Philippine Life Financial Assurance Corporation

Financial Statements
December 31, 2020 and 2019

and

Independent Auditor's Report

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Building a better working world

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Philippine Life Financial Assurance Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Philippine Life Financial Assurance Corporation (the Company), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 31 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine Life Financial Assurance Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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November 27, 2020, valid until November 26, 2023
PTR No. 8534323, January 4, 2021, Makati City

May 7, 2021

PHILIPPINE LIFE FINANCIAL ASSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2020	2019
ASSETS		
Cash and cash equivalents (Note 4)	**₱179,419,392**	₱526,519,508
Insurance receivables (Note 5)	**58,261,328**	58,356,405
Financial assets (Note 6)		
Financial assets at fair value through other comprehensive income	**1,568,220,806**	1,121,613,167
Loans and receivables - net	**657,260,042**	662,094,887
Segregated fund assets (Note 7)	**662,323**	611,548
Investment in subsidiaries (Note 8)	**17,173,997**	17,173,997
Property and equipment - net (Note 9)	**32,903,633**	32,678,117
Right-of-use asset (Note 10)	**28,836,955**	38,771,099
Investment properties (Note 11)	**65,195,468**	64,160,468
Deferred tax assets - net (Note 26)	**87,708,954**	49,567,195
Other assets (Notes 12 and 25)	**42,142,857**	32,097,632
	₱2,737,785,755	₱2,603,644,023
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Note 13)	**₱1,351,914,931**	₱1,165,953,316
Premium deposit fund (Note 14)	**16,189,511**	21,839,687
Segregated fund liabilities (Note 7)	**662,323**	611,548
Accounts payable and other liabilities (Note 15)	**180,641,586**	218,414,418
Lease liabilities (Note 10)	**30,739,894**	39,774,304
Income tax payable (Note 26)	**18,951,368**	12,202,897
Due to related parties (Note 29)	**37,385,847**	96,184,807
Pension liability - net (Note 24)	**44,101,849**	42,690,966
Total Liabilities	**1,680,587,309**	1,597,671,943
Equity		
Capital stock (Note 16)	**279,060,846**	270,955,574
Contributed surplus	**117,615,990**	95,721,345
Retained earnings (Note 16)	**740,019,330**	635,572,627
Revaluation reserve on financial assets at fair value through other comprehensive income (Note 6)	**33,598,725**	20,779,331
Remeasurement on life insurance reserves	**(115,168,862)**	(22,786,395)
Remeasurement on defined benefit plan (Note 24)	**2,072,417**	5,729,598
Total Equity	**1,057,198,446**	1,005,972,080
	₱2,737,785,755	₱2,603,644,023

See accompanying Notes to Financial Statements.

PHILIPPINE LIFE FINANCIAL ASSURANCE CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31	
	2020	2019
REVENUE		
Gross premiums on insurance contracts	**₱484,589,617**	₱553,256,491
Reinsurers' share of premiums on insurance contracts	**(5,811,592)**	(18,046,219)
Net insurance premiums (Note 17)	**478,778,025**	535,210,272
Interest income (Note 18)	**142,453,679**	139,706,779
Service fees	**80,573,739**	88,504,719
Gain on sale of financial assets at fair value through other comprehensive income (Note 6)	**43,019,495**	47,401,646
Gain on sale of financial assets at amortized cost (Note 6)	**202,064**	1,446,420
Fair value gains on investment properties (Note 11)	**1,035,000**	12,216,000
Other income (Note 19)	**40,660,231**	9,061,301
Other revenue	**307,944,208**	298,336,865
Total revenue	**786,722,233**	833,547,137
BENEFITS, CLAIMS AND OPERATING EXPENSES		
Benefits and claims incurred on insurance contracts (Note 20)	**249,064,204**	278,934,506
Gross change in legal policy reserves (Note 13)	**34,298,064**	4,110,480
Reinsurers' share of change in legal policy reserves (Note 13)	**4,617,534**	(7,923,064)
Net insurance benefits and claims	**287,979,802**	275,121,922
Commissions and other underwriting expenses (Note 21)	**144,896,985**	180,682,872
General and administrative expenses (Note 22)	**116,987,702**	130,337,015
Service fee expense	**64,100,222**	61,552,179
Taxes, licenses and fees (Note 31)	**15,159,110**	17,326,989
Interest expense (Notes 10, 14, 24 and 29)	**11,055,649**	5,433,020
Operating expenses	**352,199,668**	395,332,075
Total benefits and expenses	**640,179,470**	670,453,997
INCOME BEFORE INCOME TAX	**146,542,763**	163,093,140
INCOME TAX EXPENSE (Note 26)	**42,096,060**	41,298,314
NET INCOME	**₱104,446,703**	₱121,794,826

See accompanying Notes to Financial Statements.

PHILIPPINE LIFE FINANCIAL ASSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2020	2019
NET INCOME	**₱104,446,703**	₱121,794,826
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that will not be reclassified into profit and loss in subsequent periods:		
Remeasurement losses on life insurance reserves, net of tax	**(92,382,467)**	(49,867,795)
Remeasurement losses on defined benefit plan, net of tax (Note 24)	**(3,657,181)**	(1,794,589)
Fair value gains (losses) on equity investments at fair value through other comprehensive income, net of tax (Note 6)	**(1,639,778)**	8,806,120
	(97,679,426)	(42,856,264)
Item that will be reclassified into profit and loss in subsequent periods:		
Net change in fair value on debt instruments at fair value through other comprehensive income, net of tax (Note 6)	**14,459,172**	39,993,759
	(83,220,254)	(2,862,505)
TOTAL COMPREHENSIVE INCOME	**₱21,226,449**	₱118,932,321

See accompanying Notes to Financial Statements.

PHILIPPINE LIFE FINANCIAL ASSURANCE CORPORATION

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 16)	Contributed Surplus	Retained Earnings (Note 16)	Revaluation Reserve on Financial Assets at Fair Value Through Other Comprehensive Income (Note 6)	Remeasurement on Life Insurance Reserves (Note 2)	Remeasurement on Defined Benefit Plan (Note 24)	Total
Balances at January 1, 2020	**₱270,955,574**	**₱95,721,345**	**₱635,572,627**	**₱20,779,331**	**(₱22,786,395)**	**₱5,729,598**	**₱1,005,972,080**
Issuance of common shares	**8,105,272**	**21,894,645**	**–**	**–**	**–**	**–**	**29,999,917**
Net income	**–**	**–**	**104,446,703**	**–**	**–**	**–**	**104,446,703**
Other comprehensive loss	**–**	**–**	**–**	**12,819,394**	**(92,382,467)**	**(3,657,181)**	**(83,220,254)**
Total comprehensive income	**–**	**–**	**104,446,703**	**12,819,394**	**(92,382,467)**	**(3,657,181)**	**21,226,449**
Balances at December 31, 2020	**₱279,060,846**	**₱117,615,990**	**₱740,019,330**	**₱33,598,725**	**(₱115,168,862)**	**₱2,072,417**	**₱1,057,198,446**
Balances at January 1, 2019	₱270,955,574	₱95,721,345	₱513,777,801	(₱28,020,548)	₱27,081,400	₱7,524,187	₱887,039,759
Net income	–	–	121,794,826	–	–	–	121,794,826
Other comprehensive loss	–	–	–	48,799,879	(49,867,795)	(1,794,589)	(2,862,505)
Total comprehensive income	–	–	121,794,826	48,799,879	(49,867,795)	(1,794,589)	118,932,321
Balances at December 31, 2019	₱270,955,574	₱95,721,345	₱635,572,627	₱20,779,331	(₱22,786,395)	₱5,729,598	₱1,005,972,080

See accompanying Notes to Financial Statements.

PHILIPPINE LIFE FINANCIAL ASSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱146,542,763**	₱163,093,140
Adjustments for:		
Interest income (Notes 18 and 29)	**(142,453,679)**	(139,706,779)
Gain on sale of financial assets at fair value through other comprehensive income (Note 6)	**(43,019,495)**	(47,401,646)
Depreciation and amortization (Notes 9, 10 and 25)	**23,432,433**	17,394,339
Interest expense (Notes 10, 14, 24 and 29)	**11,055,649**	5,433,020
Provision for (reversal of) credit losses on loans and receivables (Notes 5, 6 and 22)	**4,033,824**	(5,702,891)
Retirement expense (Note 24)	**3,488,061**	3,457,147
Fair value gains on investment properties (Note 11)	**(1,035,000)**	(12,216,000)
Gain on sale of financial assets at amortized cost (Note 6)	**(202,064)**	(1,446,420)
Dividend income (Note 19)	**–**	(140,000)
Operating income (loss) before changes in working capital	**1,842,492**	(17,236,090)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Premiums due and uncollected	**95,077**	21,887,452
Loans and receivables	**6,741,569**	283,169,335
Segregated fund assets	**(50,775)**	(48,379)
Other assets	**(10,052,278)**	(56,197)
Increase (decrease) in:		
Insurance contract liabilities	**53,986,662**	(2,408,935)
Premium deposit fund	**(5,650,176)**	(8,061,392)
Segregated fund liabilities	**50,775**	48,379
Accounts payable and other liabilities	**(37,622,318)**	52,778,365
Due to related parties	**(58,798,960)**	60,773,747
Net cash provided by (used in) operations	**(49,457,932)**	390,846,285
Interest received	**2,822,394**	660,555
Contributions paid to the pension fund (Note 24)	**(9,359,427)**	(1,613,897)
Interest paid	**(9,148,459)**	(2,603,015)
Income taxes paid	**(34,953,093)**	(36,447,827)
Net cash provided by (used in) operating activities	**(100,096,517)**	350,842,101
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities/sales/collections of:		
Financial assets at fair value through other comprehensive income (Note 6)	**2,259,954,208**	1,537,630,344
Salary loans at amortized cost	**1,519,239,434**	2,615,993,871

(Forward)

	Years Ended December 31	
	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES		
Issuance/acquisitions of:		
Financial assets at fair value through other comprehensive income (Note 6)	**(₱2,646,878,141)**	(₱1,845,295,000)
Salary loans at amortized cost	**(1,525,442,000)**	(2,331,481,903)
Property and equipment (Note 9)	**(13,647,975)**	(22,964,662)
Interest received	**138,781,772**	137,092,131
Dividend received	**–**	140,000
Net cash provided by (used in) investing activities	**(267,992,702)**	91,114,781
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of principal portion of lease liabilities (Note 10)	**(9,010,814)**	(2,294,176)
Issuance of common shares (Note 16)	**29,999,917**	–
Net cash provided by (used in) financing activities	**20,989,103**	(2,294,176)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(347,100,116)**	439,662,706
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**526,519,508**	86,856,802
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱179,419,392**	₱526,519,508

See accompanying Notes to Financial Statements.

1. Corporate Information

Philippine Life Financial Assurance Corporation (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on October 4, 2010 and was primarily incorporated to engage in the business of life insurance and, in particular, to grant or effect assurances of all kinds for the payments of money by way of single payment or by several payments, or by way of immediate or deferred annuities upon the death of or upon attaining a given age by any person or persons. The corporate life of the Company is 50 years. On February 20, 2019, Republic Act No. 1132, otherwise known as the "Revised Corporation Code of the Philippines" or "RCC", was signed into law by President Rodrigo Duterte. The RCC took effect on February 23, 2019. The corporate term of a corporation with certificate of incorporation issued prior to the effectivity of the RCC and which continue to exist, shall be deemed perpetual upon the effectivity of the RCC, without any action on the part of the corporation. As of February 23, 2019, the Company is deemed to have selected a perpetual term.

On May 22, 2015, the Insurance Commission (IC) approved the Company's license to sell variable or unit-linked insurance, a life insurance product which is linked to investment funds.

The Company also has two (2) existing Memorandum of Agreement (MOA) on Automatic Payroll Deduction System (APDS) with the Department of Education (DepEd). The first MOA, dated June 15, 2004, effective for a period of 24 months and subject to extension, grants the Company a legal mandate to engage in insurance operations to DepEd teachers and personnel with payments through salary deduction. The Company has been continuously granted an extension of the MOA. The latest extension is valid until December 31, 2020. The second MOA, dated May 8, 2012, effective for a period of five (5) years, allows the Company to engage in lending operations with DepEd teachers and personnel as borrowers. The accreditation was extended until October 31, 2017. On May 21, 2018, the Company received the approval of its accreditation to solicit loans under the new Terms and Conditions of the APDS Accreditation (TCAA) for loans until December 31, 2020. The Company has been granted an extension of the TCAA until May 31, 2021.

The Company's registered office address, which is also its principal place of business, is 4th Floor, STI Holdings Center, 6764 Ayala Avenue, Makati City.

The Company is 91.04% owned by Maestro Holdings, Inc. (formerly STI Investments, Inc.), the Parent Company.

Authorization for the Issuance of the Financial Statements
The accompanying financial statements were approved and authorized for issuance by the Company's President on May 7, 2021, as delegated by the Board of Directors on April 7, 2021.

2. Summary of Significant Accounting Policies

Basis of Preparation
The financial statements of the Company have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI), and investment properties that have been measured at fair

value. The financial statements are presented in Philippine Peso (₱), which is the Company's functional currency and recorded to the nearest peso.

The accompanying financial statements are the separate financial statements of the Company and have been prepared for submission to the SEC and the Bureau of Internal Revenue (BIR). The Company, a subsidiary of Maestro Holdings, Inc., elected not to prepare consolidated financial statements under the exemption provided under Philippine Financial Reporting Standards (PFRS) 10, *Consolidated Financial Statements*. Maestro Holdings, Inc., which was incorporated in the Philippines, prepares consolidated financial statements which are in accordance with accounting principles generally accepted in the Philippines, which includes all applicable PFRS including Philippine Accounting Standards (PAS) and Philippine Interpretations from the International Financial Reporting Interpretations Committee issued by the Philippine Financial Reporting Standards Council, and applicable Insurance Commission Circular Letter and accounting requirements as required by the SEC.

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

Statement of Compliance
The financial statements of the Company have been prepared in compliance with PFRSs.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as at January 1, 2020. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Unless otherwise indicated, adoption of these new standards did not have an impact on the consolidated financial statements of the Company.

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*
- Amendments to PFRS 7, *Financial Instruments: Disclosures and PFRS 9, Financial Instruments, Interest Rate Benchmark Reform*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*
- Conceptual Framework for Financial Reporting issued on March 29, 2018
- Amendments to PFRS 16, *COVID-19-related Rent Concessions*
  The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:
  - The rent concession is a direct consequence of COVID-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
  - Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
  - There is no substantive change to other terms and conditions of the lease.

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

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

The Company adopted the relief granted by the amendments applying early adoption beginning January 1, 2020. The adoption of the amendments resulted in an increase in miscellaneous income amounting to ₱0.08 million for the year ended December 31, 2020 (see Note 10).

Significant Accounting Policies

The significant accounting policies that have been used in the preparation of the financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Fair Value Measurement

The fair value for financial instruments traded in active market at the reporting date 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 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.

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 and other relevant valuation models. Any difference noted between the fair value and the transaction price is treated as expense or income, unless it qualifies for recognition as some type of asset or liability. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

Product Classification

Insurance contract is an agreement whereby one party called the insurer undertakes, for a consideration paid by the other party called the insured, promises to pay money, or its equivalent or to do some act valuable to the latter, upon happening of a loss, liability or disability arising from an unknown or contingent event.

Classification of insurance and investment contracts

The Company issues contracts that transfer insurance or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such risk includes having to pay benefits on the occurrence of an insured event such as death, accident or disability. The Company may also transfer insurance risk on insurance contracts through its reinsurance arrangements to hedge a greater possibility of claims occurring than expected. 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 is at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Insurance contracts may contain a premium and capital fund rider that entitles the policyholder to receive additional benefits based on the Company's investment performance. These contracts are recorded as financial liabilities under 'Premium deposit fund' account. Local statutory regulation sets out a limitation on the accumulation of fund deposits and contributions (see Note 14).

Recognition and measurement

Premiums arising from insurance contracts are recognized as income when received and on the issue date which coincides with the effective date of the insurance policies for the first year premiums. For the renewal business, premiums are recognized as income when still inforce and in the process of collection based on actuarial methods and assumptions. Premiums are shown before deduction of commissions and reinsurers' share on gross premiums.

Premiums due and uncollected are recognized when due and measured on initial recognition at the fair value of the consideration to be received. The carrying value of premiums due and uncollected is reviewed for impairment whenever events or circumstances indicate the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income. Premiums due and uncollected are derecognized following the derecognition criteria for financial instruments.

Life insurance contract liabilities

Life insurance contract liabilities refer to liabilities of the Company that are recognized due to obligations arising from policy contracts issued by the Company. The reserves for life insurance contracts are calculated based on prudent statutory assumptions in accordance with generally accepted actuarial methods that are compliant with existing regulations. Insurance benefits and claims are recorded when incurred. These are recorded when notices of claims have been received and dividends have been incurred or when policies reach maturity. For unpaid benefits, a liability is recognized for the estimated cost of all claims incurred but not settled as of reporting date less reinsurance recoveries. Provision is also made for the cost of claims incurred as of reporting date but not reported (IBNR) until after the reporting date based on the Company's experience and historical data.

Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in the statement of income of subsequent years. Unpaid benefits for life policies form part of claims payable included under 'Insurance contract liabilities' in the statement of financial position.

Legal policy reserves represent the accumulated total liability for policies in force at the reporting date. Such reserves are established at amounts adequate to meet the estimated future obligations of all life insurance policies in force as of reporting date. The reserves are calculated using actuarial methods and assumptions as approved by the IC, subject to the liability adequacy test (LAT). Changes in legal policy reserves are recognized in the statement of income and included as part of 'Net insurance benefits and claims'.

A number of life insurance contracts issued by the Company include discretionary participation feature. This feature entitles policyholders to policy dividends whose amounts and timing of payments are contractually under the discretion of the Company. The Company's policy dividends are declared annually, the amounts of which are computed using actuarial methods and assumptions, and are included under 'Benefits and claims incurred on insurance contracts' in the statement of income with the corresponding liability recognized under the 'Insurance contract liabilities' in the statement of financial position.

