# OUR OWN BLUE OCEAN

## THE 2020 ANNUAL REPORT

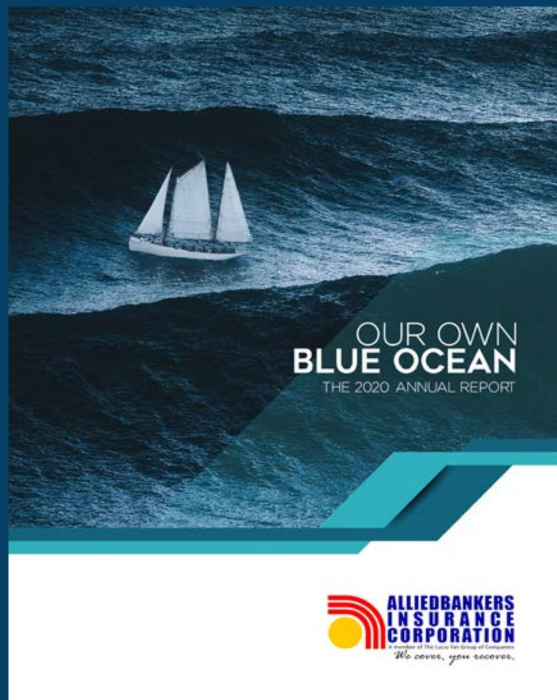
ALLIEDBANKERS INSURANCE CORPORATION

A member of The Lucio Tan Group of Companies

*We cover, you recover.*

# WHAT'S INSIDE






# ABOUT THE COVER

OUR OWN BLUE OCEAN

In 2020, Alliedbankers Insurance Corporation (ABIC) dealt with natural calamities and a global pandemic, which tested its commitment and capabilities to continue sailing in its own Blue Ocean. The Taal Volcano eruption in January, the widespread COVID-19 pandemic that exploded in March, and the occurrence of destructive typhoons in October and November triggered an economic crisis that created enormous uncertainty and volatility in the insurance industry.

Notwithstanding these economic headwinds, ABIC continued to navigate and lead this period of extreme uncertainty from a position of strength. We have demonstrated resiliency and adaptability in the midst of unprecedented turbulence by continuously revamping our boat through streamlining of business operations and strengthening our internal infrastructure. We have executed strategic initiatives to position the Company for growth and to withstand the challenges that an unforgiving ocean would throw at us in the years to come.

We remain relentlessly focused in identifying and capitalizing vast opportunities in the market as we await for the end of the pandemic. Before the year ended, we finalized the agreement to purchase 100% shareholdings of PNB General Insurers Company and payment was made for the first tranche. The resulting synergy catapults ABIC's growth and market share.

We firmly believe that our efforts to keep on paddling and continue sailing serve a higher purpose, and this has never been truer than in 2020. It has indeed been a difficult voyage, and for 2021, we are more than ready to face all the challenges and opportunities that will transpire as we continue with our journey towards our new purpose: Conquer ABIC's Blue Ocean.




## MISSION

ABIC will maintain its position of being the preferred non-life insurance arm of the Lucio Tan Group of Companies and their customers, our allied business undertakings, business partners, associates, employees and other stakeholders.

ABIC will keep on striving to be a dynamic company by providing a range of comprehensive, competitively priced and innovative insurance and other supplemental products suitable to the risks and needs of our client base.

We will continue to foster and synergise the relationships within the Lucio Tan Group of Companies and our other customers.

## VISION

ABIC will be the Best Managed and Best in Service Delivery Non-life Insurance Company in the Philippines.

Our vision has never been truer in 2020 when we were able to adapt quickly with the economic headwinds brought by the COVID-19 pandemic and natural calamities.

We will continue setting standards of excellence by being innovative, providing the right support and service to our customers especially during this unprecedented time, placing the well-being of our employees and clients at the forefront in every decisions that we will make.

We will remain steadfast in living up to the trust and confidence given to us by our stakeholders, and carrying out our tasks with professionalism and integrity with all the parties we deal with, guaranteeing the long term viability and profitability of our Company.

# CODE OF CONDUCT AND BUSINESS ETHICS

**The Code of Conduct and Business Ethics (Code) provides a reasonable and lawful process for resolution of issues and problems arising from employees' performance and/or behaviour, ensures the fair, just, and consistent implementation of ways to correct and address actions not in accordance with the Company's policies.**

This code encompasses a range of business ethics and standards of conduct. Due to the extent of our operations and the different legal and regulatory requirements that we must comply with, this code does not summarize all the policies and guidelines or laws that apply to our business. Good judgment and common sense will prevail at all times in the conduct of our business.

Our employees must exercise good judgment and common sense in line with this Code as we safeguard and protect the hard-earned properties of our customers, as we likewise do for ourselves.

The institutionalisation of our Code of Conduct and Business Ethics allows us to maintain a peaceful and harmonious work environment, increased work productivity and employee job satisfaction.

## PURPOSE

ABIC endeavours to do the right thing within the bounds of the values we live with and adhere to for our customers, accredited intermediaries, employees, shareholders, and other communities including the government regulators and the public at large.

## COMPLIANCE WITH LAWS AND POLICIES

ABIC strongly adheres to the compliance of the laws set by government regulatory bodies, and the internal policies approved by our Board of Directors and various working management committees covering the insurance products and services we offer to our clients.

It is deeply engrained in us that we must respect all laws and abide by all regulations that affect our conduct of business, and that we will carry out the following:

1. Ensure that we operate within the law, regulations, and internal policies at all times;
2. Ensure a proactive and constructive relationship with its regulators. Employees are expected to be responsive, fair and transparent with the examiners at all times especially during examination and provide appropriate support;
3. Ensure compliance with all policies within ABIC at any given time; and
4. Constantly keep in mind that non-compliance may harm ABIC's reputation and lead to fines or other criminal or civil sanctions.



## SCOPE

ABIC's Code of Ethics applies to our Board of Directors and all employees of ABIC. It is embodied in all actions we do, which are meant to carry out the following objectives:

1. To be fair and attentive to the interests and requirements of all ABIC clients;
2. To adhere to professionalism, honesty and integrity when dealing with the Company's clients, stakeholders and business partners; and
3. To act at all times with due care and diligence and within the limits of authority.

## VALUES

The Company adheres to the principle that the best form of discipline is self-discipline. The Company prefers employees who can discipline themselves without the compulsion of law or fear of punishment. It is not enough that the employee should avoid doing "wrong" – he should, consciously and as a personal commitment, "do the right things the right way" for the right purpose at the right time.

The decisions we make and how we carry out our business are a reflection of ABIC's values, principles, and beliefs. It is always directed towards the satisfaction of our clients, business partners, stakeholders and our colleagues at work.

The values that guide our beliefs, attitudes, and behaviour in our work life are the following:

1. We act in a financially honest and prudent manner ensuring the protection of the money and properties we hold on behalf of our clients and stakeholders;
2. Our actions at all times are fair and respectful providing all clients with due respects, consideration, and opportunity;
3. Our actions are found to be trustworthy by our clients and that we communicate with them in a clear, concise, prompt, and professional manner; and
4. Our actions provide suitable, fair, and objective recommendations to our clients.

# PUBLIC ACCOUNTABILITY ON CONFLICT OF INTEREST

The Company gives a high priority to the interests of customers. ABIC believes that conflicts of interest can cast doubt on the integrity and professionalism of the company. Potential conflicts of interest must be identified at the earliest reasonable time. If the same cannot be avoided, any situation of such nature must be handled fairly.

As an insurance company, the Corporation will ensure that its dealing with the public is always conducted in a fair, honest, and equitable manner. Accordingly, officers of the Corporation will avoid conflicts of interest and not engage in any unfair or deceptive acts or conduct that constitutes unfair trade practices to the detriment of policyholders.

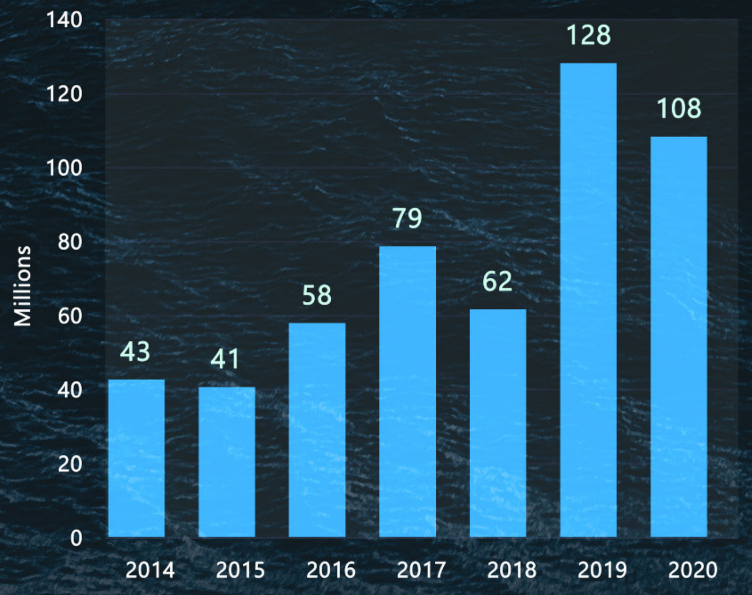
Internally, we have the Senior Management Committee composed of Executive Officers that closely monitor situations that can result in a conflict of interest. The Related Party Committee of our Board of Directors, on the other hand, reviews and approves contracts with our affiliated partners before we commit and bind ourselves with them.

### THE PRESIDENT'S REPORT

# IN EVERY CRISIS LIES OPPORTUNITY

**In spite of the temporary setback caused by the pandemic, ABIC still managed a respectable dash to the financial finish line.**

ABIC's Annual Comparative Net Income




Alliedbankers Insurance Corporation finished the year 2020 at PhP108 million which, while it missed the year's target net income by less than 1%, ranks as its second highest net income from operations ever. This is largely due to the pandemic that surprised and briefly stopped the whole world, thereby limiting the expansion plan that we have set up with the reforms and recruitments that started in 2019. We would have seen ABIC further widen its base of Retail Provincial Clients, increase its share of the Broker Business, and strengthen its coverage of the PNB Banca Business and LT Group of Companies' growing requirements as spelled out in our 2020-2022 Business Plan.

| TARGET GPW PRODUCTION | TARGET NET INCOME |
|---|---|
| P800M | P110M |
| P804M | P108M |

The year's Gross Production budget was achieved by switching focus from pandemic-handicapped Retail Expansion to growing the Broker Business. As a consequence, ABIC's Retention Ratio fell from 55% to 47%. This, consequently, led to a Net Income that fell short of target even after paring our Loss Ratio to only 17% of Net Premiums Earned from 23% in 2019.

**CONTRIBUTING DRIVERS**

| SALES GROWTH | PORTFOLIO RISK | ACCT SELECTION | EFFICIENCY |
|---|---|---|---|
| GPW | Loss Ratio | Retention Ratio | Combined Ratio |
| (7%) | 17% | 47% | 84% |
| DECREASE vs 2019 | vs 23% in 2019 | vs 55% in 2019 | vs 80% in 2019 |
| 2020: P803.8M / 2019: P859.7M | 2020: P73.0M / 2019: P86.7M | 2020: P376.8M / 2019: P473.7M | |

**FINANCIAL STABILITY**

| PROFITABILITY | LIQUIDITY | SOLVENCY | NET WORTH |
|---|---|---|---|
| 25% | 163% | 367% | P1.792B |
| Net Income After Tax Ratio | Liquidity Ratio | Risk-Based Capital Adequacy Ratio | |
| vs 34% in 2019 | vs 202% in 2019 | vs 513% in 2019 | vs P1.683B in 2019 |
| 2020: P108.4M / 2019: P128.3M | | | |

Despite the lower income in 2020, ABIC remained financially strong with liquidity at a high 163% and the Solvency Ratio at 367%. ABIC's Net Worth likewise surpassed the Insurance Commission's statutory minimum of PhP900 million and is, in fact, compliant already with the PhP1.30 billion statutory minimum in 2022.



While ABIC managed to achieve its gross production target but missed its net income target, all was not lost due to the pandemic. As the old saying goes, **"In every Crisis lies Opportunity"**.

While Sales Expansion and the bottom line were adversely affected, the quarantine to contain the virus became a golden opportunity to focus on three major initiatives to improve operational efficiencies and recover lost ground in sales expansion. These three will ensure that ABIC will hit the ground running at the first sign of the new normal. First, the initiative to overhaul the Company's Business Process and IT Infrastructures under the guidance of SGV & Company proceeded with more vigor and the blueprint for execution was completed. Second, the year-long lockdown of varying intensity has forced ABIC into Digitalization much earlier than originally planned. Lastly, the acquisition of PNB General Insurers, Inc. was finalized and this will be contributing tremendously in partially negating the pandemic's impact on Sales Expansion.

## IMPACT OF THE PANDEMIC ON SALES

**P2P Business**

The pandemic was felt the most in the person-to-person ("P2P") business which is comprised almost entirely by the banca business with Philippine National Bank ("PNB") and the retail business through the individual agents.

The 2020 Sales Expansion Plan calls for an aggressive recruitment of provincial agents who will drive the expansion of ABIC's retail residential property and motor car line businesses. This will augur the conversion of ABIC's branches into a Branch Distribution Network that will continue to service the banca business with PNB and, this time, also make a big push for the retail open market. Thus, spreading ABIC's portfolio risk from mainly Cresta 5 and Cresta 6 Zones to other zones. It will likewise boost ABIC's operating income since the retail insurance business has a lower loss ratio and a higher retention ratio resulting in a wider underwriting margin.

Just as ABIC was starting the year strong, the entire nation went into lockdown on March 17, 2020. It practically put the agents' recruitment program on hold and the potential retail clients out of reach.

Despite the handicap, the branches managed to increase their production, year-on-year, by 61% and the retail open market's share to 27% from 8% in 2019. Further, while the recruitment fell short of the targets, the number of agents grew from 19 to 84. Furthermore, the San Fernando Branch and Lipa Branch were inaugurated to make them more conducive in generating business for the agents in these two locations.

**B2B Business**

With the retail prospects dim, ABIC focused its energies on optimizing its capacity and goodwill to generate more business from its corporate or business-to-business ("B2B") production with the Brokers. From a mere 7 broker and agency partners, ABIC grew this to 24 in 2020. The Gross Production from this channel grew 30% in 2020! While they made up in Gross Production, there is a lower retention ratio from this segment because of capacity limitations and, also, of ABIC's portfolio risk management discipline.

