PACIFIC UNION INSURANCE COMPANY

PACIFIC UNION INSURANCE COMPANY
ANNUAL REPORT

Our Vision and Mission

We at the Pacific Union Insurance Company aim to be one of the leading non-life insurance companies in the Philippines.

We likewise aim to provide our clients with the highest standards of customer service; that is, with only the most efficient, reliable and honest service to ensure customers loyalty and satisfaction.

Our Objectives:

- **To keep the insuring public as top priority of the company;**
- **To make available effective high quality insurance needs at affordable prices;**
- **To offer various lines of non-life insurance business to the insuring public;**
- **To provide personnel who are professionally qualified, service oriented and dedicated.**

Our Profile

Pacific Union Insurance Company was founded on June 5, 1945 by the late Don Aurelio Periquet Sr. who was a pioneer in the industry. The company was granted Certificate of Authority No. 1 on July 21, 1945 by the President of the Philippines thru the Insurance Commissioner to write fire, marine, automobile, accident, and miscellaneous lines to act as surety on official recognizances, stipulations, bonds and undertakings.

A historical note is that the first bond issued by Pacific Union was in behalf of former President Jose P. Laurel Sr. in favor of then Commonwealth of the Philippines.

During a certain period when the Government Service Insurance System (GSIS) could not readily obtain domestic reinsurance, the Company was singled out to exclusively handle the reinsurance requirements of the GSIS. Consequently, Pacific Union was voted “Insurance Firm (Non-Life) for the year 1952” by the Business Writers Association of the Philippines.

For more than 50 years of existence, the company still maintains its prudent approach in underwriting with the objective of achieving a quality portfolio and customer satisfaction through prompt service and efficient claims handling.

Under its new management, the Board of Directors is composed of young and dynamic businessmen and professionals whose forecasts are impressive and high-powered. They are Mr. Roy G. Padiernos, Chairman of the Board; Jose Jose Gay G. Padiernos, Joy P. Carlos, Jan Adrian DL. Padiernos, May P. Carandang, Atty. Jan Rurik DL. Padiernos, George J. Regalado, Grace T. Lim and Gregorio B. Sta. Maria, Jr., members.

The Company is strengthened by treaty facilities provided by leading reinsurance companies here and abroad, enabling Pacific Union to provide automatic coverage on risks with its excess subject to availment of facultative reinsurance.

The Company boasts its accreditation with various banks and financing institutions as well as government entities giving us a wider mileage in servicing.

Our Corporate Officers

Ms. Joy P. Carlos	**-**	**President & CEO**
Mr. Rafael K. Del Villar	**-**	**Executive Vice-President**
Mr. Jan Adrian D. Padiernos	**-**	**Chief Operating Officer & Corp. Secretary**
Mr. Jan Rurik DL. Padiernos	**-**	**Vice-President, Business Development**
Ms. May P. Carandang	**-**	**Vice-President & Branch Manager**
Mr. Mell P. Medallo	**-**	**Vice-President, Accounting**
Ms. Cara Cindy E. Lee	**-**	**Asst. Vice-President, Resource Management**
Mr. Edmundo O. Solomon	**-**	**Asst. Vice-President, Underwriting**
Ms. Emily Z. So	**-**	**Asst. Vice-President, Branches & Agencies**
Mr. Jaime A. Ross, Jr.	**-**	**Asst. Vice-President, Claims**
Ms. Marilou C. Mamaradlo	**-**	**Senior Manager, Accounting**
Ms. Wayne D. Dagdayan	**-**	**Manager, Reinsurance**
Mr. Ricky O. Tolentino	**-**	**Manager, Claims**
Mr. Ruel Z. Policarpio	**-**	**Manager, Underwriting**
Atty. Luisito C. Deveza	**-**	**Legal Consultant/Compliance Officer**
Atty. Sunshine D. Mendoza	**-**	**Corporate Lawyer**

Our Board of Directors

Mr. Roy G. Padiernos - Chairman of the Board

- Chairman of the Board of Pacific Union Insurance Company. He earned a Bachelor of Science in Civil Engineering degree and Masteral units in Business Administration and Construction Management. He also acquired a Certificates Course in Leadership and Management Development Program.
- Trainings/Seminars : Corporate Governance – 2015 (sponsored by YGC Group of Companies)

Mr. Jose Gay G. Padiernos - Director

- Member of the Board of Pacific Union Insurance Company. He graduated with a degree of Bachelor of Science in Civil Engineering. He is a director/Chairman of Plutus Holding Corporaion.
- Trainings/Seminars:GIO Reinsurance Industry Familiarization Philippines and Australia;
  1st ASEAN Conference on Strategic Alliances & JointVentures in Insurance in the Era Liberalization.

Ms. Joy P. Carlos - Director & President

- Member of the Board and President of Pacific Union Insurance Company. She graduated from MAPUA Institute with a degree of Electronics Communication Engineering. She is also a director/President of Good Provider Financing and Leasing Corporation.
- Trainings/Seminars : Claims Management Practices and Procedures (Munich Reinsurance Company- Singapore 2004;
  National Conference on Microinsurance – 2012;
  Insurance at the Cross Road: Coping with Change -2014

Mr. Jan Adrian DL. Padiernos - Director & Corporate Secretary

- Member of the Board and Corporate Secretary of Pacific Union Insurance Company. He is also an incumbent director and Corporate Secretary of Good Provider Financing and Leasing Corporation. He graduated with a degree of Bachelor in Bio Chemistry and a certified Master Entrepreneur
- Trainings/Seminars: Economic Briefing for Insurance Industry Executives;
  3rd ASEAN for Young Insurance Managers Programme;
  2015 Asean Corporate Governance Scorecard;
  Orientation Course on Corporate Governance for Family Owned and Controlled Corporations

Atty. Jan Rurik DL. Padiernos - Director & Vice-President

- Member of the Board and Vice-President, Business Development of Pacific Union Insurance Company. He graduated with a degree of Bachelor of Laws in Ateneo de Manila in 2016 and become a lawyer in 2017.
- Trainings/Seminars : Basic Non Life Insurance;
  Intermediate Course on Miscellaneous Casualty;
  Advanced course on Motor Insurance

Ms. May P. Carandang - Director & Treasurer

- Member of the Board of Pacific Union Insurance. She graduated with a degree of Bachelor of Science in Accountancy in Centro Escolar. She is an incumbent Director of Good Provider Financing and Leasing Corporation
- Trainings/Seminars : ASEAN Advance Insurance Leadership Programme;
  Insurance at the Cross Road: Coping with Change -2014

Mr. Gregorio B. Sta. Maria, Jr. - Independent Director

Independent director of the Board of Pacific Union Insurance Company. He is a BSC Marketing Management graduate.

Mr. George J. Regalado - Independent Director

- ❖ Independent director of the Board of Pacific Union Insurance Company. He is a Doctor in Public Administration and Philosophy and earned Master degree in Business Administration. He is a degree holder of BSC in Commerce. He also became a member of the Mindanao Peace & Development Fund – Office of the President

Ms. Grace T. Lim - Independent Director

- ❖ Independent director of the Board of Pacific Union Insurance Company. She is an AB Psychology graduate.

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

Securities and Exchange Commission
Secretariat Building, PICC Complex
Roxas Boulevard, Pasay

The Management of Pacific Union Insurance Company (the 'Company') is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2021 and 2020, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

The Board of Directors reviews and approves the financial statements including the schedules attached therein and submits the same to the shareholders.

M. A. Mercado & Co., CPAs, the independent auditor appointed by the Board of Directors for the years ended December 31, 2021 and 2020, respectively, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in their reports to the Management, has expressed their opinion on the fairness of presentation upon completion of such audit.

ROY G. PADIERNOS
Chairman of the Board

JOY P. CARLOS
President

MAY P. CARANDANG
Treasurer

Signed this 30th day of May 2022

MAM & Co.

M. A. MERCADO & Co.
Certified Public Accountants
2109 Cityland 10 Tower 1
156 H.V. Dela Costa Street
6815 Ayala Avenue North
1226 Makati City, Philippines

Phone: *+63 (2) 8894-5783*
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REPORT OF INDEPENDENT AUDITORS

The Stockholders and the Board of Directors
Pacific Union Insurance Company
Unit 2401 Antel Corporate Center
121 Valero Street, Salcedo Village
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Pacific Union Insurance Company ("the Company"), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of comprehensive income, statements of changes in equity, and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Pacific Union Insurance Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audit 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 PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulation No. 15-2010 in Note 34 to the financial statements is presented for the 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 management and 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.

M. A. MERCADO & CO.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date MAY 3 1 2022 REC
RECEIVED

By:

MARCELINO A. MERCADO
Signing Partner
CPA License No. 066885
Tax Identification No. 102-921-222
P.T.R No. 8864974; issued on January 14, 2022
SEC Accreditation No. 66885 (Group B)
Issued on January 25, 2022;
Valid until 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-003338-002-2021
Issued on December 9, 2021; Valid until December 8, 2024
IC Accreditation No. 66885-IC (Group A)
Issued January 26, 2021;
Valid until 2024 financial statements of IC covered institutions
Firm's BOA/PRC Cert. of Reg. No. 5658
Issued September 29, 2020; Valid until September 28, 2023
Firm's SEC Accreditation No. 5658-SEC (Group B)
Issued on January 25, 2022;
Valid until 2025 financial statements of SEC covered institutions
Firm's BIR Accreditation No. 08-006173-000-2021
Issued March 4, 2021; Valid until March 3, 2024
Firm's IC Accreditation No. 5658-IC (Group A)
Issued January 26, 2021;
Valid until 2024 financial statements of IC covered institutions

May 30, 2022
Makati City

PACIFIC UNION INSURANCE COMPANY
STATEMENT OF FINANCIAL POSITION

	Notes	December 31 2021	2020
ASSETS			
Cash and cash equivalents	*6*	**₱ 541,122,526**	₱ 353,667,793
Short-term investments	*7*	**4,195,817**	4,224,993
Insurance receivables	*8*	**618,691,426**	781,642,693
Other receivables	*10*	**134,798,881**	125,309,661
Available-for-sale (AFS) financial assets	*11*	**9,718,396**	9,730,196
Held-to-maturity (HTM) investments	*12*	**324,065,782**	313,537,268
Property and equipment-net	*13*	**89,635,797**	97,298,780
Investment properties	*14*	**392,518,500**	392,518,500
Deferred reinsurance premiums	*15*	**108,115,505**	43,503,391
Deferred acquisition costs	*16*	**61,113,172**	51,696,960
Deferred tax assets, net	*24*	**-**	6,497,387
Other assets	*17*	**58,537,458**	49,440,584
		₱ 2,342,513,260	₱ 2,229,068,206
LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities	*28*	**₱ 528,986,064**	₱ 521,074,767
Due to reinsurers	*9*	**68,331,656**	89,091,344
Accounts payable and other current liabilities	*18*	**139,823,806**	145,898,225
Retirement liability	*27*	**11,806,171**	10,548,795
Income tax payable	*2*	**896,391**	4,475,814
Lease liabilities	*19*	**7,270,688**	9,773,158
Deferred tax liabilities, net	*24*	**4,510,423**	-
		761,625,199	780,862,103
Equity			
Share capital	*20*	**1,100,000,000**	1,000,000,000
Contingency surplus	*20*	**266,461,414**	266,461,414
Retained earnings		**210,144,310**	177,356,453
Net changes in AFS financial assets	*11*	**(1,294,171)**	(1,208,033)
Remeasurement gains on defined benefit obligation	*27*	**1,479,103**	1,592,880
Revaluation increment on property and equipment	*13*	**4,097,405**	4,003,389
		1,580,888,061	1,448,206,103
		₱ 2,342,513,260	₱ 2,229,068,206

See Accompanying Notes to Financial Statements.

PACIFIC UNION INSURANCE COMPANY
STATEMENT OF COMPREHENSIVE INCOME

	Notes	2021	2020
		Years Ended December 31	
UNDERWRITING INCOME			
Direct premiums	31	**₱ 836,994,313**	₱ 750,918,912
Add: Premiums assumed	31	**29,273,373**	8,498,707
Gross premiums		**866,267,686**	759,417,619
Less: Premiums ceded	31	**220,827,756**	91,611,890
Net premiums retained		**645,439,930**	667,805,729
Less: Premiums reserve for the year		**263,416,763**	315,949,892
Gross premiums on net retained		**382,023,167**	351,855,837
Add: Premiums released from reserve		**315,949,892**	297,449,366
Premiums earned		**697,973,059**	649,305,203
Commissions earned		**89,884,695**	16,965,734
GROSS UNDERWRITING INCOME		**787,857,754**	666,270,937
UNDERWRITING EXPENSES			
Agents' commissions and expenses		**155,412,932**	118,774,835
Claims, losses paid and adjustment expenses		**75,845,761**	62,437,471
Other underwriting expense	21	**352,351,099**	296,733,877
TOTAL UNDERWRITING EXPENSES		**583,609,792**	477,946,183
NET UNDERWRITING INCOME		**204,247,962**	188,324,754
OTHER INCOME (EXPENSES)			
General and administrative expenses	22	**(173,342,288)**	(160,555,903)
Unrealized loss on foreign exchange		**(114,028)**	(1,204,849)
Interest income	23	**13,614,377**	10,254,753
		(159,841,939)	(151,505,999)
INCOME BEFORE INCOME TAX		**44,406,023**	36,818,755
PROVISION FOR INCOME TAX	24	**(11,874,086)**	(8,970,939)
NET INCOME		**32,531,937**	27,847,816
OTHER COMPREHENSIVE INCOME			
Items that are and will be reclassified subsequently to profit or loss:			
Net fair value (losses) gains on AFS financial assets	11	**150**	(1,206)
Effect of adjustment in tax rate		**(86,288)**	-
		(86,138)	(1,206)
Items that will not be reclassified to subsequently to profit or loss:			
Net revaluation increase on property and equipment	13	**63,980**	76,776
Remeasurement loss on defined benefit obligation	27	**-**	(4,604,844)
Effect of adjustment in tax rate		**172,179**	
		236,159	(4,528,068)
TOTAL COMPREHENSIVE INCOME		**₱ 32,681,958**	₱ 23,318,542
EARNINGS PER SHARE			
Basic and diluted	25	**₱ 3.25**	₱ 3.09

See Accompanying Notes to Financial Statements.