Unit linked insurance contracts
The Company issues unit-linked insurance contracts. In addition to providing life insurance coverage, a unit-linked contract links payments to insurance investment funds set-up by the Company with the consideration received from the policyholders. As allowed by PFRS 4, the Company chose to unbundle the investment portion of its unit-linked products. Premiums received from the issuance of unit-linked insurance contracts pertaining to the insurance portion are recognized as premium revenue.

The Company withdraws from the consideration received from the policyholders administrative and cost of insurance charges in accordance with the provisions of the unit-linked insurance contracts. After deduction of these charges, the remaining amounts in fund assets are equal to the surrender value of the unit-linked policies, and are withdrawable anytime.

The investment returns on the insurance investment funds belong to policyholders and the Company does not bear the risk associated with these assets (outside of guarantees offered). Accordingly, investment income earned and expenses incurred by these funds and payments to policyholders are reflected directly in the 'Segregated fund assets' and 'Segregated fund liabilities' accounts. Such changes have no effect on the Company's results of operations.

The equity of each unit-linked policyholder in the fund is monitored through the designation of outstanding units for each policy. Hence, the equity of each unit-linked insurance contract in the fund is equal to its total number of outstanding units multiplied by the net asset value per unit (NAVPU). The NAVPU is the market value of the fund divided by its total number of outstanding units.

Commission expense
Commission expense is recognized as incurred. Commissions are paid to agents and financial executives from selling individual and group policies. Rates applied on collected premiums vary depending on the type of product and payment terms of the contract.

Underwriting and other acquisition expenses
Underwriting and other acquisition and expenses that vary with and are related to securing new insurance contracts and renewing existing contracts are recognized in the statement of income when incurred.

Taxes, licenses and fees
Taxes, licenses and fees are recognized in the statement of income as incurred.

Liability adequacy test
Liability adequacy test (LAT) is performed annually to ensure adequacy of the insurance contract liabilities. In performing the test, current best estimates of future cash flows and claims handling and administration expenses, as well as investment income from the asset backing such liabilities, are used.

Any deficiency is immediately charged against the statement of income initially by establishing a provision for losses arising from the LAT (see Note 13).

Long-term insurance contracts are measured based on assumptions set out at the inception of the contract. When the LAT requires the adoption of new best estimate assumptions, such assumptions (without Margins for Adverse Deviations (MfAD)) are used for the subsequent measurement of these liabilities.

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

The benefits recoverable by the Company under its reinsurance contracts are recognized as reinsurance assets. These assets consist of amounts reinsurance recoverable on paid losses and deferred reinsurance premiums classified within 'Insurance receivables' in the statement of financial position. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with terms of each reinsurance contract.

The Company assesses its reinsurance assets for impairment at least annually. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance assets to its recoverable amount and recognizes that impairment loss in the statement of income.

The Company gathers the objective evidence that a reinsurance asset is impaired using the same process for financial assets held at amortized cost. The impairment loss is also calculated following the same method used for financial assets.

Receivables and payables related to insurance contracts
Receivables and payables related to insurance contracts sold are recognized when earned and as incurred, respectively.

<u>Cash and Cash Equivalents</u>
Cash in bank earns interest at prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placements, are subject to an insignificant risk of change in value, and are free of any encumbrances.

Financial Instruments - Initial Recognition and Subsequent Measurement

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

Initial recognition
Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial instruments at FVTPL, the initial measurement of financial instruments includes transaction costs.

'Day 1' profit or loss
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Company recognizes the difference between the transaction price and the fair value (a 'Day 1' profit or loss) in profit or loss unless it qualifies for recognition as some other type of asset or liability. In cases where fair value is determined using data which are not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Classification and Measurement of Financial Instruments

Financial assets
Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Company's business model for managing financial assets. The Company classifies its financial assets into the following categories: financial assets at FVTPL, financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments), financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments) and financial assets measured at amortized cost.

Classification and measurement
Under PFRS 9, the classification and measurement of financial assets is driven by the entity's contractual cash flow characteristics of the financial assets and business model for managing the financial assets.

As part of its classification process, the Company assesses the contractual terms of financial assets to identify whether they meet the 'solely payments of principal and interest' (SPPI) test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (e.g. if there are repayments of principal or amortization of the premium or discount).

Business model assessment
The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The Company's measurement categories are described below:

Financial assets at amortized cost
A financial asset is measured at amortized cost if both the of the following conditions are met:
- the asset is held within the Company's business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets meeting these criteria are initially recognized at fair value plus directly attributable transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate (EIR). The amortization is included in 'Interest income' in the statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset.

The Company classified 'Cash and cash equivalents' (including those under 'Segregated fund assets'), 'Premiums due and uncollected', 'Loans and receivables' (including those under 'Segregated fund assets'), and rent deposits and security fund (included under 'Other assets') as financial assets at amortized cost.

The Company may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. As of December 31, 2020 and 2019, the Company has not made such designation.

Financial assets at FVOCI - Equity investments
At initial recognition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Company for trading. The Company has designated its equity instruments as at FVOCI on initial application of PFRS 9.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in 'Revaluation reserve on financial assets at FVOCI' in the statements of financial position. When the asset is disposed of, the cumulative gain or loss previously recognized in the 'Revaluation reserve on financial assets at FVOCI' account is not reclassified to profit or loss, but is reclassified directly to 'Retained earnings' account. Any dividends earned on holding these equity instruments are recognized in profit or loss under 'Other income' account.

Financial Assets at FVOCI - Debt instruments
The Company applies the new category under PFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- the instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets, and
- the contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value being recognized in OCI. Interest income are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. The expected credit losses (ECL) calculation for financial assets at FVOCI is explained in the 'Impairment of Financial Assets' section.

On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

Financial assets at FVTPL
Debt instruments that neither meet the amortized cost nor the FVOCI criteria, or that meet the criteria but the Company has chosen to designate as at FVTPL at initial recognition, are classified as financial assets at FVTPL.

Equity investments are classified as financial assets at FVTPL, unless the Company designates an equity investment that is not held for trading as at FVOCI at initial recognition.

The investments (debt and equity securities) of the insurance investment funds set-up by the Company underlying the unit-linked insurance contracts (included under 'Segregated fund assets') are designated as FVTPL in accordance with the investment strategy and valuation provisions of the unit-linked policy contracts. Likewise, this is consistent with the valuation basis of the segregated fund liabilities.

A financial asset is considered as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has evidence of a recent actual pattern of short-term profit-taking; or,
- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

Financial assets at FVTPL which includes government securities, private bonds and equity securities under 'Segregated fund assets' are measured at fair value. Related transaction costs are recognized directly as expense in profit or loss.

Financial liabilities
Financial liabilities are classified as financial liabilities at FVTPL and other financial liabilities. The classification of financial liabilities at initial recognition depends on the purpose for which the financial liabilities are incurred and their characteristics.

As of December 31, 2020 and 2019, the Company has no financial liabilities at FVTPL.

Other financial liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVTPL at the inception of the liability. Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the EIR method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

This category includes 'Accounts payable and other liabilities', 'Premium deposit fund', 'Due to related parties', 'Lease Liabilities' and obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Reclassifications of financial instruments
The Company reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Company and any previously recognized gains, losses or interest shall not be restated. The Company does not reclassify its financial liabilities.

The Company is required to reclassify the following financial assets:

- from amortized cost to FVTPL if the objective of the business model changes so that the amortized cost criteria are no longer met; and
- from FVTPL to amortized cost if the objective of the business model changes so that the amortized cost criteria start to be met and the instrument's contractual cash flows meet the amortized cost criteria.; and
- from FVOCI to amortized cost if the objective of the business model changes so that the fair value criteria are no longer met but the amortized cost criteria is still met and the instrument's contractual cash flows meet the amortized cost criteria

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

Impairment of Financial Assets
ECL represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument.

The Company records ECL for all loans and receivables and other debt financial assets not classified as FVTPL, together with loan commitments and financial guarantee contracts.

The Company's cash and cash equivalents and government securities are rated as investment grade by the global rating agency. Accordingly, these investments are considered to be low credit risk investments. The ECL calculation is based on historical loss experience adjusted for current conditions and forecasts of future economic conditions using reasonable and supportable information available as of the reporting date. The Company applied simplified approach in calculating ECLs on these investments and does not track changes in credit risk but instead recognizes an allowance based on lifetime ECL at each reporting period.

Staging assessment
A three-stage approach for impairment of financial assets is used, based on whether there has been a significant deterioration in the credit risk of a financial asset. These three stages then determine the amount of impairment to be recognized.

For non-credit-impaired financial instruments:
- Stage 1 is comprised of all financial instruments which have not experienced a SICR since initial recognition or is considered of low credit risk as of the reporting date. The Company recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all financial instruments which have experienced a SICR since initial recognition. The Company recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:
- Stage 3 is comprised of all financial assets that have objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The Company recognizes a lifetime ECL for Stage 3 financial instruments.

Definition of "default"
The Company defines a financial instrument as in default when it is credit impaired or becomes past due on its contractual payments for more than 90 days. As part of a qualitative assessment of whether a customer is in default, the Company considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e. restored) if there is sufficient evidence to support that full collection is probable and payments are received for at least six months.

Significant increase in credit risk
The credit risk of a particular exposure is deemed to have increased significantly since initial recognition, if based on the Company's aging information, the customer becomes past due over 90 days. In subsequent periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the Company shall revert to recognizing a 12-month ECL.

ECL parameters and methodologies
ECL is a function of the probability of default (PD), loss given default (LGD) and exposure at default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The PD is an estimate of the likelihood of default over a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Company segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

Forward-looking information
The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs, such as gross domestic product (GDP) growth, consumer price index, interest rate, lending rate and other economic indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Write-off
The Company writes-off its financial assets when it has been established that all efforts to collect and/or recover the loss has been exhausted. This may include the other party being insolvent, deceased or the obligation being unenforceable.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

When the Company has transferred its right to receive cash flows from an asset 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 pay.

The Company considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, the Company considers the following factors, among others:

- Change in currency
- Introduction of an equity feature
- Change in counterparty
- If the modification results in the asset no longer considered "solely payment for principal and interest"

The Company also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the Company considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial asset.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Company recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a 'new ' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for ECL measurement purposes, unless the new financial asset is deemed to be originated as credit impaired (POCI).

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

Investment in Subsidiaries
Investment in subsidiaries is carried in the statement of financial position at cost less any impairment in value. A subsidiary is an entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent). The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. The Company recognizes income from the investment only to the extent that the Company receives distribution from accumulated profits of the subsidiary arising after the date of acquisition. Distributions received in excess of such profits are regarded as recovery of investment and are recognized as a reduction of the investment.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and accumulated impairment in value. The initial cost of property and equipment comprises its purchase price and other costs directly attributable to bringing the asset to its working condition and location for its intended use.

Depreciation and amortization is computed using the straight-line method over the estimated useful life of the assets. Leasehold improvements are amortized over the estimated useful life of the improvements or the term of the related lease, whichever is shorter. The estimated useful lives of the different categories of property and equipment follow:

	Years
Leasehold improvements	2-5years or the related lease term whichever is shorter
Office furniture, fixtures and equipment	3-5
Transportation equipment	5

Subsequent costs are included in the asset's carrying amount or are recognized as asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the item can be measured reliably. Repairs and maintenance are charged to the statement of income in the period when incurred.

The asset's residual values, useful lives, and depreciation and amortization method are reviewed at each reporting date and adjusted if appropriate to ensure that the period, residual value and the method of depreciation and amortization are consistent with the expected pattern of consumption of future economic benefits embodied in the asset.

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the statement of income in the period when the asset is derecognized.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to the initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognized either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their 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 a change in use. For a 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-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Deferred Software Costs
Deferred software costs are stated at cost, less impairment loss, if any. Cost include the software's purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and any other costs directly attributable to bringing the assets to its intended used. Deferred software costs are not depreciated until such time as the relevant assets are completed and put into operational use.

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

An impairment loss is charged to operations in the year in which it arises, unless the asset is carried at revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

For non-financial assets, an assessment is made at every 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 recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The resulting carrying value cannot exceed the value that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation and amortization is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Leases
The Company assesses at the contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the control of the use of an identified asset for a period of time in exchange for consideration.

Company as lessee
The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i. Right-of-use assets
The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease

liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of use assets are subject to impairment. Refer to the accounting policies in section *Impairment of non-financial assets*.

ii. *Lease liabilities*
At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments ora change in the assessment to purchase the underlying asset. The accretion is presented as ‘Interest expense’ in the Company’s statement of comprehensive income.

iii. *Short-term leases and leases of low-value assets*
The Company applies the short-term lease recognition exemption to its short-term leases of office spaces (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Borrowing Costs
Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized.

For income tax purposes, borrowing costs are treated as deductible expenses during the period such were incurred.

Equity

Capital stock

Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value.

Contributed surplus

Contributed surplus represents the contribution of the stockholders of the Company, in order to comply with the licensing requirement as provided under the Insurance Code of the Philippines (Insurance Code). This also includes the excess of issue price over the par value.

Retained earnings

Retained earnings represent accumulated net income of the Company less dividends declared.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made.

The Company follows a five-step model to account for revenue arising from contracts with customers. The five-step model is as follows:

a. Identify the contract(s) with a customer
b. Identify the performance obligations in the contract
c. Determine the transaction price
d. Allocate the transaction price to the performance obligation in the contract
e. Recognize revenue when (or as) the entity satisfies a performance obligation

Revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company exercises its judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized within the scope of PFRS 15:

VUL management fee

Unit-linked funds are charged for fund management and administration. These fees are recognized as revenue in the period in which the related services are rendered.

Miscellaneous income

Other income is recognized in the profit or loss as it accrues when there is reasonable degree of certainty as to its collectability. This includes recovery of allowance for probable losses, reversal of long-outstanding liabilities and other miscellaneous income items.

Revenues outside the scope of PFRS 15

Premium income

Gross recurring premiums from life insurance contracts are recognized as revenue when payable by the policyholder. For single premium business, revenue is recognized on the date from which the policy becomes effective. For regular premium contracts, receivables are recorded at the date when payments are due.

Interest income
For all interest-bearing financial assets, interest income is recognized using the EIR. The EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial asset or a shorter period, where appropriate, to the net carrying amount of the financial asset. The change in carrying amount is recorded as interest income for the period.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss.

Gain on sale of salary loans classified as FVOCI
Gain on sale of receivables is calculated as the difference between the fair value of the loan on the date of sale and selling price. It is recognized in profit or loss when the sale transaction occurs.

Gains on sale of salary loans classified at amortized cost
Gain on sale of receivables is calculated as the difference between the discounted value of the loan on the date of sale and outstanding principal balance. It is recognized in profit or loss when the sale transaction occurs.

Dividend income
Dividend income is recognized when the Company's right to receive the payment is established.

Fair value gains
Fair value gains include gain and losses from changes in fair value of investment properties measured using fair value model.

Service fees and other income
Service fees on salary loans and other income are recognized as revenue when earned normally upon performance of service. The proportion of service fees attributable to subsequent periods is accounted for as unearned service fees and presented in the statement of financial position under 'Accounts payable and other liabilities'. The change in this account is credited to income as 'Service fees' over the term of the loan.

Benefits and Claims Recognition
Benefits and claims
Insurance benefits and claims are recorded when incurred. These are recorded when notices of claims have been received and dividends have been incurred or when policies reach maturity. For unpaid benefits, a liability is recognized for the estimated cost of all claims made but not settled as of reporting date less reinsurance recoveries. Provision is also made for the cost of IBNR claims until after the reporting date based on the Company's experience and historical data. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in the statement of income of subsequent years. Unpaid benefits to life policies form part of claims payable and IBNR claims included in 'Insurance contract liabilities' in the statement of financial position.

Expenses Recognition

General and administrative expenses

General and administrative expenses are recognized in the statement of income as incurred.

Service fee expense

Service fees charged in relation to salary loan and insurance applications and collections are recognized in the the statement of income when incurred. This includes non-finance charges in relation to salary loan and insurance applications and collections, and guarantee fee expenses in relation to subsequent sale of salary loans to various funders.

Interest expense

Interest expense on accumulated policyholders' dividends and premium deposit fund is recognized in the statement of income as it accrues and is calculated using the effective interest method. Accrued interest is credited to the liability account every policy anniversary date. Interest expense on due to related parties is recognized in the statement of income as it accrues.

Pension Liability

Pension cost is actuarially determined using the projected unit credit method. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes service cost, net interest cost and remeasurement cost.

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 interest expense or interest income in profit or loss.

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

The net pension liability or asset recognized by the Company in respect of its defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The present value of the defined benefit obligation, as computed by an independent actuary, is determined using a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

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

Bonus plans
The Company recognizes a liability and an expense for 13th month and mid-year bonus based on a formula that takes into consideration the employee's current monthly salary. The Company recognizes a provision when contractually obliged.

Sick leave benefits
After one year of service with the Company, the employees earn fifteen (15) days each of sick leave annually, which can be commuted upon separation. Computation is based on the employee's monthly basic salary at the time of separation. The Company recognizes a liability based on the unused sick leave credits as at the reporting date.

Income Tax

Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute this amount are those that are enacted or substantively enacted as at the reporting date. The Company periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss. The carrying amount of deferred tax assets is reviewed at reporting 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 assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered or utilized.

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

Movements in deferred tax assets and liabilities arising from changes in tax rates are credited to or charged against income for the period. Deferred tax relating to items recognized directly in other comprehensive income is also recognized in other comprehensive income and not in the profit or loss.

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

Current tax and deferred tax are recognized in the statement of income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

Provisions
Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

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

Where the Company expects some or all provision to be reimbursed, the reimbursement is recognized only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income net of any reimbursement.

Contingencies
Contingent liabilities are not recognized in the financial statements. They are disclosed in the notes to the financial statements 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 benefits is probable.