Likewise, ABIC All-In 888 which is a predominantly Personal Accident banca product was successfully offered to corporate clients with the assistance of PNB's Institutional Banking Sector. DoubleDragon Properties Corporation had their employees covered with ABIC All-In 888 while DingDong PH, through its food delivery subsidiary DoorBell, had their riders covered, as well.

## OVERHAUL OF THE BUSINESS PROCESS AND INFORMATION TECHNOLOGY INFRASTRUCTURES

What started in 2019 as a review of ABIC's IT System to be an effective tool for Data Analytics transformed into "Project Pearl", a major undertaking to review the entire Business Process Infrastructure to rid ABIC of inefficiencies and control loopholes to be able to deliver on its promise, **"We cover, You recover"** within a set turn around time that can only be described as **Excellent Service.**

This naturally progressed, in 2020, into a review, as well, of the entire Information Technology Infrastructure of ABIC aimed at improving the Company's Data Analytics capabilities and transition ABIC into a world of Digital and Mobile Business.

By the end of the first quarter of 2021, a comprehensive Business Requirements Document ("BRD"), resulting from Project Pearl, was finalized. From a mere task force, participation in the Project ballooned to include the active participation of selected Subject Matter Experts ("SMEs"). The BRD which has become the magnum opus that will serve as blueprint for ABIC's full Digitalization.

## DIGITALIZATION

While Project Pearl was still ongoing, lessons learned from the project were already utilized With the forced lockdown, ABIC achieved a 100% connectivity of all its employees. Desktops and laptops were brought home, pocket WiFi devices were provided, and an almost paperless business operations was realized.

From staff meetings to Board meetings to marketing calls with business partners, ABIC went virtual with the use of various platforms like Zoom, Microsoft Teams, and Google Meet, among others.

## ACQUISITION OF PNB GENERAL INSURERS, INC.

**Branch Network.** The acquisition of PNB Gen came at the right time. Reeling from the restrictions on our branch expansion and agents' recruitment, ABIC suddenly found itself with 15 branches in various strategic locations nationwide. Each coming with its pool of agents and a solid banca business with PNB. What was denied by the pandemic was handed over by the acquisition.

**Talents.** In addition to a 15-branch network, PNB Gen came with a pool of talents in technical sales, underwriting, claims processing, IT, and Accounting. Thus, realizing for ABIC its twin objectives of being poised to take on opportunities in the retail and corporate Open Market and optimizing coverage of the Captive Market with PNB and the LT Group of Companies.

**IT System.** PNB Gen's use of GENiiSYS, the most widely used IT system in the country, was manna from heaven. With the BRD from Project Pearl done, ABIC already has the blueprint for the customization of GENiiSYS to suit ABIC's objectives.

These will ensure that before or by the end of 2021, ABIC will have the personnel complement, the nationwide distribution network, and an efficient Business Process Infrastructure that rides on a customized digital world-ready IT Infrastructure.

Indeed, **IN EVERY CRISIS LIES OPPORTUNITY.**

# STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

| | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| ASSETS | | |
| Cash and cash equivalents | ₱279,368,949 | ₱439,538,290 |
| Short-term investment | | 126,589,724 |
| Insurance receivables – net | 755,717,240 | 577,869,893 |
| Investment in associates | 523,712,275 | – |
| Financial assets | | |
| 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 | 4,503,240 | 7,969,168 |
| Reinsurance assets | 544,362,536 | 443,426,725 |
| Deferred acquisition costs | 32,910,587 | 30,036,624 |
| Property and equipment – net | 34,555,573 | 27,051,184 |
| Deferred tax assets – net | 42,564,773 | 36,264,920 |
| Other assets | 128,742,549 | 133,387,761 |
| TOTAL ASSETS | ₱3,491,274,582 | ₱3,139,835,662 |
| LIABILITIES AND EQUITY | | |
| Liabilities | | |
| Insurance contract liabilities | ₱848,896,169 | ₱782,051,725 |
| Accounts payable and accrued expenses | 458,797,876 | 380,744,527 |
| Insurance payables | 313,304,660 | 229,154,062 |
| Income tax payable | 2,234,983 | 21,961,624 |
| Deferred reinsurance commissions | 30,856,193 | 19,585,277 |
| Dividends payable | 19,237,343 | 19,237,343 |
| Net pension liability | 25,624,707 | 4,156,157 |
| Total Liabilities | 1,698,951,931 | 1,456,890,715 |
| Equity | | |
| Capital stock | 470,000,000 | 470,000,000 |
| Subscribed capital stock | 165,537,500 | 165,537,500 |
| Contributed surplus | 441,615,510 | 441,615,510 |
| Revaluation reserve on AFS financial assets | 55,895,525 | 40,705,126 |
| Remeasurement gains on defined benefit plan | (17,567,838) | (3,335,096) |
| Retained earnings | 676,841,954 | 568,421,907 |
| Total Equity | 1,792,322,651 | 1,682,944,947 |
| TOTAL LIABILITIES AND EQUITY | ₱3,491,274,582 | ₱3,139,835,662 |

# STATEMENTS OF INCOME
DECEMBER 31, 2020 AND 2019

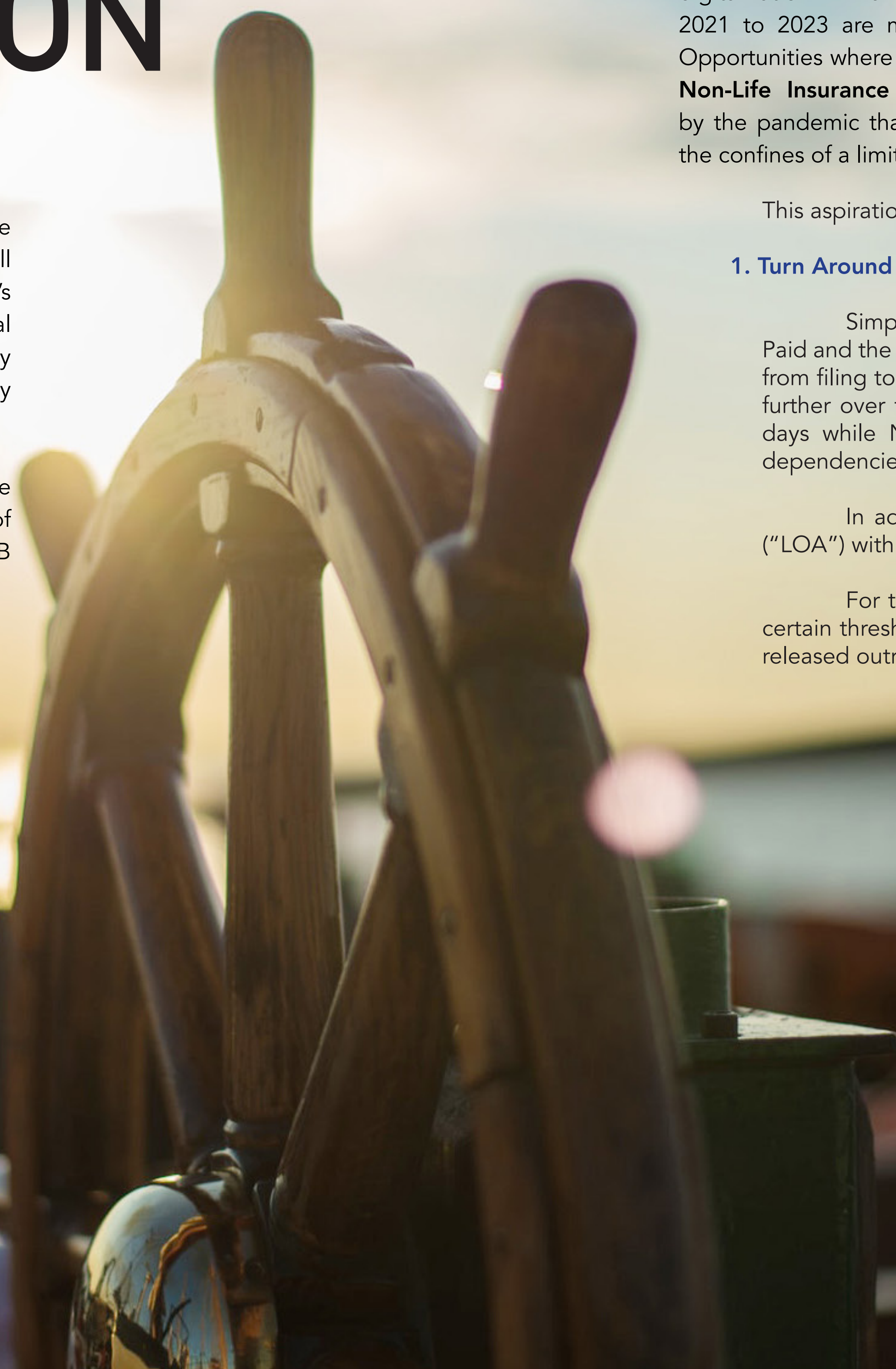
| | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| REVENUE | | |
| Gross earned premiums | ₱851,674,375 | ₱743,634,926 |
| Reinsurers' share of gross earned premiums | (411,022,882) | (369,800,235) |
| Net earned premiums | 440,651,493 | 373,834,691 |
| Investment income – net | 65,596,288 | 71,856,240 |
| Commission income | 60,394,625 | 57,000,772 |
| Miscellaneous income | 14,059,299 | 24,486,005 |
| Other underwriting income | 12,398,143 | 17,491,946 |
| Foreign exchange gain (loss) – net | (1,461,308) | (642,913) |
| Others | – | 223,481 |
| 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 | 73,053,902 | 86,699,078 |
| General and administrative expenses | 165,751,343 | 157,214,655 |
| Commission expense | 64,420,859 | 67,315,665 |
| Underwriting expense | 138,432,829 | 62,730,171 |
| Interest expense | 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 | 39,765,554 | 40,956,748 |
| NET INCOME | ₱108,420,047 | ₱128,264,045 |

# SURVIVING THE PANDEMIC AND MOVING ON

## BUSINESS PLAN 2021-2023

The 2020-2022 Business Plan crafted in 2019 shall remain the same but changes have to be necessarily made on the timetable as to when we will return to normalcy still remains a question mark that hinges on the Government's ability to roll out a vaccination program. It is assumed that, based on the official pronouncements, the vaccination program of the general population will really only start in earnest by the third quarter of 2021. This will likely go well into early 2022.

This can only mean that the year 2021 will be similar to 2020 but, with the lessons learned in the past 12 months, this will be a much better year in terms of Sales since we will be proceeding from the combined strengths of ABIC and PNB Gen.



## ASPIRATIONS

Alliedbankers will continue with the conviction that the business is not about selling policies. Not even mere Insurance Coverage! Our product is **SERVICE**. First, the **Promise of Service** at the time of need and, second, the **Delivery of Service** when the need arises.

As a result of the housecleaning in 2019, the achievements in operational efficiency and digitalization in 2020, and the acquisition of PNB Gen at the end of 2020, the years from 2021 to 2023 are meant to level up Alliedbankers' efforts to create its own Blue Ocean of Opportunities where our **Excellent Service Delivery** will result in being one of the **Best Managed Non-Life Insurance Companies** in the country. While 2021 will continue to be challenged by the pandemic that is yet to be eradicated, great strides are expected to be achieved within the confines of a limited lockdown.

This aspiration for Excellent Service Delivery shall be defined by:

### 1. Turn Around Time

Simply put, clients and partners should not feel they are waiting for a Claim to be Paid and the Commission to be Released. In 2020, the Motor Claims TAT was set at 17 days from filing to settlement. For Non-motor Claims, it was set at 33 days. This will be reduced further over the next three years. For Year 2021, Motor Claims TAT will be reduced to 7 days while Non-Motor Claims will be set at 15 days, net of delays from third party dependencies.

In addition, for Motor Line, we shall endeavor to release the Letter of Authority ("LOA") within 48 hours upon submission of the necessary documentary requirements.

For the commissions of provincial agents, we shall aim to release those beyond a certain threshold amount with 48 hours from confirmation of payment. The rest will be released outright by the branches.

### 2. Holistic approach to Risk Management

Embark on a conscious effort to shift from a business of merely selling policies where endless haggling on premiums can and will be detrimental to both ABIC and the Assured. ABIC shall move forward to focus efforts on the Assured's Complete Protection at the time of need. This holistic approach requires a customized Risk Management Partnership with our clients and partners, both corporate and individual.

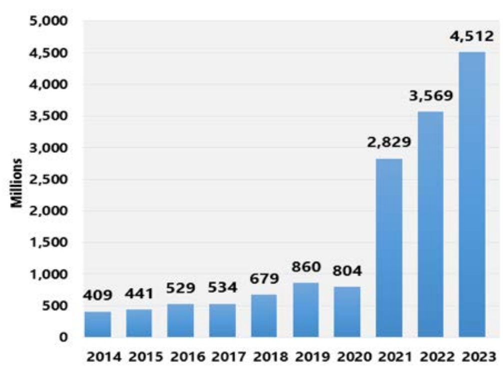
### 3. Quantifiable Metrics

A. Financial Stability

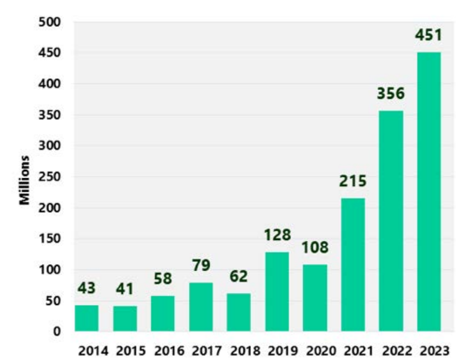
| | | |
|---|---|---|
| i. | Risk-Based Capital Adequacy Ratio: | 200% - 250% |
| ii. | Liquidity Ratio: | 100% - 150% |

B. Profitability

i. Production Growth




*Accelerate Production Growth to 102% from 2020 to 2023 compared to 13% from 2014 to 2020*




*Drive the Net Income to a 57% growth rate from 2018 to 2023. From 2014 to 2018, this grew by only 13%.*

| | | |
|---|---|---|
| ii. | Net Income Ratio: | Around 25-30% |
| iii. | Combined Ratio: | Below 80% |
| iv. | Retention Ratio: | 60% |
| v. | GAE | Around 20-25% |

C. Portfolio Mix

i. We drive to the Mix that we want, not live with the mix that we get
ii. Dynamic Pricing to influence the mix
iii. Five Lines almost equally accounting for 70% of Portfolio
iv. Go for High-Margin but Low-Loss Ratio lines

### 4. Culture

**Professionalism.** Create a culture of professionalism, ownership leading to commitment, a sense of responsibility without fear, and fairness by harping on the observance of the olden Rule: "Do unto others as you would want others do unto you".