PACIFIC UNION INSURANCE COMPANY
STATEMENT OF CHANGES IN EQUITY

Year Ended December 31, 2021

	Share Capital *(Note 20)*	Contigency Surplus *(Note 20)*	Retained Earnings	Net Changes in AFS Financial Assets *(Note 11)*	Remeasurement (Gains) Losses on Defined Benefit Obligation *(Note 27)*	Revaluation Increment on Property and Equipment *(Note 13)*	Total Equity
As at January 1, 2021	**₱ 1,000,000,000**	**₱ 266,461,414**	**₱ 177,356,453**	**₱ (1,208,033)**	**₱ 1,592,880**	**₱ 4,003,389**	**₱ 1,448,206,103**
Net income	**-**	**-**	**32,531,937**	**-**	**-**	**-**	**32,531,937**
Other comprehensive income							**-**
Fair value gain on AFS financial assets	**-**	**-**	**-**	**150**	**-**	**-**	**150**
Effect of adjustment in tax rate	**-**	**-**	**-**	**(86,288)**	**(113,777)**	**285,956**	**85,891**
Transfer of portion of revaluation							**-**
increment on property and equipment							**-**
realized through depreciation	**-**	**-**	**255,920**	**-**	**-**	**(191,940)**	**63,980**
Total comprehensive income	**-**	**-**	**32,787,857**	**(86,138)**	**(113,777)**	**94,016**	**32,681,958**
Collection of subscription receivable	**100,000,000**	**-**	**-**	**-**	**-**	**-**	**100,000,000**
As at December 31, 2021	**₱ 1,100,000,000**	**₱ 266,461,414**	**₱ 210,144,310**	**₱ (1,294,171)**	**₱ 1,479,103**	**₱ 4,097,405**	**₱ 1,580,888,061**

Year Ended December 31, 2020

	Share Capital *(Note 20)*	Contigency Surplus *(Note 20)*	Retained *Earnings*	Net Changes in AFS Financial Assets (Notes 11,33)	Remeasurement (Gains) Losses on Defined Benefit Liability *(Note 27)*	Revaluation Increment on Property and Equipment *(Notes 13,33)*	Total Equity
As at January 1, 2020	₱ 900,000,000	₱ 266,461,414	₱ 149,252,717	₱ (1,206,827)	₱ 6,197,724	₱ 4,182,533	₱ 1,324,887,561
Net income	-	-	27,847,816	-	-	-	27,847,816
Other comprehensive income							-
Remeasurement loss on defined benefit obligation	-	-	-	-	(4,604,844)	-	(4,604,844)
Fair value loss on AFS financial assets	-	-	-	(1,206)	-	-	(1,206)
Transfer of portion of revaluation							-
increment on property and equipment							-
realized through depreciation	-	-	255,920	-	-	(179,144)	76,776
Total comprehensive income	-	-	28,103,736	(1,206)	(4,604,844)	(179,144)	23,318,542
Collection of subscription receivable	100,000,000	-	-	-	-	-	100,000,000
As at December 31, 2020	₱ 1,000,000,000	₱ 266,461,414	₱ 177,356,453	₱ (1,208,033)	₱ 1,592,880	₱ 4,003,389	₱ 1,448,206,103

PACIFIC UNION INSURANCE COMPANY
STATEMENT OF CASH FLOWS

	Notes	Years Ended December 31 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**₱ 44,406,023**	₱ 36,818,755
Adjustments for:			
Provision for impairment of receivables	*8*	**1,330,662**	1,267,298
Unrealized loss on foreign exchange		**114,028**	1,204,849
Retirement expense	*27*	**1,257,376**	992,900
Depreciation and amortization	*13,17*	**13,656,995**	12,433,081
Interest income	*23*	**(13,614,377)**	(10,254,753)
Interest expense		**703,982**	822,136
Loss on cancellation of lease		**213,438**	-
Provision for impairment of AFS financial asset		**12,000**	-
Operating income before working capital changes		**48,080,127**	43,284,266
Changes in operating assets and liabilities			
Decrease (increase) in:			
Short-term investments	*7*	**29,176**	50,414
Insurance receivables	*8*	**161,620,605**	(339,933,548)
Other receivables	*10*	**(9,489,220)**	24,394,099
Deferred reinsurance premiums	*15*	**(64,612,114)**	(14,880,433)
Deferred acquisition costs	*16*	**(9,416,212)**	3,403,320
Other assets	*17*	**(8,902,673)**	874,359
Increase (decrease) in:			
Insurance contract liabilities	*28*	**7,911,297**	131,111,658
Due to reinsurers	*9*	**(20,759,688)**	53,986,384
Accounts payable and other current liabilities	*18*	**601,674**	48,496,449
Cash (used in) generated by operations		**105,062,972**	(49,213,031)
Income tax paid		**(11,547,028)**	(4,600,194)
Interest income received		**12,690,726**	11,275,918
Net cash (used in) provided by operating activities		**106,206,670**	(42,537,307)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of:			
Held-to-maturity investments	*12*	**23,641,700**	172,866,857
Additions to:			
Held-to-maturity investments	*12*	**(33,375,485)**	(182,030,338)
Property and equipment-net	*13*	**(2,408,035)**	(9,065,268)
Investment properties	*14*	**-**	(127,290,000)
Computer software	*17*	**(1,451,239)**	(2,766,553)
Net cash used in investing activities		**(13,593,059)**	(148,285,302)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from collection of subscription receivable		**100,000,000**	100,000,000
Payment of lease liability		**(5,044,850)**	(3,929,117)
Net cash provided by financing activities		**94,955,150**	96,070,883
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**187,568,761**	(94,751,726)
EFFECT OF FOREIGN EXCHANGE IN CASH AND CASH EQUIVALENTS		**(114,028)**	(1,204,849)
CASH AND CASH EQUIVALENTS, JANUARY 1	*6*	**353,667,793**	449,624,368
CASH AND CASH EQUIVALENTS, DECEMBER 31	*6*	**₱ 541,122,526**	₱ 353,667,793

See Accompanying Notes to Financial Statements.

1. General Information

Pacific Union Insurance Company (the Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on June 25, 1945 and started its commercial operations on July 21, 1945. On March 02, 1995, the SEC approved the extension of the Company's corporate life for another 50 years.

The Company's primary purpose is to engage in the business of insurance, reinsurance, bonding, fidelity and guaranty in any and all branches except life insurance, and to act as agent of other insurance or surety companies, in any of their branches of insurance including life and to do and perform all such acts and things as may be necessary, expedient or convenient to carry out the purposes intended by the organization of the corporation and not inconsistent with law.

The registered office address of the Company is at Unit 2401 Antel Corporate Centre, 121 Valero Street, Salcedo Village, Makati City.

Authorization for the Issuance of the Financial Statements
The accompanying financial statements were authorized for issue by the Board of Directors (BOD) on May 30, 2022.

2. Basis of Preparation

Basis of Financial Statements Preparation
The financial statements of the Company have been prepared under the historical cost convention method except for the following accounts:

- Available-for-sale (AFS) financial assets, which are stated at fair value;
- Held-to-maturity (HTM) investments, which are stated at amortized cost;
- Condominium units included under property equipment, which are stated at revalued amounts;
- Retirement obligation and reserve for unearned premium, which are stated at actuarial values; and
- Investment properties, which are stated at fair value.

The financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. All financial information is rounded off to the nearest peso, except when otherwise indicated.

Statement of Compliance
The Company's financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Standards Interpretations Committee (IFRSIC) which have been adopted by the Financial Reporting Standards Council (FRSC) and approved by the Board of Accountancy (BOA) and SEC pronouncements.

Use of Judgments and Estimates
The preparation of financial statements in compliance with PFRS requires the use of certain critical accounting estimates. It also requires the Company's management to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effects are disclosed in Note 5.

3. Changes in Accounting Policies

Adoption of New and Amended Standards
The accounting policies adopted are consistent with those of reporting period, except for the adoption of the following new and amended PFRS which the Company adopted effective for annual periods beginning on or after January 1, 2021. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendment to PFRS 16, *Leases – COVID-19-Related Rent Concessions beyond June 30, 2021.* The amendment provides 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, 2022; and
    - There is no substantive change to other terms and conditions of the lease.

    A lessee that applied 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 application of these amendments had no significant impact to the Company's financial statements as the Company was not granted rent concessions during the year.

- PFRS 4 (Amendments), Applying PFRS 9, *Financial Instruments with PFRS 4, Insurance Contracts*, provide two options for entities that issue insurance contracts within the scope of PFRS 4:

    - An option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets (the "overlay approach"); and,
    - An optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4 (the "deferral approach").

    The Company has elected to apply the second option as allowed by this amendment, effectively deferring application of PFRS 9(2014) to periods on or beyond January 2023, since the Company was able to meet the following criteria:

    - It has not previously applied any version of PFRS 9; and,
    - Its activities are predominantly connected with insurance as at December 31, 2015, the Company's latest annual reporting date immediately preceding April 1, 2016, and no reassessment is required as the activities of the Company did not change at subsequent dates after initial assessment and before the effective date of PFRS 9.

    Based on the management's assessment, liabilities arising from insurance contracts represent over 80% of the total carrying amount of all the Company's total liabilities. These liabilities include reinsurance balances payable, losses and claims payable, premium reserves and deferred reinsurance commissions. Consequently, the Company will continue to apply its existing accounting policy on the financial instruments.

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

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discounting hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

  The Company shall also disclose information about:

  - The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
  - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

  The amendments are effective for annual reporting period beginning on or after January 1, 2021 and apply retrospectively, however, the Company is not required to restate prior periods.

Standard Issued but Not Yet Effective
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately.

  At the same time, the amendments added a new paragraph to PFRS 3 to clarify those contingent assets that do not qualify for recognition at the acquisition date.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

- Amendments to PAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*

  The amendment prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company's financial statements.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*

  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022.

  The amendments are not expected to have a material impact on the Company's financial statements.

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*

  The amendment permits a subsidiary the elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

- Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*

  The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

  The amendments are not expected to have a material impact on the Company's financial statements.

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

  The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

Effective beginning on or after January 1, 2023

- 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 re-insurance), 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.

  On March 17, 2020, the International Accounting Standards Board (IASB) has decided to further defer the effective date of IFRS 17 to annual reporting periods beginning on January 1, 2023. IASB expects to issue the amendments to IFRS 17 in the second quarter of 2020. SEC has yet to issue pronouncements related to effectivity of PFRS 17 as of reporting date.

  On May 18, 2020, the IC released CL No. 2020-62 amending CL No. 2018-69 which defers the implementation of PFRS 17 for all insurance companies. The commission further deferred the implementation of the standard by two years after the effective date as decided by the IASB.

  The Company started a project to implement PFRS 17 and has been performing a high-level impact assessment of PFRS 17. The Company expects that the new standard will result in significant changes to accounting policies for insurance contract liabilities and is likely to have a significant impact on profit and total equity together with presentation and disclosure.

- PFRS 9 (2014), Financial Instruments. This new standard on financial instruments will replace PAS 39, Financial Instruments and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among other, the following:

  - Three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
  - An expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since the initial recognition of a financial asset; and
  - A new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

  In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding.

Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVPTL.

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

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

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

  The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

  The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

  An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

  The amendments are not expected to have a material impact on the Company.

- Amendments to PAS 8, *Definition of Accounting Estimates*

  The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

  An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

  The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

  - Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and
  - Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023.

Early application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Company.

Effective beginning on or after January 1, 2024

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

  In January 2020, amendments were issued to paragraphs 69 to 76 of the Standard to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

  - What is meant by a right to defer settlement:
  - That a right to defer must exist at the end of the reporting period;
  - That classification is unaffected by the likelihood that an entity that an entity will exercise its deferral right;
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The amendments are not expected to have a material impact on the Company's financial statements.

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.*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

  The amendments are not applicable to the Company since it has no subsidiaries, associates and joint ventures.

4. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise stated.

<u>Fair Value Measurement</u>
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.

Fair value hierarchy
The Company uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value is observable in the market, either directly or indirectly;
Level 3: techniques which uses inputs which have a significant effect on the recorded fair value that are not based on observable market data.

External valuers are involved for valuation of significant assets, such as investment properties. Involvement of external valuers is decided upon annually by management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management decides, after discussion valuation techniques and inputs to use for each case.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents with relevant external sources to determine whether the change is reasonable.

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

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

Financial assets
The fair value for financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations (price between the bid-ask range), without any deduction for transaction costs. When current market prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

Non-financial assets
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.

Cash and Cash Equivalents
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 (3) months or less from dates of placements and that are subject to an insignificant risk of change in value.

Short-term Investments
Short-term investments are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three (3) months but less than one (1) year from dates of placement. These earn interests at the respective short-term investment rates.

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 impairment loss recorded in profit or loss.

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

Financial Assets and Financial Liabilities
Date of recognition
The Company recognizes a financial asset or financial liability in the statement of financial position when it becomes a party to the contractual provision 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 settlement date.

Initial recognition of financial instruments
Financial instruments are recognized initially at fair value, except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets and liabilities includes transaction cost.

The Company classifies its financial assets in the following categories: financial assets at FVPL, HTM investments, AFS financial assets, 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 financial reporting date.

Financial assets or financial liabilities at FVPL
The Company has designated financial assets and liabilities at FVPL when either:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- The designation the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gain or loss on them on a different basis; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

As at December 31, 2021 and 2020, the Company has no financial assets or financial liabilities at FVPL.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. Moreover, the Company would be prohibited to classify any financial assets as HTM investments for the following two (2) years. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate method, less impairment in value. 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. The amortization is included in the investment income in the statement of comprehensive income. Gains and losses are amortized in income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of comprehensive income.

The Company's investments in treasury notes, bonds and bills are included in this category (see Note 12).

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the financial position date.

These are considered as noncurrent asset if maturity is more than one year from the financial position date.

The Company's 'Cash and cash equivalents', 'Short-term investments', 'Insurance receivables', and Notes receivable, Salary loan receivable, Car loan receivable, Mortgage loan receivable and Accrued interest receivable under 'Other receivables' are included in this category (see Notes 6, 7, 8, and 10).

AFS financial assets
AFS financial assets are those non-derivative financial assets that are either designated in this category or not classified in any of the other categories. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in the statements of comprehensive income. When the investment is disposed of, the cumulative gains or losses previously recognized as other comprehensive income is recognized in other income. Interest earned on the investment is reported as interest income using the effective interest rate.

The Company's investments in listed and unlisted equity shares are included in this category (see Note 11).