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

Standards and Interpretation 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 to 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, 2021

- 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 discontinuing 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 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 periods beginning on or after January 1, 2021 and apply retrospectively, however, the Company is not required to restate prior periods.

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 add a new paragraph to PFRS 3 to clarify that contingent assets 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 , *Plant and Equipment: Proceeds before Intended Use*

  The amendments prohibit 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 to the Company.

- 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 a 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 Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

- *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 that 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 to 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 financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or 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 Company will apply the amendments 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 amendments are not expected to have a material impact to the Company.

  - 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 to the Company.

Effective beginning on or after January 1, 2023

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

  The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, 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 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 Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation].

- 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, 2023, with comparative figures required. Early application is permitted.

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.

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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

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 10% more than the benefits payable if the insured event did not occur.

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 expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Derecognition of salary loans
The Company has entered into contracts of sale of selected salary loans with various funders. The Company has determined, based on an evaluation of the terms and conditions of the agreement, that it has transferred its right to receive cash flows from the sold salary loans and has transferred substantially all the risks and rewards of the assets. As such, the Company has derecognized the sold salary loans.

Business model test
The Company manages its financial assets based on business models that maintain adequate level of financial assets to match expected cash outflows and maintain adequate level of high quality liquid assets while maintaining a strategic portfolio of financial assets for investment activities.

The Company's business model can be to hold financial assets to collect contractual cash flows even when sales of certain financial assets occur. PFRS 9, however, emphasizes that if more than an infrequent number of sales are made out of a portfolio of financial assets carried at amortized cost and those sales are more than insignificant in value (either individually or in aggregate), the entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows.

In making this judgment, the Company considers the circumstances surrounding the disposal. The Company assesses whether disposals of financial instruments at amortized cost in a particular period is not necessarily inconsistent with a held-to-collect business model if the Company expects that such disposals will not recur in the future.

Contractual cash flow characteristics test
In determining the classification of financial assets under PFRS 9, the Company assesses whether the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria.

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

The deductible temporary differences for which deferred tax assets and liabilities were recognized in the statements of financial position as of December 31, 2020 and 2019 are disclosed in Note 26.

Determination of lease term of contracts with renewal and termination options – Company as a lessee
The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

<u>Estimates and Assumptions</u>
The key assumptions concerning future and other key sources of estimation uncertainty at the reporting date that have significant risks of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Leases - Estimating the incremental borrowing rate
The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs such as market interest rates when available and is required to make certain entity-specific estimates.

The Company's lease liabilities amounted to ₱30.74 million and ₱39.77 as of December 31, 2020 and 2019, respectively.

Fair value of investment properties
The fair values of the investment properties were determined by independent professionally qualified appraisers. Based on the latest appraisal conducted, the investment properties have an aggregate fair value of ₱65.20 million and ₱64.16 million as of December 31, 2020 and 2019, respectively, all within Level 3 of the fair value hierarchy (see Note 11). The fair values of the investment properties were determined based on the published selling prices of similar properties in the same vicinity as of the reporting date.

Valuation of liability arising from claims made under insurance contracts
The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Company will ultimately pay for those claims. The primary sources of uncertainties are the frequency of claims due to contingencies covered and the timing of benefit payments.

Estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company bases these estimates on standard mortality and morbidity tables as required by the Code. The estimated number of deaths determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in turn is monitored against current and future premiums.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

In accordance with the provision of the Code, estimates for future deaths, voluntary terminations, investment returns and administration expenses are determined at the inception of the contract and are used to calculate the liability over the term of the contract. At each reporting date, these estimates are reassessed for adequacy and changes will be reflected in the adjustments to the liability.

Estimate of future benefit payments and premiums arising from long-term insurance contracts
Estimates of future benefit payments depend on the expectations of future benefit payments for contingencies covered, the major ones being death and endowment benefits. The Company bases these estimates on mortality and other contingency tables approved by the IC on as well as future investment earnings rate of the assets backing up these liabilities, subject to the maximum rate provided under the Insurance Code. These are also subject to LAT.

Valuation of legal policy reserves
Reserves for traditional life insurance policies are valued using gross premium valuation (GPV). GPV requires the use of best-estimate assumptions including discount rates decrements such as mortality and morbidity, lapse, expenses, non-guaranteed benefits and MfAD in respect of the risks that arise under the insurance policy.

Material judgment is required in determining the liabilities and in the choice of assumptions relating to insurance and investment contracts. Assumptions used are based on past experience, current internal data and conditions and external market indices and benchmarking, which reflect current observable market prices and other published information. Such assumptions are determined as appropriate and prudent estimates at the date of valuation, and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations. Assumptions are also subject to the provisions of the Code and guidelines set by the Insurance Commission.

The key assumptions to which the estimation of liabilities is particularly sensitive follows:

- *Mortality and morbidity*
  The mortality and morbidity assumptions are based on rates of mortality and morbidity that are appropriate to the nature of the risks covered based on the Company's actual experience.

- *Discount rates*
  Discount rates relate to the time value of money. Discount rate assumptions are based on current observed rates in the market adjusted for default risk. The valuation interest rate assumptions are consistent with risk free rates as provided by IC.

  The assumptions are reviewed and revised at each reporting date. A decrease in discount rate would result in remeasurement loss on life insurance reserves.

- *Non-guaranteed benefits*
  The level of non-guaranteed benefits under traditional life insurance policies to be valued, including policy dividends, are determined with due regard to the Company's duty to treat its policyholders fairly and meet policyholders' reasonable expectations.

- *Expenses*
  The expense assumptions are based on the Company's experience derived from its latest expense study.

- *Lapses and/or persistency rates*
  Lapse and/or persistency rates reflective of the Company's actual experience are taken as the best estimate lapse and/or persistency assumption, with regard to changing Company practices and market conditions.

The estimation of liabilities include margin for adverse deviations (MfADs) of +/-10% of the best estimate assumptions as prescribed by IC Circular Letter No. 2016-66.

The carrying value of the legal policy reserves, net of reinsurers' share of liabilities, amounted to ₱1,148.64 million and ₱977.75 million as of December 31, 2020 and 2019, respectively (see Note 13).

Assumptions and methods of reinsurance
The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. Amounts receivable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented under loans and receivables. Even though the Company may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and, thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The Company is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any reinsurance contract.

Fair value of financial assets
Fair value determinations for financial instruments are based generally on listed or quoted market prices. Where the fair values of financial assets and financial liabilities recorded in the statement of financial position or disclosed in the notes to the financial statements cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. Certain financial assets and liabilities were initially recorded at fair values by using the discounted cash flow method.

As of December 31, 2020 and 2019, the carrying value of financial assets at FVTPL amounted to ₱0.66 million and ₱0.61 million, respectively (see Note 7). Financial assets at FVOCI as of December 31, 2020 and 2019 amounted to ₱1.57 billion and ₱1.12 billion, respectively (see Note 6).

Expected credit losses on loans and receivables and salary loans classified as financial assets at FVOCI
The Company reviews its financial assets and commitments at each reporting date to determine the amount of expected credit losses to be recognized in the balance sheet and any changes thereto in the statement of income. In particular, judgments and estimates by management are required in determining the following:

- whether a financial asset has had a significant increase in credit risk since initial recognition;
- whether default has taken place and what comprises a default;
- macro-economic factors that are relevant in measuring a financial asset's probability of default as well as the Company's forecast of these macro-economic factors;
- probability weights applied over a range of possible outcomes;
- sufficiency and appropriateness of data used and relationships assumed in building the components of the Company's expected credit loss models.

Loans and receivable, net of allowance for credit losses, amounted to ₱657.26 million and ₱662.09 million as of December 31, 2020 and 2019, respectively. The allowance for credit losses on loans and receivables amounted to ₱68.46 million and ₱68.76 million as of December 31, 2020 and 2019, respectively (see Note 6). Salary loans classified as financial assets at FVOCI amounted to ₱5.72 million and ₱10.73 million as of December 31, 2020 and 2019, respectively (see Note 6).

Recognition of deferred tax assets
The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available against which all or part of the tax benefits can be utilized. However, there is no absolute assurance that sufficient taxable income will be generated in the near foreseeable future to allow all or part of the recognized deferred tax assets to be utilized. The Company's assessment on the recognition of deferred tax assets on deductible temporary difference is based on the projected taxable income in subsequent years.

As of December 31, 2020 and 2019, recognized deferred tax assets amounted to ₱87.44 million and ₱49.57 million, respectively (see Note 26).

Recognition of pension benefits
The defined benefit pension cost is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of the pension plan, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of reporting date. Future salary increases are based on the expected annual rate of increase as determined by management while mortality rates are based on the Standard Group Annual Mortality Table. As of December 31, 2020 and 2019, net pension liability amounted to ₱44.10 million and ₱42.69 million, respectively (see Note 24).

Existence of contingencies
The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with external and internal legal counsels and based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position as of reporting dates.

4. Cash and Cash Equivalents

This account consists of:

	2020	2019
Cash on hand	**₱109,000**	₱112,000
Cash in banks	**82,266,951**	82,508,725
Short-term placements	**97,043,441**	443,898,783
	₱179,419,392	₱526,519,508

Cash in banks and short-term placements earn interest at prevailing bank deposit rates. Short-term placements are made for varying periods of up to three months or less depending on the immediate cash requirements of the Company. In 2020 and 2019, peso-denominated short-term placements bear annual interest rates ranging from 0.85% to 2.87% and 0.75% to 3.75%, respectively. In 2020 and 2019, dollar-denominated short-term placements bear annual interest rate of 0.25% to 1.50% and 1.50%, respectively.

Interest income from cash and cash equivalents amounted to ₱2.82 million and ₱0.66 million in 2020 and 2019, respectively (see Note 18).

5. Insurance Receivables

This account consists of:

	2020	2019
Premiums due and uncollected	**₱51,510,806**	₱46,988,350
Deferred reinsurance premiums (Note 13)	**4,688,130**	9,305,663
Reinsurance recoverable on paid losses	**4,124,785**	4,124,785
	60,323,721	60,418,798
Less: allowance for credit losses	**(2,062,393)**	(2,062,393)
	₱58,261,328	₱58,356,405

Premiums due and uncollected- net pertains to premiums receivable from policyholders which are within the grace period of 30 days to 6 months. It also includes premiums receivable from various insurance pools.

Deferred reinsurance premiums pertain to share of the reinsurers with respect to the legal policy reserves of the Company (see Note 13).

Reinsurance recoverable on paid losses pertain to amounts recoverable from the reinsurers in respect of claims already paid by the Company which are due and demandable.

6. Financial Assets

The Company's financial assets are summarized by measurement categories as follows:

	2020	2019
Financial assets at FVOCI	**₱1,568,220,806**	₱1,121,613,167
Loans and receivables - net	**657,260,042**	662,094,887
	₱2,225,480,848	₱1,783,708,054

Financial assets at FVOCI
As of December 31, 2020 and 2019 the financial assets at fair value through other comprehensive income of the Company consist of the following:

	2020	2019
Debt instruments		
Government securities	**₱1,463,572,737**	₱1,009,823,628
Salary loans	**5,715,496**	10,733,723
	1,469,288,233	1,020,557,351
Equity investments		
Seed capital in segregated fund assets (Note 7)	**76,917,573**	79,606,816
Proprietary shares	**21,000,000**	19,660,000
Listed equity securities	**1,015,000**	1,789,000
	98,932,573	101,055,816
	₱1,568,220,806	₱1,121,613,167

The movements of financial assets at FVOCI are as follow:

	2020		
	Debt instruments	**Equity investments**	**Total**
At beginning of year	**₱1,020,557,351**	**₱101,055,816**	**₱1,121,613,167**
Additions	**2,646,878,141**	**–**	**2,646,878,141**
Disposals/maturities	**(2,216,934,713)**	**–**	**(2,216,934,713)**
Amortization of discount	**(86,428)**	**–**	**(86,428)**
Fair value gain/(loss)	**18,873,882**	**(2,123,243)**	**16,750,639**
	₱1,469,288,233	**₱98,932,573**	**₱1,568,220,806**

	2019		
	Debt instruments	Equity investments	Total
At beginning of year	₱613,045,184	₱92,960,903	₱706,006,087
Additions	1,845,295,000	–	1,845,295,000
Disposals/maturities	(1,488,255,507)	(1,858,104)	(1,490,113,611)
Amortization of discount	8,755,613	–	8,755,613
Fair value losses	41,717,061	9,953,017	51,670,078
At end of year	₱1,020,557,351	₱101,055,816	₱1,121,613,167

The movements in the revaluation reserve on financial assets at FVOCI are as follow:

	2020		
	Debt instruments	**Equity investments**	**Total**
At beginning of year	**₱16,322,557**	**₱4,456,774**	**₱20,779,331**
Fair value gains/(losses)	**18,873,882**	**(2,123,243)**	**16,750,639**
Income tax effect	**(3,075,439)**	**483,465**	**(2,591,974)**
Transfers to profit and loss	**(1,339,271)**	–	**(1,339,271)**
At end of year	**₱30,781,729**	**₱2,816,996**	**₱33,598,725**

	2019		
	Debt instruments	Equity investments	Total
At beginning of year	(₱23,671,202)	(₱4,349,346)	(₱28,020,548)
Fair value gains	41,717,061	9,953,017	51,670,078
Income tax effect	(391,969)	(1,146,897)	(1,538,866)
Transfers to profit and loss	(1,331,333)	–	(1,331,333)
At end of year	₱16,322,557	₱4,456,774	₱20,779,331

As of December 31, 2020 and 2019, government securities amounting to ₱225.00 million, were designated as restricted investments and maintained with the Bureau of Treasury in compliance with the provisions of the Insurance Commission as security for the benefit of the Company's policyholders and creditors.

Government securities bear interest at rates ranging from 1.00% to 6.38% and 2.50% to 6.38% per annum in 2020 and 2019, respectively. Interest income from government securities and salary loans classified as 'Financial assets at FVOCI' in 2020 and 2019 amounted to ₱72.05 million and ₱77.29 million, respectively (see Note 18).

Loans and receivables
This account consists of:

	2020	2019
Salary loans	**₱631,902,196**	₱632,403,252
Policy loans	**58,173,688**	60,454,506
Due from officers and employees	**4,567,755**	7,789,509
Interest receivable	**8,283,410**	7,433,897
Due from agents	**2,437,195**	4,042,891

(Forward)

	2020	2019
Due from related parties (Note 29)	**₱–**	₱381,588
Other receivables	**20,358,838**	18,344,920
	725,723,082	730,850,563
Less allowance for credit losses	**68,463,040**	68,755,676
	₱657,260,042	₱662,094,887

Salary loans represent loans to DepEd teachers and government agencies' employees with annual interest rates ranging from 4.11% to 9.66% per annum in 2020 and 2019. These loans have terms of one (1) to three (3) years and are collected through salary deduction.

Due from related parties consists of the Company's unsecured non-interest-bearing outstanding receivable for certain operating expenses that are due on demand (see Note 29).

Due from officers and employees consists of car financing and salary loans extended to officers and employees of the Company with annual interest rate of 15.00% and 5.70%, respectively, collected through salary deduction.

Due from agents consists of advance commission and cash advances extended by the Company to its agents with interest rate of 5.00% per annum for cash advances related to satellite offices and 12.00% per annum on other cash advances in 2020 and 2019.

Interest receivable pertains to interest income accrued from government securities and short-term time deposits and investments.

Other receivables are non-interest bearing accounts which pertains to the long outstanding receivables with provisioning.

As of December 31, 2020, allowance for credit losses pertain to salary loans and other receivables amounting to ₱55.79 million and ₱12.68 million, respectively.

As of December 31, 2019, allowance for credit losses pertain to salary loans and other receivables amounting to ₱55.80 million and ₱12.95 million, respectively.