**Compliance.** Empowerment of the Internal Audit Department and the Compliance Department to esure that regulatory compliance, together with appropriate Risk Management, are the base mindset of every officer and staff.

### 5. A Force for Reforms

Encourage active participation by the key officers in industry organizations with pushing industry reforms as an underlying motive.

## KEY SUCCESS FACTORS

### 1. Talent

Qualified People:

A. Overcome Training Obstacles

i. Provide dedicated funding and review the present contract to remove provisions that discourage employee participation in trainings.
ii. Classify the Basics (e.g., Basic Non-Life Seminar, Accounting for Non-Accountants, etc.) as contract-free.
iii. Revise the Training Contract Provisions to limit tenure requirement to one year while a longer contract kicks in when training cost exceeds 20% of annual compensation of the employee.

B. Review Pay Scale

With a lower pay scale compared to industry, review and adjust the existing pay scales without busting the cap on GAE as a percentage of the Net Premiums Earned.

Over the last two years, ABIC's compensation structure was standardized according to rank and function. This was followed by a limited salary adjustment scheme to further the standardization. In addition, non-cash benefits were upgraded.

To strengthen this further, the conduct of the performance appraisal was professionalized by employing tools to remove subjectivity and adhere strictly to a performance-based rating system.

2. **Technology for Data Analytics and Digitalization**

All the improvements in services and management's decision-making are anchored on a dynamic data processing system and data analytics. To this end, ABIC will close 2021 with a robust and customized GENiiSYS. This will further enhance the capabilities of the Data Analytics Unit that was created in 2019 becoming an important tool for ABIC's Top and Middle Management.

For Year 2021, ABIC's new system will enable the Sales Team to use digital mobile devices in Product Distribution and Channel Management. This will be an expansion of the mobile-based portal for the banca business into the hands of ABIC's agents, branch heads, and sales heads.

3. **Best Practices: Business Process**

Give importance to the use of proven Best Practices by initially, having all the policies and procedures formalized. While this has come full circle in the first quarter of 2021 with the final BRD, this will continue until all business policies are ultimately consolidated in a handbook. Even after that is achieved, this will continue to be a work-in-progress to ensure that ABIC does not slide back in its Service Delivery promise.

4. **Distribution Network: Digital and Physical**

With the system overhaul, the enhancements will include adaptability to mobile business including connectivity to various payment systems. This is part of the final recommendations of the system review under Project Pearl. Mobile connectivity will allow ABIC to go beyond the existing brick-and-mortar distribution channels. The seeds were planted with the online eCTPL channel, the ABIC All-In 888 Banca Portal, the online Travel Smart Personal Accident channel, and, soon, a Partners Portal for all agents nationwide.

5. **Financial Strength**

The continuing program of the Insurance Commission to increase the Minimum Net worth to PhP1.3 billion and, consequently, reduce the number of industry players to well below 40 only means that the future landscape will be left to the big industry players. The acquisition of PNB Gen is an initial step as it puts ABIC in the Big League. The combined financials of the two companies will put ABIC in the Top Ten of most of the industry's metrics.

To sustain its newfound ranking and survive with strength within the next three years, ABIC will either have to get hefty equity infusions from the current stockholders or allow the entry of a Strategic Foreign Partner who can provide expertise, technology, product development, and capital to grow the current portfolio.



# FACTORS FOR CONSIDERATION

1. **Threats**

The Blue Ocean of Opportunities is attractive but it will not be easy to swim on for, below the surface, sharks could be lurking. Risks, however, are not there to be merely avoided but, rather, are there to be managed.

A. **Regulatory Risk.** The Regulatory Bodies' Strict RPT compliance requirements could dwindle ABIC's Captive Market. While this may sound like a threat to ABIC's business, it can be managed and become an opportunity. Nothing short of strict adherence to Related Party Guidelines is the best way to manage this. Appropriate Corporate Governance policies were finalized, approved by the Board, and have been strictly adhered over the last two years. Furthermore, the internal audit and compliance units were strengthened with the hiring of additional professionals who will ensure compliance.

B. **Increasing Market Competition.** The Insurance Commission's continuing program to strengthen and professionalize the industry through increasing Minimum Net Worth can only lead to bigger competitors that could threaten ABIC's sustainability. ABIC is approaching this in three ways: Find growth in the provinces where the competition is less, competitive pricing, and excellent service delivery.

C. **Digitalization.** The predominantly manual operations of ABIC three years ago was a serious threat that needed to be addressed. While ABIC has successfully launched a product that is distributed through a mobile app, the current system is not yet fully ready. However, this was a good first step forward. Project Pearl which aims to overhaul the Business Process and IT Infrastructures of ABIC coupled with the acquisition of GENiiSYS through PNB Gen will see this threat turn into a competitive advantage when completed by year end.

D. **ASEAN integration.** The ASEAN Integration which is bound to happen on or before 2025 will definitely put ABIC at a disadvantage but the possibility of getting a strategic foreign partner before that happens is a reasonable risk-mitigating move because this will giveABIC the capital resources, access to technology, products, technical expertise, and a regional reach which are all necessary to compete in a new environment.

2. **Opportunities**

A. **Untapped Market Potential.** The Non-Life Insurance Industry's 2.5% penetration of the country serves as a large opportunity for ABIC. This, however, requires a strategic emphasis on, and identification of, areas where competition remains weak. This is precisely the essence of ABIC's Blue Ocean Strategy. There is a compelling reason to go retail, without sacrificing the big-volume BGAA partnerships in urban centers, to create niches. The acquisition of PNB's 15 branches and their conversion into Nationwide Distribution Network augurs well in the plan to tap this potential.

Likewise, the acquisition of technical talents from PNB Gen will allow ABIC to increase its market share in the BGAA business.

B. **ASEAN Integration.** While this is a potential threat, it is also an opportunity. It offers possible partnerships with regional players thus, a wider market for ABIC.

### 3. Strengths

A. ABIC's Captive Market provides a baseline income that gives it cushion for uncertainties and the flexibility to define its terms.

B. Solid Financials allow ABIC to take on additional risks, higher retention, and acquire competencies.

C. ABIC's Biggest Strength is the Unity of the Board and Senior Management in the recognition of its weaknesses that is matched by their willingness to change.

### 4. Weaknesses

A. Reliance on a Captive Market

While there is reliance on the Captive Market, this is not exactly a complete dependence since these account for only 66% of ABIC's Gross Production. On the other hand, the Captive Market provides a stable base of income that allows ABIC to take on the Open Market. Secondly, it is a market, especially the LT Group of Companies, that presents a definite renewal business both in good and adverse times.

B. Weak Systems

Having grown internally with focus on a Captive Market, ABIC's Business Processes and Information System leave much to be desired. Fortunately, there is recognition of this inadequacy across the organization from the lowest rank to the Board of Directors. Changes under Project Pearl are already on the way and are expected to be completed by end 2021.

C. Shallow Bench

Aside from, or as a result of, having a lean organization, ABIC lacked the most critical skills and talents to meaningfully fully serve its Captive Market, at the very least, and dream of profitably navigating the Open Market. In 2019 and 2020, skills were acquired through recruitment and trainings of existing personnel in the areas of Underwriting, Claims Processing, and Sales Support. The acquisition of PNB Gen has remedied this with their talents in Sales, Finance & Accounting, Underwriting, and Claims, among others.

D. Narrow Network

ABIC has only 5 branches up to March 2021 which, to a large extent, are really small operations that, originally, mainly serve the branches of Philippine National Bank ("PNB"). These are being strengthened to target not only PNB's banca business but also the open market retail business, as well. By April 2021, this will grow to a 15-branch network that will be transformed into a Branch Distribution Network.



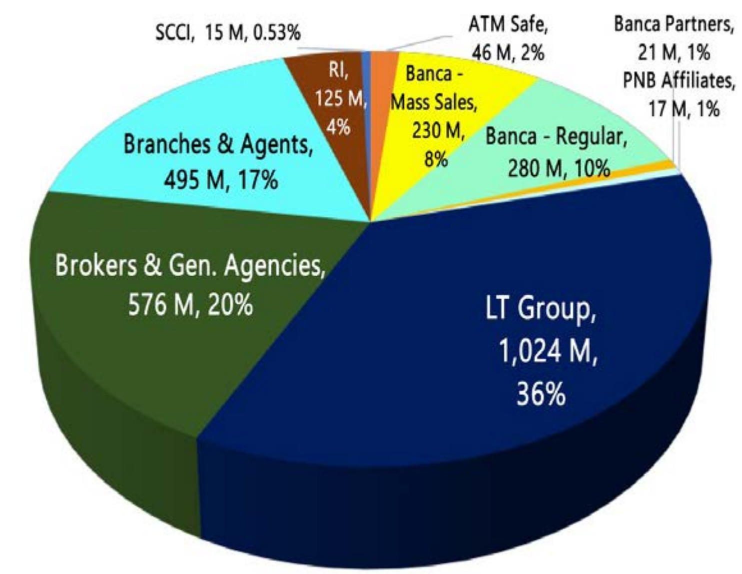
## THE YEAR 2021

### 1. SALES

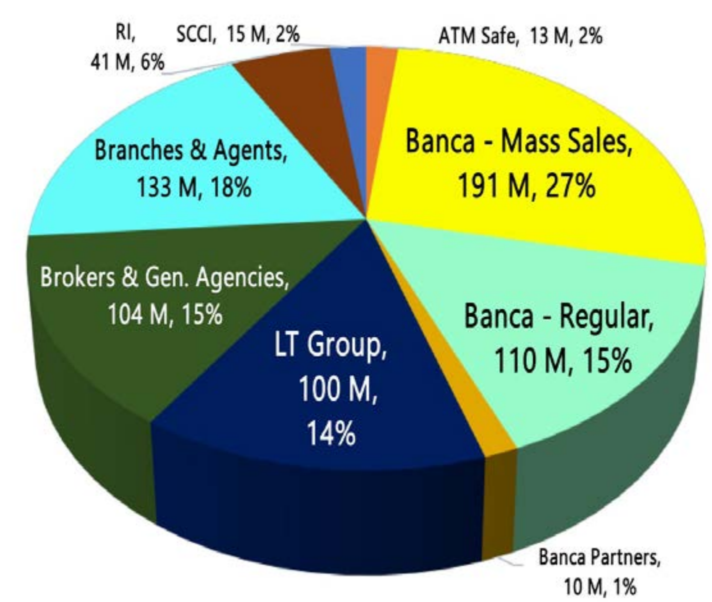
A. Targets

For Year 2021, ABIC Gross Production is expected to more than double from 2020 while expanding the Net Premiums Written by 90% with a concentration on High Retention Low Loss lines.

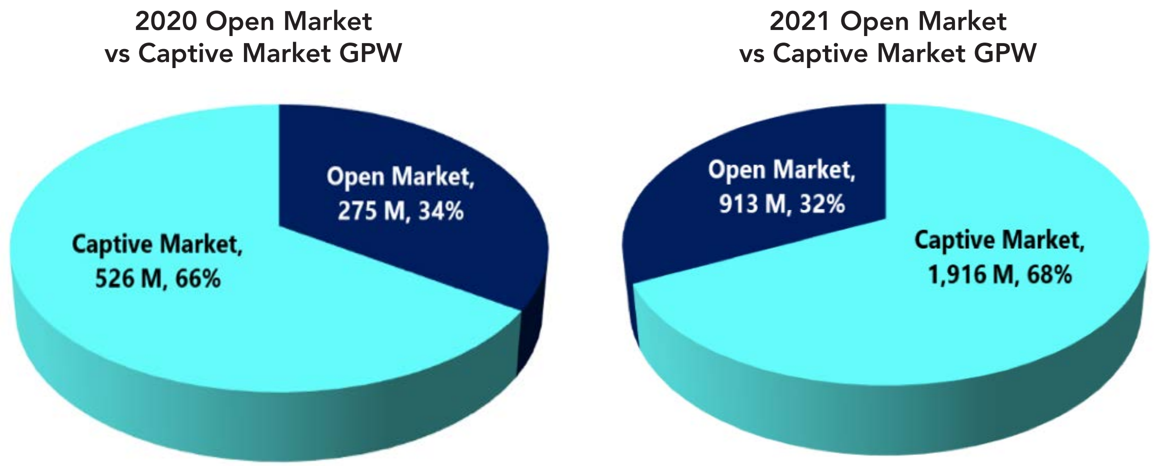
2021 GPW




2021 NPW



B. Markets




*Continue rebalancing the portfolio by increasing ABIC's Open Market footprint while keeping a firm hold of its Captive Market*

i. Captive Market

**LT GROUP OF COMPANIES.** ABIC will continue to strengthen its management of the LT Group of Companies through a holistic Enterprise Risk Management approach by working with the individual companies' risk officers in analyzing and managing their enterprise risk exposures. As such, while the overall business relationship is under Sales & Marketing, Underwriting will manage the companies' Risk profile.

While ABIC recognizes the value of the LT Group as captive market, the Management is also cognizant of the risks from "self insurance". With this in mind, ABIC will rationalize its retention policy with the aim of reducing its retention to an optimal level while, at the same time, leveraging the ceded amount to raise better pricing for the LT Group.

In addition to the present crop of LTG Companies that ABIC is managing, ABIC will tie up with LTG Serves, an aggrupation of various LTG companies' employees to be a provider of coverage to the thousands of LTG employees.

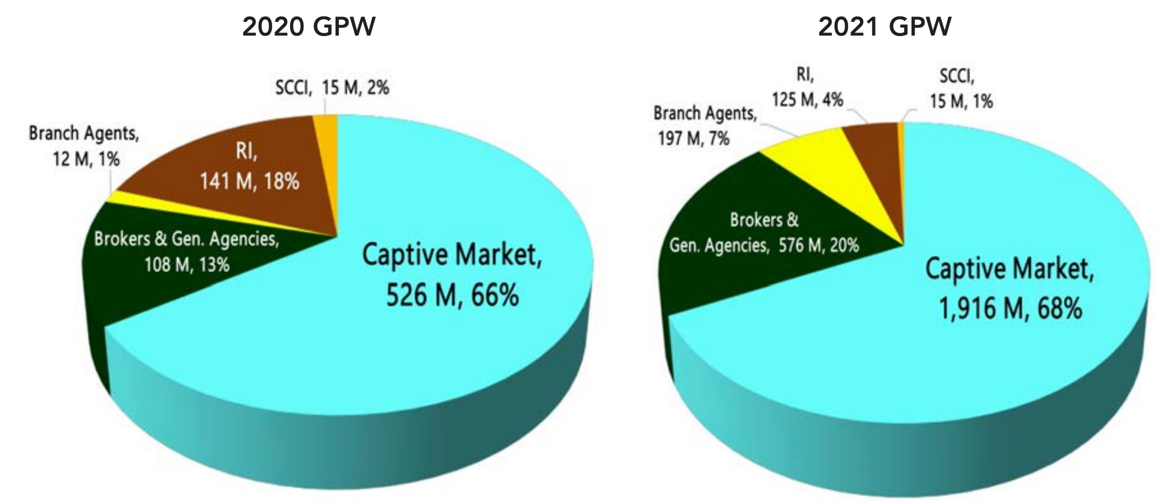
**PNB BANCASSURANCE.** Armed with a 15-year exclusive bancassurance agreement with Philippine National Bank ("PNB") starting April 2021, ABIC will be able to maximize the potential from the bank's clientele.