Other financial liabilities
This classification relates to financial liabilities that are not held for trading or not designated as FVPL upon the inception of the liability. These are initially recognized at fair value of the consideration received less directly attributable transaction costs. After initial recognition, other financial liabilities are recognized at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any related issue costs, discount or premium.

The Company's 'Insurance contract liabilities', 'Due to reinsurers', 'Lease liabilities' and 'Accounts payable and other current liabilities', except the amounts payable to the government, are included in this category (see Notes 9, 18, 19 and 28).

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset is derecognized when:

- the rights to receive cash flows from the assets 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 substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset 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 consideration that the Company could be required to repay.

Financial liabilities

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 exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statements of comprehensive income.

Impairment of Financial Assets

At each reporting date, the Company assesses whether a financial asset or group of financial assets is impaired.

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 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, 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 the difference between the assets' carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of comprehensive income. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans and receivables, together with the associated allowance account, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as type of borrower, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

AFS financial assets
In case of equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its 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 the statement of comprehensive income – is removed from the equity and recognized in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of comprehensive income. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. This is recorded as part of "Investment income" in the statement of comprehensive income. If in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

HTM investments
For HTM investments, the Company assesses whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of comprehensive income. Interest income continues to be recognized based on the original effective interest rate of the asset. If subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amount formerly charged are credited to the 'Provision for impairment losses' in the statements of comprehensive income and the allowance account, reduced. The HTM investments, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

<u>Classification of Financial Instruments between Debt and Equity</u>
A financial instrument is classified as debt if it provides for contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another equity under conditions that are potentially unfavorable to the Company; or
- 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.

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.

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount 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 legally enforceable right must not be contingent in future events and must be enforceable on the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

Reinsurance
The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets include balances recoverable from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled loans associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurers. The impairment loss is recorded in 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 for insurance contracts. Premiums and claims on assumed reinsurance are recognized in profit or loss 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. 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 (DAC) and Deferred Reinsurance Commissions (DRC)
Costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts are deferred and charged against income using the 24th method. The unamortized acquisition costs are shown in the assets section of the statement of financial position as "Deferred acquisition costs." Reinsurance commissions are deferred and shown in the liabilities section of the statement of financial position as "Deferred reinsurance commissions," subject to the same amortization method as the related acquisition costs

Property and Equipment
Items of property and equipment are measured at cost less accumulated depreciation and amortization and accumulated impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, and other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of the equipment.

The cost of replacing of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The cost of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts, any resulting gain or loss is credited or charged to income.

Following initial recognition at cost, building units and improvements are carried at revalued amounts, which are the fair values at the date of revaluation less subsequent accumulated depreciation and any accumulate impairment losses.

Revalued amounts represent fair values determined based on the valuation performed by external professional appraiser every two years. In addition, appraisal of building units and improvements is conducted more frequently if market factors indicate a material change in fair value.

Any revaluation surplus is recognized in other comprehensive income and credited to the 'Revaluation Reserves' account in the statement of financial position. Any revaluation deficit directly offsetting previous surplus in the same asset is charged to other comprehensive income to the extent of any revaluation surplus in equity relating to this asset and the remaining deficit, if any, is recognized in profit or loss. Annually, an amount from the Revaluation Reserves is transferred to retained earnings for the related depreciation relating to the revaluation increment. Upon disposal of the revalued assets, amount included in Revaluation Reserves is transferred to retained earnings.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. The estimated useful lives for the current and comparative periods are as follows:

Leasehold improvements	3 years or the lease term (whichever is shorter)
Furniture, fixtures and equipment	10 years
Building units and improvements	20 years
Transportation equipment	5 years

Depreciation methods, useful lives and residual values are reassessed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

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 the statement of comprehensive income, in the year the item is derecognized.

<u>Investment Properties</u>
Investment properties, except land, are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. The fair value of investment properties is determined by independent real estate valuation experts based on "market approach" which are based on recent real estate transactions with similar characteristics and location to those of the Company's

properties. Gains or losses arising from changes in fair values of investment properties are included in profit or loss in the period in which they arise.

Investment properties are derecognized when either it has been disposed of or when it is permanently withdrawn from the use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

Transfers are made to or from investment property only when there is change in use. For transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner's occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Other Assets

Prepayments

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

Creditable withholding taxes

Creditable withholding taxes represent amounts withheld by the Company's counterparties in relation to the revenue earned. Subsequently, these amounts are applied against the Company's income tax due. Any amount of excess of currently due income taxes over creditable withholding taxes is reported as "Income tax payable".

Value-added tax (VAT)

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

- where the VAT incurred on the purchase of an asset or service is not recoverable from the tax authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or part of the expense item as applicable; and

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

Impairment of Non-Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of an asset's or cash-generating unit's fair value less cost to sell and its value in use or its net selling price 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 group of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset 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 assessment of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the statements of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date 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 Company makes an estimate of recoverable amount. 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, had no impairment loss been recognized for the assets in prior years, such reversal is recognized in the statements of comprehensive income.

Product Classification

Insurance contracts

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.

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.

Contract classification

The Company issues insurance contracts categorized as casualty insurance, property insurance, short duration accident, and suretyship. Sub-classifications are: (i) Fire and Allied Perils; (ii) Marine Cargo; (iii) Bonds/Suretyship; (iv) Motor CMVL; (v) Motor OD (Other than CMVL); (vi) Personal accident; (vii) Engineering and other risks.

Casualty insurance contract protects the assured against the risk causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. Property insurance contract mainly compensates the Company's assured for damages suffered to their properties or for the value of property lost. Short-duration accident insurance policy protects the assured from the consequences of events such as death or disability in connection with a specific travel whether for business or pleasure. Short-duration accident insurance covers also apply to insurance of goods or equipment while being transported from point of origin to point of destination under special risks or marine cargo insurance contract. Suretyship insurance contract is not a contract of indemnity, but a contract of guarantee it protect the Company's assured and their investments from loss when entering into a bond this includes bid bond, performance bond, surety bond, guarantee bond, fidelity bond and judicial and heirs bond.

Insurance Contract Liabilities

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

Provision for unearned premium

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 or UPR. Provision for unearned premiums shall be calculated based on 24th method for all classes of business, on both gross and net of reinsurance basis. Policies with duration of less than one (1) year or more than one (1) year, unearned premium considered the actual unearned premium from the date of valuation to the date of termination of the policy. 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 premium and presented as part of "Insurance contract liabilities" in the statement of financial position. The change in the provision for unearned premium 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 reserves

The amount required to cover future claims and expenses, at a designated level of confidence, that are expected to emerge from an unexpired period of cover. Unexpired risk reserves (URR) shall be calculated as the best estimate of future claims and expenses for all classes of business plus Margin for Adverse Deviation (MfAD) to allow for inherent uncertainty of the best estimate.

Provision for unearned premiums presented as part of "Insurance contract liabilities" equal to UPR plus excess of computed URR as against UPR net of deferred acquisition cost (DAC).

Provision for claims reported by policyholders and incurred but not reported (IBNR) losses. Outstanding claims provisions 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.

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

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

Equity
Share capital is determined using the nominal value of shares that have been issued.

Contingency surplus represents contributions from shareholders to cover any deficiency in Margin of Solvency as required under the Insurance Code (Code).

Retained earnings include all current and prior period results as disclosed in the statement of comprehensive income.

Other comprehensive income are items of income and expense that are not recognized in the profit or loss for the year in accordance with PFRS.

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 a principal or agent. The Company concluded that it is acting as a principal in all of its revenue arrangements. The Company has no revenue within the scope of PFRS 15.

Revenue outside the scope of PFRS 15
Premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the insurance contract using the 24^{th} method, except for contracts covering marine cargo risks wherein the premiums written during the first ten months of the current year and the last two months of the preceding year are recognized as revenue in the current year. The portion of the premiums written that relates to the unexpired periods of the policies as the end of financial reporting date are accounted for as 'Reserve for Unearned Premiums' and presented in the liability section of the statements of financial position. The related reinsurance premiums ceded that pertains to the unexpired periods at financial reporting dates are accounted for as

'Deferred Reinsurance Premiums' shown as part of the assets in the statements of financial position. The net changes in this account between ends of reporting dates are credited to or charged against income.

Commission income. Commissions earned from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the commissions that relate to the unexpired periods of the policies at each reporting dates are accounted for as reinsurance commissions and presented in the liabilities section of the statement of financial position.

Interest Income. Interest income is recognized in 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 Company's right to receive the payment is established.

Other underwriting income. Other underwriting income from other sources, if any, is recognized when earned.

Cost and Expense Recognition

Benefits and claims. Benefits and claims consist of benefits and claims paid to policyholders, which include changes in the valuation of insurance contract liabilities, except for changes in the provision for unearned premiums which are recorded in insurance revenue. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered. General 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. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting of financial position.

Operating and other expenses. Operating and other expenses are recognized in profit or loss in the period these are incurred.

Leases

At inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in PFRS 16. This policy is applied to contracts entered into on or after January 1, 2019. The policy is also applied to existing leases which ends within 12 months of initial application of PFRS 16.

Company as Lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimated of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right of use asset reflects that the Company will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from external financing sources and makes certain adjustments to reflect the terms of the lease and the type of the asset leased.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonable certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company uses a number of practical expedients when applying PFRS 16 to leases previously classified as operating leases under PAS 17. In particular, the Company:

- did not recognize right-of-use assets and liabilities for leases for which the term for which the lease term ends within 12 months from the date of initial application;
- excluded initial direct costs from the measurement of the right-of-use assets at the date of initial application; and
- uses hindsight when determining the lease term.

Short-term Leases and Leases of Low-Value Assets
The Company has elected not to recognize right-of-use assets and liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

<u>Foreign Exchange Transactions</u>
The functional and presentation currency of the Company is the Philippine Peso. Transactions in foreign currency are recorded in Philippine peso based on the exchange rate prevailing at the date in which the transaction took place. Foreign currency denominated monetary assets and liabilities of the Company are translated using the prevailing exchange rate at the end of the

financial reporting date. Gain or losses arising from these transactions and translation are credited or charged to the statements of comprehensive income.

Income Taxes
Current tax
Current tax assets and liabilities for the current 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 the amount are those that are enacted at the statement of financial position.

Deferred tax
Deferred tax is provided using the balance sheet liability method on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the excess of the minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date 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 tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates applicable to the period when the asset is realized or the liability is settled, based on tax rates and regulations that have been enacted or substantively enacted at the statement of financial position date.

Retirement Benefits
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 service cost, net interest on the net defined benefit liability or asset and remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are 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 OCI 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.

Related Parties
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. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

Provision and Contingencies
Provisions are recognized when there is a present legal or constructive obligation 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.

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

Earnings Per Share (EPS)
Basic EPS is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect to stock dividends declared, stock rights exercised and stock split, if any, declared during the year. The Company does not have any potential dilutive common shares.

Events After the Reporting Date
Post year-end events that provide additional information about the Company's position at the statement of financial position date (adjusting events) are 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.

5. Significant Accounting Judgments and Estimates

The estimates and associated assumptions are based on historical experiences and other various factors that are believed to be reasonable under the circumstances including expectations of related future events, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates, assumptions and judgment are reviewed and evaluated on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical Accounting Judgments

Critical accounting judgments made in applying the Company's accounting policies include:

Product classification

The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 5% more than the benefits payable if the insured event did not occur.

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

Determination of functional currency

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency is determined to be the Philippine peso. It is the currency that mainly influences the sale of services and the cost of providing the services.

Classification of financial instruments

The Company classifies a financial instrument, or its component parts, on initial recognition of a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the guidelines set by PAS 39 on the definitions of a financial asset, a financial liability or equity. In addition, the Company also determines and evaluates its intention and ability to keep the investments until its maturity date.

The substance of a financial instrument, rather than its legal form, and the management intention and ability to hold the financial instrument to maturity generally governs its classification in the stamen of financial position.

The classifications of the Company's financial instruments are set out in Note 31 to the financial statements.

Determination of fair value of financial instruments

The Company carries certain financial assets at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Company utilized different valuation methodologies and assumptions. Any changes in fair values of these financial assets and financial liabilities would affect the equity.

The fair values of the Company's financial instruments are set out in Note 32 to the financial statements.

Key Sources of Estimation Uncertainty

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

Determination of insurance liabilities arising from insurance contracts

Provision is made at the reporting date for the estimated cost of claims incurred but not settled at the reporting date. The liability for outstanding claims includes the cost of claims reported but yet to be paid, claims incurred but not reported ('IBNR'), and the estimated expenses to be incurred in settling claims.

The process of establishing liability estimates is subject to considerable variability as it requires the use of informed estimates and judgments. These estimates and judgments are based on numerous factors and may be revised as additional experience becomes available or as regulations change. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is available. Classes of business which have a longer reporting tail and where the IBNR proportion of the total reserve is therefore high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty in estimating these liabilities. For the short-tailed classes, claims are typically reported soon after the claim event, and tend to display less variation. In calculating the required levels of provisions, the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. In arriving at booked claims provisions, management also make allowance for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in patterns of claim incidence, reporting, processing, finalization and payment;
- changes in the legal environment;
- the impact of inflation (both economic/wage and superimposed);
- changes in the mix of business;
- the impact of large losses;
- movements in industry benchmarks;
- changes in policyholder behavior

The methods used to analyze past claim experience and to project future claim experience are largely determined by the available data and the nature of the portfolio. The projections given by the different methodologies assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims. Outstanding claims are calculated gross of reinsurance. A separate estimate is made of the amounts recoverable from reinsurers and third parties under insurance contracts based on the gross outstanding claims provision. Future cash flows are not discounted for time value of money.

Valuation of Insurance Contract Liabilities
The Company's Insurance contract liabilities are composed of premium and claim liabilities. Premium liabilities are the premium reserves while claim liabilities include outstanding claims reserve, claims handling expense, IBNR and MFAD.

The Company's premium and claims liabilities are ascertained by an independent actuary. In calculating the unexpired risk reserves (URR), the unearned premium reserves (UPR) were multiplied by the ultimate loss and loss adjustment expense (LAE) ratio adjusted for policy maintenance expenses. The ultimate loss and LAE ratio was derived from estimated the estimation of the claims liabilities supplemented by industry ratios. A loading of MFAD is then added to the undiscounted URR. The total URR is then compared with the total UPR net of deferred acquisition cost (DAC). If the URR is greater, the difference is taken as an additional premium liability on top of UPR.

