,020,000
	P1,462,470,809	P469,065,125	P132,039,869	P160,976,392	P2,224,552,195

(Forward)



	2020				Total
	Up to a year	2-5 years	Over 5 years	No term	
Financial liabilities					
Insurance contract liabilities	₱848,896,169	₱-	₱-	₱-	₱848,896,169
Accounts payable and accrued expenses**	418,075,644	-	-	-	418,075,644
Insurance payables	313,304,660	-	-	-	313,304,660
	₱1,580,276,473	₱-	₱-	₱-	₱1,580,276,473

*excludes cash on hand

**excludes taxes payable

	2019				Total
	Up to a year	2-5 years	Over 5 years	No term	
Financial assets					
Loans and receivables:					
Cash and cash equivalents*	₱439,507,390	₱-	₱-	₱-	₱ 439,507,390
Short term investments	126,589,724	-	-	-	126,589,724
Insurance receivables:					
Premiums receivable	366,655,087	-	-	-	366,655,087
Due from ceding companies	103,957,558	-	-	-	103,957,558
Reinsurance recoverable on paid losses	108,501,722	-	-	-	108,501,722
Commissions receivable	23,959,031	-	-	-	23,959,031
Funds held by ceding companies	10,733,911	-	-	-	10,733,911
Accounts receivable	10,703,402	-	-	-	10,703,402
Advances to employees	608,096	-	-	-	608,096
Money market placements	30,000,000	120,000,000	-	-	150,000,000
Accrued income	7,969,168	-	-	-	7,969,168
Financial assets at FVPL	58,812,521	-	-	168,338,631	227,151,152
AFS financial assets:					
Government debt securities	69,296,242	217,403,345	-	-	286,699,587
Private debt securities	129,746,053	237,044,849	70,466,573	-	437,257,475
Listed common shares	-	-	-	204,261,661	204,261,661
Private common shares	-	-	-	1,020,000	1,020,000
	₱1,487,039,905	₱574,448,194	₱70,466,573	₱373,620,292	₱2,505,574,964
Financial liabilities					
Insurance contract liabilities	₱782,051,725	₱-	₱-	₱-	₱782,051,725
Accounts payable and accrued expenses**	345,068,149	-	-	-	345,068,149
Insurance payables	229,154,062	-	-	-	229,154,062
	₱1,356,273,936	₱-	₱-	₱-	₱1,356,273,936

*excludes cash on hand

**excludes taxes payable

Market risk

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

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

a. Currency risk

The Company's principal transactions are carried out in Philippine Peso and its exposure to foreign exchange risk arises primarily with respect to the United States Dollar (US\$).



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

The following table shows the details of the Company's foreign currency denominated monetary assets and liabilities and their Philippine Peso equivalents.

	2020		2019	
	US\$	PHP	US\$	PHP
Cash and cash equivalents	US\$138,496	₱6,652,808	US\$40,510	₱2,051,224

The exchange rates used are ₱48.036 to US\$1.00 in 2020 and ₱50.635 to US\$1 in 2019.

The Company has no foreign currency-denominated financial liabilities as of December 31, 2020 and 2019.

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

Currency	2020		2019	
	Change in Rate	Impact on income before tax	Change in Rate	Impact on income before tax
US\$	+1.18%	₱78,704	+0.68%	₱13,950
US\$	-1.18%	(78,704)	-0.68%	(13,950)

The Company used the average of changes in year-end closing rate for the past three (3) years in determining the reasonably possible change in foreign exchange rates.

b. Interest rate risk

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

The following tables show the information relating to the Company's financial instruments that are exposed to interest rate risk presented by maturity profile.