Beyond the regular banca products, ABIC will continue to introduce bundled products that are affordable and easily distributed through mobile apps. With the success of ABIC All-In 888, a commuter protection bundle that is inexpensive and mobile app-enabled, similar products anchored on Fire and other Lines have already been launched and more will follow.

This combination of affordability and mobile technology have allowed the Bank's Corps of Referrers to expand their reach beyond PNB's Depositor Base. It has created a database of potential clients for the Bank and ABIC from ABIC All-In 888 clients who are classified as "New to the Bank".



ii. Open Market




With the necessary Underwriting Policies and Claims Processing TAT in place, ABIC will continue to expand its foray into the Open Market. At the forefront of this thrust will be the industry's Brokers and Agencies, sizable organizations like cooperatives, and ABIC's own Branch Network.

**Brokers, General Agencies, and Agents ("BGAAs").** Instead of doing a shotgun approach, ABIC will continue to carefully select BGAAs that will be a part of the ABIC Distribution Ecosystem.

While the engagement of General Agencies did not perform well in 2020 due to the spill over of the results from relationships that started in 2017, this remains a potentially attractive channel and a more rational approach will be employed to re-engage this sector starting in 2021.

Brokers, on the other hand, were given special attention in 2019-2020 and, rightly so, ABIC's production from this channel increased by 73%. Moving forward, the coverage of Brokers will be widened but still employing the same focused channel management approach and sup ported by data analytics to ensure that risk management policies are not compromised while optimizing ABIC's surplus capacities.

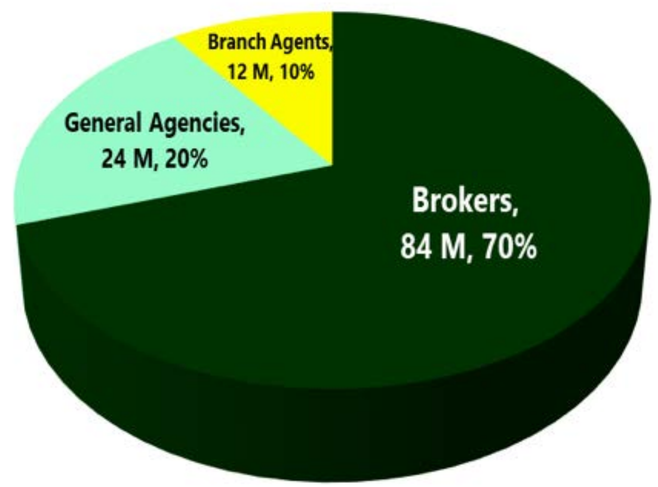
**Branch Distribution Network.** The expanded branch network will continue to be the catalyst in spreading the reach of ABIC in locations where competition is less, the loss ratio is lower, and the margins are higher. This spells retail PA, Motor, and Fire.

**Sizable Organizations and Microinsurance.** The Open Market push will include a focused effort in microinsurance through a partnership with Cooperatives and other similar organizations. Agreements have already been inked with Cebuana Lhuillier while PNB Gen comes with a collaboration with Palawan Pawnshop. This market segment is expected to bear fruit in 2021.

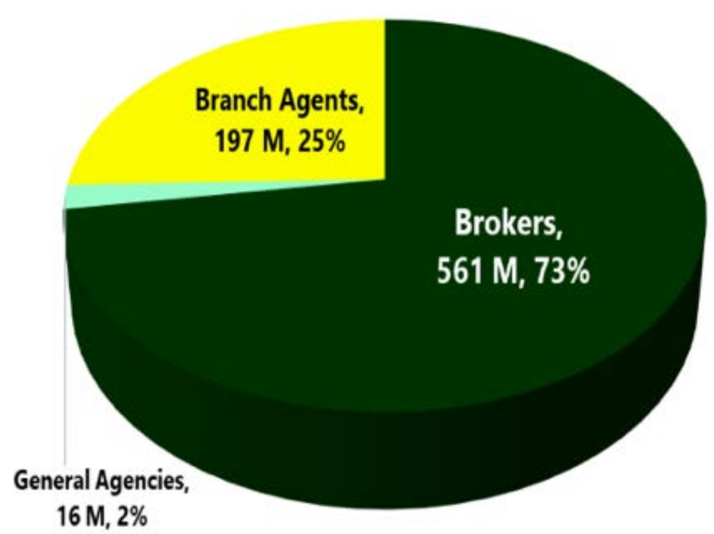
C. Distribution Channels

ABIC will continue to expand its partnerships with Brokers, Dealers, Agencies, and Cooperatives, in addition to its own regional branch network.

2020 Brokers & General Agencies GPW

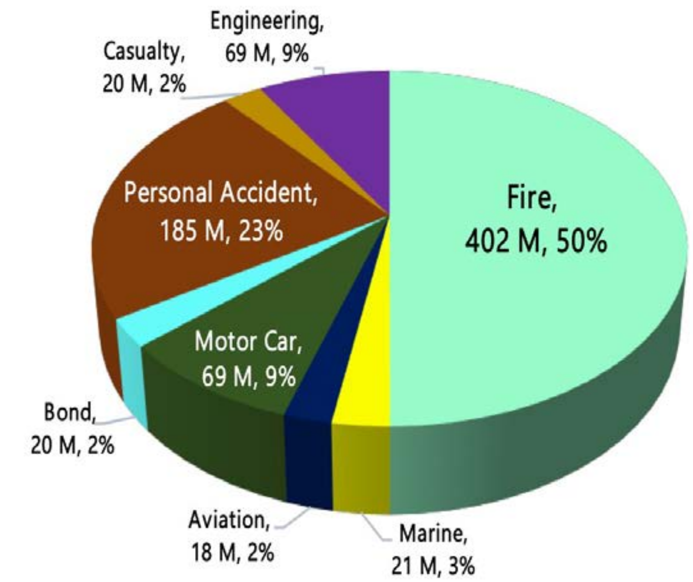



2021 Brokers & General Agencies GPW

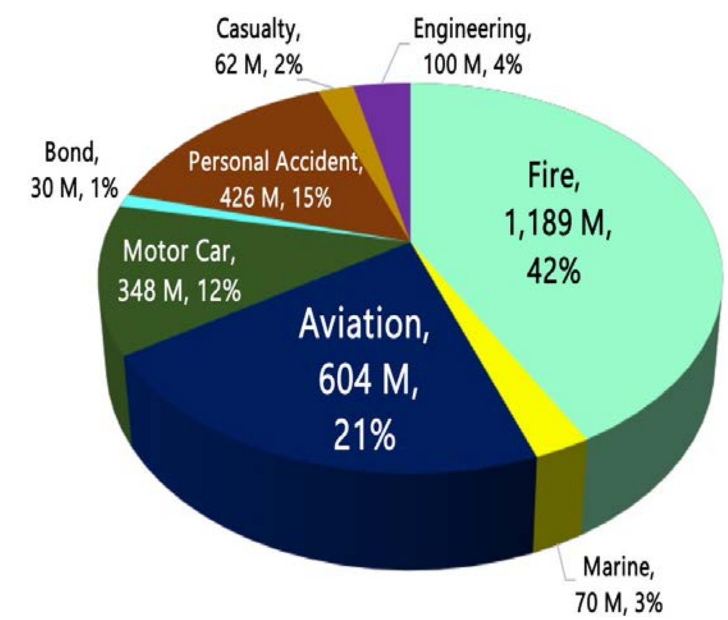



D. Portfolio Mix

2020 GPW by Line




2021 GPW by Line




ABIC will continue its focus on High-Retention-Low-Loss Ratio products while adding another line to the current Three-Line (Fire-Motor-PA) pillar that underlie ABIC's portfolio. Expertise through recruitment and trainings of existing personnel will be acquired to ensure preparedness and an increase in other lines to further spread ABIC's risk and reduce portfolio risk.

2. UNDERWRITING

**A. Earnings at Risk**. ABIC will continue to observe an EAR Limit which, given the Y2021 Budget, will be set at PhP55 million per policy.

**B. Dynamic Pricing.** To remain competitive and relevant to its clientele, ABIC's premiums will be regularly reviewed, updated, and adjusted according to each sub-line's risk profile, profitability, and accumulation. In Y2021, this will be employed to maximize margins, minimize risks, and constantly redirect sales and marketing efforts towards the year's targets. The weekly and/or monthly monitoring of production, profitability and concentration risks on a sub-line basis, and use of RI and RI Brokers' Online Statistical tools will allow ABIC to use Dynamic Pricing based on real-time year-to-date figures.

**C. Line Expertise.** The competence of the current Underwriting Corps of officers will be enhanced through various trainings offered by IIAP, the Reinsurers in the Treaty Panel, and the Treaty Brokers.

3. CLAIMS

A. Turn Around Time ("TAT")

With more than 70% of both motor and non-motor claims paid out within the allotted turnaround time (17 days and 33 days, respectively), this will be further improved by reducing the TAT by 30-40%.

B. Personnel Complement

With the acquisition of PNB Gen, the resulting personnel complement will already be in place. Further specialization and talent acquisition will be acquired through local and foreign trainings.

C. Third Party Services

To further improve ABIC's services and shorten turnaround time, various third-party service providers will be employed in the following areas:

i. Recovery and Salvage Disposal
ii. Claims Inspection/Adjustment

4. INFRASTRUCTURE SUPPORT

To ensure that the front line in Production and Service Delivery accomplish their mandate, the abilities of IT, Accounting, and HR will be enhanced through the recruitment of talents and enhancement of competencies through trainings.




# EMPLOYEES

"IN TIMES WHEN MOST OF THE COMPANIES ARE DOWNSIZING DUE TO THE ECONOMIC CRISIS BROUGHT BY THE PANDEMIC, ABIC REMAINED FIRM AND STRONG, NOT A SINGLE EMPLOYEE WAS ASKED TO GO, BUT INSTEAD WE CONTINUED TO EXPAND BY HIRING ADDITIONAL PEOPLE."

ABIC owns strong culture driven by principles that make sure our employees are invested in what we as a company believe in. Through the years, the employees play an active and positive role in setting bigger sustainable goals.

Our employees are comprised of qualified professionals who have the ability to work in a collaborative team environment toward a shared common goal. As we continue to strengthen our diverse workforce, new talents have been placed to integrate and enhance processes and systems to achieve greater satisfaction on service delivery. Pooling of talents driven by good attitude and worthy work values is an utmost priority and serves as a primary consideration when hiring new employees.

Before the first quarter of 2020 ended, the company had to face its biggest challenge of global proportion due to the spread of COVID -19. The virus resulted in the downfall of many companies from different industries from which ABIC was spared.

Coronavirus created one defining moment for ABIC - the unhampered operation of the company in this global crisis. ABIC stood by its covenant to keep our workforce intact without compromising their health and lives. Despite the obstacles brought about by the pandemic, we continued with our regular work schedule without any pay cut. Work from home arrangement was instituted for all employees.

ABIC knows when to pause and have fun. We had our first ever Virtual Christmas Party last December 2020 with each department presenting their Tiktok dance number. Service excellence awards were also given to selected employees in recognition of their loyalty and dedication to ABIC.

To say that it had been a very challenging year for ABIC is definitely an understatement, but we all believed in each other, carried each one to find our renewed sense of purpose when darkness was all around us.

# MANPOWER COMPLEMENT

In times when most of the companies are downsizing due to the economic crisis brought by the pandemic, ABIC remained firm and strong, not a single employee was asked to go, but instead we continued to expand by hiring additional people.

## THE COMPANY HAS AN ENTIRE WORKFORCE OF 126 EMPLOYEES.


*Total workforce is comprised of regular, probationary, consultants and agency-hired employees.*



Human Resources and Administration Department found creative ways in providing training for the employees despite being on lockdown. ABIC pushed through with the learning sessions and mental health webinars to continue keeping our employees abreast with new developments and at the same time stay connected with them during this trying times.

| COURSE/WEBINAR | DATES | CONDUCTED BY |
|---|---|---|
| **JUNE – JULY** | | |
| Philippine Associate of Certified Tax Technicians, Inc. | June 12 - 19, 2020 | Philippine Association of Certified Tax Technicians, Inc. (PACTT) |
| 282nd Basic Non-Life Training | June 29 - July 14, 2020 | Institute for Asia and the Pacific, Inc. |
| Inlife Health Maintenance Organization (HMO) Orientation | July 22, 2020 | Insular Health Care, Inc. |
| **AUGUST** | | |
| InLife's Wellness for a Lifetime Webinar: The Neuroscience of Stress Management (According to Batman) | August 07, 2020 | Insular Health Care, Inc. |
| **OCTOBER** | | |
| Wellness for a Lifetime Webinar Invite: Financial Planning and International Investment During a Pandemic | October 01, 2020 | Insular Health Care, Inc. |
| Data Protection Officer Training | October 05-09, 2020 | Philippine Society for Quality |
| Building Workplace Resilience: Dealing with Sleep Problems and Burnout | October 22, 2020 | Insular Health Care, Inc. |
| **NOVEMBER** | | |
| 287th Basic Non-Life Training | November 09-20, 2020 | Institute for Asia and the Pacific, Inc. |

| Retirement Age | Applicable Percentage | Completed Years of Services | Applicable Percentage |
|---|---|---|---|
| 55 | 85% | 20 | 80% |
| 56 | 88% | 21 | 82% |
| 57 | 91% | 22 | 84% |
| 58 | 94% | 23 | 86% |
| 59 | 97% | 24 | 88% |
| | | 25 | 90% |
| | | 26 | 92% |
| | | 27 | 94% |
| | | 28 | 96% |
| | | 29 | 98% |

# RETIREMENT BENEFIT

The normal retirement benefit is equal to forty five (45) calendar days final basic salary for every year of service with a fraction of six months considered as one year for those 60 years of age or with 30 years of continuous service.