IBNR losses are estimated separately by accident year for each line of business. To estimate IBNR losses, incurred losses are subtracted from estimated ultimate losses. Ultimate losses were selected using the following methods: Chain Ladder/Development Approach (IDA), the Paid Chain Ladder/Development Method (PDA), the Bornhuetter-Ferguson Incurred Approach (BFIA) and Bornhuetter-Ferguson Paid Approach (BFIA). In applying the various approaches, the loss development factors on the Company's historical loss experience supplemented with industry triangles were used as basis.

Margin for Adverse Deviation (MFAD) reflects the degree of uncertainty of the best estimate assumption. For claims liabilities, MFAD is estimated using the Stochastic Chain Ladder Method to bring actuarial estimate of the claims liabilities at 75% level of sufficiency.

Additional qualitative judgment are used by the independent actuary to assess the extent to which full tail of the claims development is influenced by the different factors such as historical combined development triangle, portfolio mix and policy conditions.

As at December 31, 2021 and 2020, the carrying values of premium and claims liabilities are recognized under insurance contract liabilities in the statement of financial position (See Note 28).

Determination of retirement and other employee benefits
The present value of the retirement obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate and salary increase rate and any changes to assumptions will impact the carrying amount of retirement obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Company considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related retirement obligation.

Other key assumptions for retirement obligations are based in part on current market conditions.

Estimated allowance for impairment losses on receivables
The Company evaluates the possibility of losses that may arise out of the non-collection of receivables based on a certain percentage of the outstanding balance of receivable and on an evaluation of the current status of the account.

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 the allowance for impairment losses on receivables would increase recorded operating expenses and decrease current assets.

The carrying value of receivables is disclosed in Notes 8 and 10.

Estimated useful lives of property and equipment and investment properties
The Company reviews annually the estimated useful lives of property and equipment based on the period over which the assets are expected to be available for use and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

The carrying values of property and equipment and investment properties, net of accumulated depreciation, amortization and impairment losses, if any, are presented in Notes 13 and 14.

Asset impairment
The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an 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 the expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that can materially affect the financial statements.

No provision for impairment losses arising from non-financial assets was recognized in the Company's financial statements in 2021 and 2020.

Recognition of deferred income tax assets
The Company reviews the carrying amounts of the deferred income tax assets at the end of each reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Company's assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on the Company's past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that the Company will generate sufficient taxable income to allow all or part of the deferred income tax assets to be utilized.

The components and details of movements of deferred tax assets are disclosed in Note 24.

Determination of contingencies
The estimate of the probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Company's defense in these matters and is based upon an analysis of potential results. The Company is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Company's management and legal counsel believed that the eventual liabilities under these lawsuits or claims, if any, will not have a material impact on the Company's financial statements. Accordingly, no provision for probable losses arising from contingencies was recognized in the Company's financial statements as at December 31, 2021 and 2020.

6. Cash and Cash Equivalents

This account consists of:

	2021	2020
Cash on hand and in banks	**₱ 177,299,358**	₱ 102,370,471
Cash equivalents	**363,823,168**	251,297,322
	₱ 541,122,526	₱ 353,667,793

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months or less and earn interest at the respective short-term deposit rates.

Cash equivalents consist of time deposits with annual interest rate of ranging from 0.625% to 1.25% in 2021 and 0.25% to 3.88% in 2020.

Total interest earned from cash in banks and cash equivalents amounted to ₱2,672,884 and ₱2,948,521 in 2021 and 2020, respectively (see Note 23).

7. Short-term Investments

Short – term investments consist of time deposits with maturity of more than three months but less than one year from date of placement amounting to ₱4,195,817 and ₱4,224,993 as at December 31, 2021 and 2020 with annual interest rate ranging from 1.125% to 3.875% in 2021 and 1.125% to 3.880% in 2020.

Interest income earned from these investments amounted to ₱83,262 and ₱85,236 in 2021 and 2020, respectively (see Note 23).

8. Insurance Receivables

This account consists of:

	2021	2020
Premiums receivables	**₱ 425,851,415**	₱ 532,884,796
Due from ceding companies and reinsurers	**26,026,057**	24,250,715
Reinsurance recoverable on losses	**182,948,042**	239,310,608
	₱ 634,825,514	₱ 796,446,119
Total allowance for impairment losses	**(16,134,088)**	(14,803,426)
	₱ 618,691,426	₱ 781,642,693

Premium receivables have terms ranging from 30-90 days and do not bear any interest. All premium receivables are subject to credit risk exposure. However, the Company does not identify specific concentrations of credit risk with regard to premiums receivable as the amount recognized resemble a large number of receivables from various customers.

The Company utilizes reinsurance agreements to minimize its exposures to large losses in all aspect of its insurance business. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Company as direct insurer of the risk of the insured.

Due from ceding companies and reinsurance are balances due to the Company as a result of treaty acceptances and facultative acceptances from ceding companies.

Reinsurance recoverable on losses pertains to amounts recoverable from reinsurers under treaty agreements and facultative reinsurances in respect of claims by the Company.

Reinsurance recoverable on paid losses, due from ceding companies and funds held by ceding companies are noninterest-bearing term.

Movements of allowance for impairment losses as at December 31, 2021 and 2020 are as follows:

	2021	2020
Balance, beginning of year	**₱ 14,803,426**	₱ 13,536,128
Provision for impairment losses (Note 22)	**1,330,662**	1,267,298
Balance, end of year	**₱ 16,134,088**	₱ 14,803,426

9. Due to (Due from) Reinsurers

This account represents reinsurance premiums payable (receivable) to all its treaty and facultative reinsurers. Due to reinsurers amounted to ₱68,331,656 and ₱89,091,344 as at December 31, 2021 and 2020, respectively.

10. Other Receivables

This account consists of:

	2021	2020
Documentary stamps receivable	**₱ 51,612,215**	₱ 55,470,690
VAT receivable	**49,686,405**	40,343,547
Notes receivable (see Note 26)	**30,000,000**	21,581,610
Mortgage loan receivable (see Note 26)	**718,082**	1,302,045
Salary loan receivable (see Note 26)	**583,956**	1,017,541
Accrued interest receivable	**118,167**	63,807
Car loan receivable (see Note 26)	**125,801**	314,480
Others	**1,954,255**	5,215,941
	₱ 134,798,881	₱ 125,309,661

Documentary stamps receivable and VAT receivable are the taxes incurred in connection with the insurance contracts, remitted to the government and subject to reimbursement by the client upon payment of the initial premium.

Notes receivable refers to short-term, non-negotiable loans to Plutus Holding Corporation which bears an annual interest of 5%-6% per annum and with maturities of 1 year or less (see Note 26)

Salary loan receivable and car loans represent various loans granted to Company's officers payable in 18-24 months which bear an annual interest ranging from 9%-12% per annum in 2021 and 2020.

Mortgage loans receivable represent various loans granted to the Company's officers with interest rate of 6%-12% per annum in 2021 and 2020.

Other receivables include premium tax receivable, fire service and local government taxes receivable.

Interest income earned from these receivables amounted to ₱1,348,462 and ₱1,167,212 in 2021 and 2020, respectively (see Note 23).

11. Available for Sale Financial Assets

This account consists of investments in:

	2021	2020
Club shares	**₱ 9,702,540**	₱ 9,702,540
Quoted equity securities	**1,753,417**	1,753,417
	11,455,957	11,455,957
Allowance for impairment	**(12,000)**	-
Market value loss	**(1,725,561)**	(1,725,761)
	₱ 9,718,396	₱ 9,730,196

Investment in club shares, which are carried at cost, includes shares held for golf and country club wherein the Company does not exercise control or demonstrate significant influence.

Listed equity securities pertain to investments in publicly-listed holding and service companies with fair values determined directly by reference to published prices in the Philippine Stock Exchange.

The movements in the AFS financial assets account are as follows:

	2021	2020
Balance at beginning of the year	**₱ 9,730,196**	₱ 9,731,918
Allowance for impairment	**(12,000)**	-
Fair value changes	**200**	(1,722)
Balance at end of the year	**₱ 9,718,396**	₱ 9,730,196

Details of net changes in AFS financial assets, net of deferred tax, are as follows:

	2021	2020
Balance at beginning of the year	**₱ (1,208,033)**	₱ (1,206,827)
Effect of change in tax rate	**(86,288)**	-
Fair value changes during the year	**150**	(1,206)
Balance at end of the year	**₱ (1,294,171)**	₱ (1,208,033)

The Company did not earn dividend income from these AFS financial assets in 2021 and 2020.

12. HTM Investments

This account consists of:

	2021	2020
Treasury notes	**₱ 112,477,608**	₱ 228,239,583
Treasury bills and bonds	**211,588,174**	85,297,685
	₱ 324,065,782	₱ 313,537,268

These investments, which are deposited with the Bureau of Treasury and IC as security for the benefit of policyholders and creditors of the Company, earn annual interest amounting to the following rates:

	2021	2020
Treasury notes	**1.65%-3.95%**	3.23%-6.00%
Treasury bonds	**4.20%-5.725%**	6%
Treasury bills	**2.625%-5.75%**	3.15%-4.74%

Interest income from HTM investments amounted to ₱9,509,769 and ₱6,053,784 in 2021 and 2020, respectively (see Note 23).

The movement in HTM investments follows:

	2021	2020
Balance at beginning of the year	**₱ 313,537,268**	₱ 305,007,905
Additions	**33,375,485**	182,030,338
Disposal	**(23,641,700)**	(172,866,857)
Amortization of premium	**794,729**	570,732
Foreign exchage difference	**-**	(1,204,850)
Balance at end of the year	**₱ 324,065,782**	₱ 313,537,268

13. Property and Equipment

Movement in property and equipment is summarized as follows:

	2021					
	Building Units and Improvements	**Leasehold Improvement**	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Right-of-use Asset (Note 19)**	**Total**
Cost						
Balances at beginning of year	**₱ 84,512,621**	**₱ 4,761,472**	**₱ 8,421,562**	**₱ 6,048,207**	**₱ 19,705,220**	**₱ 123,449,082**
Additions	**370,491**	**-**	**1,954,122**	**83,422**	**3,023,801**	**5,431,836**
Termination of lease	**-**	**-**	**-**	**-**	**(1,302,864)**	**(1,302,864)**
Balances at end of year	**84,883,112**	**4,761,472**	**10,375,684**	**6,131,629**	**21,426,157**	**127,578,054**
Accumulated depreciation and amortization						
Balances at beginning of year	**6,299,904**	**2,023,209**	**3,689,228**	**4,062,610**	**10,075,351**	**26,150,302**
Depreciation and amortization	**3,794,003**	**910,943**	**1,515,171**	**961,697**	**5,218,143**	**12,399,957**
Termination of lease	**-**	**-**	**-**	**-**	**(608,003)**	**(608,003)**
Balances at end of year	**10,093,907**	**2,934,152**	**5,204,399**	**5,024,307**	**14,685,491**	**37,942,256**
Net Book Values	**₱ 74,789,205**	**₱ 1,827,320**	**₱ 5,171,285**	**₱ 1,107,322**	**₱ 6,740,666**	**₱ 89,635,797**

	2020					
	Building Units and Improvements	Leasehold Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Right-of-use Asset (Note 19)	Total
Cost						
Balances at beginning of year	₱ 77,747,004	₱ 4,761,472	₱ 6,169,999	₱ 6,000,119	₱ 19,705,220	₱ 114,383,814
Additions	6,765,617	-	2,251,563	48,088	-	9,065,268
Balances at end of year	84,512,621	4,761,472	8,421,562	6,048,207	19,705,220	123,449,082
Accumulated depreciation and amortization						
Balances at beginning of year	2,966,667	1,112,266	2,519,830	3,098,407	5,775,456	15,472,626
Depreciation and amortization	3,333,237	910,943	1,169,398	964,203	4,299,895	10,677,676
Balances at end of year	6,299,904	2,023,209	3,689,228	4,062,610	10,075,351	26,150,302
Net Book Values	₱ 78,212,717	₱ 2,738,263	₱ 4,732,334	₱ 1,985,597	₱ 9,629,869	₱ 97,298,780

Revaluation of building units and improvements

Details of the revaluation increment follows:

	2021	2020
Revaluation increment	₱ 4,003,389	₱ 4,182,533
Adjustment on deferred tax	285,956	-
Depreciation on the increase	(191,940)	(179,144)
Revaluation increment - net	₱ 4,097,405	₱ 4,003,389

	2021	2020
Revaluation increment - at gross amount	₱ 5,463,207	₱ 5,719,127
Tax effect	(1,365,802)	(1,715,738)
Revaluation increment - net	₱ 4,097,405	₱ 4,003,389

If the cost model is used for building units and improvements, the carrying amounts would be as follows:

	2021	2020
Cost	₱ 64,233,333	₱ 70,000,000
Accumulated depreciation	(8,566,667)	(5,766,667)
Net carrying amount	₱ 55,666,666	₱ 64,233,333

The revalued building units and improvements are the properties used as the main office of the Company. Management determined that these constitute one class of asset under PFRS 13, based on the nature, characteristics and risk of the property.

In 2019, the Company revalued its building units based on estimated fair values performed by Asian Appraisal Company, Inc. and Vitale Valuation Services, Inc. The assigned value was estimated using the *Market Approach*. In this approach, the value of the building unit was based on sales and listing of comparable property registered within the vicinity. The technique of this approach requires the adjustments of comparable property by reducing reasonable comparative sales and listings to a common denominator. This was done by establishing the differences between the subject property and those actual sales and listings regarded as comparable.

The following table provides the fair value hierarchy of the Company's building units and improvements as of December 31, 2021 and 2020.

		Fair value measurement using		
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Property and equipment				
Building units and improvements				
2021	₱ 76,398,000	₱ -	₱ -	₱ 76,398,000
2020	76,398,000	-	-	76,398,000

The Company's management believes that there is no impairment loss on the Company's building units and improvements and there is no significant change in the fair value of the building units and improvements from that determined in 2019.

The Company also believes that the carrying values of additions to building units and improvements subsequent to the most recent valuation date would approximate their fair values.

The Company has no restriction on the realizability of its investment properties and no obligation to purchase, construct, or develop or for repairs, maintenance and enhancements.