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to salary loans follow:

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at January 1, 2020	**₱407,169,933**	**₱58,321,501**	**₱166,911,818**	**₱632,403,252**
New assets originated or purchased	**1,525,442,000**	**–**	**–**	**1,525,442,000**
Assets derecognized or repaid	**(1,431,273,755)**	**(36,205,844)**	**(51,557,771)**	**(1,519,037,370)**
Transfers to Stage 1	**2,699,862**	**(1,945,179)**	**(754,683)**	**–**
Transfers to Stage 2	**(13,340,508)**	**13,832,765**	**(492,257)**	**–**
Transfers to Stage 3	**(16,396,784)**	**(12,709,113)**	**29,105,897**	**–**
Amounts written-off	**(237,098)**	**–**	**(6,668,588)**	**(6,905,686)**
	₱474,063,650	**₱21,294,130**	**₱136,544,416**	**₱631,902,196**
ECL allowance as at January 1, 2020	**₱6,143,267**	**₱2,542,546**	**₱47,117,206**	**₱55,803,019**
Provision for (recovery of) credit losses	**1,549,637**	**(2,174,912)**	**4,936,032**	**4,310,757**
Transfers to Stage 1	**246,633**	**(57,087)**	**(189,546)**	**–**
Transfers to Stage 2	**(288,987)**	**409,058**	**(120,071)**	**–**
Transfers to Stage 3	**(280,090)**	**(365,938)**	**646,028**	**–**
Amounts written-off	**(743)**	**–**	**(4,325,717)**	**(4,326,460)**
	₱7,369,717	**₱353,667**	**₱48,063,932**	**₱55,787,316**

	2019			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2019	₱665,106,026	₱76,132,849	₱197,134,705	₱938,373,580
New assets originated or purchased	2,331,481,903	–	–	2,331,481,903
Assets derecognized or repaid	(2,542,791,555)	(25,928,171)	(47,274,145)	(2,615,993,871)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(21,393,679)	21,717,793	(324,114)	–
Transfers to Stage 3	(25,232,762)	(13,600,970)	38,833,732	–
Amounts written-off	–	–	(21,458,360)	(21,458,360)
	₱407,169,933	₱58,321,501	₱166,911,818	₱632,403,252
ECL allowance as at January 1, 2019	₱10,153,381	₱1,994,673	₱66,398,502	₱78,546,556
Provision for (recovery of) credit losses	6,337,605	3,412,863	(7,877,950)	1,872,518
Assets derecognized or repaid (excluding write-offs)	(648,272)	(16,697)	(2,492,726)	(3,157,695)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(1,096,930)	1,286,559	(189,629)	–
Transfers to Stage 3	(8,602,517)	(4,134,852)	12,737,369	–
Amounts written-off	–	–	(21,458,360)	(21,458,360)
	₱6,143,267	₱2,542,546	₱47,117,206	₱55,803,019

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to other receivables follow:

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at January 1, 2019	**₱711,571**	**₱–**	**₱17,633,349**	**₱18,344,920**
New assets originated or purchased	**3,938,931**	**–**	**–**	**3,938,931**
Assets derecognized or repaid	**(1,155,008)**	**–**	**(770,005)**	**(1,925,013)**
Transfers to Stage 1	**–**	**–**	**–**	**–**
Transfers to Stage 2	**–**	**–**	**–**	**–**
Transfers to Stage 3	**–**	**–**	**–**	**–**
	₱3,495,494	**₱–**	**₱16,863,344**	**₱20,358,838**
ECL allowance as at January 1, 2019	**₱–**	**₱–**	**₱12,952,657**	**₱12,952,657**
Recovery of credit losses	**–**	**–**	**(276,933)**	**(276,933)**
Transfers to Stage 1	**–**	**–**	**–**	**–**
Transfers to Stage 2	**–**	**–**	**–**	**–**
Transfers to Stage 3	**–**	**–**	**–**	**–**
	₱–	**₱–**	**₱12,675,724**	**₱12,675,724**

	2019			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2019	₱11,616,595	₱–	₱24,222,384	₱35,838,979
New assets originated or purchased	51,604	–	–	51,604
Assets derecognized or repaid	(10,956,628)	–	(6,589,035)	(17,545,663)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
	₱711,571	₱–	₱17,633,349	₱18,344,920
ECL allowance as at January 1, 2019	₱–	₱–	₱22,159,991	₱22,159,991
Recovery of credit losses	–	–	(9,207,334)	(9,207,334)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Amounts written-off	–	–	–	–
	₱–	₱–	₱12,952,657	₱12,952,657

Policy loans pertain to loans issued to insurance policyholders. These loans are collateralized with the cash surrender value of the policyholders' insurance policy. The annual interest rate on policy loans is fixed at 10.00%. The policyholders may repay the policy loans any time during the effectivity of the policy and if unpaid upon surrender or maturity, the policy loan will be deducted from the surrender or maturity benefits. Policy loans are presented gross of the unearned interest income amounting to ₱2.56 million and ₱2.71 million as of December 31, 2020 and 2019, respectively (see Note 15). Interest income from policy loans in 2020 and 2019 amounted to ₱5.59 million and ₱5.39 million, respectively (see Note 18).

On March 25, 2020, Republic Act No. 11469, otherwise known as the Bayanihan to Heal as One Act ("Bayanihan 1 Act") was enacted. Bayanihan 1 Act provides that all covered institutions shall implement a 30-day grace period for all loans with principal and/or interest and lease amortization falling due within the ECQ Period without incurring interest on interest, penalties, fees and other charges. Subsequently, on September 11, 2020, Republic Act No. 11494, otherwise known as the Bayanihan to Recover as One Act ("Bayanihan 2 Act"), was enacted. Under Bayanihan 2 Act, a one-time sixty (60)-day grace period is granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interests, penalties, fees, or other charges and thereby extending the maturity of the said loans. Furthermore, a minimum 30-day grace period shall also be granted by covered institutions to all payments due within the period of community quarantine on rent and utility-related expenditures without incurring penalties, interest and other charges.

Based on the Company's assessment, the modifications in the contractual cash flows as a result of the above reliefs are not substantial and therefore do not result in the derecognition of the affected financial assets. The impact of the loan modification including the subsequent accretion of the modified loans is not material to the Company's financial statements.

In 2020 and 2019, the Company sold salary loans at fair value through other comprehensive income to its identified funders with carrying amounts of ₱949.68 million and ₱1.27 billion, respectively, and resulted to a gain on sale amounting to ₱43.02 million and ₱44.09 million, respectively (see Note 29).

On December 31, 2020, the Company sold salary loans classified at amortized cost to its identified funders with carrying amount of ₱7.33 million, resulting to a gain on sale amounting to ₱0.20 million. The sale was made as part of the Company's capital raising activities to comply to the minimum capital requirement of the IC. Out of the total ₱7.33 million disposal of salary loans classified at amortized cost, ₱0.33 million are close to maturity (i.e. three (3) months or less) and the remaining salary loans that are disposed amounting to ₱7.00 million are deemed to be insignificant.

On December 31, 2019, the Company sold salary loans classified at amortized cost to its identified funders with carrying amount of ₱46.67 million, resulting to a gain on sale amounting to ₱1.45 million. The sale was made as part of the Company's capital raising activities in response to an unanticipated regulatory change which the Company has assessed to have a significant impact on its operations. The IC issued Circular letter 2019-75 on December 27, 2019 changing the method of estimating the discount rate for legal policy reserves from a two-year historical yield rate for government bonds to a one-year historical yield rate for government bonds in 2019. This increased the legal policy reserves of the Company that reduced the Company's net worth. The Company has assessed that such sales are not more than infrequent and not more than insignificant and will not likely to occur in the future.

In 2020 and 2019, interest income on loans and receivables amounted to ₱67.58 million and ₱61.75 million, respectively (see Note 18).

7. **Segregated Fund Assets/Segregated Fund Liabilities**

In 2015, the Company started commercial issuance of unit-linked insurance contracts where the payments to policyholders are linked to investment funds set up by the Company. As of December 31, 2020 and 2019, the Company has four (4) insurance investment funds (IIFs) namely: Opportunity Fund, Balanced Fund, Equity Fund and Medium-term Fund.

The details of this account are as follows:

	December 31, 2020		
	Segregated fund assets/liabilities	**Seed capital** (Note 6)	**Net assets**
Opportunity fund	**₱262,001**	**₱18,311,576**	**₱18,573,577**
Balanced fund	**228,561**	**18,168,297**	**18,396,858**
Equity fund	**171,761**	**17,441,715**	**17,613,476**
Medium-term fund	**–**	**22,995,985**	**22,995,985**
	₱662,323	**₱76,917,573**	**₱77,579,896**

	December 31, 2019		
	Segregated fund assets/liabilities	Seed capital (Note 6)	Net assets
Opportunity fund	₱231,798	₱19,911,915	₱20,143,713
Balanced fund	189,647	19,033,184	19,222,831
Equity fund	190,103	19,170,198	19,360,301
Medium-term fund	–	21,491,519	21,491,519
	₱611,548	₱79,606,816	₱80,218,364

The breakdown of net assets in segregated funds follows:

	December 31, 2020				
	Opportunity Fund	**Balanced Fund**	**Equity Fund**	**Medium Term Fund**	**Total**
Cash and cash equivalents	**₱220,151**	**₱270,990**	**₱202,507**	**₱264,473**	**₱958,121**
Listed equity securities	**14,887,070**	**9,739,066**	**17,460,931**	**–**	**42,087,067**
Government securities	**3,463,421**	**8,339,092**	**–**	**22,341,161**	**34,143,674**
Corporate debt securities	**–**	**–**	**–**	**204,723**	**204,723**
Accrued income	**38,858**	**81,628**	**–**	**197,043**	**317,529**
Other assets	**9,040**	**6,274**	**10,472**	**–**	**25,786**
Accounts payable and accrued expenses	**(44,963)**	**(40,192)**	**(60,434)**	**(11,415)**	**(157,004)**
Net assets	**18,573,577**	**18,396,858**	**17,613,476**	**22,995,985**	**77,579,896**
Less: Seed capital	**18,311,576**	**18,168,297**	**17,441,715**	**22,995,985**	**76,917,573**
Segregated fund liabilities	**₱262,001**	**₱228,561**	**₱171,761**	**₱–**	**₱662,323**

	December 31, 2019				
	Opportunity Fund	Balanced Fund	Equity Fund	Medium Term Fund	Total
Cash and cash equivalents	₱535,007	₱888,955	₱791,442	₱2,305,135	₱4,520,539
Listed equity securities	16,289,698	10,787,910	17,475,530	–	44,553,138
Government securities	3,297,598	7,507,080	–	18,803,673	29,608,351
Corporate debt securities	–	–	–	191,191	191,191
Accrued income	56,479	81,545	13,579	200,966	352,569

(Forward)

	December 31, 2019				
	Opportunity Fund	Balanced Fund	Equity Fund	Medium Term Fund	Total
Other assets	₱–	₱11,424	₱1,113,701	₱1,213	₱1,126,338
Accounts payable and accrued expenses	(35,069)	(54,083)	(33,951)	(10,659)	(133,762)
Net assets	20,143,713	19,222,831	19,360,301	21,491,519	80,218,364
Less: Seed capital	19,911,915	19,033,184	19,170,198	21,491,519	79,606,816
Segregated fund liabilities	₱231,798	₱189,647	₱190,103	₱–	₱611,548

8. Investment in Subsidiaries

This account represents the Company's investment in All Asia Asset Management, Inc. (AAMI) and JAE Finance Philippines Corp. (JAE) which are both wholly owned subsidiaries of the Company. Investment in subsidiaries in 2020 and 2019 consists of:

JAE	**₱12,499,995**
AAMI	**4,674,002**
	₱17,173,997

AAMI's business is to provide institutional medium which will initiate, promote and render consultancy, technical, research, advisory, management, administrative, and rehabilitation services in all phases, to mutual funds and other kinds of institutions and enterprises, and in relation to such services, to act as agent or representative of natural, or juridical persons whether domestic or foreign as maybe permitted by law.

The financial highlights of AAMI as of and for the years ended December 31, 2020 and 2019 follow:

	2020	2019
Total assets	**₱6,209,067**	₱6,193,051
Total liabilities	**251,987**	253,267
Net assets	**5,957,080**	5,939,784
Net income (loss)	**17,296**	(12,875)

In the first quarter of 2018, the Company sought the approval of the IC to set-up JAE Finance Philippines Corp. (JAE) to operate as a financing Company with initial capital of ₱12.50 million. On March 5, 2018, the IC expressed no objection to this provided that the investment shall at all times be in accordance with Section 2016 (b) (6) of the Amended Insurance Code R.A. 10607.

The dates of incorporation and registration of JAE are May 16, 2018 and August 1, 2018, respectively.

In February 2020, JAE started its commercial operations.

The financial highlights of JAE as of and for the years ended December 31, 2020 and 2019 follow:

	2020	2019
Total assets	**₱12,161,292**	₱12,519,040
Total liabilities	**52,543**	413,809
Net assets	**12,108,749**	12,105,231
Net income (loss)	**3,518**	(58,821)

9. Property and Equipment

The rollforward analysis of this account follows:

	December 31, 2020			
	Leasehold Improvements	**Office Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Total**
Cost				
At beginning of year	**₱64,233,431**	**₱137,798,753**	**₱1,942,497**	**₱203,974,681**
Acquisitions	**1,852,377**	**11,795,598**	**–**	**13,647,975**
At end of year	**₱66,085,808**	**₱149,594,351**	**₱1,942,497**	**₱217,622,656**
Accumulated depreciation and amortization				
At beginning of year	**₱47,283,210**	**₱122,070,863**	**₱1,942,491**	**₱171,296,564**
Depreciation (Note 25)	**4,572,186**	**8,850,273**	**–**	**13,422,459**
At end of year	**51,855,396**	**130,921,136**	**1,942,491**	**184,719,023**
Net book value	**₱14,230,412**	**₱18,673,215**	**₱6**	**₱32,903,633**

	December 31, 2019			
	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost				
At beginning of year	₱46,137,979	₱133,078,019	₱1,942,497	₱181,158,495
Acquisitions	18,095,452	4,869,216	–	22,964,668
Disposals	–	(148,482)	–	(148,482)
At end of year	₱64,233,431	₱137,798,753	₱1,942,497	₱203,974,681
Accumulated depreciation and amortization				
At beginning of the year	₱43,825,589	₱111,580,002	₱1,942,491	₱157,348,082
Depreciation (Note 25)	3,457,621	10,639,337	–	14,096,958
Disposals	–	(148,476)	–	(148,476)
At end of year	47,283,210	122,070,863	1,942,491	171,296,564
Net book value	₱16,950,221	₱15,727,890	₱6	₱32,678,117

As of December 31, 2020 and 2019, the cost of fully depreciated property and equipment still in use amounted to ₱82.08 million and ₱60.62 million, respectively.

10. Right-of-use assets and Lease liabilities

The Company has lease contracts for its office spaces used in operations which generally have lease terms of 2 to 5 years.

The Company also entered into certain leases of buildings with terms of 12 months or less and leases of office equipment with low value. The Company applies the ‘short-term lease’ and ‘lease of low-value assets’ recognition exemptions for these leases.

The rollforward analysis of right-of-use assets follow:

	2020	2019
Cost		
At January 1	**₱42,068,480**	₱192,371
Additions	**162,707**	41,876,109
Lease termination	**(192,371)**	–
As at December 31	**42,038,816**	₱42,068,480
Accumulated depreciation		
At January 1	**3,297,381**	₱–
Depreciation	**10,009,974**	3,297,381
Lease termination	**(105,494)**	–
As at December 31	**13,201,861**	3,297,381
Net Book Value	**₱28,836,955**	₱38,771,099

The rollforward analysis of lease liabilities follows:

	2020	2019
At January 1	**₱39,774,304**	₱192,371
Additions	**155,654**	41,876,109
Interest expense	**2,607,648**	519,511
Lease concessions	**(83,525)**	–
Payments	**(11,618,462)**	(2,813,687)
Lease termination	**(95,725)**	–
As at December 31	**₱30,739,894**	₱39,774,304

The following are the amounts recognized in the statement of income:

	2020	2019
Depreciation expense of right-of-use assets (Note 25)	**₱10,009,974**	₱3,297,381
Interest expense on lease liabilities	**2,607,648**	519,511
Rent expense (Note 25)	**6,678,037**	13,642,079
Total amount recognized in statement of income	**₱19,295,659**	₱17,458,971

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

	2020	2019
Within 1 year	**₱11,941,507**	₱14,919,605
More than 1 year to 2 years	**9,974,794**	10,403,020
More than 2 years to 3 years	**10,199,756**	9,916,694
More than 3 years to 4 years	**8,851,076**	10,199,756
More than4 years to 5 years	**–**	8,851,076
	₱40,967,133	₱54,290,151

11. **Investment Properties**

The rollforward analysis of this account follows:

	2020	2018
At beginning of year	**₱64,160,468**	₱51,944,468
Fair value gains on investment properties	**1,035,000**	12,216,000
At end of year	**₱65,195,468**	₱64,160,468

This account consists of residential lots.

The fair values of the investment properties were determined by independent professionally qualified appraisers. Based on the latest appraisal conducted, the investment properties have an aggregate fair value of ₱65.20 million and ₱64.16 million as of December 31, 2020 and 2019, respectively, all within Level 3 of the fair value hierarchy. The fair values of the investment properties were determined based on the published selling prices of similar properties in the same vicinity as of the reporting date.

Considering the current development trends in the area and the character of Riviera lots, a residential land development for each lot would represent the highest and best use of the property.

Description of valuation techniques used and key inputs to valuation on investment properties:

			December 31	
			2020	2019
Location	Valuation techniques	Significant unobservable inputs	**Range (weighted average)**	Range (weighted average)
Riviera Golf & Country Club, Silang Cavite	Sales comparison approach	Estimated computed value per sq. m.	₱6,600 to ₱10,900 (₱8,499)	₱6,500 to ₱10,800 (₱8,372)
		Adjustments for: Bargaining allowance	-10%	-10%

12. **Other Assets**

This account consists of:

	2020	2019
Deferred software costs	**₱35,904,108**	₱28,667,102
Rental and other deposits (Note 25)	**3,957,852**	2,414,286
Documentary stamps inventory	**1,059,980**	963,799
Prepayments	**1,200,472**	32,000
Security fund	**20,445**	20,445
	₱42,142,857	₱32,097,632

Deferred software costs pertain to costs incurred by the Company in acquiring a new system for its insurance and loan activities which is still being enhanced as of December 31, 2020.

Rental deposits include refundable deposits in relation to lease contracts entered into by the Company and other deposits for advertising and occupancy costs.

Prepayments include membership dues and advance rentals.

Documentary stamps inventory pertains to funding for payments of documentary stamp taxes on life insurance policies, lease contracts, and original issuance of debt instruments, including salary loan and policy loan applications.

The security fund is maintained in accordance with Section 378 of the Amended Insurance Code. The amount of such fund is determined by and deposited with the IC and its purpose is to pay valid claims of insolvent insurance companies.