The late retirement benefit is equal to forty five (45) calendar days final basic salary for every year of service with a fraction of six months considered as one year until attainment of 65 years of age.

The early retirement benefit is equal to the following percentage of the accrued normal retirement benefits upon attainment of age 55 with completion of at least 10 years of service or 20 years of service.

# HEALTH AND SAFETY

During this challenging time when everyone felt unsafe due to the threat of COVID-19, the Company strengthened its Health and Safety programs. Several safety precautions and welfare programs were enforced at the start of the pandemic to safe guard our greatest asset, our employees.

Given the threat of being exposed to the virus when commuting to work, the work-from-home arrangement was implemented. Transport services were provided to the employees who needed to be at the office. Swab tests were done every two weeks.

DOH protocols were strictly implemented at the work place: weekly disinfection, daily solicitation of the health status of the employees through the use of a health declaration checklist, deployment of alcohol dispensers in the lobby and other common areas and installation of acrylic dividers to separate work stations. Free face masks and face shields were provided as well.

Moreover, in cases were an employee gets infected with the coronavirus, ABIC granted an additional 15 days emergency leave on top of his regular sick leave and vacation leave benefits.

ABIC decided to partner with In-Life as its official HMO provider to make sure of the wellness of its employee 24/7. The Company not only increased the maximum benefit limit (MBL) of every employee from PhP150,000 MBL to PhP200,000 MBL, but likewise extended the same privileges to one family dependent.


# CORPORATE SOCIAL RESPONSIBILITY

True to its corporate motto, "We cover, You recover" ABIC takes to its heart its social responsibility as a member of the community. We don't just give lip service to the saying "paying it forward", instead we roll up our sleeves and do the work that needs to be done to make our communities a better place to live.

Last December 2020, the ABIC family responded to the call of helping our kababayans who were severely affected by typhoon Ulysses. We, together with Don Carlo Cavina Foundation initiated a donation drive to assist the 500 families in La-Lo Cagayan.

Amid the pandemic and current economic crisis, the ABIC family wholeheartedly extended their assistance by giving donations in cash and in kind. Just after a week of holding the donation drive, we were able to gather PhP52,800.00 from the pledges of our employees. Management matched the amount collected allowing us to give a total donation of PhP105,600.00 to our kababayan in Cagayan.

The donations gathered were personally brought by the employee volunteers to Don Carlo Cavina Foundation last December 10, 2020, in Las Pinas City. On December 12, 2020, the said donations were sent to Brgy. Lal-lo. Due to travel restrictions and strict safety protocols, the ABIC team was not able to join the distribution. Nonetheless, we were genuinely overjoyed to share our blessings to the residents of Brgy. Lal-lo.

As we continue to move forward and aspire for greater heights, the ABIC family will always be there to reach out and extend its support to its community, our own employees, and to the environment as a whole.

**ANTI-CORRUPTION PROGRAMS**

ABIC has established policies and procedures to assist its personnel to implement ABIC's anti-corruption programs, ranging from suppliers/contractors' selection process, protecting creditors' rights, and protecting ABIC from illegal activities.

The adoption of an anti-corruption policy and program endeavours to mitigate corrupt practices such as, but not limited to, bribery, fraud, extortion, collusion, conflict of interest, and money laundering. This encourages employees to report corrupt practices and outlines procedures on how to combat, resist and stop these corrupt practices.

To this end, the Senior Management Committee was activated to hear and investigate issues arising from fraudulent or illegal activities that will substantially affect the Company.

# RISK MANAGEMENT


## ABIC MAINTAINS A DYNAMIC CULTURE OF RISK MANAGEMENT

Employees are expected to be proactive in identifying and managing risks in their own areas of operations that threaten ABIC's assets and business portfolio. With the creation of action plans, employees are able to eliminate or mitigate those risks simultaneous with assessing and reporting risk gaps and breaches of authority.

Our performance thru the years clearly establishes our sound risk management framework. It is embedded in the business. The entire workforce identifies practical strategies to reduce the chance of failure and losses if the risk becomes real. Management strategies, plans and loss procedures are communicated to all the stakeholders.

The following management committees remained in 2020 to continue the specific tasks of providing a holistic approach to risk management:

**1. MANAGEMENT COMMITTEE**
To review the weekly and monthly performance data of ABIC and provide the venue to discuss and resolve operational concerns.

**2. SENIOR MANAGEMENT COMMITTEE**
To provide strategic planning and decision-making for ABIC in accordance with its Mission, Vision, and Values and to addresses pressing issues that affects the Company substantially, such as an emerging crisis.

**3. UNDERWRITING COMMITTEE**
To provide advice on the ABIC's underwriting risk management and to guide and to support the Underwriting Department as it carries out its strategies and responsibilities.

**4. INVESTMENTS COMMITTEE**
To be the prime authority in reviewing and directing the implementation of ABIC's corporate policies on investing, in the achievement of its investment objectives.

**5. IT STEERING COMMITTEE**
To direct, review and approve IT strategic plans, budget and prioritization of projects, over sees major initiatives, and allocates resources
.

**6. CLAIMS COMMITTEE**
To provide advice, guidance and support to the Claims Department as it carries out its strategies and responsibilities.

Aside from the creation of the Claims Committee, ABIC likewise availed the services of a Legal Counsel to join the committee in all its deliberations and meetings to provide legal guidance in the review and resolution of the filed claim cases.

The enhanced underwriting policies undertaken last year allowed ABIC to achieve its desired balance on generating Sales and Loss Mitigating Underwriting Evaluation. The undertaken strategy accomplished the equal footing of Underwriting with Sales, which allowed the continuance of the same Underwriting policy for 2020.

The Risk-Reward Huddlebetween the President, the Head of Sales and Marketing, and the Chief Underwriter was institutionalized to equalize the need for revenues and the management of risks for various specific proposals.

For 2020, ABIC fully embraced its formula to adopt the Earnings at Risk Limit that anchors a single specific risk to the Annual Income Budget. This was in addition to the Equity-based IC enforced limit of not more than 20% of net worth.

The Risk-Reward Huddle coupled with the Underwriting Committee advice, and the Value at Risk Limit blueprint allowed ABIC to increase retention levels while decreasing the Combined Ratio resulting in a higher profitability position.

The risk management framework of ABIC continues to evolve. It will continue to identify and revisit strategies, look for emerging or changing exposures, and stay attuned to developments that will affect the Company's very existence.

# PRIVACY

We are committed in ensuring that the collection, use, storage, transfer, and destruction of personal and sensitive information throughout the business is in accordance with the implementing rules and guidelines drawn by the National Privacy Commission.

The Company guarantees at all times the integrity and protection of all information it maintains while protecting the users' fundamental rights to privacy.

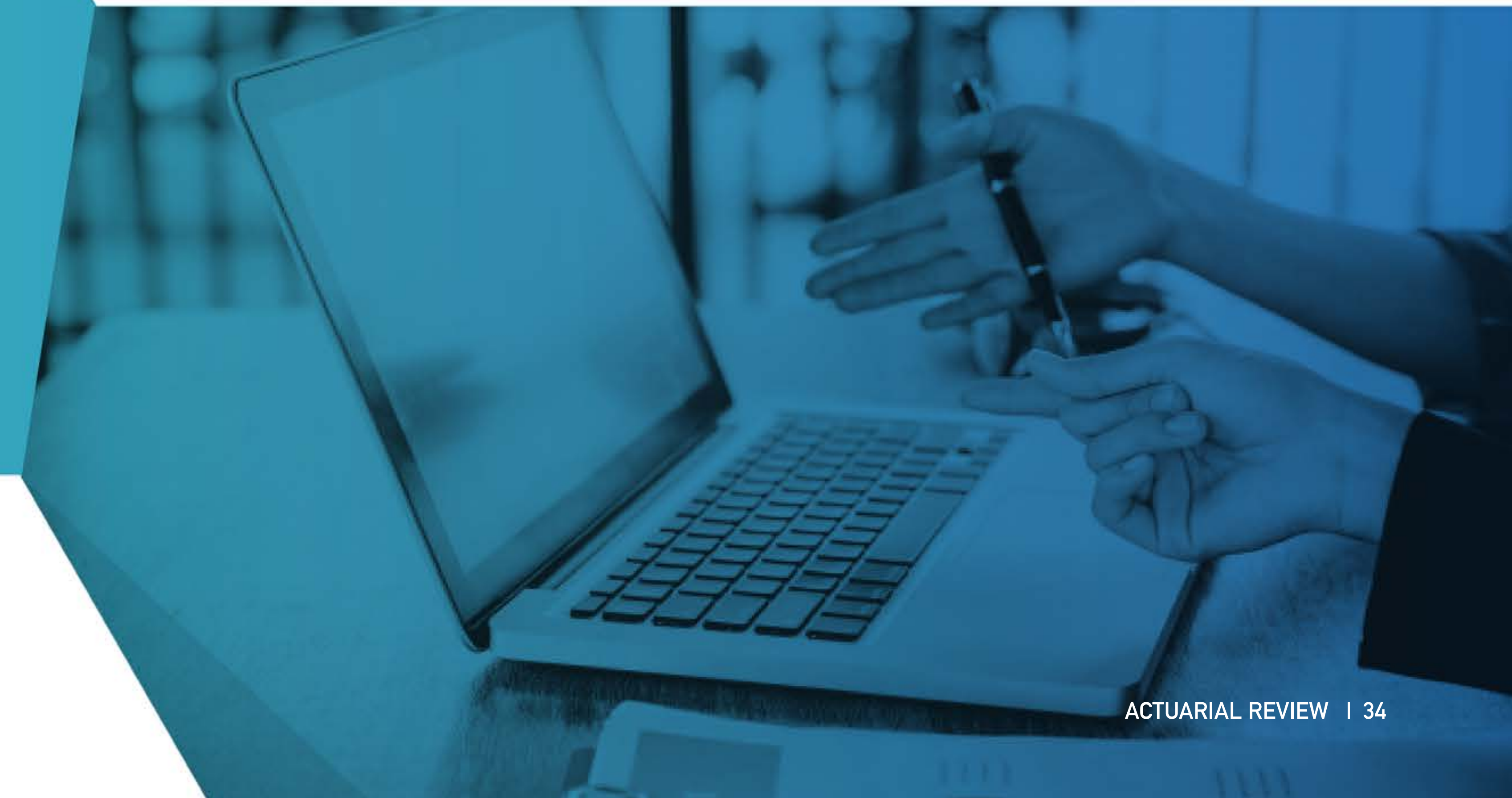
Employees are mandated to ascertain the security and accuracy of personal and sensitive information collected, recorded, used, and disposed. Access to such information is restricted within ABIC. Requests to access such information by any third party will only be permitted upon approval by ABIC.



# ACTUARIAL REVIEW

To comply with Memorandum Circular No. 2016-67 together with its revisions, amendments and supplementary rulings issued by the Insurance Commission (IC) requiring the certification of an actuary, ABIC continues to engage the actuarial services of JP Wall Consulting Partner since 2018 to adhere with this requirement

JP Wall Consulting Partner was tasked to provide a certification that they have conducted the necessary tests and validation to verify the reasonableness and integrity of the Company's data, confirm that the information contained in our reports were accurate to the best of their knowledge, and that they have calculated the policy reserves in accordance with the Valuation Standards prescribed by the IC and the standards of practice of the Actuarial Society of the Philippines.



# INTERNAL AUDIT

The Internal Audit Department is primarily responsible for ensuring that ABIC's internal control environment is adequate, efficient, and effective. Its main tasks can be summarized in the following areas:

1. **INDEPENDENT ASSESSMENT**
   Responsible for conducting independent assessment on the effectiveness of governance, risk management and internal controls in the organization.

2. **COMPLIANCE**
   Responsible for ensuring that regulatory and governance requirements are adhered to including approved internal processes and policies.

3. **REPORTING & MONITORING**
   Responsible for ensuring that regular reporting and monitoring are conducted to ensure transparency in the compliance by the organization.

4. **POLICIES AND PROCEDURES**
   Recommends strategies, policies, procedures, and guidelines geared towards design and controls that will support the organizational objectives.

The Internal Audit is generally responsible for the third line of defence in terms of organizational design, controls, risks assessment, and compliance, including audit of compliance role. It supports the Business Process (BP) Department and other Change or Management Committees that are organized to develop initiatives for organizational transformation.

The Internal Auditor is tasked to provide assurance that the governance, risk management, and internal control of the Company are concrete. The Internal Auditor will provide the President and CEO, the Board of Directors and the Audit Committee with all major findings.

ABIC also has a non-audit engagement with SGV & Co. to perform an enterprise review of the Company. The SGV Risk Advisory Service Team is our partner in reviewing and assessing the current state of our business processes and strengthening our controls against our system for greater efficiency. In addition, ABIC also has non-audit engagement with SGV & Co to provide tax advisory services regarding the Acquisition of PNB General Insurers Co. and IFRS 17 financial and operational impact assessment.

The professional fee exclusive of VAT and out of pocket expenses for the 2020 non-audit engagement totalled PhP6,500,000 which comprised of the following:

| Purpose | Engagement | Engagement Fee |
|---|---|---|
| IFRS 17, Insurance Contract | Financial and Operational Impact Assessment | PhP3,000,000 |
| Program Risk Management | Risk Advisory Engagement | 2,400,000 |
| Acquisition of PNB General Insurers Co. | Tax Advisory Engagement | 550,000 |
| | Accounting Advisory Engagement | 550,000 |
| Total Non-Audit Engagement Fee for the year 2020 | | PhP6,500,000 |



# EXTERNAL AUDITOR INDEPENDENCE

The external auditor of ABIC is selected and appointed by the stockholders upon the recommendation of the Audit Committee of the Board of Directors. During the Annual Stockholders Meeting scheduled May, 2020, the Board of Directors appointed Sycip, Gorres, Velayo and Co. (SGV & Co.) as the Company's external auditor.

The external auditor confirms its independence in relation to the December 31 financial reports, which the Audit Committee confirms in a separate enquiry.

The professional fee inclusive of VAT and out of pocket expenses for 2020 year-end audit was estimated at PhP1.91 million.