Summary of depreciation on cost and appraised value is as follows:

	2021	2020
Depreciation on:		
Cost	**₱ 2,800,000**	₱ 2,800,000
Appraisal increase	**255,920**	255,920
	₱ 3,055,920	₱ 3,055,920

The total cost of fully depreciated property, plant and equipment which are still being used amounted to ₱9,147,006 and ₱2,717,336 as at December 31, 2021 and 2020, respectively.

14. Investment Properties

Movement in investment property is summarized as follows:

2021	**Land**	**Building and Condominium Units**	**Total**
Cost			
Balance at beginning of year,	**₱ 13,859,500**	**₱ 378,659,000**	**₱ 392,518,500**
Additions	**-**	**-**	**-**
Balance at end of the year	**₱ 13,859,500**	**₱ 378,659,000**	**₱ 392,518,500**

2020	Land	Building and Condominium Units	Total
Cost			
Balance at beginning of year, as reported	₱ 13,859,500	₱ 251,369,000	₱ 265,228,500
Adjustment in fair value		7,290,000	7,290,000
Balance at beginning of year, as restated	13,859,500	258,659,000	272,518,500
Additions	-	120,000,000	120,000,000
Balance at end of the year	₱ 13,859,500	₱ 378,659,000	₱ 392,518,500

Investment properties are stated at fair value, which has been determined based on valuations performed by Royal Asia Appraisal Corporation and Crown Property Appraisal Corporation, accredited independent real estate appraisers on August 13 and November 23, 2018, respectively.

Valuation technique and significant unobservable inputs
The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation Technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Land, Building and Condominium Units *Direct Sales Comparison (Market Data) Approach* Fair value is determined based on the sales, listings and other market data of comparable property registered within the vicinity of the property. The technique of this approach requires reducing a reasonably comparative sales and listings to a common denominator in order to conform with the property.	• Asking price per square meter Commercial and industrial areas: (₱210,000- ₱250,000 per square meter) Other areas: (₱110,000-₱122,000 per square meter)	The location of the property and the availability of utilities and public transportation directly affects the asking price of comparable properties. The higher the price per square meter of comparable property, the higher the fair value.

The Company's management believes that there is no impairment loss on the Company's investment properties and there is no significant change in the fair value of the investment properties from that determined in 2018.

The Company also believes that the carrying values of additions to building units and improvements subsequent to the most recent valuation date would approximate their fair values.

The Company has no restriction on the realizability of its investment properties and no obligation to purchase, construct, or develop or for repairs, maintenance and enhancements.

The following table provides the fair value hierarchy of the Company's investment property as of December 31, 2021 and 2020.

		Fair value measurement using		
	Total	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Investment property				
2021	₱ 392,518,500	₱ -	₱ -	₱ 392,518,500
2020	392,518,500	-	-	392,518,500

Direct operating expenses incurred from these investment properties amounted to ₱389,235 and ₱389,235 in 2021 and 2020, respectively.

15. Deferred Reinsurance Premiums

This account represents the unearned portions of premiums ceded to reinsurers by the Company incurred from policies in force. As at December 31, 2021 and 2020, deferred reinsurance premiums amounted to ₱108,115,505 and ₱43,503,391, respectively.

16. Deferred Acquisition Costs

This account represents the unearned portion of commission expense from premiums written by the Company. As at December 31, 2021 and 2020, deferred acquisition cost amounted to ₱61,113,172 and ₱51,696,960, respectively.

17. Other Assets

This account consists of:

	2021	2020
Input tax	**₱ 21,088,873**	₱ 33,913,924
Investment deposit	**22,193,185**	2,283,333
Service fee deposit	**8,114,959**	6,297,086
Computer software	**4,352,368**	4,158,168
Rental deposit (see Note 29)	**2,735,242**	2,735,242
Security fund	**52,831**	52,831
	₱ 58,537,458	₱ 49,440,584

Input tax is applied against output VAT. Any remaining balance is recoverable in the future periods.

Service fee deposit pertains to amounts paid by the Company for its Compulsory Third-Party Liability (CTPL) transactions. The amounts will be amortized in the next financial period.

The movements of computer software account are as follow:

	2021	2020
Cost		
Balance at beginning of year	**₱ 11,186,761**	₱ 8,420,208
Additions	**1,451,238**	2,766,553
Balance at end of year	**12,637,999**	11,186,761
Accumulated amortization		
Balance at beginning of year	**7,028,593**	5,273,188
Amortization	**1,257,038**	1,755,405
Balance at end of year	**8,285,631**	7,028,593
Net book value	**₱ 4,352,368**	₱ 4,158,168

Investment deposit refers to amount paid by the Company for the acquisition on installment basis of one (1) share of stock in Balesin Island Resort Corporation. In 2020, the Company entered into a contract to sell an office space located in Alabang, Muntinlupa. The terms and condition of the contract are disclosed in Note 29.

Security fund pertains to the Company's contribution to the common fund of all domestic insurance companies intended to secure the payment of insurance claims even in case of insolvency as required by Section 367 of the Insurance Code. Earnings from the fund inures proportionately to the credit of contributing members.

18. Accounts Payable and Other Current Liabilities

This account consists of:

	2021	2020
Taxes payable	**₱ 138,001,889**	₱ 144,882,073
Agency payables	**1,181,017**	655,249
Accounts payable	**353,402**	104,370
Accrued expenses	**287,498**	256,533
	₱ 139,823,806	₱ 145,898,225

Taxes payable consist of VAT payable, documentary stamp tax payable, premium tax payable, withholding tax payable and fire service tax payable.

Accrued expenses consist mainly of accrual of administrative and other operating expenses.

Agency payables consist of SSS premium and loan payable, healthcare premium payable, and Pag-ibig premium and loan payable.

Accounts payable pertains to amount due to other insurance and brokerage companies and is non-interest bearing.

19. Lease Liabilities

Company as a lessee
The Company has a number of lease agreements covering its branch office spaces that are accounted for under PFRS 16, with periods from more than one year to five years. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statement of financial position as a right of use asset and lease liability.

Right-of-use assets related to the leased properties are shown below:

	2021	2020
Cost		
Balance at beginning of year	**₱ 19,705,220**	₱ 19,705,220
Additions	**3,023,802**	-
Termination of lease	**(1,302,864)**	-
Balance at end of year	**21,426,158**	19,705,220
Accumulated depreciation		
Balance at beginning of year	**(10,075,351)**	(5,775,456)
Depreciation	**(5,218,144)**	(4,299,895)
Termination of lease	**608,003**	-
Balance at end of year	**(14,685,492)**	(10,075,351)
Net book value	**₱ 6,740,666**	₱ 9,629,869

Movement in lease liabilities follows:

	2021	2020
Balance at beginning of year	**₱ 9,773,158**	₱ 13,702,275
Additions	**3,023,802**	-
Termination of lease	**(481,422)**	-
Payments for the year	**(5,044,850)**	(3,929,117)
Balance at end of year	**₱ 7,270,688**	₱ 9,773,158

In 2021, the Company cancelled one of its lease contracts. As a result, the lease liability right of use asset were remeasured to zero. The excess of lease liability over the carrying amount of right-of-use asset amounting to ₱213,438 is recognized in profit or loss.

The expenses relating to payments not included in the measurement of lease liability follows:

	2021	2020
Depreciation expense on right-of-use assets (Note 13)	**₱ 5,218,144**	₱ 4,299,895
Interest expense on lease liabilities (Note 22)	**703,982**	822,136
Rent expense - short-term and low-value leases (Note 22)	**5,303,970**	5,598,039
	₱ 11,226,096	₱ 10,720,070

Lease payments not recognized as liability
The Company has elected not to recognize lease liability for short-term leases (leases of expected term of 12 months or less) or for lease of low value assets. Payments made under such leases are expensed on a straight-line basis (see Note 29).

20. Equity

Share Capital
The details of the authorized, issued and outstanding share capital are as follows:

	2021	2020
Authorized - ₱100.00 par value; 13,000,000 shares	**₱ 1,300,000,000**	₱ 1,300,000,000
Issued	**1,000,000,000**	900,000,000
Subscribed capital stock	**200,000,000**	200,000,000
Subscription receivable	**(100,000,000)**	(100,000,000)
Paid-up capital	**₱ 1,100,000,000**	₱ 1,000,000,000

The movements in subscription receivable follows:

	2021	2020
Balance at beginning of year	**₱ 100,000,000**	₱ 100,000,000
Additional subscription		
2020 - 1,000,000 shares	**-**	100,000,000
2021 - 1,000,000 shares	**100,000,000**	-
Payments received for the year	**(100,000,000)**	(100,000,000)
Balance at end of year	**₱ 100,000,000**	₱ 100,000,000

Increase in Authorized Capital
On November 17, 2017, the Company's BOD approved the proposed increase in authorized capital stock (ACS) from ₱550,000,000 divided into 5,500,000 shares with ₱100 par value per share to ₱900,000,000 divided into 9,000,000 shares with ₱100 par value per share. The SEC approved the Company's application for increase in ACS on September 28, 2018.

In a special meeting held on August 29, 2019, the majority of the BOD and stockholders approved the increase of the Corporation's ACS from ₱900,000,000 divided into 9,000,000 shares with ₱100 par value per share to ₱1,300,000,000 divided into 13,000,000 shares with ₱100 par value per share. Out of the increase in ACS, 1,000,000 shares for a total of ₱100,000,000 were subscribed and paid.

Contingency Surplus

This represents capital infusion to cover up margin of solvency, deficiency and capital impairment. As of December 31, 2021 and 2020, contingency surplus amounted to ₱266,461,414.

21. Other Underwriting Expense

This account consists of:

	2021	2020
Agency expense	**₱ 141,574,310**	₱ 153,093,974
Marketing expense	**117,488,660**	70,796,418
Authentication fee	**70,143,895**	59,953,471
Incentives	**23,144,234**	12,890,014
	₱ 352,351,099	₱ 296,733,877

22. General and Administrative Expenses

This account consists of:

	2021	2020
Salaries, wages and employee benefits	**₱ 46,576,973**	₱ 49,542,413
Transportation and travel	**29,296,088**	27,439,759
Transaction fees	**21,365,698**	19,865,535
Depreciation and amortization (Notes 13 and 17)	**13,656,995**	12,433,081
Printing and supplies	**12,944,959**	11,355,473
Taxes and licenses	**9,921,455**	7,088,318
Management fee (Note 26)	**6,822,000**	6,822,000
Rentals (Note 19 and 29)	**5,303,970**	5,598,039
Membership and association dues	**4,749,994**	4,053,934
Communication, light and water	**4,653,462**	3,611,754
Provision for impairment losses (Note 8)	**1,342,662**	1,267,298
Professional fees	**1,698,033**	1,410,526
Repairs and maintenance	**2,010,125**	1,346,995
Shipping charges	**1,636,905**	1,207,582
Representation	**1,095,672**	1,043,293
Retirement expense (Note 27)	**1,257,376**	992,900
Interest on lease liability (Note 19)	**703,982**	822,136
Training and seminars	**402,266**	647,239
Donation and contribution	**65,250**	281,460
Advertising and promotion	**213,290**	166,664
Insurance	**205,209**	144,108
Miscellaneous	**7,419,924**	3,415,396
	₱ 173,342,288	₱ 160,555,903

23. Interest Income

This account consists of:

	2021	2020
Interest income from HTM investments (Note 12)	**₱ 9,509,769**	₱ 6,053,784
Interest income from cash in banks and cash equivalents (Note 6)	**2,672,884**	2,948,521
Interest income from short-term investments (Note 7)	**83,262**	85,236
Interest income from notes receivable	**1,348,462**	1,167,212
	₱ 13,614,377	₱ 10,254,753

24. Income Taxes

On March 26, 2021, RA No. 11534, the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, as amended, was signed into law and shall be effective beginning July 1, 2020. The following are the major changes brought about by the CREATE Act that are relevant to and considered by the Company:

- regular corporate income tax (RCIT) rate is decreased from 30% to 25% starting July 1, 2020;
- minimum corporate income tax (MCIT) rate is decreased from 2% to 1% starting July 1, 2020 until June 30, 2023;
- the allowable deduction for interest expense is reduced from 33% to 20% of the interest subjected to final tax; and,
- the imposition of 10% improperly accumulated retained earnings is repealed.

The effect of the reduction in tax rates was recognized as part of the 2021 provision for income tax. Details are as follows:

	Provision for income tax	Impact of change in tax rate	Adjusted provision for income tax
Provision for income tax			
Current	₱8,810,227	₱(756,334)	₱8,053,893
Deferred	(3,042,350)	6,006,411	2,964,061

Provision for (benefit from) income tax consists of the following:

	2021	2020
Current	**₱ 8,053,893**	₱ 9,076,007
Final	**856,132**	1,557,369
Deferred	**2,964,061**	(1,662,437)
	₱ 11,874,086	₱ 8,970,939

The reconciliation of the income tax expense computed at the statutory income tax rate of 30% to the income tax expense in the statement of comprehensive income is as follows:

	2021	2020
Statutory income tax	**₱ 11,101,506**	₱ 11,045,627
Effect of items not subject to statutory tax rate:		
Income subjected to final tax	**(2,210,347)**	(1,168,893)
Non-taxable income	**-**	(282,872)
Non-deductible expenses	**(3,023,484)**	(622,923)
Effect of changes in tax rate	**6,006,411**	-
	₱ 11,874,086	₱ 8,970,939

The components of net deferred tax assets as of December 31, 2021 and 2020 are as follows:

	2021	2020
Deferred tax assets:		
Excess of unearned premium	**₱ 12,834,303**	₱ 15,237,976
Allowance for impairment losses	**4,033,522**	4,441,028
Unfunded retirement liability	**2,837,766**	3,164,638
Net changes in AFS financial assets	**431,390**	517,728
	20,136,981	23,361,370
Deferred tax liability:		
Lease liabilities	**77,594**	42,987
Deferred acquisition cost	**15,278,293**	7,556,958
Fair value gain on investment property	**7,925,715**	7,548,300
Revaluation surplus	**1,365,802**	1,715,738
	24,647,404	16,863,983
Deferred tax asset (liability)	**₱ (4,510,423)**	₱ 6,497,387

The movements of the deferred income tax assets, net, are as follows:

	2021				
	Balance at beginning of year	**Charged to Profit or Loss**	**Charged to equity**	**Effect of change in tax rate**	**Balance at end of year**
Deferred tax assets:					
Excess of unearned premium	₱15,237,976	₱135,990	₱-	(₱2,539,663)	₱12,834,303
Allowance for impairment losses	4,441,028	332,666	-	(740,171)	4,033,522
Retirement liability	3,164,638	314,345	-	(641,217)	2,837,766
Net changes in AFS financial assets	517,728	-	(50)	(86,288)	431,390
Deferred tax liability:					
Lease liability	(42,987)	(41,399)	-	6,792	(77,594)
Deferred acquisition cost	(7,556,958)	(5,136,487)	-	(2,584,848)	(15,278,293)
Fair value gain on investment property	(7,548,300)	-	-	(377,415)	(7,925,715)
Revaluation surplus	(1,715,738)	-	63,980	285,956	(1,365,802)
	₱6,497,387	(₱4,394,886)	₱63,930	(₱6,676,854)	(₱4,510,423)

	2020			
	Balance at beginning of year	Charged to Profit or Loss	Charged to equity	Balance at end of year
Deferred tax assets:				
Excess of unearned premium	₱15,163,360	₱74,615	₱-	₱15,237,976
Allowance for impairment losses	4,060,838	380,190	-	4,441,028
Retirement liability	893,265	297,870	1,973,504	3,164,638
Lease liability	68,247	(68,247)	-	-
Net changes in AFS financial assets	517,212	-	517	517,728
Deferred tax liability:				
Lease liability	-	(42,947)	-	(42,987)
Deferred acquisition cost	(8,577,954)	1,020,996	-	(7,556,958)
Fair value gain on investment property	(7,548,300)	-	-	(7,548,300)
Revaluation surplus	(1,792,514)	-	76,776	(1,715,738)
	₱2,784,154	₱1,662,437	₱2,050,797	₱6,497,387

In 2021 and 2020, the Company opted to claim itemized deductions in computing for its income tax due.