	Interest rates	2020			Total
		Within 1 year	2-5 years	Over 5 years	
Financial assets					
Cash and cash equivalents*	0.75% to 4.00%	₱279,333,049	₱-	₱-	₱279,333,049
Short-term investments	-	-	-	-	-
AFS financial assets:					
Government debt securities	3.25% to 6.25%	-	180,574,998	107,985,901	288,560,899
Private debt securities	3.25% to 6.75%	121,221,657	168,490,127	24,053,968	313,765,752
Money market placements	3.25% to 4.50%	119,095,701	120,000,000	-	239,095,701
		₱519,650,407	₱469,065,125	₱132,039,869	₱1,120,755,401
Financial liabilities					
Funds held for reinsurers	5.00%	₱49,376,255	₱-	₱-	₱49,376,255

*excludes cash on hand



	Interest rates	2019			Total
		Within 1 year	2-5 years	Over 5 years	
Financial assets					
Cash and cash equivalents*	1.25% to 4.00%	₱439,507,390	₱-	₱-	₱439,507,390
Short-term investments	3.25% to 3.50%	126,589,724	-	-	126,589,724
AFS financial assets:					
Government debt securities	3.25% to 6.25%	69,307,082	217,403,345	-	286,710,427
Private debt securities	3.25% to 6.75%	129,746,053	237,044,849	70,466,573	437,257,475
Money market placements	3.25% to 4.50%	30,000,000	120,000,000	-	150,000,000
		₱795,150,249	₱574,448,194	₱70,466,573	₱1,440,065,016
Financial liabilities					
Funds held for reinsurers	5.00%	₱53,392,617	₱-	₱-	₱53,392,617

*excludes cash on hand

c. *Price risk*

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

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

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

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on other comprehensive income (due to changes in fair value of AFS financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

The following table shows the equity impact of reasonably possible changes in the Philippine Stock Exchange index (PSEi):

Market indices	2020		2019	
	Change in variables	Impact on equity	Change in variables	Impact on equity
PSEi	+5.94%	₱4,361,228	+3.70%	₱4,053,209
PSEi	-5.94%	(4,361,228)	-3.70%	(4,053,209)

The impact on other comprehensive income is arrived at using the reasonably possible change in PSEi and the specific adjusted beta of each stock the Company holds. Adjusted beta is the forecasted measure of the volatility of the security for a portfolio in comparison to the market as a whole.

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 that the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of 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 table sets out the concentration of the claims liabilities by type of contract as of December 31.

	2020		
	Insurance contract liabilities	Reinsurers' share of liabilities	Net
Fire	₱265,351,414	₱205,052,918	₱60,298,496
Motor	36,270,981	4,189,500	32,081,481
Casualty	23,273,091	3,480,327	19,792,764
Marine	11,327,368	94,576	11,232,792
Engineering	12,426,313	10,983,115	1,443,198
Aviation	114,330,523	113,444,854	885,669
Bonds	19,214,401	14,829,875	4,384,526
	₱482,194,091	₱352,075,165	₱130,118,926

	2019		
	Insurance contract liabilities	Reinsurers' share of liabilities	Net
Fire	₱148,116,767	₱106,443,793	₱41,672,974
Motor	39,988,922	2,673,708	37,315,214
Casualty	13,948,613	4,929,384	9,019,229
Marine	3,549,694	204,518	3,345,176
Engineering	5,575,071	4,034,895	1,540,176
Aviation	131,314,521	129,190,421	2,124,100
Bonds	24,957,610	19,596,649	5,360,961
	₱367,451,198	₱267,073,368	₱100,377,830

For general insurance contracts, the most significant risks arise from climate changes, natural disasters and terrorist activities. These risks vary significantly in relation to the location of the risk insured by the Company and types of risks insured.

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

The Company also limits its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements. The purpose of these underwriting and reinsurance 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 quota share basis with retention limits varying by product line. 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 and thus a credit exposure exists with respect to the reinsurance ceded, to the extent that any reinsurers 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 any single reinsurance contract.

26. Related Party Transactions

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

Outstanding balances as of year-end and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2019 and 2018, the Company has not recorded any impairment on receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates. The related party transactions are to be settled in cash.