# BOARD OF DIRECTORS

**DR. LUCIO C. TAN**
CHAIRMAN

**CARMEN K. TAN**
VICE-CHAIRMAN

**ROWENA T. CHUA**
DIRECTOR

**IRENE T. LUY**
DIRECTOR

**ALFREDO D. JIMENEZ, JR.**
INDEPENDENT DIRECTOR

**PETER Y. ONG**
INDEPENDENT DIRECTOR

**REYNALDO B. MONTALBO, JR.**
DIRECTOR

**RUFINA T. YU**
DIRECTOR

**KARLU T. SAY**
DIRECTOR

**MARY G. NG**
INDEPENDENT DIRECTOR

**HARRY C. TAN**
TREASURER

**ATTY. ARLENE J. GUEVARRA**
CORPORATE SECRETARY

## THE NUMBER OF DIRECTORS WILL BE COMPOSED OF ELEVEN (11) MEMBERS ACCORDING TO SECTION 6 OF THE ARTICLES OF INCORPORATION AND ARTICLE 3, SECTION 1 OF THE BY-LAWS OF ALLIEDBANKERS INSURANCE CORPORATION.

Majority of the directors will be residents of the Philippines, and each director will own at least one (1) share of stock of the corporation. They will be elected annually at the annual stockholders meeting and will serve for a term of one year until their successors have been qualified and elected.

An independent director will serve for a maximum cumulative term of nine (9) years as provided for in the Insurance Commission Circular Letter No. 2018-36, and thereafter, will be barred from re-election as such in the same company, but may continue to qualify as a non-independent director.

However, the Company may decide to extend the term of the independent directors upon the approval of the stockholders and relevant regulatory bodies.

Directors are selected to achieve a broad range of skills, experience and expertise complementary to the Company's insurance activities. The curriculum vitae of ABIC's individual directors are found on the succeeding pages and on the Company's website at www.alliedbankers.com.ph.

The Chairman of the Board of Director is a non-executive director that oversees the performance of the Board, its committees and each individual director. The roles of the Chairman and the Chief Executive Officer will, as a general rule, not be combined to ensure a balance of power and authority such that no one person has absolute decision making powers.

The Board will have at least three (3) independent directors who have not had any of the following relationships with ABIC:

1. Previous officer or employee;
2. Blood relation to an officer in senior management position; and
3. Provide services and receive significant income for other professional services.

The Board will disclose any relationship that could compromise a director's independence.

The qualifications and responsibilities of our independent, non-executive, and executive directors will be in line with our Corporate Governance policies.

The Board of Directors together with senior officers of ABIC have attended a half day training hosted by SGV for Corporate Governance entitled "2020 Annual Corporate Governance Seminar" last October 20, 2020. Attendees from ABIC were: Reynaldo B. Montalbo, Jr. , Peter Y. Ong, Rowena T. Chua , Rufina T. Yu, Mary G. Ng, Mabel D. Mendoza, Rosalie M. Quicho, Eileen A. Sy, Heidelyn Ortiaga, Ruby Mercado, Giovanni Miranda, Raffy Katigbak, Jun Alcala, Rodrigo Mangahas, Franco Jimena, Dani Cabero, Bobby Dayrit, Coelyn Goco and Moses Valdez.



## CORPORATE GOVERNANCE, REMUNERATIONS, AND NOMINATIONS COMMITTEE

Chairman
**DR. LUCIO C. TAN**

Vice Chairman
**ROWENA T. CHUA**

Members
**CARMEN K. TAN**
**KARLU T. SAY**
**ALFREDO B. JIMENEZ, JR.**
**REYNALDO B. MONTALBO, JR.**
**PETER Y. ONG**

## AUDIT AND COMPLIANCE AND RISK MANAGEMENT COMMITTEE

Chairman
**ALFREDO B. JIMENEZ, JR.**

Vice Chairman
**PETER Y. ONG**

Members
**ROWENA T. CHUA**
**IRENE T. LUY**
**MARY G. NG**

## RELATED PARTY TRANSACTIONS COMMITTEE

Chairman
**PETER Y. ONG**

Members
**MARY G. NG**
**ROWENA T. CHUA**
**KARLU T. SAY**
**ALFREDO B. JIMENEZ, JR.**

## INVESTMENTS COMMITTEE

Chairman
**ROWENA T. CHUA**

Members
**IRENE T. LUY**
**KARLU T. SAY**
**REYNALDO B. MONTALBO, JR.**
**RUFINA T. YU**

Advisers
**RICKY CEBRERO**
**PNB Head of Treasury**
**MANUEL LISBONA**
**PNB Securities**

## EXECUTIVE COMMITTEE

Chairman
**REYNALDO B. MONTALBO, JR.**

Members
**CARMEN K. TAN**
**ROWENA T. CHUA**
**IRENE T. LUY**
**KARLU T. SAY**

## NON-EXECUTIVE COMMITTEE

Chairman
**DR. LUCIO C. TAN**

Members
**CARMEN K. TAN**
**IRENE T. LUY**
**KARLU T. SAY**
**MARY G. NG**
**ALFREDO B. JIMENEZ, JR.**
**PETER Y. ONG**

## DR. LUCIO C. TAN
**Chairman**

NATIONALITY | **Filipino**

EDUCATION
**Doctor of Philosophy, Major in Commerce**
University of Sto. Tomas, Manila, Philippines.

**B. S. in Chemical Engineering**
Far Eastern University, Manila, Philippines

DATE OF APPOINTMENT | **1980**

### DIRECTORSHIP IN OTHER COMPANIES

**Chairman**
Absolut Distillers, Inc.
Allianz PNB Life Insurance, Inc.
Air Philippines Corporation
Asia Brewery, Inc.
Asian Alcohol Corporation
Basic Holdings Corporation
Buona Sorte Holdings, Inc.
Eton Properties Philippines, Inc.
Foremost Farms, Inc.
Fortune Tobacco Corporation
Grandspan Development Corporation
Himmel Industries, Inc.
LT Group, Inc.
Lucky Travel Corporation
Mabuhay Maritime Express Transport Inc.
MacroAsia Corporation
PAL Holdings, Inc.
Philippine Airlines, Inc.
PMFTC, Inc.
Progressive Farms, Inc.
Tanduay Brands International
Tanduay Distillers, Inc.
Tangent Holdings Corporation
The Charter House, Inc.
Trustmark Holdings Corporation
University of the East
Zuma Holdings and Management Corporation

**Director**
Philippine National Bank

## CARMEN K. TAN
**Vice - Chairman**

NATIONALITY | **Filipino**

DATE OF APPOINTMENT | **1980**

### DIRECTORSHIP IN OTHER COMPANIES

**Vice Chairman**
Philippine Airlines, Inc.
LT Group, Inc.

**Director**
Dynamic Holdings, Ltd.
Philippine National Bank
PAL Holdings, Inc.
MacroAsia Corporation

## ROWENA T. CHUA

**Director**

NATIONALITY | **Filipino**

EDUCATION

**B. S. in Finance**
University of San Francisco,
California, United States of America

DATE OF APPOINTMENT | **2006**

### DIRECTORSHIP IN OTHER COMPANIES

**Director**
Allianz PNB Life Insurance
PNB General Insurers Co., Inc.

**President**
Commlinked Inc.



## REYNALDO B. MONTALBO, JR.

**Director**

NATIONALITY | **Filipino**

EDUCATION

**Master in Business Management**
Asian Institute of Management,
Makati City, Philippines

**Master in Strategic Business Economics**
University of Asia and the Pacific,
Pasig City, Philippines

**B. S. in Business Economics**
University of the Philippines Diliman,
Quezon City, Philippines

DATE OF APPOINTMENT | **2018**

### PREVIOUS POSITIONS

**Deputy Chief Finance Officer**
Camerton Group

**Senior Vice President and Head of Financial Markets**
First Metro Investment Corporation

**Vice President**
FX Trading and Distribution
JG Summit Capital Markets Corporation

**Assistant Vice President**
Philippine Commercial International Bank
Treasury Distribution Division

**Assistant Manager**
Citytrust Banking Corporation

## RUFINA T. YU
**Director**

NATIONALITY | **Filipino**

EDUCATION
**B. S. in Commerce, Major in Accounting**
Far Eastern University, Manila, Philippines
Certified Public Accountant

DATE OF APPOINTMENT | **2001**

### PREVIOUS POSITIONS

**Finance Manager**
Foremost Farms, Inc.

**Assistant Chief Accountant**
Fortune Tobacco Corp

## KARLU T. SAY
**Director**

NATIONALITY | **Filipino**

EDUCATION
**B. S. in Management**
Ateneo de Manila University

**Associate of Arts Degree in Interior Design**
Fashion Institute of Design and Merchandising

DATE OF APPOINTMENT | **2020**

### DIRECTORSHIP IN OTHER COMPANIES

OTHER PREVIOUS POSITIONS

**Consultant**
Midway Trading Corporation;
San Francisco, California

**Account Executive**
Century Park Sheraton

**Founding Director**
Dong-A Pharma Phils., Inc.

**Director**
Eton Properties Philippines Inc.
Guaranfood Manufacturing Corporation
Seato Trading Company, Inc
.

OTHER CURRENT POSITION

**Chief Operating Officer and Human Resources Group Head**
Eton Properties Philippines, Inc.

## IRENE T. LUY
**Director**

NATIONALITY | **Filipino**

EDUCATION
**B. S. in Business Information System**
**University of San Francisco**
**B. S. in Business Management**
**Ateneo de Manila University**

DATE OF APPOINTMENT | **2020**

### DIRECTORSHIP IN OTHER COMPANIES

**Director**
Century Park Sheraton Hotel

OTHER PREVIOUS POSITIONS

**Loan Officer**
Tri Counties Bank (Formerly Oceanic Bank)

## ALFREDO B. JIMENEZ, JR.
**Independent Director**

NATIONALITY | **Filipino**

EDUCATION
**B. S. in Commerce**
**Major in Management Marketing**
San Beda College, Manila, Philippines

**Hotel Management**
Cornell University, New York,
United States of America

DATE OF APPOINTMENT | **2012**

### DIRECTORSHIP IN OTHER COMPANIES

**Director**
Bagong Bayan Corporation, Inc.
Pilar Development Corporation, Inc.

PREVIOUS POSITIONS

**President**
Pilar Development Corporation
Italia Country Club

**Director**
Banco Filipino Insurance Corporation
Director for Operations
Volks Wagen – Karbayan

**Director for Sales**
Century Park Sheraton Hotel

## PETER Y. ONG
**Independent Director**

NATIONALITY | **Filipino**

EDUCATION
**B. S. in Chemical Engineering**
Far Eastern University, Manila, Philippines

DATE OF APPOINTMENT | **2012**

### DIRECTORSHIP IN OTHER COMPANIES

**Director**
Victoria Milling Corporation
Fortune Tobacco Corporation

**Board Adviser**
LT Group, Inc.

OTHER POSITIONS

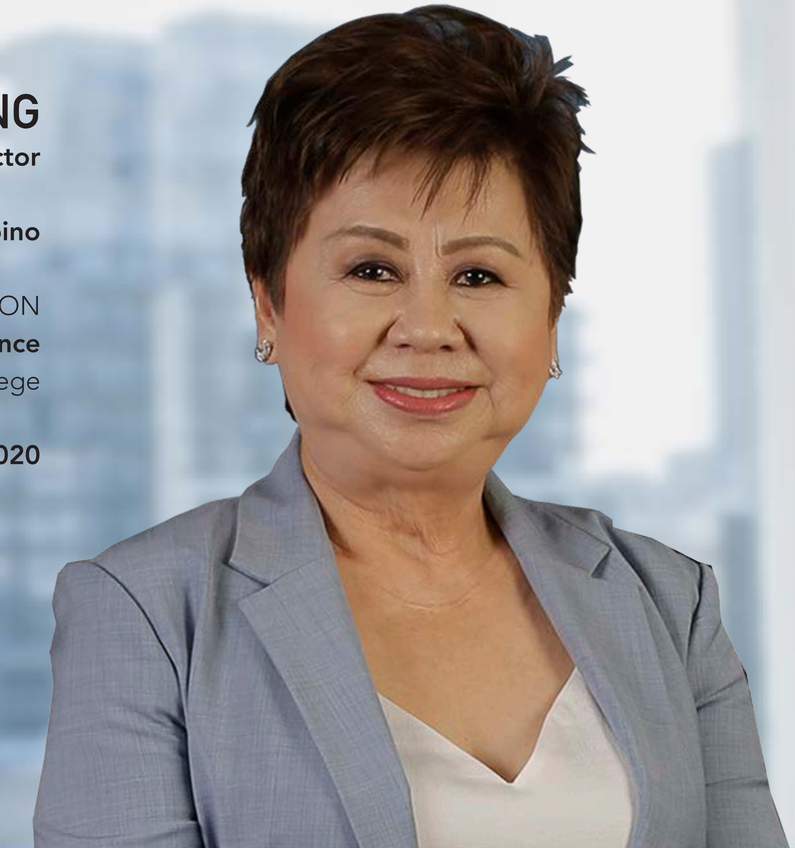
**Senior Vice President**
Basic Holdings Corporation

**Treasurer**
Maranaw Hotel and Resorts Corporation

PREVIOUS POSITIONS

**Senior Vice President for Production**
Fortune Tobacco Corporation

**President**
Airphil Corporation



## MARY G. NG
**Independent Director**

NATIONALITY | **Filipino**

EDUCATION
**B. S. in Commerce – Banking and Finance**
St. Paul College

DATE OF APPOINTMENT | **2020**

### DIRECTORSHIP IN OTHER COMPANIES

**Director**
Philippine Dongshi Townmate Associate Inc.
Tripartite Board Member
Department of Labor and Employment

**Board Member**
TESDA

OTHER PREVIOUS POSITIONS

**Chairman**
Asean Federation of Plastic Industries

**Honorary President**
Philippine Plastic Industrial Association of the Philippines
Packaging Institute of the Philippines
Volunteer Fire Chiefs and Firefighters Association of the Phils.

**Executive Vice President**
Federation of Filipino-Chinese Chamber of Commerce and Industries

**Vice President**
Philippine Piak O Eng Chamber of Commerce
Philippine Piak O Eng Uy's Association

## HARRY C. TAN
**Treasurer**

NATIONALITY | **Filipino**

EDUCATION
**B.S. in Chemical Engineering**
Mapua Institute of Technology, Manila, Philippines

DATE OF APPOINTMENT | **2009**

### DIRECTORSHIP IN OTHER COMPANIES

**Director**
LT Group, Inc.
Absolut Distillers, Inc.
Allied Banking Corporation (Hongkong) Ltd.
Asia Brewery, Inc.
Basic Holdings Corporation
Dominium Realty and Construction Corporation
Eton Properties Philippines Inc.
Foremost Farm, Inc.
Grandspan Development Corp.
Himmel Industries, Inc.
Manufacturing Services and Trade Corporation
Pan Asia Securities, Inc.
Philip Morris Fortune Tobacco Corp. Inc.
PNB Management Development Corporation
PNB Global Remittance and Financial Company (HK) Ltd.
Progressive Farm, Inc.
Shareholdings Inc.
Tanduay Brands International
Tanduay Distillers, Inc.