25. Earnings per Share

The computation of basic/diluted earnings per share is computed as follows:

	2021	2020
Net income	**₱ 32,531,937**	₱ 27,847,816
Weighted average number of shares outstanding	**10,000,000**	9,000,000
	₱ 3.25	₱ 3.09

The Company has no dilutive potential common shares, therefore the computation and amounts reported for basic and dilutive EPS were the same.

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.

Related parties may be individuals or corporate entities. The Company's related parties include:

- Key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members; and
- Affiliates and other related parties.

The Company has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially on same terms with as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions. The amounts and balances arising from the foregoing significant related party transactions of the Company are as follows:

	Classification	Year	Transactions	Outstanding Balance	Terms and Conditions
			(amounts in thousands)		
Stockholders					
Plutus Holding Corporation	Notes Receivable	2021 2020	₱8,418 -	₱30,000 21,582	5%-6% annual interest; Payable within 1 year; Unsecured
	Lease liability	2021 2020	(2,431) (2,315)	4,902 7,333	Lease term is for 5 years; Renewable, no escalation; Unsecured
Entities under common control					
Plutus Management Co.	Management Services	2021 2020	6,822 6,822	- -	Payable monthly; to be settled in cash
Key management Personnel	Compensation	2021 2020	4,800 4,800	- -	Payable monthly; to be settled in cash
	Salary loan	2021 2020	(434) (712)	584 1,018	9%-12% annual interest; Payable within 1-2 years; Unsecured
	Car loan	2021 2020	(188) (283)	126 314	9%annual interest; Payable within 1.5 years; Secured by chattel mortgage
	Mortgage loan	2021 2020	(584) (615)	718 1,302	6%-12% annual interest; Payable within 1-2 years; Secured by real estate mortgage

Key management personnel of the company include all personnel having position of assistant vice president or higher.

The summary of compensation of key management personnel is shown below:

	2021	2020
Short-term employee benefits	₱ **4,852,768**	₱ 4,551,775
Post-employment benefits	**259,668**	248,225
	₱ **5,112,436**	₱ 4,800,000

There are no agreements between the Company and any of its directors or key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Company's retirement plan.

27. Retirement Liability

The Company has an unfunded, non-contributory defined benefit retirement plan which covers substantially all of its regular employees. The benefit conforms to the minimum regulatory benefit under the Retirement Pay Law (Republic Act No. 7641) which is of the defined benefit type and provides retirement benefit equal to 22.5 days for every year of credited service. The regulatory benefit is paid in a lump sum upon retirement. The latest actuarial valuation was made on December 31, 2020.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The components of retirement expense in the statements of comprehensive income are as follows:

	2021	2020
Current service cost	**₱ 839,644**	₱ 823,180
Net interest cost	**417,732**	169,720
	₱ 1,257,376	₱ 992,900

The retirement liability is as follows:

	2021	2020
Present value of benefit obligation	**₱ 11,806,171**	₱ 10,548,795
Fair value of plan assets	**-**	-
Liability recognized in the statements of financial position	**₱ 11,806,171**	₱ 10,548,795

The Company does not maintain a fund for its retirement benefit obligation and does not expect to make contributions in the succeeding years.

The changes in the present value of defined benefit obligation are as follow:

	2021	2020
Balance at beginning of year	**₱ 10,548,795**	₱ 2,977,547
Current service cost	**839,644**	823,180
Net interest cost	**417,732**	169,720
Remeasurement loss due to:		
Experience adjustments	**-**	10,199,754
Changes in financial assumptions	**-**	(3,621,406)
Balance at end of year	**₱ 11,806,171**	₱ 10,548,795

The movement in the net liability recognized in the statement of financial position is as follow:

	2021	2020
Balance at beginning of year	**₱ 10,548,795**	₱ 2,977,547
Defined benefit cost recognized in P&L	**1,257,376**	992,900
Remeasurement loss	**-**	6,578,348
Balance at end of year	**₱ 11,806,171**	₱ 10,548,795

Movement in remeasurement (gain) loss recognized in other comprehensive income is as follow:

	2021	2020
Balance at beginning of year	**₱ (1,592,881)**	₱ (6,197,725)
Remeasurement loss recognized in OCI	**113,777**	4,604,844
Balance at end of year	**₱ (1,479,104)**	₱ (1,592,881)

The assumptions used to determine retirement benefits of the Company are as follows:

	2021	2020
Discount rate	**3.96%**	3.96%
Salary increase rate	**2.00%**	2.00%

The assumption regarding the discount rate is based on the PDEx (PDST-R2) benchmark market yields on government bonds as at the valuation dates (or latest available) considering the average years of remaining working life of the employees as the estimated terms of the benefit obligation.

The average duration of the defined benefit obligation at the end of the reporting period is 14.9 years.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2021, assuming if all other assumptions were held constant:

Description	Increase/decrease in basis points	Impact on defined benefit obligation Increase (decrease)
Discount rate	+100 bps	₱ 1,001,377
	-100 bps	(874,689)
Salary increase rate	+100 bps	1,011,397
	-100 bps	(874,689)

28. Provision for Losses and Claims

Process used to decide on assumptions
A loss is registered immediately upon receipt of a notice of claim from policyholders. Since insurance companies are required to set-up provisional loss reserves, a physical inspection is done on the damaged property to ensure a more accurate estimate on the amount of loss. For engineering insurance, services of a professional adjustment firm are sought to do the inspection, investigation and data gathering while marine surveyors are contacted to do loss surveys for marine losses. Motor car losses are mostly handled by the Company's motor car damage evaluators.

Insurance policy reserve
On December 28, 2016, the Insurance Commission (IC), through its Circular Letter (CL) No. 2016-67, issued the New Valuation Standard for Insurance Policy Reserve with effect beginning January 1, 2017 and onwards. Among others, the New Valuation Standard for Insurance Policy Reserve provides for (i) the determination of premium liabilities based on the higher of Unearned Premium Reserve (UPR) and Unearned Risk Reserve (URR); (ii) consideration of the Lost Adjustment Expense (LAE); (iii) consideration of Margin for Adverse Deviation (MfAD) to allow for inherent uncertainty of the best estimate of policy reserve; (iv) certification of an actuary on the calculation of the insurance policy reserve in accordance with the New Valuation Standard for Insurance Policy Reserve prescribed by the IC.

The Company has adopted the New Valuation Standard for Insurance Policy Reserve issued by the IC as described above. Beginning January 1, 2017, the initial year of implementation of the New Valuation Standard on Insurance Policy Reserve, the IC through its CL 2016-69 issued on December 28, 2016, has relaxed the valuation requirements in determining the Insurance Policy Reserve to consider (i) set up of premium liabilities using the UPR alone, instead of the higher of UPR and URR; and (ii) set up MfAD to zero, instead of the Company specific MfAD. Beginning January 1, 2018, premium liabilities will be determined based on the higher of the UPR and URR and application of Company-specific MfAD.

The Company has fully implemented the New Valuation Standard in determining the Insurance Policy Reserve applying the provisions of CL No. 2016-67 as at and for the year ended December 31, 2017. The adoption of the new reserving framework resulted to the recognition of additional claims reserve of ₱61,201,636 for the year ended December 31, 2017.

Presented below is the actuarial valuation of reserve for unearned premiums as determined by an actuary accredited by IC with report dated March 8, 2022 and March 26, 2021, for the years 2021 and 2020, respectively.

		2021		2020
Premium liabilities	**₱**	**366,694,361**	₱	342,180,844
Losses adjustment and claims payable		**96,470,224**		130,833,651
Claims and handling expense		**949,572**		637,061
IBNR		**72,680,342**		47,423,211
	₱	**536,794,499**	₱	521,074,767

29. Commitments and Contingencies

Contract to Sell

In 2021, the Company entered into a contract to sell for the purchase of an office condominium unit and parking spaces for a total contract price of ₱21,794,338 on installment basis. Under the contract, the seller retains the title and ownership of the property until the buyer has fully paid the amounts due. Upon full payment, the parties shall execute a deed of absolute sale conveying the seller's full title and interest to the buyer. As of December 31, 2021, the total payments by the Company which is recognized lodged in 'investment deposits' account under 'other assets' amounted to ₱19,909,852 (see Note 17).

Lease Commitments

The Company leases a number of office space and branches under operating leases. The leases typically run for a period of 1 to 5 years, with the option to renew the lease after that date. Generally, the Company recognizes right-of-use asset and lease liabilities for its leases (see note 19). For short-term and low value leases, rental expense is recognized on a straight-line basis over the lease term.

Total rental expense for short-term and low value leases recognized in 2021 and 2020 amounted to ₱5,303,970 and ₱5,598,039 (see Note 22).

As at December 31, 2021 and 2020, rental deposit from these leases amounted to ₱2,735,242 (see Note 17).

Contingent Liabilities

As at December 31, 2021 and 2020 there are various pending cases involving claims against/ in favor of the Company, which are not substantial in amounts. It is the opinion of the legal counsel that the Company has a good chance of winning these pending cases filed in court. Management believes that the ultimate claims under these lawsuits, if any, would not be material in relation to the financial position and operating results of the Company.

30. Regulatory Requirements

Net worth requirement
Under Section 194 of the amended Code, domestic insurance companies already doing business in shall have a required net worth as follows:

	Minimum Statutory Net Worth	By (Compliance Date)
A.	Php 250 million	June 30, 2013
B.	Php 550 million	December 31, 2016
C.	Php 900 million	December 31, 2019
D.	Php 1.0 billion	December 31, 2022

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

As of December 31, 2021 and 2020, the Company's estimated net worth amounts to ₱1,582,130,347 and ₱1,447,821,256 respectively.

The final amount of the net worth as at December 31, 2021 can only be determined after the accounts of the Company have been examined by the IC.

Financial Reporting Framework
On December 28, 2016, IC Circular Letter No. 2016-65 relating to the financial reporting framework under Section 189 of Republic Act No. 10607 known as the New Insurance Code. The circular enumerated the list of admitted and non-admitted assets and investments. It includes manual of accounts which enumerates certain admitted assets not specifically enumerated in Section 202 of the New Insurance Code. The manual of accounts discusses the nature, types and recognition and measurement of each account in the financial statements. This circular superseded Circular No. 2015-29 issued in June 10, 2015 and the effectivity date was moved from June 30, 2016 to January 1, 2017.

Risk-Based Capital Requirement
Risk-based capital requirements IMC No. 7-2006 provides for the RBC framework for the non-life insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risks. Every non-life insurance company is annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall include the company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the IC.

The following table shows the internal calculation of RBC ratio as at December 31, 2021 and 2020:

	2021	2020
Net worth	**₱ 1,417,402,456**	₱ 1,276,652,182
RBC requirement	**147,906,396**	147,906,396
	958%	863%

The final amount of the RBC ratio is determined only after the accounts of the Company have been examined by the IC, specifically as to admitted and non-admitted assets as defined under the Insurance Code.

Margin of solvency (MOS)
The amended Code grants the Insurance Commissioner the power to prescribe solvency based on internationally accepted solvency frameworks. Since the Insurance Commissioner has not prescribed new solvency requirements as yet, the margin of solvency as yet, the margin of solvency requirements of the previous insurance code was followed.

Under the previous insurance code, a non-life insurance company doing business in the Philippines shall maintain at all times a margin of solvency equal to ₱500,000 or 10% of the total amount of its net premium written during the preceding year, whichever is higher. The margin of solvency is the excess of the value of the Company's admitted assets as defined under existing insurance regulations, exclusive of its paid-up capital, over the amount of its liabilities, unearned premiums and reinsurance reserves in the Philippines.

The estimated MOS computations of the Company at December 31 follow:

	2021	2020
Total assets	**₱2,342,513,260**	₱ 2,229,068,206
Non-admitted assets	**201,294,422**	197,977,389
Total admitted assets	**2,141,218,838**	2,031,090,817
Less:		
Total libilities	**761,625,199**	780,862,103
Paid-up capital	**1,100,000,000**	1,000,000,000
	1,861,625,199	1,780,862,103
Available for MOS	**279,593,639**	250,228,714
Minimum MOS	**66,780,573**	69,720,863
Excess MOS	**₱ 212,813,066**	₱ 180,507,851

The final amount of the MOS can be determined only after the accounts of the Company have been examined by the IC specifically as to admitted and non-admitted assets as defined in the Insurance Code.

31. Capital Management, Insurance and Finance Risks

Capital Management
The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to these ratios in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders, return capital structure or issue capital securities.

The operations of the Company are also subject to regulatory requirements within the jurisdictions in which it operates. Such regulations not only prescribe approval and monitoring 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 unforeseen liabilities as these arise.

The capital structure of the Company comprises all components of equity including share capital, contingency surplus, deposit for future stock subscription and retained earnings.