Transactions with related parties consist mainly of the following activities:

Category	2020		2019		Terms and conditions
	Amount	Outstanding Balance	Amount	Outstanding balance	
Stockholder					
Philippine National Bank (PNB)					
Cash and Cash Equivalent (a)	₱235,070,211	₱235,070,211	₱355,731,141	₱355,731,141	
Premiums (b)	22,576,236	1,465,052	21,921,814	1,713,717	(i)
Commission (b)	—	—	—	—	(ii)
Associate					
PNB General Insurers Company Inc					
Premiums (b)	—	—	—	—	
Investment in Associate (Note 6)	523,712,275	523,712,275	—	—	
Premiums Due from Reinsurers (b)	6,532,894	7,028,448	—	—	(i)
Premiums Due to Reinsurers (b)	756,359	1,010,012	—	—	(i)
Reinsurance Recoverable on Paid Losses (b)	6,032	492,024	—	—	(i)
Other related parties					
Premiums (b)					(i)
Absolut Chemicals, Inc.	31,329	56,868	41,535	2,561,751	
Absolut Distillers, Inc.	2,645,778	3,240,113	—	—	
Absolute Sales Corporation	709,270	2,301,997	—	—	
Agua Vida Systems, Inc.	24,380	21,455	—	—	
Air Philippines Corp.	274,408	490,567	—	—	
All Seasons Realty Corporation	434,608	547,908	—	—	
Allied Leasing & Finance Corp	281,068	1,509,554	297,242	27,009	
Asia Brewery, Inc	62,598,928	66,696,823	50,437,419	1,620,433	
Asian Alcohol Corporation	1,003,981	—	—	—	
Asia's Emerging Dragon Corp	2,080	6,112	—	—	
Basic Holdings Corp	3,779	—	—	—	
Cenorca Merchandising Corp	1,739	—	—	—	
Charter House, Inc	680,954	—	—	—	
Dominium Realty & Construction	15,108	227	—	—	

(Forward)