OTHER CURRENT POSITIONS

**Chairman**
Tobacco Board of Fortune Tobacco International Corp.

**Vice Chairman**
Belton Communities, Inc.
Eton City, Inc.
Eton Properties Philippines, Inc.
Lucky Travel Corporation

**President**
Landcom Realty Corporation
Century Park Hotel

**Vice Chairman/Managing Director**
The Charter House Inc.

PREVIOUS DIRECTORSHIP
Allied Banking Corporation
MarcoAsia Corporation
Philippine Airlines, Inc.
PNB Savings Bank



## ATTY. ARLENE J. GUEVARRA
**Corporate Secretary**

NATIONALITY | **Filipino**

EDUCATION
**Bachelor of Laws**
University of Santo Tomas, Manila, Philippines

**Bachelor of Arts - Major in Journalism**
University of Santo Tomas, Manila, Philippines

**World Banking and Finance Program**
Economics Institute, University of Colorado
Colorado, United States of America

DATE OF APPOINTMENT | **2006**

### DIRECTORSHIP IN OTHER COMPANIES

**Vice President**
Philippine National Bank - Legal Group

**Corporate Secretary**
PAN-Asia Securities Corp.
Allied Club, Inc.

**Assistant Corporate Secretary**
Unimark Investments (SPV-AMC), Inc.

PREVIOUS POSITIONS

**Vice President - Legal Division Head**
PNB Savings Bank

**Corporate Secretary**
Allied Banking Corporation
Allied Leasing & Finance Corporation

**Director III**
Bureau of Treasury

# REMUNERATIONS COMMITTEE

The Remunerations Committee's overall responsibility is to set the remuneration structure for ABIC employees and its key senior personnel and to guarantee that the framework is aligned with ABIC's robust risk management practices and strong business principles.

The committee annually reviews the remuneration policy of ABIC for merit increases, performance rewards and bonuses to ensure that fixed remuneration is relative to the non-life insurance market, and that any compensation increase is parallel to the drawn financial targets of the company.

This committee is updated on the performance of the management's senior personnel who have materially contributed to the operation and financial performance of ABIC.

For the year 2020, the Directors have received per diem for the attendance of the following:

| DIRECTOR | POSITION | REMUNERATION |
|---|---|---|
| Lucio C. Tan | Chairman | PhP355,555.56 |
| Carmen K. Tan | Vice-Chairman | 188,888.89 |
| Reynaldo B. Montalbo, Jr. | President and CEO | 482,352.94 |
| Rowena T. Chua | Executive Director | 422,222.22 |
| Rufina T. Yu | Executive Director | 482,352.94 |
| Harry C. Tan | Non-Executive Director | 344,444.44 |
| Irene T. Luy | Non-Executive Director | 200,000.00 |
| Karlu T. Say | Non-Executive Director | 211,111.11 |
| Mary G. Ng | Independent Director | 288,888.89 |
| Peter Y. Ong | Independent Director | 422,222.22 |
| Alfredo B. Jimenez, Jr. | Independent Director | 422,222.22 |



# DIVERSITY MEASUREMENT

ABIC is committed in creating a culture of diversity and inclusion within the Company. This contributes to new ways of thinking and new knowledge.

The workplace diversity not only expands the talent pool within our Board of Directors and manpower complement, but it allows each member of the organization to draw from the backgrounds, viewpoints and experiences of fellow team members.

To ensure that ABIC is moving towards healthy diversity, key measurement matrix like recruitment, training, client sourcing have been added as key performance indicators of our senior officers.

## COMPOSITION OF THE BOARD OF DIRECTORS

| DIVERSITY OBJECTIVES Group Board Positions | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Male Directors | 5 | 9 |
| Female Directors | 6 | 2 |

| Group Board Positions | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Non - Executive Positions | 5 | 6 |
| Independent Directors | 3 | 2 |
| Executive Directors | 3 | 3 |

# AUDIT COMMITTEE

The membership to the Audit Committee is only for non-executive directors. This committee is composed of five (5) members of the Board, three (3) of whom are independent directors. The elected committee Chairman must be an independent director. The committee normally meets four (4) times a year.

The primary role of the Audit Committee is fulfilling its oversight responsibilities by reviewing the:

- Company's compliance, auditing, accounting and financial reporting processes (both internal and external);
- Company's system of internal controls and procedures;
- Management of financial and systematic risks;
- Financial reports and other financial information provided by the Company to regulatory bodies or to the public, and
- Monitoring compliance with laws and regulations and its own code of business conduct. The Audit Committee has a free and unrestricted access to ABIC's external auditor as well as to the. Internal Auditor and Compliance Department Head.

# DIRECTORS' ATTENDANCE

The members of the Board of Directors attend and actively participate in the Board's regular and special meetings. For the year 2020, the members met the required attendance of more than 50 % of meetings as shown below:

| Meetings Held in 2020 | | | | | |
|---|---|---|---|---|---|
| Type | Regular BOD Meeting | Corporate Governance, Remunerations, and Nominations Committee | Audit, Compliance, and Risk Management Committee | Related Party Transactions Committee | Investments Committee |
| Number of Meetings Held | 11 | 0 | 4 | 1 | 1 |
| Attendance | | | | | |
| Lucio C. Tan | 11 | - | - | - | - |
| Carmen K. Tan | 7 | - | - | - | - |
| Reynaldo B. Montalbo, Jr. | 11 | - | - | - | 1 |
| Rowena T. Chua | 11 | - | - | 1 | 1 |
| Rufina T. Yu | 11 | - | - | - | 1 |
| Harry C. Tan | 11 | - | - | - | - |
| Irene Tan Luy | 7 | - | 3 | - | - |
| Karlu Tan Say | 7 | - | - | 1 | - |
| Mary G. Ng | 11 | - | 3 | 1 | - |
| Peter Y. Ong | 11 | - | 4 | 1 | - |
| Alfredo B. Jimenez, Jr. | 11 | - | 4 | 1 | - |

*Note: Directors who are not members of the various committees are not required to attend.*



# DIVIDEND POLICY

The Company's ability to pay dividends is contingent on its ability to set aside unrestricted retained earnings for dividend distribution. The Board of Directors is authorized to declare dividends payable in cash, in property, or in stock to all stockholders on the basis of the outstanding shares held by them. The declaration of dividends including computation of unrestricted retained earnings, is subject to approval of the Insurance Commission, following Sec. 201 of the Amended Insurance Code of the Philippines.

The last cash and stock dividends pay out was done in 2017. No pay-out was done from 2018 to 2020.

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The Board of Directors and the various stockholders have decided that dividends to be paid out from ABIC's surplus profit be reinvested back to the company to meet the increased capitalization requirement of the Insurance Commission.

# RELATED PARTY POLICY

This policy is enacted to ensure that:

- Related Party and Related Party Transactions (RPTs) are defined and the coverage/scope of the policy is clearly outlined;
- RPTs are conducted on an arm's length basis;
- Potential or actual conflicts of interest which could possibly arise from RPTs are prevented or managed;
- RPTs are properly reviewed and approved by designated authorities; and
- Adequate disclosure is maintained for RPTs in accordance with applicable legal and regulatory requirements.

# WHISTLE-BLOWING POLICY

All employees have the duty and obligation to report and raise concern against any seen or observed wrongdoing, improper practice and suspected misconduct, while undertaking duties pertaining to their role. Employees, who come across an incident which they believe is either illegal or contrary to Company's guidelines, including the rules and regulations can report it to Management. All reports or complaints should be made in good faith and with the reasonable belief that inappropriate activity has occurred or may occur in the future.

If the complaint is found to have been made maliciously or in bad faith, the employee who made the report will face appropriate disciplinary action from the Company. This is to avoid any undue injustice to any individual. Drop boxes are deployed in the comfort rooms to allow the employees to freely submit their reports. Weekly checking of the drop boxes to get the written concerns is done by HRAD.

Reports are escalated to the Senior Management Committee for review and validation of the concerns raised or meting out of disciplinary action for unfounded complaints.

# CORPORATE GOVERNANCE POLICY STATEMENT

"We, the Board of Directors and Management of ABIC do hereby commit ourselves to the principles and the best practices contained in the Corporate Governance manual, and acknowledges that it will be our guide in the attainment of the Company's goals and objectives.

We, the Board of Directors together with the management, employees, and shareholders believe that Corporate Governance is a necessary component of what constitutes sound strategic business management, and therefore undertake every necessary effort to create awareness and its dissemination within the organization. "



# MANAGEMENT COMMITTEES

## SENIOR MANAGEMENT COMMITTEE

**CHAIRMAN**
President and CEO

**MEMBERS**
Head of Accounting & Finance
Head of Sales & Marketing
Head of Underwriting
Head of Claims
Head of Reinsurance
Managing Director (Ex-Officio)

## MANAGEMENT COMMITTEE

**CHAIRMAN**
President and CEO

**MEMBERS**
Head of Accounting & Finance
Head of Sales & Marketing
Head of Underwriting
Head of Internal Audit
Head of Accounting
Head of Claims
Head of Information Technology
Head of Business Support Services
Head of Human Resources and Administration
Head of Compliance
Head of Branch Operations
Head of Reinsurance
Head of Brokers, General Agencies & Agents

**The Management Committee is composed of the management team together with their "one downs" and selected employees.*

## CLAIMS COMMITTEE

**CHAIRMAN**
President and CEO

**MEMBERS**
Head of Accounting & Finance
Head of Sales & Marketing
Head of Underwriting
Head of Claims
Head of Reinsurance
Consultant Lawyer

## UNDERWRITING COMMITTEE

**CHAIRMAN**
President and CEO

**MEMBERS**
Head of Accounting & Finance
Head of Sales & Marketing
Head of Underwriting
Head of Claims
Line Underwriters

## INFORMATION TECHNOLOGY STEERING COMMITTEE

**CHAIRMAN**
President and CEO

**MEMBERS**
Head of Accounting & Finance
Head of Sales & Marketing
Head of Underwriting
Head of Claims
Head of Information Technology
Information Technology-Business Analyst

**REYNALDO B. MONTALBO, JR.**
**President & Chief Executive Officer**
Appointment | **Dec 2018**

EDUCATION

**Master in Business Management**
Asian Institute of Management
Makati City, Philippines

**Master in Strategic Business Economics**
University of Asia and the Pacific
Pasig City, Philippines

**B. S. in Business Economics**
University of the Philippines
Diliman, Quezon City, Philippines

POSITIONS

**Deputy Chief Finance Officer**
Camerton Group

**Senior Vice President and Head of Financial Markets**
First Metro Investment Corporation

**Vice President**
FX Trading and Distribution
JG Summit Capital Markets Corporation

**Assistant Vice President**
Treasury Distribution Division
Philippine Commercial International Bank

**Assistant Manager**
Citytrust Banking Corporation

**ROWENA T. CHUA**
**Executive Vice President**
Appointment | **Jan 2006**

EDUCATION

**B.S. Finance**
University of San Francisco, California, USA

PREVIOUS POSITIONS

**Director**
Allianz PNB Life Insurance

**Director**
PNB General Insurers Co. Inc.

**President**
Commlinked Inc.

**RUFINA T. YU**
**Senior Vice President**
Comptroller
Head, Accounting and Finance
Appointment | **2001**

EDUCATION

**B.S. in Business Management Major in Accounting**
Far Eastern University, Manila, Philippines
**Certified Public Accountant**