The premiums received by the Company from policyholders are properly invested not only to provide for policy obligations but also to serve as capital or surplus to provide margin of safety which will attract insurance buyers.

The funds invested shall produce an investment income that will be needed to pay stockholders a fair return. While part of this income is due to favorable loss experience and sound cost management, a major portion of additional profits must be earned by managing the investment portfolio to produce a higher return on investment. While there may be a wide range of investment opportunities, the investment portfolio must always reflect the safety of the funds.

Since these funds are held in fiduciary capacity, the Code contains investment provisions that the Company should observe to protect the interest of the policyholders and of the stockholders. The three (3) general classifications of investment requirements are:

1. Capital Investments - The Company must invest at least 25% of its minimum paid-up capital in bonds or other evidences of debt of the Government of the Philippines or its political subdivisions or in government-owned or controlled corporations and entities, including the Bangko Sentral ng Pilipinas. Furthermore, investments shall at all times be maintained free from any lien or encumbrance and shall be deposited and held by the Commissioner of the IC for the benefit and security of the policyholders.

2. Reserve Investment - The Company must invest 100% of the Reserve for unearned premiums and Reserve funds withheld for authorized reinsurer in common or preferred stocks and government or private bonds, real estate and real estate loans, collateral loans, adequately secured obligations and other securities as may be approved by the Commissioner.

3. Surplus Investment - After complying with the capital and reserve investment requirements, the Company may invest any portion of its funds, representing earned surplus in stocks, bonds, real estate, equities of other financial institutions, engaged in the buying and selling of short term debt instruments, securities issued by registered enterprises under R.A. 5186, otherwise known as the Investment Incentives Act.

To meet its capital management objectives, the Company formed an Investment Management Committee primarily tasked to establish investment strategies consistent with the management objectives and the IC requirements. The Committee had likewise set up limits and control procedures and adequate contingency plans for the Company to withstand both temporary and long-term disruption in its ability to fund activities in a timely manner at a reasonable cost. No changes were made to its capital base, objectives, policies and processes from the previous year.

<u>Insurance Risks</u>
The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim.

The principal risk the Company faces under such contracts is that the actual claims will exceed the carrying amount of insurance liabilities. This could occur due to any of the following:

- Occurrence risk - the possibility that the number of insured events will differ from those expected.
- Severity risk - the possibility that the cost of the events will differ from those expected.
- Development risk - the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategies and guidelines. The policies and procedures are developed internally and mandated by the regional and corporate offices of its management. The business of the Company comprises short-term non-life insurance contracts. For non-life insurance contracts, claims are often affected by accidents, natural disasters, calamities and the like.

These risks currently do not vary significantly in relation to the location of the risk insured by the Company while undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Company has an objective to control and minimize insurance risk, to reduce volatility of operating profits. The Company manages insurance risk through the following mechanisms:

- The use and maintenance of sophisticated management information systems that provide up-to-date, accurate and reliable data on risk exposure at any point in time.
- Guidelines are issued for concluding insurance contracts and assuming insurance risks.
- Proactive claims handling procedures are followed to investigate and adjust claims thereby preventing settlement of dubious or fraudulent claims.
- Reinsurance is used to limit the Company's exposure to large claims by placing risk with reinsurers providing high security.
- Diversification is accomplished by achieving sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

Casualty insurance risk
Claims on casualty contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and a larger element of the claims provision relates to incurred but not reported claims (IBNR). There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted.

Reinsurance risk
In the normal course of business, the Company limits the amount of loss on any one policy by reinsuring certain levels of risk with other insurers. In addition, the Company accepts reinsurance from other reinsurers. Reinsurance ceded does not discharge the Company's liability as the primary insurer. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. In order to minimize losses from reinsurer insolvency, the Company monitors the concentration of credit risk both geographically and with any one reinsurer. In addition, the Company selects reinsurers with high credit ratings.

The effect of reinsurance on premium income was as follows:

	2021	2020
Direct premium income	**₱ 836,994,313**	₱ 750,918,912
Premium assumed	**29,273,373**	8,498,707
Premium ceded	**(220,827,756)**	(91,611,890)
	₱ 645,439,930	₱ 667,805,729

Financial Risks
The significant risks related to financial instruments are credit risk, liquidity risk and market risk (currency and interest rate). The following sections described how the Company manages each of the risks.

Credit risks
Credit risk is the risk that a party to a financial instrument will cause a financial loss to the Company by failing to honor its obligation to the Company. Credit risks are primarily associated with invested assets and reinsurance counter parties. The Company mitigates credit risk through detailed credit and underwriting policies and comprehensive due diligence and credit analyses.

a. Credit risk exposure

The Company's maximum credit exposure related to financial instruments is summarized in the following table.

	2021	2020
Cash in banks and cash equivalents*	**₱ 537,642,526**	₱ 350,192,793
Short - term investments	**4,195,817**	4,224,993
Insurance receivables, net	**618,691,426**	781,642,693
Other receivables		
Notes receivable	**30,000,000**	21,581,610
Salary loan receivable	**583,956**	1,017,541
Car loan receivable	**125,801**	314,480
Mortgage loan receivable	**718,082**	1,302,045
Accrued interest receivable	**118,167**	63,807
AFS financial assets	**9,718,396**	9,730,196
HTM investments	**324,065,782**	313,537,268
Other assets		
Service fee deposit	**8,114,959**	6,297,086
Investment deposit	**22,193,185**	2,283,333
Rental deposit	**2,735,242**	2,735,242
Security fund	**52,831**	52,831
	₱1,558,956,170	₱ 1,494,975,918

**excluding petty cash, commission and revolving funds.*

b. Risk concentrations of the maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Company's financial strength and undermine public confidence.

Given the Company's diverse base of counterparty, it is not exposed to large concentration of credit risks.

c. Credit quality per class of financial assets

The following table provides information regarding the credit exposure of the Company by classifying financial assets according to the Company's credit rating as shown on the next page:

December 31, 2021		**Total**		**Neither past due nor impaired**		**Past due but not impaired 90-360 days**		**361 days and above**		**Impaired**
Cash in banks and cash equivalents*	₱	537,642,526	₱	537,642,526						
Short - term investments		4,195,817		4,195,817						
Insurance receivables		634,825,514		200,877,487		316,339,350		101,474,589		16,134,088
Other receivables										
Notes receivable		30,000,000		30,000,000		-		-		-
Salary loan receivable		583,956		583,956		-		-		-
Car loan receivable		125,801		125,801		-		-		-
Mortgage loan receivable		718,082		718,082		-		-		-
Accrued interest receivable		118,167		118,167		-		-		-
AFS financial assets		9,718,396		9,718,396		-		-		-
HTM investments		324,065,782		324,065,782		-		-		-
Other assets										
Service fee deposit		8,114,959		8,114,959		-		-		-
Investment deposit		22,193,185		22,193,185		-		-		-
Rent deposit		2,735,242		2,735,242		-		-		-
Security fund		52,831		52,831		-		-		-
	₱	1,575,090,258	₱	1,141,142,231	₱	316,339,350	₱	101,474,589	₱	16,134,088

December 31, 2020		Total		Neither past due nor impaired		Past due but not impaired 90-360 days		361 days and above		Impaired
Cash in banks and cash equivalents	₱	350,192,793	₱	350,192,793						
Short - term investments		4,224,993		4,224,993						
Insurance receivables		796,446,120		366,202,739		338,718,118		76,721,838		14,803,425
Other receivables										
Notes receivable		21,581,610		21,581,610		-		-		-
Salary loan receivable		1,017,541		1,017,541		-		-		-
Car loan receivable		314,480		314,480		-		-		-
Mortgage loan receivable		1,302,045		1,302,045		-		-		-
Accrued interest receivable		63,807		63,807		-		-		-
AFS financial assets		9,730,196		9,730,196		-		-		-
HTM investments		313,537,268		313,537,268		-		-		-
Other assets										
Service fee deposit		6,297,086		6,297,086		-		-		-
Deposit for investment in stocks		2,283,333		2,283,333		-		-		-
Rent deposit		2,735,242		2,735,242		-		-		-
Security fund		52,831		52,831		-		-		-
	₱	1,509,779,345	₱	1,079,535,964	₱	338,718,118	₱	76,721,838	₱	14,803,425

The credit quality of the Company's financial assets is evaluated using internal credit rating. Financial assets are considered as high grade if the counterparties are not expected to default in settling their obligations, thus credit risk exposure is minimal. These counterparties include banks and customers who pay on or before due date.

The Company's bases in grading its financial assets are as follows:

High grade cash and cash equivalents are short-term placements and working cash fund placed, invested, or deposited in foreign and local banks belonging to the top ten (10) banks in the Philippines in terms of resources, profitability and credit standing.

High grade AFS securities consist of investments in quoted equity securities.

High grade accounts, other than cash and cash equivalents, are accounts considered to be of high value. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.

Standard grade accounts are active accounts with propensity of deteriorating to mid-range age buckets. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

Substandard grade accounts are accounts which have probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up actions and extended payment terms.

The table below shows the credit quality by class of financial assets of the Company based on their historical experience with the corresponding parties as of December 31, 2021 and 2020:

December 31, 2021	Neither Past Due Nor Impaired			Past Due But Not Impaired	Total
	High Grade	Standard Grade	Substandard Grade		
Cash in banks and cash equivalents	₱ 537,642,526	-	-	-	₱ 537,642,526
Short - term investments	4,195,817	-	-	-	4,195,817
Insurance receivables	200,877,487	-	-	417,813,939	618,691,426
Other receivables					
Notes receivable	30,000,000	-	-	-	30,000,000
Salary loan receivable	583,956	-	-	-	583,956
Car loan receivable	125,801	-	-	-	125,801
Mortgage loan receivable	718,082	-	-	-	718,082
Accrued interest receivable	118,167	-	-	-	118,167
AFS financial assets	9,718,396	-	-	-	9,718,396
HTM investments	324,065,782	-	-	-	324,065,782
Other assets					
Service fee deposit	8,114,959	-	-	-	8,114,959
Deposit for investment in stocks	22,193,185	-	-	-	22,193,185
Rent deposit	2,735,242	-	-	-	2,735,242
Security fund	52,831	-	-	-	52,831
	₱ 1,141,142,231	₱ -	₱ -	₱ 417,813,939	₱ 1,558,956,170

December 31, 2020	Neither Past Due Nor Impaired High Grade	Standard Grade	Substandard Grade	Past Due But Not Impaired	Total
Cash in banks and cash equivalents	₱ 350,192,793	-	-	-	₱ 350,192,793
Short - term investments	4,224,993	-	-	-	4,224,993
Insurance receivables	366,202,738	-	-	415,439,955	781,642,693
Other receivables					
Notes receivable	21,581,610	-	-	-	21,581,610
Salary loan receivable	1,017,541	-	-	-	1,017,541
Car loan receivable	314,480	-	-	-	314,480
Mortgage loan receivable	1,302,045	-	-	-	1,302,045
Accrued interest receivable	63,807	-	-	-	63,807
AFS financial assets	9,730,196	-	-	-	9,730,196
HTM investments	313,537,268	-	-	-	313,537,268
Other assets					
Service fee deposit	6,297,086	-	-	-	6,297,086
Deposit for investment in stocks	2,283,333	-	-	-	2,283,333
Rent deposit	2,735,242	-	-	-	2,735,242
Security fund	52,831	-	-	-	52,831
	₱ 1,079,535,963	₱ -	₱ -	₱ 445,375,933	₱ 1,494,975,918

d. Impairment assessment

The Company recognizes impairment losses based on the results of the specific/individual and collective assessment of its credit exposures. Impairment has taken place when there is a presence of known difficulties in the servicing of cash flows by counterparties, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold. These and the other factors, either singly or in tandem with other factors, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

The Company's premium and other receivables are actively monitored to avoid significant concentrations of credit risks. The amount of the receivables approximates their fair value.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to fund all cash outflow commitments as they fall due. The Company generally maintains a conservative liquidity position that exceeds all the liabilities payable on demand. The Company invests in various types of assets with a view of matching them with its liabilities of various durations. To strengthen its liquidity further, the Company actively manages and monitors its capital and asset levels, diversification and credit quality of its investments and cash forecasts and actual amounts against established targets. The Company also maintains liquidity contingency plans for the management of liquidity in the event of a liquidity crisis.

The table below summarize the maturity profile of the Company's financial assets and financial liabilities based on contractual undiscounted payments.