Category	2020		2019		Terms and conditions
	Amount	Outstanding Balance	Amount	Outstanding balance	
Eton Properties Phils. Inc	₱181,807	₱5,075,282	₱17,240,914	₱13,911,082	
Flor Decana Shipping, Inc	487	21,514	—	—	
Foremost Farms, Inc	887,500	395,304	987,011	159,650	
Fortune Tobacco Corporation	5,166,410	6,312,541	5,771,029	5,119,347	
Grain handlers Phils Inc	467,278	55,469	—	—	
Grandspan development Corp	445,049	153,100	—	—	
Himmel Industries, Inc	3,474,981	319,761	3,952,689	161,298	
Interbev Philippines, Inc	58,371	845,302	—	—	
Landcom Realty Corporation	—	950	—	—	
Local Trade & Development Corp	62,792	—	—	—	
Macroasia Corporation	283,165	—	—	—	
Manufacturing Services & Trade Corp	121,621	153,581	—	—	
Maranaw Hotels & Resort Corp	3,247,737	3,245,263	4,060,938	861,599	
Marcuenco Realty Development Corp	172,845	217,918	—	—	
Masobic Trading Corporation	11,971	12,322	—	—	
Metrolux Trading Co	5,969	—	—	—	
Mindar Trading Corp	12,296	—	—	—	
New Dominion Industries Inc	—	5,355	—	—	
Opulent Landowners, Inc	181,969	84,401	—	—	
Oro del Sur Industrial Corp	263,116	—	—	—	
Packageworld, Inc	2,080	12,967	—	—	
Parkland Realty Corporation	52,770	1,853	—	—	
Philippine Airlines, Inc	5,555,501	10,131,118	—	—	
PNB Savings Bank	2,243,116	622,767	3,440,507	151,456	
Power Realty Development Corporation	—	39,670	—	—	
Progressive Farms, Inc	133,277	21,119	—	—	
Proluck Enterprises, Inc	9,533	6,668	—	—	
Purple Cristal Holdings Inc	—	247	—	—	
Quicksilver Marketing Corp	—	9,923	—	—	
Shining Star Realty Corporation	29,040	36,597	—	—	
Tan Yan Kee Foundation Inc	62,410	709	—	—	
Tanduay Distillers Inc	22,442,002	7,719,528	8,157,533	1,559,925	
Total Bulk Corporation	1,162,921	1,466,234	—	—	
Twin Ace Holdings Corporation	1,885	121,058	—	—	
University Of The East	7,173,414	9,244,641	7,014,693	207,991	
Zebra Holdings Inc	98,393	2,504	—	—	
Commission (b)					
Absolute Chemicals Inc	—	—	216,001	—	(ii)
Absolut Ditellers Inc (Tdi)	1,998,618	—	—	—	
Agua Vida System, Inc	6,050	—	—	—	
Allied Leasing & Finance Corp	762,580	—	505	—	
Asia Brewery, Inc	689,523	—	40,186	—	
Eton Properties Phils Inc	1,394,076	—	819,365	—	
Foremost Farms Inc	2,128,233	—	176,267	—	
Fortune Tobacco Corporation	42,539	—	450	—	
Grandspan Development Corp	1,683,288	—	—	—	
Himmel Industries Inc	614,755	—	748,502	—	
Macro Asia Corporation	261,942	—	—	—	
Manufacturing Services & Trade Corp	15,562	—	—	—	
Maranaw Hotel & Resort Corp	630,333	—	149,632	—	
New Dominion Industries Inc	5,163	—	—	—	
Philippine Airlines	141	—	—	—	
Philippine National Bank	1,845,967	—	—	—	
PNB Savings Bank	876,851	—	24,623	—	
Royal Pines Realty Corporation	3,981	—	—	—	
Tanduay Distillers	1,073,547	—	1,251,365	—	
University of the East	—	—	875,489	—	
Zebra Holdings, Inc	14,704	—	—	—	
	₱925,420,976	₱889,985,312	₱483,356,850	₱383,786,399	

(i) Interest-bearing, unsecured, no impairment

(ii) Non-interest bearing, due and demandable, unsecured



- (a) The Company maintains savings accounts, current accounts and cash equivalents with PNB, details follow:

	2020	2019
Current account	₱67,547,468	₱208,186,469
Savings account	37,596,243	3,510,701
Time deposits	129,926,500	144,033,971
	₱235,070,211	₱355,731,141

- (b) In the ordinary course of business, the Company accepts insurance business from related parties, normally through Himmel, the Company's general agent and a related party under common control and PNB General Insurers Company Inc. These transactions are based on terms similar to those offered to third parties.
- (c) The Company's key management personnel include its executive, managers, supervisors and officer-in-charge. The summary of compensation of key management personnel is as follows:

	2020	2019
Salaries and other short-term employee benefits	₱56,603,307	₱36,169,576
Post-employment benefits and others	6,783,779	2,649,894
	₱63,387,086	₱38,819,470

27. Lease Commitments

The Company's branches entered into non-cancellable lease agreements with third parties for their office spaces. These leases are renewed annually upon mutual agreement of both parties.

As of December 31, 2020 and 2019, future minimum rentals payable under non-cancellable operating leases are as follow:

	2020	2019
Within one year	₱1,072,500	₱26,741
More than 1 year	596,750	-

Rent expense charged against operations amounted to ₱1.15 million and ₱0.53 million in 2020 and 2019, respectively (Note 22).



28. Capital Management and Regulatory Requirements

Regulatory Framework

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

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

Capital Management Framework

The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders.

The Company reviews the capital requirements by monitoring the minimum statutory network and the risk-based capital (RBC) which is regularly communicated to the major shareholders. With this procedure, shareholders are forewarned in anticipation of the IC requirements of additional capital infusion.

Shareholders are well updated with these externally imposed capital requirements since these are being discussed during the annual BOD meeting.