OTHER POSITIONS

**Finance Manager**
Foremost Farms, Inc.

**Assistant Chief Accountant**
Fortune Tobacco Corp.

**REY DC ERLANO**
**Senior Vice President**
Head, Sales & Marketing
Appointment | **Dec 2018**

EDUCATION

**B.S. in Mechanical Engineering**
University of the Philippines
Diliman, Quezon City, Philippines

PREVIOUS POSITIONS

**First Vice President**
Sales and Marketing
First Metro Asset Management, Inc.

**Vice President**
Strategic Services
First Metro Asset Management, Inc.

**Assistant Vice President**
Agency Head, Manulife Philippines

**Business Development Manager**
Generali Pilipinas Insurance. Philippines

**EILEEN D. CLEMENTE**
**Vice President**
Head, Underwriting
Appointment | **Jan 2019**

EDUCATION

**B.S. in Applied Mathematics**
De La Salle University, Manila, Philippines

PREVIOUS POSITIONS

**Vice President**
MAPFRE Insular Insurance Corporation

**Vice President**
National Reinsurance Corporation of the Philippines

**Assistant Vice President**
CLG Direct, Generali Pilipinas Insurance, Philippines

**MABEL D. MENDOZA**
**Vice President**
Head, Internal Audit
Appointment | **Apr 2019**

EDUCATION

**B. S. Major in Accounting**
St. Paul University, Manila, Philippines
**Certified Public Accountant**

PREVIOUS POSITIONS

**Vice President**
Accounting & Finance Head, Freyfil Corporation

**Finance Consultant**
Finance Transformation & Strategic Deals

**Vice President & Chief Financial Officer**
Deutsche Knowledge Services, Pte Ltd
(a subsidiary of Deutsche Bank)

**Vice President & Comptroller**
JG Summit Capital Markets Corporation (a subsidiary of JG Summit Holdings)

**EILEEN A. SY**
**Senior Assistant Vice President**
Head, Compliance
Appointment | **Oct 2015**

EDUCATION

**B.S. in Accounting**
University of the East, Manila, Philippines
**Certified Public Accountant**

PREVIOUS POSITIONS

**Assistant Vice President**
Compliance, Country Bankers Insurance Corp.

**Assistant Vice President**
Internal Audit, The Landmark Corp.

**RAFFY G. KATIGBAK**
**Assistant Vice-President**
Head, Claims
Appointment | **Aug 2019**

EDUCATION

**B. S. in Business Administration Major in Marketing**
Polytechnic University of the Philippines,
Manila, Philippines

PREVIOUS POSITIONS

**Assistant Vice President**
Claims, MAPFRE Insular Insurance Corporation

**Section Head**
BPI/MS Insurance Corporation

**ROSALIE M. QUICHO**
**Assistant Vice-President**
Head, Business Support Services
Appointment | **Dec 2018**

EDUCATION

**B. S. in Statistics**
University of the Philippines
Diliman, Quezon City, Philippines

PREVIOUS POSITIONS

**Manager**
Financial Analytics,
The Mercantile Insurance Co., Inc.

**Senior Manager**
Treasury Analytics,
First Metro Investment Corporation

**GIOVANNI P. MIRANDA**
**Assistant Vice-President**
Head, Brokers & General Agencies
Appointment | **Jul 2016**

EDUCATION

**B. S. in Civil Engineering**
Mapua Institute of Technology
Manila, Philippines

PREVIOUS POSITIONS

**Senior Marketing Manager**
Corporate Guarantee & Insurance Co, Inc.

**Assistant Marketing Manager**
FLT Prime Insurance Corp.

**DANILO J. CABERO**
**Assistant Vice-President**
Head, Reinsurance
Appointment | **Apr 2018**

EDUCATION

**B. S. in Accounting**
Far Eastern University of the Philippines
Manila, Philippines

PREVIOUS POSITIONS

**Deputy Chief Underwriting Officer**
Republic Surety and Insurance, Inc.

**Vice President**
National Reinsurance Corporation of the Philippines

INDUSTRY AFFILIATION

**President**
Society of Underwriters for Property & Casualty Insurance, Inc.

**RODRIGO N. MANGAHAS**
**Assistant Vice-President**
Head, Information Technology
Appointment | **Jan 2017**

EDUCATION

**B. S. in Mathematics**
University of Santo Tomas
Manila, Philippines

PREVIOUS POSITIONS

**Project Manager**
Infoman

**IT Consultant & Programmer**
Pepsi Cola Products Philippines, Inc.

## ROMUALDO A. ALCALA, JR.

**Assistant Vice President**
Head - Strategic Partnership and Business Development
Appointment | **Aug 2020**

EDUCATION

**B. A. in Humanities**
University of the Philippines
Diliman, Quezon City, Philippines

PREVIOUS POSITIONS

**Soliciting Official / Project Director**
M2 Insurance Agency, Inc.

**Insurance Broker and Banccasurance Consultant**
Banc Insurance Brokers, Inc.

**Asst. Vice-President for Brokers**
Stronghold Insurance Company, Inc.

**General Manager**
Interbroker Insurance Consultants, Inc.

## MARCELINO N. DAYRIT

**Assistant Vice-President**
Head, Branch Operations
EDUCATION
Appointment | **Jul 2019**

EDUCATION

**B. S. in Business Administration**
**Major in Marketing Management**
Philippine School of Business Administration,
Quezon City, Philippines

PREVIOUS POSITIONS

**Quezon City Branch Head**
Charter Ping An Insurance Corporation

**Regional Operations Head**
The Mercantile Insurance Co., Inc.

**Sales Head**
MAPFRE Insular Insurance Corporation

## FRANCO ALLAN P. JIMENA

**Senior Manager**
Chief Accountant
Appointment | **Jul 2020**

EDUCATION

**B. S. in Accountancy**
Divine Word College
Legaspi City
**Certified Public Accountant**

PREVIOUS POSITIONS

**Finance and Admin Head**
Poundit Inc.

**Finance Head/Corporate Treasurer/Co-Founder**
YGOAL Inc.

**Manager for Product Control Global Markets**
HongKong Shanghai Banking Corporation

**Deputy Supervisor for Product Control**
Deutsche Bank

**Finance Analyst and Lease Administrator**
Ayala Land, Inc.

**Finance and Admin Associate**
Ayala Healthcare Holdings, Inc.

## MARIA HEIDELYN C. ORTIAGA

**Senior Manager**
Head, Human Resources and Administration
Appointment | **Jun 2020**

EDUCATION

**B. S. in Physical Therapy**
St. Jude College, Manila

PREVIOUS POSITIONS

**Head – Human Resources and Administration**
Mondo Cucina, Inc.
Contel Communications, Inc.

**Head, Compensation and Benefits**
Marie France Bodyline International, Inc.

**Manager**
Okada Manila

**Consultant**
Pelatis, Inc. (BPO)

**HR Officer**
Globe Telecom

# MANAGEMENT COMMITTEE


# FINANCE COMMITTEE


WE COVER, YOU RECOVER

# AUDIT TASK FORCE COMMITTEE


# SALES & MARKETING COMMITTEE

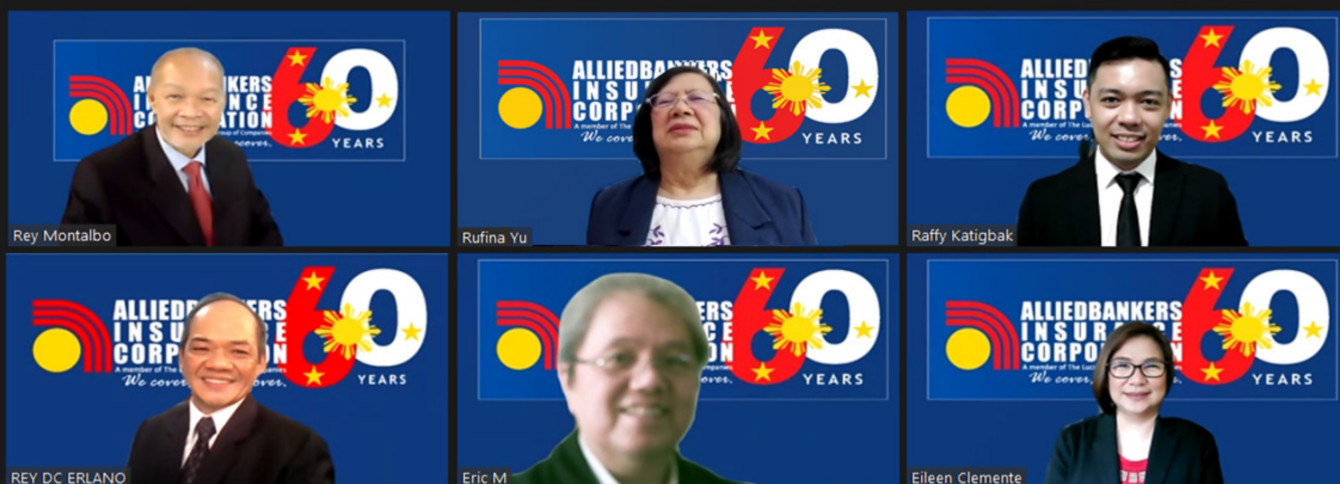

WE COVER, YOU RECOVER

# UNDERWRITING COMMITTEE


# CLAIMS COMMITTEE


WE COVER, YOU RECOVER

# IT STEERING COMMITTEE




# SENIOR MANAGEMENT COMMITTEE


WE COVER, YOU RECOVER

# 2020 FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT



## Alliedbankers Insurance Corporation

Financial Statements
December 31, 2020 and 2019

and

Independent Auditor's Report

SGV
Building a better working world

A member firm of Ernst & Young Global Limited

SGV
Building a better working world
SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines
Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph
BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

**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.



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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.

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**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

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** | | |
| *To be reclassified to profit or loss in subsequent periods:* | | |
| 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 |
| *Not to be reclassified to profit and loss in subsequent periods:* | | |
| 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.

<u>Future Changes in Accounting Policies</u>
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*

<u>Product Classification</u>
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 at 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 is 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 of 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-Fergusion 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, $365^{th}$ 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 $24^{th}$ method for polices 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 polices 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 ₱161.31million, 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** | | | | | |
|---|---|---|---|---|---|---|
| | **Less than 30 days** | **31 to 60 days** | **61 to 120 days** | **121 to 180 Days** | **More than 180 days** | **Total** |
| 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 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 30 days | 31 to 60 days | 61 to 120 days | 121 to 180 Days | More than 180 days | Total |
| 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** | | | |
|---|---|---|---|---|
| | **Premiums receivable** | **Due from ceding companies** | **Reinsurance recoverable on paid losses** | **Total** |
| 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 | | | |
|---|---|---|---|---|
| | Premiums receivable | Due from ceding companies | Reinsurance recoverable on paid losses | Total |
| 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 | **₱227,151,152** | ₱220,683,979 |
| 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 | **₱122,575,315** | ₱227,151,152 |

*AFS financial assets*
This account consists of the following:

| | **2020** | 2019 |
|---|---|---|
| Government debt securities | **₱288,560,899** | ₱286,699,587 |
| Private debt securities | **313,765,752** | 437,257,475 |
| Equity securities: | | |
| Listed common shares– net of allowance for impairment losses amounting to ₱20 million and ₱24.94 million as of December 31, 2020 and 2019, respectively | **159,956,392** | 204,261,661 |
| Private common shares | **1,020,000** | 1,020,000 |
| | **₱763,303,043** | ₱929,238,723 |

The rollforward of allowance for impairment losses follow:

| | **2020** | 2019 |
|---|---|---|
| Balance at beginning of year | **₱24,939,876** | ₱40,600,000 |
| Additions | **2,557,229** | 11,470,015 |
| Disposal/maturities | **(7,498,451)** | (27,130,139) |
| Balance at end of year | **₱19,998,654** | ₱24,939,876 |

The cost of AFS financial assets are as follows:

| | **2020** | 2019 |
|---|---|---|
| Government debt securities | **₱273,271,581** | ₱280,500,000 |
| Private debt securities | **314,901,171** | 442,336,080 |
| Equity securities: | | |
| Listed common shares– net of allowance for impairment losses amounting to ₱20 million and ₱24.94 million as of December 31, 2020 and 2019, respectively | **118,214,766** | 164,677,517 |
| Private common shares | **1,020,000** | 1,020,000 |
| | **₱707,407,518** | ₱888,533,597 |

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%** | **₱16,115,996** | **(₱4,768,336)** | **(₱4,768,336)** |
| 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% | ₱10,746,010 | (₱3,102,531) | (₱3,102,531) |
| 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** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2014 and prior** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **Total** |
| **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** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2014 and prior** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **Total** |
| **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 |
| | | **₱1,077,153,010** | | ₱1,077,153,010 |

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 | **₱165,537,500** | ₱165,537,500 |

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) | **₱851,674,375** | ₱743,634,926 |





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 Amount | 2020 % | 2019 Amount | 2019 % |
|---|---|---|---|---|
| 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 | **₱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 equity securities | **159,956,392** | – | – | **159,956,392** |
| | **₱884,858,358** | **₱–** | **₱–** | **₱884,858,358** |

| | 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| 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 equity securities | 204,261,661 | – | – | 204,261,661 |
| | ₱1,155,369,875 | ₱– | ₱– | ₱1,155,369,875 |

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 | | | |
|---|---|---|---|---|
| | Neither past due nor impaired | | | |
| | Investment grade | Non-investment grade | Past due or impaired | Total |
| **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 | | | |
| | Investment Grade | Non-investment Grade | Past due or impaired | Total |
| 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 | – | 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 |
| | ₱1,880,456,157 | ₱143,581,544 | ₱481,537,263 | ₱2,505,574,964 |

**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 but not impaired | | | | | | |
| | **Less than 30 days** | **31 to 60 days** | **61 to 90 days** | **Over 90 days** | **Total** | **Past due and impaired** | **Total** |
| Insurance receivables: | | | | | | | |
| Premiums receivable | **₱–** | **₱–** | **₱–** | **₱366,871,254** | **₱366,871,254** | **₱15,051,573** | **₱381,922,827** |
| 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** |
| | **₱–** | **₱–** | **₱–** | **₱537,822,853** | **₱537,822,853** | **₱40,161,806** | **₱577,984,659** |

| | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Past due but not impaired | | | | | | |
| | Less than 30 days | 31 to 60 days | 61 to 90 days | Over 90 days | Total | Past due and impaired | Total |
| Insurance receivables: | | | | | | | |
| Premiums receivable | ₱– | ₱– | ₱– | ₱257,379,684 | ₱257,379,684 | ₱ 10,827,183 | ₱ 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 |
| | ₱– | ₱– | ₱– | ₱445,599,847 | ₱445,599,847 | ₱ 35,937,416 | ₱481,537,263 |

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* | **₱279,333,049** | **₱–** | **₱–** | **₱–** | **₱279,333,049** |
| 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** |
| | **₱1,462,470,809** | **₱469,065,125** | **₱132,039,869** | **₱160,976,392** | **₱2,224,552,195** |

*(Forward)*





| | 2020 | | | | |
|---|---|---|---|---|---|
| | **Up to a year** | **2-5 years** | **Over 5 years** | **No term** | **Total** |
| 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 | | | | |
|---|---|---|---|---|---|
| | Up to a year | 2-5 years | Over 5 years | No term | Total |
| 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 Stated 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 P48.036 to US$1.00 in 2020 andP50.635 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).

| | **2020** | | 2019 | |
|---|---|---|---|---|
| **Currency** | **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.

| | **2020** | | | | |
|---|---|---|---|---|---|
| | **Interest rates** | **Within 1 year** | **2-5 years** | **Over 5 years** | **Total** |
| **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*



| | 2019 | | | | |
|---|---|---|---|---|---|
| | Interest rates | Within 1 year | 2-5 years | Over 5 years | Total |
| 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):

| | **2020** | | 2019 | |
|---|---|---|---|---|
| Market indices | **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:

| | **2020** | | 2019 | | |
|---|---|---|---|---|---|
| Category | **Amount** | **Outstanding Balance** | Amount | Outstanding balance | Terms and conditions |
| **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 Amount | 2020 Outstanding Balance | 2019 Amount | 2019 Outstanding balance | Terms and conditions |
|---|---|---|---|---|---|
| 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 Tabacco 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** | – | – | – | |
| Manuafacturing 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 Distellers 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 networth 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 networth*
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 networth 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 networth of at least ₱250,000,000 by December 31, 2013. The minimum networth of the said companies shall increase to the following amount:

| Compliance date | Minimum networth |
|---|---|
| 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 networth 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 ration 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 | | |
|---|---|---|---|
| | **Less than 12 months** | **Over 12 months** | **Total** |
| **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 | | |
|---|---|---|---|
| | Less than 12 months | Over 12 months | Total |
| 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 | | |
|---|---|---|---|
| | Less than 12 months | Over 12 months | Total |
| 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 |
| | 26,658,724 |
| Input VAT applied to output VAT | (13,972,981) |
| Balance at December 31, 2020 | ₱12,685,743 |

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 |
| | 5,037,274 |
| National: | |
| Filing of annual statement | 45,400 |
| VAT registration | 500 |
| | 45,900 |
| | ₱5,083,174 |

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 |
| | ₱7,028,951 |

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 |
| | ₱22,936,001 |

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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.



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