13. Insurance Contract Liabilities

This account consists of:

	2020	2019
Legal policy reserves	**₱1,153,326,809**	₱987,053,792
Experience refund payable	**25,135,972**	20,300,461
Policyholders' dividends payable	**33,155,677**	38,019,236
IBNR claims	**55,906,845**	51,697,025
Claims payable	**84,389,628**	68,882,802
	₱1,351,914,931	₱1,165,953,316

Legal policy reserves may be analyzed as follows:

	December 31, 2020			December 31, 2019		
	Gross	Reinsurers' Share of Liabilities (Note 5)	Net	Gross	Reinsurers' Share of Liabilities (Note 5)	Net
Reserves for:						
Ordinary life insurance	**₱810,667,653**	**₱1,238,287**	**₱809,429,366**	₱683,859,583	₱1,196,288	₱682,663,295
Ordinary total and permanent disability	**5,432,034**	**–**	**5,432,034**	(891,785)	–	(891,785)
Ordinary accidental death benefits	**8,932,968**	**–**	**8,932,968**	7,989,076	–	7,989,076
Ordinary supplementary contracts	**16,211,909**	**–**	**16,211,909**	15,841,845	–	15,841,845
Group life insurance	**312,082,245**	**3,449,843**	**308,632,402**	280,255,073	8,109,375	272,145,698
	₱1,153,326,809	**₱4,688,130**	**₱1,148,638,679**	₱987,053,792	₱9,305,663	₱977,748,129

The movements in legal policy reserves follow:

	December 31, 2020			December 31, 2019		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 5)	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 5)	Net
At beginning of year	**₱987,053,792**	**₱9,305,663**	**₱977,748,129**	₱911,703,605	₱1,382,599	₱910,321,006
New business, reinstatement and change in policy year	**486,673,175**	**–**	**486,673,175**	397,520,343	–	397,520,343
Released by death and other terminations, and supplementary contract	**(46,929,603)**	**–**	**(46,929,603)**	(37,964,918)	–	(37,964,918)
Due to changes in discount rates and other assumptions	**(273,470,555)**	**(4,617,533)**	**(268,853,022)**	(284,205,238)	7,923,064	(292,128,302)
At end of year	**₱1,153,326,809**	**₱4,688,130**	**₱1,148,638,679**	₱987,053,792	₱9,305,663	₱977,748,129

As of December 31, 2020 and 2019, the Company recognized remeasurement loss on life insurance reserves amounting to ₱115.17 million and ₱22.79 million, respectively, net of deferred tax (see Note 26)

The movements in experience refund payable follow:

	2020	2019
At beginning of year	**₱20,300,461**	₱12,868,930
Provisions (Note 20)	**22,942,420**	30,959,221
Payments	**(18,106,909)**	(23,527,690)
At end of year	**₱25,135,972**	₱20,300,461

The movements in policyholders' dividends payable follow:

	2020	2019
At beginning of year	**₱38,019,236**	₱41,764,208
Provisions (Note 20)	**1,683,468**	4,056,644
Payments	**(6,547,027)**	(7,801,616)
At end of year	**₱33,155,677**	₱38,019,236

The movements in IBNR claims follow:

	2020	2019
At beginning of year	**₱51,697,025**	₱63,646,343
Provisions/(reversal) (Note 20)	**4,209,820**	(11,949,318)
At end of year	**₱55,906,845**	₱51,697,025

The movements in claims payable follow:

	2020	2019
At beginning of year	**₱68,882,802**	₱59,216,394
Provisions (Note 20)	**178,947,520**	199,624,851
Payments	**(163,440,694)**	(189,958,443)
At end of year	**₱84,389,628**	₱68,882,802

Sensitivities
The analysis below is performed for a reasonable possible movement in key assumptions, related to mortality and discount rate, with all other assumptions held constant, on the statement of income, statement of comprehensive income and statement of changes in equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumption changes had to be done on an individual basis.

The assumptions that have the greatest effect on the statement of financial position, statement of income, statement of comprehensive income and statement of changes in equity are listed below:

	December 31, 2020				
	Change in Assumptions	**Increase/ (Decrease) in Gross Liabilities**	**Increase/ (Decrease) in Net Liabilities**	**Increase/ (Decrease) in Profit Before Tax**	**Increase/ (Decrease) in Equity**
Mortality	**+10.00%**	**₱45,290,609**	**₱45,290,609**	**(₱45,290,609)**	**(₱45,290,609)**
	-10.00%	**(48,793,660)**	**(48,793,660)**	**48,793,660**	**48,793,660**
Discount rate	**-1.00%**	**110,986,092**	**110,986,092**	**–**	**(110,986,092)**

	December 31, 2019				
	Change in Assumptions	Increase/ (Decrease) in Gross Liabilities	Increase/ (Decrease) in Net Liabilities	Increase/ (Decrease) in Profit Before Tax	Increase/ (Decrease) in Equity
Mortality	+10.00%	₱47,002,208	₱47,002,208	(₱47,002,208)	(₱47,002,208)
	-10.00%	(46,751,458)	(46,751,458)	46,751,458	46,751,458
Discount rate	-1.00%	88,161,849	88,161,849	–	(88,161,849)

14. Premium Deposit Fund

This account pertains to funds held for policyholders with interest ranging from 2.00% to 3.00% in 2020 and 2019. Interest expense charged to income in 2020 and 2019 amounted to ₱0.61 million and ₱0.13 million, respectively. As of December 31, 2020 and 2019, premium deposit fund amounted to ₱16.19 million and ₱21.84 million, respectively.

15. Accounts Payable and Other Liabilities

This account consists of:

	2020	2019
Accounts payable	**₱55,868,100**	₱87,613,817
Accrued expenses	**38,377,314**	44,187,708
Life insurance deposits	**28,359,360**	38,148,925
Due to reinsurers	**20,931,874**	15,290,285
Due to agents	**12,354,802**	11,205,902
Unearned service fees	**14,541,231**	10,117,242
Taxes payable	**5,856,538**	7,419,602
Unearned interest income	**2,560,685**	2,708,470
Interest payable	**1,396,801**	1,399,530
Government contributions payable	**394,881**	322,937
	₱180,641,586	₱218,414,418

Accounts payable mostly consists of non-interest-bearing liabilities that are due and demandable.

Accrued expenses consist mainly of accruals for employee benefits, utilities, insurance expenses and professional fees.

Life insurance deposits pertain to advance premium collections from policyholders which will be recognized as premium income when due, and collections pertaining to policies not yet approved which will be recognized as income upon approval.

Due to agents pertain to the commissions and fidelity fund payable to agents that are due and demandable.

Unearned service fees pertain to the proportion of service fees from salary loans attributable to subsequent periods.

Taxes payable includes taxes withheld from employees, agents & suppliers, premium taxes and stamp duties.

Unearned interest income pertains to unearned interest income from policy loans.

Government contributions payable includes Philhealth premium, SSS contribution and loans, SSS premium, SSS loans, HDMF contribution and loans, HDMF premiums and HDMF loans payable.

Due to reinsurers pertains to premiums payable to reinsurers which are noninterest bearing.

16. **Equity**

Capital stock
Details of the Company's capital stock as of December 31, 2020 and 2019 follow:

	2020		2019	
	Shares	**Amount**	Shares	Amount
Capital stock - ₱0.01 par value per common share				
Authorized as of beginning and end of year	**35,000,000,000**	**₱350,000,000**	35,000,000,000	₱350,000,000
Issued and outstanding as of beginning of year	**27,095,557,420**	**270,955,574**	27,095,557,420	270,955,574
Issued and outstanding during the year	**810,527,153**	**8,105,272**	–	–
Issued and outstanding as of end of year	**27,906,084,573**	**₱279,060,846**	27,095,557,420	₱270,955,574

Retained earnings
As of December 31, the Company's retained earnings follow:

	2020	2019
Retained earnings		
Unappropriated	**₱729,772,540**	₱623,227,209
Appropriated	**10,246,790**	12,345,418
	₱740,019,330	₱635,572,627

Under IC Circular Letter 2016-66, the Company is required to appropriate from its unassigned retained earnings an amount equal to the aggregate of the negative reserves of traditional life insurance policy. On April 7, 2021 and May 20, 2020, the BOD has appropriated ₱6.41 million and ₱10.25 million of its unappropriated retained earning relating to the movement of the negative reserves for 2020 and 2019, respectively.

On May 20, 2020, the BOD approved the issuance of 810,529,408 shares at ₱0.037 per share amounting to ₱30.00 million from the Company's unissued capital stock through a subscription rights offering to existing shareholders to cover up for the net worth deficiency. In May 2020 and June 2020, the additional shares were fully subscribed and paid.

The Company's estimated net worth as of December 31, 2020 is at ₱909.69 million.

17. Net Insurance Premiums

This account consists of:

	2020	2019
Gross premiums on insurance contracts		
Group life insurance (Note 29)	**₱420,376,319**	₱476,584,391
Ordinary life insurance	**64,208,298**	76,670,250
Unit-linked	**5,000**	1,850
	484,589,617	553,256,491
Reinsurers' share of gross premiums on insurance contracts		
Group life insurance	**(5,811,592)**	(15,055,775)
Ordinary life insurance	**–**	(2,990,444)
	(5,811,592)	(18,046,219)
	₱478,778,025	₱535,210,272

18. Interest Income

This account consists of interest arising from:

	2020	2019
Financial assets at FVOCI (Note 6)	**₱72,052,826**	₱77,294,962
Loans and receivables (Notes 6 and 29)	**67,578,459**	61,751,262
Cash and cash equivalents (Note 4)	**2,822,394**	660,555
	₱142,453,679	₱139,706,779

19. Other Income

This account consists of:

	2020	2019
Derecognition of financial liabilities	**₱38,488,817**	₱7,052,279
VUL management fee	**1,264,706**	1,506,556
Dividend income	**–**	140,000
Miscellaneous	**906,708**	362,466
	₱40,660,231	₱9,061,301

Derecognition of financial liabilities pertain mostly to reversal of long-outstanding accounts payable from excess loan collections which are inactive for the last five (5) years.

20. Benefits and Claims Incurred on Insurance Contracts

This account consists of:

	2020	2019
Claims (Note 13)	**₱183,157,340**	₱187,675,533
Surrenders	**26,931,581**	48,385,232
Experience refund (Note 13)	**22,942,420**	30,959,221
Maturities, policyholders' dividends and others	**16,032,863**	11,914,520
	₱249,064,204	₱278,934,506

Benefits and claims incurred on insurance contracts can be further analyzed as follows:

	2020	2019
Group life insurance	**₱201,711,621**	₱234,357,880
Ordinary life insurance	**47,352,583**	44,576,626
	₱249,064,204	₱278,934,506

21. Commissions and Other Underwriting Expenses

This account consists of:

	2020	2019
Commissions	**₱72,441,554**	₱93,241,348
Salaries, wages and employees' benefits (Note 23)	**69,438,491**	79,228,363
Others	**3,016,940**	8,213,161
	₱144,896,985	₱180,682,872

22. General and Administrative Expenses

This account consists of:

	2020	2019
Occupancy costs (Note 25)	**₱37,373,433**	₱48,134,426
Professional fees	**33,079,297**	32,300,826
Salaries, wages and employees' benefits (Note 23)	**20,596,869**	23,808,864
Postage and communication	**7,881,263**	7,431,336
Transportation and travel	**4,259,063**	5,378,365
Provision (reversal of provision) for credit losses on loans and receivables (Note 6)	**4,033,824**	(5,702,891)
Security and sanitation	**3,976,727**	6,407,169
Printing and supplies	**2,078,879**	3,371,038
Membership fees	**2,019,805**	2,225,517
Representation and entertainment	**1,050,776**	1,366,849
Insurance expense	**209,669**	338,593
Others	**428,097**	5,276,923
	₱116,987,702	₱130,337,015

Others include the Company's advertising, workshop, seminar expenses and tax settlement.

23. Salaries, Wages and Employees' Benefits

This account consists of:

	2020	2019
Salaries, wages and other benefits	**₱83,122,183**	₱96,438,358
Pension expense (Note 24)	**3,488,061**	3,457,147
SSS, Medicare and Pag-IBIG contributions	**3,425,116**	3,141,722
	₱90,035,360	₱103,037,227

Salaries, wages and employees' benefits are charged as follows:

	2020	2019
Commissions and other underwriting expenses (Note 21)	**₱69,438,491**	₱79,228,363
General and administrative expenses (Note 22)	**20,596,869**	23,808,864
	₱90,035,360	₱103,037,227

24. Pension Plan

The Company has an unfunded, non-contributory defined benefit plan (the Plan) providing death, disability and retirement benefits for all of its employees. Under the Plan, the normal retirement age is sixty and the employee should have completed at least ten years of service. Normal retirement benefit consists of a lump-sum benefit equivalent to 100% of the employee's final monthly pay for every year of service.

Changes in net pension obligation follow:

	December 31, 2020		
	Present Value of Pension Obligation	**Fair Value of Plan Assets**	**Net Pension Obligation**
Balance at beginning of year	**₱43,261,149**	**₱570,183**	**₱42,690,966**
Expense recognized in statements of income			
Current service cost	**3,488,061**	**–**	**3,488,061**
Net interest cost	**2,085,187**	**27,483**	**2,057,704**
	5,573,248	**27,483**	**5,545,765**
Benefits paid	**(5,871,366)**	**(5,871,366)**	**–**
Contributions	**–**	**9,359,427**	**(9,359,427)**
Remeasurements in OCI			
Actuarial changes arising from:			
Loss on plan assets	**–**	**(9,983)**	**9,983**
Financial assumptions	**4,987,399**	**–**	**4,987,399**
Experience adjustments	**227,163**	**–**	**227,163**
	5,214,562	**(9,983)**	**5,224,545**
Balance at end of year	**₱48,177,593**	**₱4,075,744**	**₱44,101,849**

	December 31, 2019		
	Present Value of Pension Obligation	Fair Value of Plan Assets	Net Pension Obligation
Balance at beginning of year	₱35,980,255	₱528,807	₱35,451,448
Expense recognized in statements of income			
Current service cost	3,457,147	–	3,457,147
Net interest cost	2,874,822	42,252	2,832,570
	6,331,969	42,252	6,289,717
Benefits paid	(1,613,897)	(1,613,897)	–
Contributions	–	1,613,897	(1,613,897)
Remeasurements in OCI			
Actuarial changes arising from:			
Loss on plan assets	–	(876)	876
Demographic assumptions	(31,613)	–	(31,613)
Financial assumptions	4,275,567	–	4,275,567
Experience adjustments	(1,681,132)	–	(1,681,132)
	2,562,822	(876)	2,563,698
Balance at end of year	₱43,261,149	₱570,183	₱42,690,966

The fair value of plan assets by each class are as follows:

	2020	2019
Money market	**₱2,801,224**	₱1,229
Cash	**679,590**	551
Fixed income	**516,002**	515,743
Unit investment trust funds	**78,928**	52,660
	₱4,075,744	₱570,183

The Company’s plan assets are carried at fair value. The fair value of cash approximates its carrying amount due to the short-term nature of the account.

Movements in ‘Reserves on actuarial gains’ in OCI follows:

	2020	2019
Balance at beginning of year	**₱5,729,598**	₱7,524,187
Remeasurement gains on retirement plan in OCI		
Loss on plan asset	**(9,983)**	(876)
Due to changes in financial assumptions	**(4,987,399)**	(4,275,567)
Due to experience adjustments	**(227,163)**	1,681,132
Due to demographic assumptions	–	31,613
Remeasurement (losses) during the year	**(5,224,545)**	(2,563,698)
Tax effect	**(1,567,364)**	(769,109)
Remeasurement (losses) on retirement plan during the year, net of tax	**(3,657,181)**	(1,794,589)
Balance at end of year, net of tax	**₱2,072,417**	₱5,729,598

The cost of defined benefit retirement plans as well as the present value of the benefit obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The assumptions used for the years ended December 31, 2020 and 2019 follow:

	2020	2019
Discount rate	**3.33%**	4.82%
Salary increase rate	**3.00%**	3.00%
Mortality rate	**1994 GAMT**	1994 GAMT
	1952 Disability	1952 Disability
Disability rate	**Table**	Table
Average remaining working lives of employees	**14 years**	13 years

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

	2020		2019	
	Change in variable	**Increase (decrease) in defined benefit obligation**	Change in variable	Increase (decrease) in defined benefit obligation
Discount rate	**+1.00%**	**(₱3,448,920)**	+1.00%	(₱2,948,335)
	-1.00%	**3,977,991**	-1.00%	3,322,881
Salary increase rate	**+1.00%**	**3,932,043**	+1.00%	3,368,897
	-1.00%	**(3,527,110)**	-1.00%	(3,085,005)
Employee turnover	**+10.00%**	**(415,324)**	+10.00%	(147,794)
	-10.00%	**415,324**	-10.00%	147,794

The maturity analysis of the undiscounted benefit payments follow:

	2020	2019
Within 1 year	**₱6,321,966**	₱6,168,545
More than 1 year to 5 years	**23,855,353**	23,524,991
More than 5 years to 20 years	**90,075,412**	93,096,200

As of December 31, 2020, the average duration of the expected benefits is 14 years.

25. **Occupancy Costs**

This account consists of:

	2020	2019
Depreciation and amortization (Notes 9 and 10)	**₱23,432,433**	₱17,394,339
Rent (Note 10)	**6,678,037**	13,642,079
Repairs and maintenance	**2,733,425**	10,378,290
Light and water	**2,415,145**	4,288,014
Condominium dues	**2,114,393**	2,431,704
	₱37,373,433	₱48,134,426

The Company leases its head office and branch offices for varying periods and rental rates. On April 15, 2019, the head office transferred to STI Holdings Center, Ayala Avenue, Makati. The lease contract of the head office will expire on October 31, 2024. The contracts in the branch offices of the Company are renewable annually subject to the agreement of both parties.

Refundable rental deposits amounted to ₱3.58 million and ₱1.73 million as of December 31, 2020 and 2019, respectively, and are included in 'Other assets' in the statements of financial position (see Note 12).

26. Income Taxes

Current tax regulations provide that the RCIT rate shall be 30.00% and that interest allowed as a deductible expense is reduced by 33.00% of interest income subjected to final tax.

An Optional Standard Deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT.

Current tax regulations also provide for a Minimum Corporate Income Tax (MCIT) of 2.00% on modified gross income and allow a NOLCO. The MCIT is imposed on the fourth taxable year from commencement of the Fund's business operations. The MCIT and NOLCO may be applied against the Fund's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

Relevant tax updates

Revenue Regulations No. 25-2020

On September 30, 2020, the Bureau of Internal Revenue (BIR) has issued Revenue Regulations (RR) No. 25-2020 to implement Section 4 of Republic Act No. 11494, otherwise known as "Bayanihan to Recover as One Act", allowing qualified businesses or enterprises which incurred net operating loss for taxable years 2020 and 2021 to carry over the same as a deduction from its gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

CREATE Bill

The Corporate Recovery and Tax Incentives for Enterprise (CREATE) bill aims to reduce the corporate income tax rate from 30% to 25% starting July 2020 and to rationalize the current fiscal incentives.