Minimum statutory network

On August 5, 2013, the President of the Philippines approved RA No. 10607, known as the “New Insurance Code”, which provides the new capitalization requirements for all existing insurance companies based on network on a staggered basis starting June 30, 2013 up to December 31, 2022.

On January 13, 2015 the IC issued CL No. 2015-02-A, *Minimum Capitalization Requirements Under Sections 194, 197, 200 and 289 of Republic Act 10607 (The Amendment Insurance Code)*, which provides for the clarification of minimum capital requirements under Section 194, 197, 200 and 289 of the New Insurance Code. Under the said circular, non-life insurance companies duly licensed by the IC must have a network of at least ₱250,000,000 by December 31, 2013. The minimum network of the said companies shall increase to the following amount:

<u>Compliance date</u>	<u>Minimum network</u>
December 31, 2016	₱550,000,000
December 31, 2019	900,000,000
December 31, 2022	1,300,000,000

The said circular supersedes Department Order Nos. 27-06 and 15-2012 and CL Nos. 22-2008 and 26-2008

As of December 31, 2020 and 2019, the Company’s estimated statutory network amounted to ₱1,340,530,524 and ₱1,290,597,549, respectively.

RBC requirements

For purposes of the December 31, 2020 and 2019 financial reporting, the Company determined its compliance with the RBC requirements based on the provisions of CL No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework*, and IMC No. 7-2006, *Compliance to IC Requirements*, respectively. These circulars provide RBC frameworks for non-life insurance companies in order to



establish the required amounts of capital to be maintained in relation to investment and insurance risks. A non-life insurance company is required to maintain a minimum RBC ratio shall subject the fail trend test on a yearly basis. Failure to meet the minimum RBC ratio shall subject the insurance company to corresponding regulatory intervention which has been defined at various levels.

Pursuant to CL no. 2017-15, effective January 1, 2017, non-life insurance companies are required to maintain the minimum RBC2 requirement as prescribed under CL No. 2016-68. Under the RBC2 framework, the RBC2 ratio shall be calculated as total available capital divided by the RBC2 requirement. The final RBC2 ratio can be determined only after the accounts of the Company have been examined by the IC.

The following table shows the estimated RBC2 ratio as of December 31, 2020 and December 31, 2019 as determined by the Company based on the RBC2 framework:

	2020	2019
Total available capital	₱1,225,192,891	₱1,290,597,549
RBC2 requirement	334,108,644	322,642,624
RBC2 ratio	367%	400%

The total available capital shall be the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits and determinations. Tier 1 capital represents capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis. This capital is considered to be the highest quality capital available to the insurer. Tier 2 capital does not have the same high-quality characteristics of Tier 1, but can provide an additional buffer to the insurer. Tier 2 capital shall not exceed 50% of Tier 1 capital. The RBC2 requirement shall be the capital that is required to be held in order to cover the risks an insurance company is exposed to and shall be computed using the formula as prescribed under CL No. 2016-68.

Net worth shall include paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the IC. The RBC requirement shall be computed using the formula prescribed under IMC No. 7-2016.

If the Company failed to meet the minimum required statutory networth and RBC requirements, the IC is authorized to suspend or revoke all certificates of authority granted to the Company, its officers and agents, and no new business shall be borne by and for the Company until its authority is restored by the IC.

Financial reporting framework

CL No. 2016-65 prescribes the new financial reporting framework (FRF) that is used for the statutory quarterly and annual reporting effective January 1, 2017. This includes rules and regulations concerning Titles III and IV of Chapter III of the New Insurance Code and all other accounts not discussed in the New Insurance Code but are used in accounting of insurance and reinsurance companies.

The FRF includes the economic valuation of assets and liabilities based on internationally accepted accounting, actuarial and insurance core principles which requires quarterly and annual reporting of networth to the IC.