As at December 31, 2021	**On Demand**	**Less than 1 Year**	**Over 1 year but not over 2 years**	**Over 2 years**	**Total**
Financial Assets					
Cash in banks and cash equivalents	₱ 537,642,526	₱ -	₱ -	₱ -	₱ 537,642,526
Short - term investments	-	4,195,817	-	-	4,195,817
Insurance receivables	-	517,216,837	60,884,753	56,723,924	634,825,514
Other receivables					
Notes receivable	-	30,000,000	-	-	30,000,000
Salary loan receivable	-	583,956	-	-	583,956
Car loan receivable	-	125,801	-	-	125,801
Mortgage loan receivable	-	718,082	-	-	718,082
Accrued interest receivable	-	118,167	-	-	118,167
AFS financial assets	-		-	9,718,396	9,718,396
HTM investments	-	125,717,498	21,080,203	166,739,567	324,065,782
Other assets					-
Service fee deposit	-		-	8,114,959	8,114,959
Deposit for investment in stocks	-		-	22,193,185	22,193,185
Rent deposit	-		-	2,735,242	2,735,242
Security fund	-		-	52,831	52,831
	537,642,526	678,676,158	81,964,956	266,278,104	1,575,090,258
Financial Liabilities					
Insurance contract liabilities	-	528,986,064	-	-	528,986,064
Due to reinsurers	-	68,331,656	-	-	68,331,656
Accounts payable and other current liabilities*	-	640,900	-	-	640,900
Lease liability	-	4,249,735	3,020,953	-	7,270,688
	-	602,208,355	3,020,953	-	605,229,308
Net liquidity surplus	₱ 537,642,526	₱ 76,467,803	₱ 78,944,003	₱ 266,278,104	₱ 969,860,950

**excluding taxes and other government liabilities.*

As at December 31, 2020	On Demand	Less than 1 Year	Over 1 year but not over 2 years	Over 2 years	Total
Financial Assets					
Cash in banks and cash equivalents	₱ 350,192,793	₱ -	₱ -	₱ -	₱ 350,192,793
Short - term investments	-	4,224,993	-	-	4,224,993
Insurance receivables	-	558,587,727	133,832,980	104,025,412	796,446,119
Other receivables					-
Notes receivable	-	21,581,610	-	-	21,581,610
Salary loan receivable	-	1,017,541	-	-	1,017,541
Car loan receivable	-	314,480	-	-	314,480
Mortgage loan receivable	-	1,302,045	-	-	1,302,045
Accrued interest receivable	-	63,807	-	-	63,807
AFS financial assets	-		-	9,730,196	9,730,196
HTM investments	-	125,717,498	21,080,203	166,739,567	313,537,268
Other assets					-
Service fee deposit	-		-	6,297,086	6,297,086
Deposit for investment in stocks	-		-	2,283,333	2,283,333
Rent deposit	-		-	2,735,242	2,735,242
Security fund	-		-	52,831	52,831
	350,192,793	712,186,595	155,287,047	292,112,909	1,509,779,343

As at December 31, 2020	On Demand	Less than 1 Year	Over 1 year but not over 2 years	Over 2 years	Total
Financial Liabilities					
Insurance contract liabilities	-	521,074,767	-	-	521,074,767
Due to reinsurers	-	89,091,344	-	-	89,091,344
Accounts payable and other current liabilities*	-	360,903	-	-	360,903
Lease liability	-	-	4,397,921	5,375,237	9,773,158
	-	610,527,014	4,397,921	5,375,237	620,300,172
Net liquidity surplus	₱ 350,192,793	₱ 101,659,581	₱ 150,889,126	₱ 286,737,672	₱ 889,479,171

**excluding taxes and other government liabilities.*

Market risk

Market risk is the risk of loss of future earnings or future cash flows arising from changes in the price of financial instrument. The value of a financial an instrument may change as a result of changes in interest rates, foreign currency exchange rates, equity prices and other market changes. The Company's market risk is managed within conservative bounds. As of December 31, 2021, and 2020, the Company has not engaged in trading financial instruments.

a. 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 AFS financial assets.

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

The Company is not significantly exposed to price risk.

b. Foreign exchange risk

The Company's exposure to foreign exchange risk results primarily from its business transactions denominated in foreign currencies, specifically US Dollar ($). The table below summarizes the Company's exposure to foreign exchange risk as at December 31:

	2021		2020	
	USD	**Peso Equivalent**	USD	Peso Equivalent
Cash in banks	**$ 8,911**	**₱ 452,449**	$ 8,911	₱ 427,934
Cash equivalents	**88,818**	**4,509,645**	1,175,124	56,432,988
Short-term investments	**40,003**	**2,031,112**	44,265	2,125,730
HTM investments	**-**	**-**	439,000	21,082,097
	$ 137,732	**₱ 6,993,206**	$ 1,667,300	₱ 80,068,749
Exchange rate	**$ 1.00**	**₱ 50.77**	$ 1.00	₱ 48.02

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar rate, with all variables held constant, of the Company's profit before tax:

	Peso Appreciation (Depreciation)	Effect on Profit Before Income Tax
2021	**10%**	**P 148,236**
	-10%	**(148,236)**
2020	10%	1,566,304
	-10%	(1,566,304)

c. Interest rate risk

Interest rate risk is the risk to earnings or capital resulting from adverse movements in the interest rates. The economic perspective of interest rate risk focuses on the value of a bank in the current interest rate environment and the sensitivity of that value to changes in interest rates.

The Company closely monitors the movements of interest rates in the market and reviews its assets and liability structure to ensure that exposures to fluctuations in interest rates are kept within acceptable limits.

The Company's interest-bearing financial instruments consist of its cash and cash equivalents, Short-term investments, HTM investments, notes receivable, salary loan receivable and mortgage loan receivable.

As at December 31, 2021 and 2020, the Company's financial instruments are at fixed rate of interest, hence, the Company is not sensitive to interest rate changes.

32. Fair Value Measurement

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. In determining the fair value of its financial assets and liabilities, the Company takes into account its current circumstances and the costs that would be incurred to exchange or settle the underlying financial assets and liabilities.

Carrying amounts and Fair Values by Category

The table below presents a comparison by category of carrying amounts and estimated fair values of all the Company's financial instruments as at December 31, 2021 and 2020:

	2021		2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash in banks and cash equivalents	₱ 537,642,526	₱ 537,642,526	₱ 350,192,793	₱ 350,192,793
Short - term investments	4,195,817	4,195,817	4,224,993	4,224,993
Insurance receivables	618,691,426	618,691,426	781,642,693	781,642,693
Other receivables				
Notes receivable	30,000,000	30,000,000	21,581,610	21,581,610
Salary loan receivable	583,956	583,956	1,017,541	1,017,541
Car loan receivable	125,801	125,801	314,480	314,480
Mortgage loan receivable	718,082	718,082	1,302,045	1,302,045
Accrued interest receivable	118,167	118,167	63,807	63,807
AFS financial assets	9,718,396	9,718,396	9,730,196	9,730,196
HTM investments	324,065,782	324,065,782	313,537,268	313,537,268
Other assets				
Service fee deposit	8,114,959	8,114,959	6,297,086	6,297,086
Deposit for investment in stocks	22,193,185	22,193,185	2,283,333	2,283,333
Rent deposit	2,735,242	2,735,242	2,735,242	2,735,242
Security fund	52,831	52,831	52,831	52,831
	₱ 1,558,956,170	₱ 1,558,956,170	₱ 1,494,975,918	₱ 1,494,975,918
Financial Liabilities				
Insurance contract liabilities	528,986,064	528,986,064	521,074,767	521,074,767
Due to reinsurers	68,331,656	68,331,656	89,091,344	89,091,344
Accounts payable and other current liabilities*	640,900	640,900	360,903	360,903
Lease liability	7,270,688	7,270,688	9,773,158	9,773,158
	₱ 605,229,308	₱ 605,229,308	₱ 620,300,172	₱ 620,300,172

**excluding taxes and other government liabilities.*

The carrying amount of cash in banks and cash equivalents approximates fair value due to the short-term maturity of these financial instruments. The fair value of AFS investments have been determined directly by reference to published prices in active markets.

		Fair value measurement using		
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
AFS Financial Assets				
Quoted equity securities				
2021	₱ 27,856	₱ 27,856	₱ -	₱ -
2020	27,656	27,656	-	-

As at December 31, 2021 and 2020, there are no transfers between Levels.

33. Notes to Statement of Cash Flows

The reconciliation of cash flows from lease liabilities as at December 31, 2022 and 2021 follows:

	2021	2020
Balance at beginning of year	**₱ 9,773,158**	₱ 13,702,275
Cash Flows:		
Repayment	**(5,044,850)**	(3,929,117)
Non-cash:		
Additions to right-of-use asset in exchange for increased lease liabilities	**3,023,802**	-
Termination of lease	**(481,422)**	-
Balance at end of year	**7,270,688**	9,773,158

The reconciliation of assets arising from financing activities as at December 31, 2022 and 2021 follows:

2021	Available-for-sale Financial Asset	Held to Maturity Investments	Property and Equipment	Investment Properties	Computer Software
Balance at beginning of year	₱ 9,730,196	₱ 313,537,268	₱ 87,668,911	₱ 392,518,500	₱ 4,158,168
Cash Flows:					
Proceeds from disposal	-	(23,641,700)	-	-	-
Additions	-	33,375,485	2,408,035	-	1,451,238
Non-cash:					
Fair value changes	200	-	-	-	-
Amortization	-	794,729	-	-	(1,257,038)
Depreciation	-	-	(7,181,814)	-	-
Impairment	(12,000)	-	-	-	-
Balance at end of year	₱ 9,718,396	₱ 324,065,782	₱ 82,895,132	₱ 392,518,500	₱ 4,352,368

2020	Available-for-sale Financial Asset	Held to Maturity Investments	Property and Equipment	Investment Properties	Computer Software
Balance at beginning of year	₱ 9,731,918	₱ 305,007,905	₱ 84,981,424	₱ 265,228,500	₱ 3,147,020
Cash Flows:					
Proceeds from disposal	-	(172,866,857)	-	-	-
Additions	-	182,030,338	9,065,268	127,290,000	2,766,553
Non-cash:					
Fair value changes	(1,722)	-	-	-	-
Amortization	-	570,732	-	-	-
Depreciation	-	-	(6,377,781)	-	(1,755,405)
Impairment	-	-	-	-	-
Foreign exchange difference	-	(1,204,850)	-	-	-
Balance at end of year	₱ 9,730,196	₱ 313,537,268	₱ 87,668,911	₱ 392,518,500	₱ 4,158,168

34. Supplementary Information Required Under Revenue Regulation No. 15-2010

The Company reported and/or paid in the following types of taxes for the year ended December 31, 2021.

Duties and Tariff Fees and Excise Taxes
The Company has not entered into transactions which are subject to duties and tariff fees and excise taxes.

Output VAT declared in the Company's VAT returns for 2020 are as follows:
The tax base is the Company's gross receipts for the year hence, these may not be the same as the amounts of reported revenues in 2021 statement of comprehensive income.

	Tax base	Output VAT
Vatable sales	₱ 537,552,242	₱ 64,506,269

Input VAT claimed in the Company's VAT returns for 2021 are as follows:

	Tax base	Input VAT
Balance, beginning of year		₱ -
Domestic purchase of goods and services	₱ 158,476,045	19,017,125
Total input VAT	158,476,045	19,017,125
Less: Input VAT applied		(19,017,125)
Balance at December 31		₱ -

Withholding taxes which are accrued/paid for 2021 are as follows:

	Paid	Accrued	Total
Compensation	₱ 1,839,678	₱ 128,641	₱ 1,968,319
Expanded	5,062,443	750,904	5,813,347
	₱ 6,902,121	₱ 879,545	₱ 7,781,666

Taxes and Licenses
This includes all other taxes, local and national licenses and permit fees lodged under the "Taxes and Licenses" account in the Company's statement of income and expenses. Details consist of the following:

	2021
IC Fees	₱ 9,759,080
Business permits and licenses	162,375
	₱ 9,921,455

Deficiency Tax Assessments and Tax Cases
As at December 31, 2021, the Company had not received any final tax assessment from the Bureau of Internal Revenue and is not currently involved in any tax case.

MAM & Co.

M. A. MERCADO & Co.
Certified Public Accountants
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Website: mamercado.com

SUPPLEMENTAL WRITTEN STATEMENT OF INDEPENDENT AUDITORS

The Stockholders and the Board of Directors
Pacific Union Insurance Company
Unit 2401 Antel Corporate Center
121 Valero St., Salcedo Village
Makati City

We have audited the financial statements of Pacific Union Insurance Company ('the Company') as at and for the year ended December 31, 2021, on which we have rendered the attached report dated May 30, 2022.

In compliance with Revised Securities Regulation Code Rule 68, we are stating that the Company has nineteen (19) stockholders owning one hundred (100) or more shares each as at December 31, 2021.

M. A. MERCADO & CO.

By:

MARCELINO A. MERCADO
Signing Partner
CPA License No. 066885
Tax Identification No. 102-921-222
P.T.R No. 8864974; issued on January 14, 2022
SEC Accreditation No. 66885 (Group B)
Issued on January 25, 2022;
Valid until 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-003338-002-2021
Issued on December 9, 2021; Valid until December 8, 2024
IC Accreditation No. 66885-IC (Group A)
Issued January 26, 2021;
Valid until 2024 financial statements of IC covered institutions
Firm's BOA/PRC Cert. of Reg. No. 5658
Issued September 29, 2020; Valid until September 28, 2023
Firm's SEC Accreditation No. 5658-SEC (Group B)
Issued on January 25, 2022;
Valid until 2025 financial statements of SEC covered institutions
Firm's BIR Accreditation No. 08-006173-000-2021
Issued March 4, 2021; Valid until March 3, 2024
Firm's IC Accreditation No. 5658-IC (Group A)
Issued January 26, 2021;
Valid until 2024 financial statements of IC covered institutions

May 30, 2022
Makati City

MAM & Co.

M. A. MERCADO & Co.
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REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Pacific Union Insurance Company
2401 Antel Corporate Center
121 Valero Street, Salcedo Village
Makati City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Pacific Union Insurance Company (the "Company") as at and for the year ended December 31, 2021 and have issued our report thereon dated May 30, 2022. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule showing the financial soundness indicators is the responsibility of the Company's management. This schedule is presented for the purpose of complying with Revised Securities and Regulation Code and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, fairly stated, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

M. A. MERCADO & CO.

By:

MARCELINO A. MERCADO
Signing Partner
CPA License No. 066885
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P.T.R No. 8864974; issued on January 14, 2022
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Issued on December 9, 2021; Valid until December 8, 2024
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Valid until 2024 financial statements of IC covered institutions
Firm's BOA/PRC Cert. of Reg. No. 5658
Issued September 29, 2020; Valid until September 28, 2023
Firm's SEC Accreditation No. 5658-SEC (Group B)
Issued on January 25, 2022;
Valid until 2025 financial statements of SEC covered institutions
Firm's BIR Accreditation No. 08-006173-000-2021
Issued March 4, 2021; Valid until March 3, 2024
Firm's IC Accreditation No. 5658-IC (Group A)
Issued January 26, 2021;
Valid until 2024 financial statements of IC covered institutions

May 30, 2022
Makati City

PACIFIC UNION INSURANCE COMPANY
SCHEDULE SHOWING FINANCIAL SOUNDNESS INDICATORS
IN TWO COMPARATIVE PERIODS
UNDER SRC RULE 68, AS AMENDED
DECEMBER 31, 2021

Ratio	Formula	2021	2020
Current ratio	Current assets / Current liabilities	**1.76**	1.67
Acid test ratio	Cash and cash equivalents + Current receivables + Marketable securities / Current liabilities	**1.76**	1.67
Working capital ratio	Current assets - Current liabilities / Total assets	**0.24**	0.23
Solvency ratio	Total liabilities / Total assets	**0.33**	0.35
Debt to equity ratio	Total Liabilities / Equity	**0.48**	0.54
Asset to equity ratio	Total assets / Equity	**1.48**	1.54
Return on assets	Net income / Total assets	**0.01**	0.01
Return on equity	Net income / Total equity	**0.02**	0.02
Gross profit margin	Gross Profit / Revenue	**0.26**	0.28
Net profit margin	Net income / Revenue	**0.04**	0.04