On February 3, 2021, the Bicameral Conference Committee approved the reconciled version of the CREATE Bill of the House of Representatives and the Senate. On March 26, 2021, the bill was signed by the President for it to become a law (see Note 30).

This account consists of:

	2020	2019
Current		
Regular corporate income tax	**₱33,220,243**	₱23,921,615
Final	**8,481,321**	5,352,518
	41,701,564	29,274,133
Deferred	**394,496**	12,024,181
	₱42,096,060	₱41,298,314

Deferred tax assets are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable. Components of recognized net deferred tax assets and liabilities follow:

	2020	2019
Deferred tax assets on:		
Remeasurement loss on life insurance reserves	**₱49,358,084**	₱9,765,598
Allowance for credit losses	**21,157,630**	21,245,421
Pension liability	**13,230,555**	12,807,290
Unearned service fees	**4,362,369**	3,035,173
Accrued expenses	**1,605,632**	3,940,171
Lease liabilities	**570,882**	300,962
Unrealized foreign exchange loss	**15,776**	11,446
Unrealized loss on financial assets at FVOCI	**–**	108,589
	90,300,928	51,214,650
Deferred tax liability on:		
Unrealized gain on financial assets at FVOCI	**(2,591,974)**	(1,647,455)
Total	**₱87,708,954**	₱49,567,195

As of December 31, 2020, and 2019, the Company has no unrecognized deferred tax assets.

The movement of the Company's net deferred tax assets is as follows:

	2020	2019
At beginning of year	**₱49,567,195**	₱44,637,071
Deferred tax benefit (loss) through:		
Profit and loss	**(426,116)**	(12,024,181)
Other comprehensive income	**38,567,875**	16,954,305
At end of year	**₱87,708,954**	₱49,567,195

The reconciliation between the provision for income tax computed at the statutory income tax and the income tax expense recognized in the statement of income follows:

	2020	2019
Tax calculated at statutory income tax rate	**₱43,890,196**	₱48,927,942
Additions to (deductions from) income tax from:		
Nontaxable income	**(1,084,268)**	(6,171,328)
Income subjected to final tax	**(3,894,126)**	(3,221,259)
Nondeductible expenses	**3,184,258**	1,762,959
Income tax expense	**₱42,096,060**	₱41,298,314

27. **Management of Capital, Insurance Risk and Financial Risk**

The Company's activities expose it to a variety of risks such as capital, financial and insurance risks. The overall objective of risk management is to focus on the unpredictability of financial markets and insurance contingencies to minimize potential adverse effects on the financial condition of the Company.

Governance Framework
The Company has established a risk management function with clear cut responsibilities and with the mandate to develop company-wide policies on market, credit, liquidity, insurance and operational risk management. It also supports the effective implementation of risk management policies at the individual business unit and process levels.

The risk management policies define the Company's identification of risk and its interpretation, ensuring the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals, and specify reporting requirements.

Capital Management Framework
The Company manages its capital based on the statutory requirements on minimum paid-up capital, minimum net worth and the statutory regulations on risk-based capital (RBC) to measure the adequacy of its statutory surplus in relation to the risks inherent in its business. The RBC method involves developing a risk-adjusted target level of statutory surplus by applying certain factors to various asset, premium and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items. The target level of statutory surplus varies not only as a result of the insurer's size, but also on the risk profile of the insurer's operations.

The Company's policy to address the situations where the capital level maintained is lower than minimum is to require the shareholders to add more capital. The management ensures that the Company holds minimum paid-up capital to be compliant with the regulatory requirement.

To ensure compliance with these externally imposed capital requirements, it is the Company's policy to monitor the paid-up capital, net worth and related requirements on a quarterly basis as part of the Company's internal financial reporting process.

The Company has established the following capital management objectives, in managing the risks that affect its capital position:

- To maintain the required level of capitalization thereby providing a degree of security to policyholders;
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders;
- To retain financial flexibility by maintaining strong liquidity and access to a range of credit facilities;
- To align the profile of assets and liabilities taking into account the risks inherent in the business; and
- To maintain healthy capital and liquidity ratios in order to support its business objectives and maximize shareholders value.

<u>Regulatory Framework</u>
Regulators are interested in protecting the rights of the policyholders and maintaining close vigil to ensure that the Company is satisfactorily managing its affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains appropriate solvency position to meet liabilities arising from claims and that the risks are at acceptable levels.

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

Fixed capitalization requirements
On August 15, 2014, the President of the Philippines approved the Republic Act No. 10607 to be known as the "New Insurance Code" (Amended Code) which provides the new capitalization requirements of all existing insurance companies based on net worth on a staggered basis starting June 30, 2015 up to December 31, 2022.

On January 13, 2015, the IC issued CL No. 02-2015 which provide clarifications on the minimum capitalization requirements under Sections 194, 197, 200 and 289 of the Amended Code. It also supersedes Department of Finance Order (DO) No. 15-2012, DO No. 27-2006, CL No. 22-2008 and CL No. 26-2008. According to the CL, the minimum net worth requirement would be ₱250,000,000 by December 31, 2013. The minimum net worth shall be unimpaired at all times and shall increase to the amounts as follows:

Minimum Net worth	**Compliance Date**
₱550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

As of December 31, 2020 and 2019, the required minimum statutory net worth for the Company is ₱900.00 million. As of December 31, 2019, based on the approved synopsis by the Insurance Commission, the Company's net worth amounted to ₱901.06 million. As of December 31, 2020, based on the internal computations, the Company's net worth amounted to ₱909.69 million.

Solvency requirement
Under the Amended Code, a life insurance company doing business in the Philippines shall at all times maintain the minimum paid-up capital, and net worth requirements as prescribed by the Commissioner. Such solvency requirements shall be based on internationally accepted solvency frameworks and accepted only after due consultation with the insurance industry association.

The amounts of estimated non-admitted assets as defined in the Code, are as follows:

	2020 (Estimated)	2019 (Actual)
Loans and receivables	**₱20,335,467**	₱48,513,231
Property and equipment	**14,967,270**	17,608,947
Intangible asset	**15,874,002**	15,431,840
Other assets	**96,327,258**	53,358,869
	₱147,503,997	₱134,912,887

The excess solvency shall be the excess of the value of its admitted assets (as defined under the same Code), over the amount of its liabilities and the required minimum capital/net worth.

If an insurance company failed to meet the minimum required capital, the Insurance Commission is authorized to suspend or revoke all certificates of authority granted to such companies, its officers and agents, and no new business shall be done by and for such company until its authority is restored by the Insurance Commission.

The final amount of the net worth as of December 31, 2019 can be determined only after the accounts of the Company have been examined by the Insurance Commission, specifically as to admitted and non-admitted assets as defined under the Code.

Unimpaired capital requirement
On August 7, 2008, the IC issued Insurance Memorandum Circular (IMC) No. 22-2008 providing that for purposes of determining compliance with the law, rules and regulations requiring that the paid-up capital should remain intact and unimpaired at all times, the statements of financial position should show that the net worth or equity is at least equal to the actual paid-up capital. The Company has complied with the unimpaired capital requirement.

RBC requirements
In 2016, the IC issued Circular Letter No. 2016-68, Amended Risk-Based Capital (RBC2) Framework, pursuant to Section 437 of the Amended Insurance Code. The RBC ratio shall be calculated as Total Available Capital (TAC) divided by the RBC requirement.

TAC is the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits and determinations. Tier 1 Capital represents capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis (e.g. Capital Stock, Statutory Deposit, Capital Stock Subscribed, Contributed Surplus, etc.). Tier 2 Capital does not have the same high quality characteristics of Tier 1 capital, but can provide an additional buffer to the insurer [e.g. Reserve for Appraisal Increment – Property and Equipment, Remeasurement Gains (Losses) on Retirement Pension Asset (Obligation)]. Tier 2 Capital shall not exceed 50% of Tier 1 Capital.

The minimum RBC ratio is set at 100%. All insurance companies are required to maintain the minimum RBC ratio and not fail the Trend Test.

Failure to meet the RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

On February 5, 2021, the Company received the IC letter dated January 29, 2021 on the examination made on the Company's annual statement as of December 31, 2019. The report highlighted that the Company's net worth is ₱901.06 million thereby compliant under Section 194 of the Amended Code (R.A. No. 10607). Further, the Company's RBC ratio of 317.22% is compliant with the ratio prescribed under IC Circular No. 2016-18.

On April 14, 2021, the Company received the IC letter dated March 25, 2021 on the approval of the 2019 annual statement and the release of the synopsis with total admitted assets of ₱2.47 billion and net worth amounting to ₱871.06 million. The net worth was subsequently covered up in full by the additional capital infusion of ₱30.00 million made by the stockholders in May and June 2021. The Company's net worth increased from ₱871.06 million to ₱909.69 million.

The table below shows RBC2 ratio at December 31, 2020 as determined by the Company based on internal calculations and at December 31, 2019 based on IC audit.

	2020 (Estimated)	2019 (Actual)
Total available capital	**₱985,581,275**	₱892,613,380
RBC requirement	**313,480,183**	281,387,527
RBC Ratio	**314.40%**	317.22%

The final amounts however can be determined only after the accounts of the Company have been examined by the IC specifically for the determination of admitted and non-admitted assets as defined under the Amended Code.

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

IC Circular Letter No. 2016-69, Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-Based Capital (RBC2) Framework, provides that the level of sufficiency for the RBC2 Framework shall be at 95% level in 2017, 97.50% in 2018 and 99.50% in 2019.

This has taken effect beginning January 1, 2017.

The submission of Financial Reporting Framework (FRF), RBC2 and GPV reports for the year ended December 31, 2020 shall be on or before May 31, 2021.

Dividend declaration
Under Section 201 of the Amended Code, no insurance company shall declare and distribute any dividend on its outstanding stocks unless it has met the minimum paid-up capital and net worth requirements and except from profits attested in a sworn statement to the Commissioner by the president or treasurer of the corporation to be remaining on hand after retaining unimpaired: (a) the entire paid-up capital stock, (b) the solvency requirements, (c) in the case of life insurance corporations, the legal reserve fund, and (d) a sum sufficient to pay all net losses reported, or in the course of settlement, and all liabilities for expenses and taxes. If the Commissioner finds that any such corporation has declared or distributed any such dividend in violation of this section, he may order such corporation to cease and desist from doing business until the amount of such dividend or the portion thereof in excess of the amount allowed under this section has been restored to said corporation.

Terms and conditions
The Company principally writes life insurance where the life of policyholder is insured against death, illness, injury or permanent disability, usually for a pre-determined amount. Life insurance contracts offered by the Company mainly include whole life, term insurance and endowments. Whole life and term insurance are conventional products where lump sum benefits are payable on death.

Endowment products are investments/savings products where lump sum benefits are payable after a fixed period or on death before the period is completed. The risks associated with the life and accident and health products are underwriting risk and investment risk.

Underwriting risk

Underwriting risk represents the exposure to loss resulting from actual policy experience adversely deviating from assumptions made in the product pricing. Underwriting risks are brought about by a combination of the following:

- Mortality risk - risk of loss arising from the policyholder's death experience being different than expected.
- Morbidity risk - risk of loss arising from the policyholder's health experience being different than expected.
- Expense risk - risk of loss arising from expense experience being different than expected.
- Policyholder decision risk - risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

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 change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines.

The business of the Company consists of underwriting life insurance contracts. For contracts where death is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. These risks currently do not vary significantly in relation to the location of the risk insured by the Company whilst 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;
- The use of actuarial models based on past experience and statistical techniques to aid in pricing decisions and monitoring claims pattern;
- Issuance of guidelines for concluding insurance contracts and assuming insurance risks;
- Pro-active compliance of claims handling procedures to investigate and adjust claims, thereby preventing settlement of dubious or fraudulent claims;
- The use of reinsurance to limit the Company's exposure to large claims by placing risk with re-insurers providing high security; and
- Diversification to achieve 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.

The mix of insurance assets is driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the expected pattern of claim payments with the maturity dates of assets.

Insurance risk is also affected by the policyholders' rights to terminate the contract, pay reduced premiums, refusal to pay premiums or to avail of the guaranteed annuity option. Thus, the insurance risk is subject to the policyholders' behavior and decisions.

Insurance risk

Nature of risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

Insurance risk includes premium/benefits risk, actuarial reserve risk and reinsurance risk. Premium/benefits risk is the risk of having to pay, from a premium that may be fixed for a specific term, benefits that can be affected by uncontrollable event when they become due. Adequacy of the actuarial reserves is monitored by an in-house actuary on a regular basis in accordance with local regulations. Reinsurance risk arises from underwriting direct business or reinsurance business in relation to reinsurers and brokers.

Monitoring and controlling

The Company regularly assesses the reserving methodology in accordance with local regulations. Underwriting guidelines and limits for insurance and reinsurance contracts have been well established to clearly regulate responsibility and accountability.

The main underwriting strategy of the Company in managing risk is the use of reinsurance. The Company maintains surplus-type reinsurance treaty for individual life business and surplus-type reinsurance treaty for group life business. The retention limit of the Company for its individual business is ₱3.00 million in 2020 and 2019 for the basic life and ₱1.50 million in 2020 and 2019 for riders or supplementary covers. For group business, the retention limit is ₱2.00 million in 2020 and 2019. In addition, the Company may arrange facultative reinsurance for risks beyond the scope of its automatic treaties.

Frequency and severity of claims

The frequency and severity of claims is dependent on the type of contracts as follows:

a. For contracts where death is the insured risk, the most significant factor would be epidemics that result in earlier or more claims than expected.
b. For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted.
c. For contracts with discretionary participating feature, the participating nature of these insurance contracts results in a portion of the insurance risk being shared with the insured party.

The Company manages these risks through its underwriting strategy and reinsurance program. However, the risk is also dependent on the policyholders' right to pay reduced or no future premiums, or to terminate the contract completely.

The following represents the Company's concentration of insurance risk as of December 31, 2020 and 2019:

	2020		2019	
	Exposure, Net of Reinsurance	**Concentration**	Exposure, Net of Reinsurance	Concentration
Ordinary life	**₱3,428,847,504**	**4.39%**	₱3,170,866,601	3.18%
Group	**74,724,718,486**	**95.61%**	96,580,879,350	96.82%
	₱78,153,565,990	**100.00%**	₱99,751,745,951	100.00%

Source of uncertainty in the estimation of future claim payment
Estimation of future payments and premium receipts is subject to unpredictability of changes in mortality and morbidity levels. The Company adopts standard industry data in assessing future benefit payments and premium receipts as approved by the IC. Adjustments are made, if necessary, according to the experience of the Company.

For individual life insurance, no adjustment is made by the Company to the standard mortality table. For group life, accident and health insurance, the mortality table is adjusted to reflect the Company's actual and projected experiences, which are given weights or credibility depending on the amount and length of exposure under consideration. The Company currently monitors its actual experience on individual business per policy and on an aggregate basis, and reports the same to management.

The liability for these contracts comprises the IBNR provision, a provision for incurred but not yet reported and not yet paid claims and a provision for unexpired risk at reporting dates. The IBNR provision is based on historical experience and is subject to a degree of uncertainty. This provision forms part of claims included under 'Benefits and claims incurred on insurance contracts' in the statement of income.

Fair Value of Financial Instruments
The following table sets forth the carrying amount and estimated fair values of the Company's financial instruments:

	December 31, 2020		December 31, 2019	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets				
Cash and cash equivalents	**₱179,419,392**	**₱179,419,392**	₱526,519,508	₱526,519,508
Insurance receivables	**53,573,198**	**53,573,198**	49,050,742	49,050,742
Loans and receivables:				
Salary loans	**576,114,880**	**596,190,768**	576,600,231	469,953,442
Due from related parties	–	–	381,588	381,588
Policy loans	**58,173,688**	**58,173,688**	60,454,506	60,454,506
Due from officers and employees	**4,567,755**	**4,490,282**	7,789,509	8,108,099
Due from agents	**2,437,195**	**2,437,195**	4,042,891	4,042,891
Interest receivable	**8,283,410**	**8,283,410**	7,433,897	7,433,897
Other receivables	**7,683,114**	**7,683,114**	3,329,870	3,329,870
Rent deposits	**3,957,852**	**3,957,852**	2,414,286	2,414,286
Security fund	**20,445**	**20,445**	20,445	20,445
Segregated fund assets	**662,323**	**662,323**	611,548	611,548
Financial assets at FVOCI:				
Government securities	**1,463,572,737**	**1,463,572,737**	1,009,823,628	1,009,823,628
Salary loans	**5,715,496**	**5,715,496**	10,733,723	10,733,723
Seed capital in segregated fund assets	**76,917,573**	**76,917,573**	79,606,816	79,606,816
Proprietary shares	**21,000,000**	**21,000,000**	19,660,000	19,660,000
Listed equity securities	**1,015,000**	**1,015,000**	1,789,000	1,789,000
	₱2,463,114,058	**₱2,483,112,473**	₱2,360,262,188	₱2,253,933,989
Financial liabilities				
Other financial liabilities at amortized cost:				
Premium deposit fund	**16,189,511**	**16,189,511**	21,839,687	21,839,687
Policyholders' dividends payable	**33,155,677**	**33,155,677**	38,019,236	38,019,236
Claims payable	**84,389,628**	**84,389,628**	68,882,802	68,882,802
Experience refund payable	**25,135,972**	**25,135,972**	20,300,461	20,300,461
Accounts payable and other liabilities:				
Accounts payable	**55,868,100**	**55,868,100**	87,613,817	87,613,817
Accrued expenses	**38,377,314**	**38,377,314**	44,187,708	44,187,708
Life insurance deposits	**28,359,360**	**28,359,360**	38,148,925	38,148,925
Unearned service fees	**14,541,231**	**14,541,231**	10,117,242	10,117,242

(Forward)

	December 31, 2020		December 31, 2019	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Due to agents	**₱12,354,802**	**₱12,354,802**	₱11,205,902	₱11,205,902
Due to reinsurers	**20,931,874**	**20,931,874**	15,290,285	15,290,285
Interest payable	**1,396,801**	**1,396,801**	1,399,530	1,399,530
Due to related parties	**37,385,847**	**37,385,847**	96,184,807	96,184,807
Segregated fund liabilities	**662,323**	**662,323**	611,548	611,548
Total financial liabilities	**₱368,748,440**	**₱368,748,440**	₱453,801,950	₱453,801,950

Due to the short-term nature of cash and cash equivalents, premiums due and uncollected, policy loans, due from related parties, due from agents, interest receivable, other receivables, security fund, rent deposits, claims payable, policyholders' dividends payable, experience refund payable, premium deposit fund and accounts payable and other liabilities, their carrying values approximate their fair values at reporting dates.