29. Maturity Analysis of Assets and Liabilities

The table below show the Company's asset and liabilities analyzed according to when they are expected to be recovered, settled or reversed.

	2020		Total
	Less than 12 months	Over 12 months	
Assets			
Cash and cash equivalents	₱279,368,949	₱-	₱279,368,949
Short-term investments	-	-	-
Insurance receivables – net	755,717,240	-	755,717,240
Investment in Associate	523,712,275	-	523,712,275
Financial assets			
Financial assets at FVPL	122,575,315	-	122,575,315
AFS financial assets	121,221,657	642,081,386	763,303,043
Loans and receivables	19,862,801	239,095,701	258,958,502
Accrued income	4,503,240	-	4,503,240
Reinsurance assets	544,362,536	-	544,362,536
Deferred acquisition costs	32,910,587	-	32,910,587
Property and equipment – net	-	34,555,573	34,555,573
Deferred tax assets – net	-	42,564,773	42,564,773
Other assets	-	128,742,549	128,742,549
	₱2,404,234,600	₱1,087,039,982	₱3,491,274,582
Liabilities			
Insurance contract liabilities	₱848,896,169	-	₱848,896,169
Accounts payable and accrued expenses	458,797,876	-	458,797,876
Insurance payables	313,304,660	-	313,304,660
Dividends payable	19,237,343	-	19,237,343
Deferred reinsurance commissions	30,856,193	-	30,856,193
Income Tax Payable	2,234,983	-	2,234,983
Net pension liability	-	25,624,707	25,624,707
	₱1,673,327,224	₱25,624,707	₱1,698,951,931

	2019		Total
	Less than 12 months	Over 12 months	
Assets			
Cash and cash equivalents	₱439,538,290	₱-	₱439,538,290
Short-term investments	126,589,724	-	126,589,724
Insurance receivables – net	577,869,893	-	577,869,893
Financial assets			
Financial assets at FVPL	227,151,152	-	227,151,152
AFS financial assets	199,042,294	730,196,429	929,238,723
Loans and receivables	11,311,498	150,000,000	161,311,498
Accrued income	7,969,168	-	7,969,168
Reinsurance assets	443,426,725	-	443,426,725
Deferred acquisition costs	30,036,624	-	30,036,624
Property and equipment – net	-	27,051,184	27,051,184
Deferred tax assets – net	-	36,264,920	36,264,920
Other assets	-	133,387,761	133,387,761
	₱2,062,935,368	₱1,076,900,294	₱3,139,835,662

(Forward)



	2019		Total
	Less than 12 months	Over 12 months	
Liabilities			
Insurance contract liabilities	₱782,051,725	₱–	₱782,051,725
Accounts payable and accrued expenses	380,744,527	–	380,744,527
Insurance payables	229,154,062	–	229,154,062
Dividends payable	19,237,343	–	19,237,343
Deferred reinsurance commissions	19,585,277	–	19,585,277
Income Tax Payable	21,961,624	–	21,961,624
Net pension liability	–	4,156,157	4,156,157
	₱1,452,734,558	₱4,156,157	₱1,456,890,715

30. Events After the Reporting Period

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

Acquisition of PNB Gen

As fully disclosed in Notes 1 and 6, with the approval of the Insurance Commission, and by virtue of a Share Purchase Agreement (SPA) with PNB and PNB Holdings, the Company agreed to acquire 100% shareholdings of PNB Gen in exchange for a total purchase price of ₱1.5 billion. As of December 31, 2020, the Company closed and completed the purchase of 34.25% shareholdings of PNB Gen from PNB Holdings while the remaining 65.75% from PNB shall be paid in three (3) tranches in 2021.

The Company made its first and second installment payments (of the 3 tranches) for PNB's 65.75% shareholdings in PNB Gen on January 21, 2021 and March 19, 2021, respectively.

On March 31, 2021, the Company paid 80% of the 3rd tranche due on June 21, 2021, as advance payment. The remaining 20% of 3rd tranche will be paid by the Company to PNB on April 30, 2021.