The fair values of salary loans and due from officers and employees are determined by computing the present value of the expected future cash flows of the loans using the pre-determined market rate for similar instrument as of reporting dates as discount rate. Discount rates used ranged from 6.80% to 13.82% and from 5.78% to 7.04% for the years ended December 31, 2020 and 2019, respectively. An increase (decrease) in the discount rates would result to decrease (increase) in the fair value of the financial assets.

The fair values of financial instruments classified as FVOCI that are actively traded in an organized exchange or active markets are determined by reference to quoted market or broker bid prices, at the close of business as of reporting dates.

The following table sets forth the carrying values and estimated fair values of the financial instruments recognized under the 'Segregated fund assets' account:

	December 31, 2020		December 31, 2019	
	Carrying value	**Fair value**	Carrying value	Fair value
Financial assets				
Loans and receivables:				
Cash and cash equivalents	**₱8,447**	**₱8,447**	₱22,698	₱22,698
Accrued income	**1,562**	**1,562**	1,588	1,588
Financial assets at FVTPL:				
Listed equity securities	**501,269**	**501,269**	465,476	465,476
Government securities	**152,460**	**152,460**	112,009	112,009
Other assets	**308**	**308**	11,047	11,047
Total financial assets	**₱664,046**	**₱664,046**	₱612,818	₱612,818
Financial liabilities				
Other financial liabilities at amortized cost:				
Accounts payable and accrued expenses	**₱1,723**	**₱1,723**	₱1,270	₱1,270
Total financial liabilities	**₱1,723**	**₱1,723**	₱1,270	₱1,270

Due to the short-term nature of cash and cash equivalents, accrued income and other financial liabilities, their carrying values reasonably approximate their fair values at year-end.

The fair value of financial assets designated as at FVTPL that are actively traded in organized financial markets is determined by reference to quoted market bid prices, at the close of business on the reporting date, or the last trading as applicable.

The Company classifies its non-linked financial assets at fair value as follows:

	December 31, 2020			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Financial assets measured at fair value:				
Financial assets at FVOCI				
Seed capital in segregated fund assets	**₱–**	**₱76,917,573**	**₱–**	**₱76,917,573**
Government securities	**546,978,395**	**916,594,342**	**–**	**1,463,572,737**
Salary loans	**–**	**–**	**5,715,496**	**5,715,496**
Listed equity securities	**1,015,000**	**–**	**–**	**1,015,000**
Proprietary shares	**–**	**21,000,000**	**–**	**21,000,000**
Financial assets for which fair values are disclosed:				
Loans and receivables:				
Salary loans	**–**	**–**	**681,142,561**	**681,142,561**
Due from officers and employees	**–**	**–**	**4,567,755**	**4,567,755**

	December 31, 2019			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Financial assets measured at fair value:				
AFS financial assets:				
Seed capital in segregated fund assets	₱–	₱79,606,816	₱–	₱79,606,816
Government securities	582,803,883	427,019,745	–	1,009,823,628
Salary loans	–	–	10,733,723	10,733,723
Listed equity securities	1,789,000	–	–	1,789,000
Proprietary shares	–	19,660,000	–	19,660,000
Financial assets for which fair values are disclosed:				
Loans and receivables				
Salary loans	–	–	469,953,442	469,953,442
Due from officers and employees	–	–	8,108,099	8,108,099

The Company classifies its unit-linked financial assets at fair value as follows:

	December 31, 2020			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Financial assets measured at fair value:				
Financial assets at FVTPL:				
Listed equity securities	**₱501,269**	**₱–**	**₱–**	**₱501,269**
Government securities	**152,460**	**–**	**–**	**152,460**

	December 31, 2019			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Financial assets measured at fair value:				
Financial assets at FVTPL:				
Listed equity securities	₱465,476	₱–	₱–	₱465,476
Government securities	112,009	–	–	112,009

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

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

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

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

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

The significant unobservable input used in the fair value measurement of the Company's financial assets is current incremental lending rates ranging from 6.80% to 13.82%. Significant increases (decreases) in these rates would result in a significantly lower (higher) fair value measurement.

<u>Financial Risks</u>

The Company is exposed to financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. The relevant financial risks faced by the Company in its day-to-day operations are market risk, credit risk and liquidity risk. The BOD has overall responsibility for the oversight and management of the risk management process of the Company.

Credit risk

The Company has a significant exposure to credit risk which is defined as the risk of financial loss resulting from the failure of a counterparty to meet its contractual obligations to the Company. In particular, the Company is exposed to credit risk in the following accounts:

- Amounts due from DepEd teachers and private institution employees;
- Amounts due from related parties, agents and employees;
- Reinsurers' share in insurance liabilities;
- Obligations of companies issuing equity securities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance policyholders;
- Amounts due from insurance intermediaries; and
- Amounts due from banks.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty. Such counterparty limits are subject to annual or more frequent reviews. Limits are approved regularly as the need arises at the BOD level. A Credit Committee, which reports to the Executive Committee (ExCom), has been established by the BOD to monitor the credit management and exposure of the Company.

The Company fully complies with the guidelines issued by the DepEd in granting loans to teachers which are monitored by DepEd on a regular basis. Any violation shall result to the revocation of the Company's license to extend loans to public school teachers. The Company's credit evaluation policies are anchored on the DepEd guidelines on net take home pay of the teachers and authenticity of documents submitted by the borrowers.

The ExCom monitors the developments, status of loan accounts and other pertinent issues relative to DepEd loans business.

Loans to policyholders granted against the cash surrender value of policies carry substantially minimal credit risk.

A significant credit exposure arises with respect to reinsurance ceded, to the extent that any reinsurer may be unable to meet its obligations assumed under such reinsurance agreements. The Company selects only domestic and foreign companies with strong financial standing and excellent track records which are allowed to participate in the Company's reinsurance programs.

In respect of investments securities, the Company secures satisfactory credit quality by setting maximum limits of portfolio securities with a single or group of issuers, excluding those secured on specific assets and setting the minimum ratings for the issuer. The Company sets the maximum amounts and limits that may be advanced to/placed with individual corporate counterparties which are set by reference to their long term ratings.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder.

The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract.

The credit risk for cash and cash equivalents are considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Cash in bank and short-term placements are insured by the Philippine Depository Insurance Corporation up to a maximum coverage of ₱500,000 for every depositor per banking institution.

The table below shows the Company's maximum exposure to credit risk for the components of the statements of financial position:

Non-linked

	2020	2019
Cash and cash equivalents (Note 4)*	**₱179,310,392**	₱526,407,508
Insurance receivables (Note 5)	**58,261,328**	58,356,405
Financial assets at FVOCI (Note 6)	**1,568,220,806**	1,121,613,167
Loans and receivables - net (Note 6)	**657,260,042**	662,094,887
Rent deposits (Note 12)	**3,957,852**	2,414,286
Security fund (Note 12)	**20,445**	20,445
	₱2,467,030,865	₱2,370,906,698

**Excluding cash on hand.*

Unit-linked

	2020	2019
Cash and cash equivalents	**₱8,447**	₱22,698
Government securities	**152,460**	112,009
Accrued income	**1,562**	1,588
	₱162,469	₱136,295

The Company does not hold any collateral held as security and other credit enhancements on its financial assets as of December 31, 2020 and 2019. Therefore, the Company's maximum exposure to credit risk is equal to the carrying amount of its financial assets as of December 31, 2020 and 2019.

The Company uses a credit grading system based on the borrowers and counterparties overall credit worthiness, as described below:

Investment high grade - This pertains to accounts with a very low probability of default as demonstrated by the borrower's strong financial position and reputation. The borrower has the ability to raise substantial amounts of funds through credit facilities with financial institutions. The borrower has a strong debt service record and a moderate use of leverage.

Non-investment grade - satisfactory - This pertains to current accounts with no history of default or which may have defaulted in the past, but the conditions and circumstances directly affecting the borrower's ability to pay has abated already. The borrower is expected to be able to adjust to the cyclical downturns in its operations. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues. The use of leverage may be above industry or credit standards but remains stable.

The table below provides information regarding the credit risk exposure of the Company by classifying non-linked assets according to the Company's credit grading of counterparties.

Non-linked

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and receivables				
Salary loans				
Neither past due nor impaired				
Investment high grade	**₱474,063,650**	**₱–**	**₱–**	**₱474,063,650**
Non-investment grade-satisfactory	–	–	–	–
Past due but not impaired	–	**21,294,130**	–	**21,294,130**
Past due and impaired			**136,544,416**	**136,544,416**
Other receivables				
Neither past due nor impaired				
Investment high grade	**74,520,347**	–	–	**74,520,347**
Non-investment grade-satisfactory	–	**2,437,195**	–	**2,437,195**
Past due and impaired	–	–	**16,863,344**	**16,863,344**
Cash and cash equivalents*				
Neither past due nor impaired				
Investment high grade	**179,310,392**	–	–	**179,310,392**
Insurance receivables**				
Neither past due nor impaired				
Investment high grade	**55,635,591**	–	–	**55,635,591**
Rent deposits				
Neither past due nor impaired				
Investment high grade	**3,957,852**	–	–	**3,957,852**
Security fund				
Neither past due nor impaired				
Investment high grade	**20,445**	–	–	**20,445**
Financial assets at FVOCI				
Government securities				
Neither past due nor impaired				
Investment high grade	**1,463,572,737**	–	–	**1,463,572,737**

(Forward)

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Salary loans				
Neither past due nor impaired				
Investment high grade				
Non-investment grade-satisfactory	**₱5,675,969**			**₱5,675,969**
Non-investment grade-satisfactory	**–**	**2,657**	**–**	**2,657**
Past due or impaired	**–**	**–**	**36,869**	**36,896**
	₱2,256,756,983	**₱23,733,982**	**₱153,444,629**	**₱2,433,935,594**

**Excluding cash on hand*
***Excluding deferred reinsurance premiums*

	December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Loans and receivables				
Salary loans				
Neither past due nor impaired				
Investment high grade	₱127,185,786	₱–	₱–	₱127,185,786
Non-investment grade-satisfactory	279,984,147	58,065,234	52,859,928	390,909,309
Past due but not impaired	–	256,267	–	256,267
Past due and impaired			114,051,890	114,051,890
Other receivables				
Neither past due nor impaired				
Investment high grade	76,771,071	–	–	76,771,071
Non-investment grade-satisfactory	–	4,042,891	–	4,042,891
Past due and impaired	–	–	17,633,349	17,633,349
Cash and cash equivalents*				
Neither past due nor impaired				
Investment high grade	526,407,508	–	–	526,407,508
Insurance receivables**				
Neither past due nor impaired				
Investment high grade	51,113,135	–	–	51,113,135
Rent deposits				
Neither past due nor impaired				
Investment high grade	2,414,286	–	–	2,414,286
Security fund				
Neither past due nor impaired				
Investment high grade	20,445	–	–	20,445
Financial assets at FVTOCI				
Government securities				
Neither past due nor impaired				
Investment high grade	1,009,823,628	–	–	1,009,823,628
Salary loans				
Neither past due nor impaired				
Investment high grade	8,773,455	–	–	8,773,455
Non-investment grade-satisfactory		1,602,043		1,602,043
Past due and impaired	–	–	358,225	358,225
	₱2,082,493,461	₱63,966,435	₱184,903,392	₱2,331,363,288

**Excluding cash on hand*
***Excluding deferred reinsurance premiums*

Past due but not impaired financial assets include accounts which are not specifically impaired pertaining to salary loans amounting to ₱21.76 million and ₱59.92 million as of December 31, 2020 and 2019, respectively.

The table below provides information regarding credit risk exposure of the Company by classifying unit-linked assets according to the Company's credit ratings of counterparties:

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and receivables:				
Cash and cash equivalents	**₱8,447**	**₱–**	**₱–**	**₱8,447**
Accrued income	**1,562**	**–**	**–**	**1,562**
Financial assets FVTPL:		**–**	**–**	
Government securities	**152,460**	**–**	**–**	**152,460**
	₱162,469	**₱–**	**₱–**	**₱162,469**

	December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Loans and receivables:				
Cash and cash equivalents	₱22,698	₱–	₱–	₱22,698
Accrued income	1,588	–	–	1,588
Financial assets FVTPL:		–	–	
Government securities	112,009	–	–	112,009
	₱136,295	₱–	₱–	₱136,295

The Company has concentration of credit risk in the DepEd salary loan business as of December 31, 2020 and 2019.

The Company conducts a periodic review of allowance for impairment losses based on the corresponding age of past due accounts, payment behavior, credit capacity and length of relationship with the counterparty.

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

The Company is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company maintains minimum proportion of sufficient funds available to meet such calls to cover maturities, claims and surrenders at unexpected levels of demand.

It is unusual for a company primarily transacting insurance business to predict the requirements of funding with absolute certainty as theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are thus based on management's best estimate based on statistical techniques and past experience.

The table summarizes the maturity profile of the Company's financial assets and liabilities based on contractual undiscounted payments except for the legal policy reserves of the life insurance contracts (included in the 'Insurance contract liabilities' account) which shows the maturity analysis based on the estimated timing of the net cash outflows using the recognized insurance liability amounts.

For unit-linked contracts, the Company is ready to dispose its investments in securities to meet surrenders of unit-linked liabilities.

Non-linked

	December 31, 2020						
	On Demand	**Up to 1 Year**	**1 -2 Years**	**2 -3 Years**	**Over 3 Years**	**No Term**	**Total**
Financial assets							
Loans and receivables:							
Cash and cash equivalents*	**₱82,266,951**	**₱97,043,441**	**₱–**	**₱–**	**₱–**	**₱–**	**₱179,310,392**
Insurance receivables**	–	**56,198,936**	–	–	–	–	**56,198,936**
Loans and receivables:							
Salary loans	**83,103,473**	**67,276,640**	**89,086,862**	**368,208,549**	**172,127,244**	–	**779,802,768**
Due from officers and employees	–	**2,784,262**	**992,050**	**882,124**	**393,913**	–	**5,052,349**
Due from agents	–	**2,437,195**	–	–	–	–	**2,437,195**
Other receivables	–	**20,358,838**	–	–	–	–	**20,358,838**
Policy loans	–	**58,173,688**	–	–	–	–	**58,173,688**
Rent deposits	–	**3,957,852**	–	–	–	–	**3,957,852**
Security fund	–	**20,445**	–	–	–	–	**20,445**
Financial assets at FVTOCI:							
Seed capital in segregated fund assets	**76,917,573**	–	–	–	–	–	**76,917,573**
Government securities	–	**884,618,164**	**349,724,057**	**46,768,516**	**190,745,410**	–	**1,471,856,147**
Salary loans	**96,507**	–	**152,605**	**732,848**	**6,891,926**	–	**7,873,886**
Listed equity securities	–	–	–	–	–	**1,015,000**	**1,015,000**
Proprietary shares	–	–	–	–	–	**21,000,000**	**21,000,000**
	₱242,384,504	**₱1,192,869,461**	**₱439,955,574**	**₱416,592,037**	**₱370,158,493**	**₱22,015,000**	**₱2,683,975,069**

**Excluding cash on hand.*
***Excluding reinsurance recoverable on paid losses*

Financial liabilities							
Insurance contract liabilities:							
Aggregate reserves for life policies	**₱–**	**₱321,445,178**	**₱12,244,656**	**₱9,164,917**	**₱810,472,058**	**₱–**	**₱1,153,326,809**
Experience refund payable	–	**25,135,972**	–	–	–	–	**25,135,972**
Policyholders' dividends payable	**33,155,677**	–	–	–	–	–	**33,155,677**
Insurance contract liabilities:							
IBNR claims	–	**55,906,845**	–	–	–	–	**55,906,845**
Claims payable	–	**84,389,628**	–	–	–	–	**84,389,628**

(Forward)

	December 31, 2020						
	On Demand	**Up to 1 Year**	**1 -2 Years**	**2 -3 Years**	**Over 3 Years**	**No Term**	**Total**
Premium deposit fund	**₱16,189,511**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱16,189,511**
Accounts payable and other liabilities:							
Accounts payable	–	**55,868,100**	–	–	–	–	**55,868,100**
Accrued expenses	–	**38,377,314**	–	–	–	–	**38,377,314**
Life insurance deposits	–	**28,359,360**	–	–	–	–	**28,359,360**
Due to agents	–	**12,354,802**	–	–	–	–	**12,354,802**
Due to reinsurers	–	**20,931,874**	–	–	–	–	**20,931,874**
Interest payable	**1,396,801**	–	–	–	–	–	**1,396,801**
Due to related parties	**37,385,847**	–	–	–	–	–	**37,385,847**
	₱88,127,836	**₱642,661,572**	**₱12,244,656**	**₱9,164,917**	**₱810,472,058**	**₱–**	**₱1,562,671,039**