Republic Act (RA) 11534 or CREATE Act

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

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

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding Php5 million and with total assets not exceeding Php100 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.



- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.

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

Applying the provisions of the CREATE Act, the Company would have been subjected to lower regular corporate income tax rate of 27.5% effective July 1, 2020.

- Based on the provisions of Revenue Regulations (RR) No. 5-2021 dated April 8, 2021 issued by the BIR, the prorated CIT rate of the Company for CY2020 is 27.5%. This will result in lower provision for current income tax for the year ended December 31, 2020 and lower income tax payable as of December 31, 2020, amounting to ₱28.63 million and (₱0.38 million), respectively, or a reduction of ₱2.60 million and ₱2.60 million, respectively. The reduced amounts will be reflected in the Company's 2020 annual income tax return. However, for financial reporting purposes, the changes will only be recognized in the 2021 financial statements.
- This will result in lower deferred tax assets and liabilities as of December 31, 2020 and provision for deferred tax for the year then ended by ₱1.05 million and ₱0.03 million, respectively. These reductions will be recognized in the 2021 financial statements.

31. Supplementary Information required by the Bureau of Internal Revenue (BIR)

Revenue Regulations 15-2010

In compliance with the requirements set forth by Revenue Regulations No. 15-2010 issued by the Philippine Bureau of Internal Revenue (BIR) hereunder are the information on taxes and licenses fees paid or accrued during the taxable year 2020.

VAT

The Company is a VAT-registered entity with VAT output tax declarations for premiums, commissions and other miscellaneous collections as follows:

	Amount	Output VAT
VATable sales	₱418,811,455	₱50,527,375

“VAT zero-rated sales” pertains to gross receipts/collections on premiums from contracts issued to PEZA entities of which are entitled to VAT zero-rating under Section 108(B)(7) of the 1997 Tax Code. On the other hand, “VATable sales”, pertains to gross receipts/collections from the issuance of policy from other sources.

The Company has no output VAT from sales of goods and leasing income. There are no exempt sales and zero-rated sales during the year.



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

Balance at January 1, 2020	₱8,160,434
Current year's domestic purchases/payments for:	
Services lodged under other accounts	18,498,290
	<hr/>
	26,658,724
Input VAT applied to output VAT	(13,972,981)
	<hr/>
Balance at December 31, 2020	₱12,685,743
	<hr/> <hr/>

Other taxes and license fees

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees. Details consist of the following:

Local:	
Local government tax	₱-
Clearance and certificate fees	25,489
Business permit	83,418
Community tax	10,500
Others	4,917,867
	<hr/>
	5,037,274
National:	
Filing of annual statement	45,400
VAT registration	500
	<hr/>
	45,900
	<hr/>
	₱5,083,174
	<hr/> <hr/>

Documentary Stamp Tax (DST)

The DST paid for the current year amounted to ₱57,368,051 which is based on premiums written during the year amounting to ₱557,897,505.

The Company has taxes relating to non-life insurance policies that has been passed on to the policyholders and are not recognized in the statement of income. Details of these taxes in 2020 follow:

Fire service tax	₱3,610,196
Premium tax	3,418,755
	<hr/>
	₱7,028,951
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Withholding taxes

The amount of withholding taxes paid and accrued for the year amounted to:

Expanded withholding taxes	₱7,312,256
Withholding taxes on compensation and benefits	15,152,210
Final withholding taxes	471,535
	<hr/>
	₱22,936,001
	<hr/> <hr/>



Tax assessments and cases

In 2020, the Company received tax assessment from the BIR covering various taxes for taxable year 2017 wherein the Company paid ₱3.50 million. As of December 31, 2020, the Company has no pending tax case under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR.

Revenue Regulations 34-2020

The Company is not covered by the requirements and procedures for related party transactions under Section 2 of Revenue Regulations No. 34-2020.