	December 31, 2019						
	On Demand	Up to 1 Year	1 -2 Years	2 -3 Years	Over 3 Years	No Term	Total
Financial assets							
Loans and receivables:							
Cash and cash equivalents*	₱82,508,725	₱443,898,783	₱–	₱–	₱–	₱–	₱526,407,508
Insurance receivable**	–	56,294,013	–	–	–	–	56,294,013
Loans and receivables:							
Salary loans	86,933,982	73,148,488	188,845,118	127,820,353	161,641,602	–	638,389,543
Due from related parties	381,588	–	–	–	–	–	381,588
Due from officers and employees	–	3,893,442	1,576,042	839,659	1,480,366	–	7,789,509
Due from agents	–	4,042,891	–	–	–	–	4,042,891
Other receivables	–	18,344,920	–	–	–	–	18,344,920
Policy loans	–	60,454,506	–	–	–	–	60,454,506
Rent deposits	–	2,414,286	–	–	–	–	2,414,286
Security fund	–	20,445	–	–	–	–	20,445
Financial assets at FVTOCI:							
Seed capital in segregated fund assets	79,606,816	–	–	–	–	–	79,606,816
Government securities	–	312,298,785	150,059,219	343,708,631	211,190,890	–	1,017,257,525
Salary loans	–	943,474	4,686,447	2,953,280	6,856,591	–	806,066,635
Listed equity securities	–	–	–	–	–	1,789,000	1,789,000
Proprietary shares	–	–	–	–	–	19,660,000	19,660,000
	₱249,431,111	₱3	₱	₱	₱475,321,923	₱21,449,000	₱42

(Forward)

	December 31, 2019						
	On Demand	Up to 1 Year	1 -2 Years	2 -3 Years	Over 3 Years	No Term	Total
Financial liabilities							
Insurance contract liabilities:							
Aggregate reserves for life policies	₱–	₱296,917,76	₱6,135,320	₱11,747,572	₱672,253,131	₱–	₱987,053,792
Experience refund payable	–	20,300,461	–	–	–	–	20,300,461
Policyholders ‘dividends payable	38,019,236	–	–	–	–	–	38,019,236
IBNR claims	–	51,697,025	–	–	–	–	51,697,025
Claims payable	–	68,882,802	–	–	–	–	68,882,802
Premium deposit fund	21,839,687	–	–	–	–	–	21,839,687
Accounts payable and other liabilities:							
Accounts payable	–	87,613,817	–	–	–	–	87,613,817
Accrued expenses	–	44,187,708	–	–	–	–	44,187,708
Life insurance deposits	–	38,148,925	–	–	–	–	38,148,925
Due to agents	–	11,205,902	–	–	–	–	11,205,902
Due to reinsurers	–	15,290,285	–	–	–	–	15,290,285
Interest payable	1,399,531	–	–	–	–	–	1,399,531
Due to related parties	96,184,807	–	–	–	–	–	96,184,807
	₱157,443,261	₱634,244,694	₱6,135,320	₱11,747,572	₱672,253,131	₱–	₱1,481,823,978

**Excluding cash on hand.*
***Excluding reinsurance recoverable on paid losses*

Unit-linked

	December 31, 2020						
	On Demand	**Up to 1 Year**	**1 -2 Years**	**2 -3 Years**	**Over 3 Years**	**No Term**	**Total**
Financial assets							
Loans and receivables:							
Cash and cash equivalents	**₱8,447**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱8,447**
Accrued income	**–**	**1,562**	**–**	**–**	**–**	**–**	**1,562**
Financial assets at FVTPL:							
Listed equity securities	**–**	**–**	**–**	**–**	**–**	**501,269**	**501,269**
Government securities	**–**	**–**	**–**	**–**	**152,460**	**–**	**152,460**
	₱8,447	**₱1,562**	**₱–**	**₱–**	**₱152,460**	**₱501,269**	**₱663,739**

(Forward)

	December 31, 2020						
	On Demand	**Up to 1 Year**	**1 -2 Years**	**2 -3 Years**	**Over 3 Years**	**No Term**	**Total**
Financial liabilities							
Other financial liabilities at amortized cost:							
Accounts payable and accrued expenses	**₱–**	**₱1,723**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,723**
	₱–	**₱1,723**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,723**

	December 31, 2019						
	On Demand	Up to 1 Year	1 -2 Years	2 -3 Years	Over 3 Years	No Term	Total
Financial assets							
Loans and receivables:							
Cash and cash equivalents	₱22,698	₱–	₱–	₱–	₱–	₱–	₱22,698
Accrued income	–	1,588	–	–	–	–	1,588
Financial assets at FVTPL:							
Listed equity securities	–	–	–	–	–	465,476	465,476
Government securities	–	–	–	–	112,009	–	112,009
	₱22,689	₱1,588	₱–	₱–	₱112,009	₱465,476	₱601,771
Financial liabilities							
Other financial liabilities at amortized cost:							
Accounts payable and accrued expenses	₱–	₱1,270	₱–	₱–	₱–	₱–	₱1,270
	₱–	₱1,270	₱–	₱–	₱–	₱–	₱1,270

Market risk
Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of adverse changes in market prices. Market risk relevant to the Company comprises market rate (fair value interest rate risk) and market price (equity price risk) risks.

The Company's principal transactions with insurance and investment policyholders comprise of unit-linked contracts in which the unit prices (i.e., obligation to the policyholders) are based on fair values of investments and other assets within the portfolio. Therefore, there is no foreign currency, equity and interest rate risk for these contracts. However, the Company's exposure to such contracts is the risk of volatility in asset management fees due to the impact of interest rate and market price movements on the fair value of assets held in the linked funds, on which investment management fees are based. Within this category of contracts, there are insurance contracts with minimum guaranteed death benefits that expose the Company to the risk of decline in the value of underlying investments as a result of change in interest rates.

The Company issues unit linked investment policies where the policyholder bears the investment risk on the assets held in the unit-linked funds, as the policy benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no material market risk on unit linked financial assets.

Fair value interest rate risk
Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of adverse changes in market interest rates. Fixed rate securities and receivables, in particular, are exposed to such risk.

The Company's investment policy is to maintain an adequate yield to match the interest necessary to support future policy liabilities. Management's focus is to reinvest the proceeds of the maturing securities and to invest the future premium receipts while continuing to maintain satisfactory investment quality.

The Company has an Investment Committee which approves all investment undertaking of the Company and meets on a monthly basis. The Company adopts an investment strategy to invest primarily in high quality securities while maintaining diversification to avoid significant exposure to issuer and/or industry concentrations.

The following table shows the information relating to the Company's financial instruments that are exposed to fair value interest rate risk presented by maturity profile.

Non-linked

	December 31, 2020						
	Range of Interest Rate	**On Demand**	**Less than 1 Year**	**1 - 2 Years**	**2 - 3 Years**	**More than 3 Years**	**Total**
Cash and cash equivalents*	**0.85%-2.87%**	**₱82,266,951**	**₱97,043,441**	**₱–**	**₱–**	**₱–**	**₱179,310,392**
Loans and receivables:							
Salary loans	**6.49% -9.66%**	**83,103,474**	**57,484,186**	**73,718,625**	**281,797,505**	**135,798,406**	**631,902,196**
Due from officers and employees	**5.70%-15.00%**	**–**	**2,593,484**	**864,674**	**767,064**	**342,533**	**4,567,755**
Due from agents	**5.00%-12.00%**	**–**	**2,437,195**	**–**	**–**	**–**	**2,437,195**
Policy loans	**10.00%**	**–**	**58,173,688**	**–**	**–**	**–**	**58,173,688**
Financial assets at FVOCI:							
Government securities	**1.00%-6.38%**	**–**	**884,618,164**	**349,724,057**	**46,768,516**	**190,745,410**	**1,471,856,147**
Salary loans	**6.49% -9.66%**	**81,486**	**–**	**125,000**	**560,000**	**4,949,010**	**5,715,496**
		₱165,451,911	**₱1,102,350,158**	**₱424,432,356**	**₱329,893,085**	**₱331,835,359**	**₱2,353,962,869**
Policyholders' dividends	**4.00%**	**₱33,155,677**	**₱–**	**₱–**	**₱–**	**₱–**	**₱33,155,677**
Premium deposit fund	**2.00%-3.00%**	**16,189,511**	**–**	**–**	**–**	**–**	**16,189,511**
		₱49,345,188	**₱–**	**₱–**	**₱–**	**₱–**	**₱49,345,188**
Interest payable		**₱1,396,801**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,396,801**

**Excluding cash on hand.*

	December 31, 2019						
	Range of Interest Rate	On Demand	Less than 1 Year	1 - 2 Years	2 - 3 Years	More than 3 Years	Total
Cash and cash equivalents	0.85%-3.75%	₱82,508,723	₱443,898,785	₱–	₱–	₱–	₱526,407,508
Loans and receivables:							
Salary loans	6.49% -9. 66%	131,479,243	65,531,952	171,501,771	116,487,767	147,402,519	632,403,252
Due from officers and employees	5.70%-15.00%	–	3,893,442	1,576,042	839,658	1,480,367	7,789,509
Due from agents	5.00%-12.00%	–	4,042,891	–	–	–	4,042,891
Policy loans	10.00%	–	60,454,506	–	–	–	60,454,506
Financial assets at FVOCI:							
Government securities	2.50%-6.38%	–	310,802,574	149,770,833	339,845,109	209,405,112	1,009,823,628
Salary loans	6.49% -9. 66%	–	790,002	3,495,918	2,279,766	4,168,037	10,733,723
		₱213,987,966	₱889,414,152	₱326,344,564	₱459,452,300	₱362,456,035	₱2,251,655,017

(Forward)

	December 31, 2019						
	Range of Interest Rate	On Demand	Less than 1 Year	1 - 2 Years	2 - 3 Years	More than 3 Years	Total
Policyholders' dividends	4.00%	₱38,019,236	₱–	₱–	₱–	₱–	₱38,019,236
Premium deposit fund	2.00%-3.00%	21,839,687	–	–	–	–	21,839,687
		₱59,858,923	₱–	₱–	₱–	₱–	₱59,858,923
Interest payable		₱1,399,530	₱–	₱–	₱–	₱–	₱1,399,530

**Excluding cash on hand.*

Unit-linked

	December 31, 2020						
	Range of Interest Rate	**On Demand**	**Less than 1 Year**	**1 - 2 Years**	**2 - 3 Years**	**More than 3 Years**	**Total**
Cash and cash equivalents	**0.25%-1.25%**	**₱8,447**	**₱–**	**₱–**	**₱–**	**₱–**	**₱8,447**
Government securities	**5.55%-6.25%**	**–**	**–**	**–**	**–**	**152,460**	**152,460**
		₱8,447	**₱–**	**₱–**	**₱**	**₱152,460**	**₱160,907**

	December 31, 2019						
	Range of Interest Rate	On Demand	Less than 1 Year	1 - 2 Years	2 - 3 Years	More than 3 Years	Total
Cash and cash equivalents	0.875%-1.875%	₱22,698	₱–	₱–	₱–	₱–	₱22,698
Government securities	5.55%-6.25%	–	–	–	–	112,009	112,009
		₱22,698	₱–	₱–	₱	₱112,009	₱134,707

The sensitivity analysis is presented for reasonably possible movements in fair value interest rates with all other variables held constant, showing the impact on equity (that reflects adjustments due to changes in fair value of financial assets at FVOCI).

	Impact on Equity Increase (Decrease)	
	2020	2019
+1.00%	**(₱15,141,823)**	(₱20,538,775)
-1.00%	**10,390,443**	13,841,769

The Company determined the reasonably possible change in interest rate using the historical percentage changes in weighted average yield rates of outstanding securities for the past two years.

Equity price risk
The Company's equity price risk exposure relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, equity securities and investment in mutual fund classified as AFS securities. Such securities are subject to price risk due to possible adverse 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 invests in equity securities for various reasons, including reducing its overall exposure to interest rate risk.

The Investment Committee of the Company oversees its investment undertaking. The analysis below is performed for reasonably possible movements in PSE index for non-linked investments and NAVPU for unit-linked investments, and with all other variables held constant, showing the impact on equity (that reflects adjustments due to changes in fair value of AFS equity securities).

	December 31, 2020	
	Impact on Equity Increase (Decrease)	
	Non-linked	**Unit-linked**
+26.12%	**₱204,169**	**₱10,792,931**
-26.12%	**(204,169)**	**10,792,931**

	December 31, 2019	
	Impact on Equity Increase (Decrease)	
	Non-linked	Unit-linked
+14.49%	₱199,677	₱6,319,348
-14.49%	(199,677)	(6,319,348)

The Company determined the reasonably possible change in PSE index using the specific adjusted beta for each equity security the Company holds as of the reporting dates for the past three (3) years. The adjusted beta is the forecasted measure of the volatility of security or a portfolio in comparison to the market as a whole.

28. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from reporting date:

	December 31, 2020			December 31, 2019		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and cash equivalents	**₱179,419,392**	**₱–**	**₱179,419,392**	₱526,519,508	₱–	₱526,519,508
Insurance receivable*	**53,573,198**	**–**	**53,573,198**	49,050,742	–	49,050,742
Financial assets at FVOCI	**958,902,836**	**609,317,970**	**1,568,220,806**	390,409,390	731,203,777	1,121,613,167
Loans and receivables - net	**337,370,992**	**319,889,050**	**657,260,042**	212,794,873	449,300,014	662,094,887
Segregated fund assets	**662,323**	**–**	**662,323**	611,548	–	611,548
Other assets**	**3,978,297**	**–**	**3,978,297**	2,434,731	–	2,434,731
	1,533,907,038	**929,207,020**	**2,463,114,058**	1,181,820,792	1,180,503,791	2,362,324,583
Nonfinancial Assets						
Insurance receivable	**4,688,130**	**–**	**4,688,130**	9,305,663	–	9,305,663
Investment in subsidiaries	**–**	**17,173,997**	**17,173,997**	–	17,173,997	17,173,997
Property and equipment - net	**–**	**32,903,633**	**32,903,633**	–	32,678,117	32,678,117
Right-to-use asset	**–**	**28,836,955**	**28,836,955**	–	38,771,099	38,771,099
Investment properties	**–**	**65,195,468**	**65,195,468**	–	64,160,468	64,160,468
Deferred tax assets - net	**–**	**87,708,954**	**87,708,954**	–	49,567,195	49,567,195
Other assets***	**2,260,452**	**35,904,108**	**38,164,560**	995,799	28,667,102	29,662,901
	6,948,582	**267,723,115**	**274,671,697**	10,301,462	231,017,978	241,319,440
	₱1,540,855,620	**₱1,196,930,13535**	**₱2,737,785,755**	₱1,192,122,254	₱1,411,521,769	₱2,603,644,023
Financial Liabilities						
Premium deposit fund	**₱16,189,511**	**₱–**	**₱16,189,511**	₱21,839,687	₱–	₱21,839,687
Segregated fund liabilities	**662,323**	**–**	**662,323**	611,548	–	611,548
Accounts payable and other liabilities****	**174,390,167**	**–**	**174,390,167**	210,671,879	–	210,671,879
Due to related parties	**37,385,847**	**–**	**37,385,847**	96,184,807	–	96,184,807
Lease liabilities	**–**	**30,739,894**	**30,739,894**	–	39,774,304	39,774,304
	228,627,848	**30,739,894**	**259,367,742**	329,307,921	39,774,304	369,082,225
Nonfinancial Liabilities						
Insurance contract liabilities	**520,033,299**	**831,881,632**	**1,351,914,931**	475,817,293	690,136,023	1,165,953,316
Accounts payable and other liabilities	**6,251,419**	**–**	**6,251,419**	7,742,539	–	7,742,539
Income tax payable	**18,951,368**	**–**	**18,951,368**	12,202,897	–	12,202,897
Pension liability	**–**	**44,101,849**	**44,101,849**	–	42,690,966	42,690,966
	545,236,086	**875,983,481**	**1,421,219,567**	495,762,729	732,826,989	1,228,589,718
	₱773,863,934	**₱906,723,375**	**₱1,680,587,309**	₱825,070,650	₱772,601,293	₱1,597,671,943

**Insurance receivables under financial assets comprise of premiums due and uncollected - net and due from reinsurers*
***Other assets under financial assets comprise of rent deposits and security fund.*
****Other assets under nonfinancial assets comprise of deferred software costs, documentary stamps inventory and prepayments.*
*****Accounts payable and other liabilities under financial assets excludes government contributions payable and taxes payable.*

29. Related Party Transactions

Parties are 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 and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The following are the related parties of the Company under common control of Maestro Holdings, Inc.:

- PhilPlans
- Philhealthcare, Inc. (Philcare)
- Classic Finance, Inc. (Classic Finance)
- BancLife

Related party transactions consist mainly of the following:

a. The Company entered into a management agreement with Maestro Holdings, Inc. in 2012, for the general management and corporate level administrative guidance, direction and supervision with respect to the operations of the Company.

b. Advances to and from JAE and AAMI pertain mainly to shared expenses on audit fees and taxes.

c. Premium income from PhilPlans and PhilCare amounted to ₱64.80 million and ₱13.69 million, respectively, in 2020 and ₱83.90 million and ₱15.87 million, respectively, in 2019.

d. Experience refund payable to PhilPlans amounted to ₱28.32 million and ₱10.47 million in 2020 and 2019, respectively, whereas experience refund payable to PhilCare amounted to ₱1.56 million and ₱2.73 million in 2020 and 2019, respectively.

e. The Company assigned to Classic Finance, on a without recourse basis, certain salary loans amounting to ₱1.09 billion, and ₱1.32 billion in 2020 and 2019, respectively. These transactions resulted to a gain of ₱43.22 million and ₱44.08 million in 2020 and 2019, respectively. The gain represents the excess between the outstanding principal balance and the present value of the loan on the date of sale.

f. The Company and a major stockholder of the corporate owners of the Company entered into a Surety Agreement whereby the said individual stockholder, in his personal capacity, has agreed to be liable to the external funders/buyers relative to the sale of salary loans to ensure full payment and/or collection of the installment receivables in the event of any default or late payments by teachers, or as result of any full or partial prepayment by teachers and reduction in the amount of interest that may be collected from the teachers who prepay their loans. In case of prepayments, the Company is entitled to charge pretermination fee from the teacher as a result of processing the prepayments made. The Surety Agreement further provides that the amounts to be paid by the Surety shall be set-off against the amounts to be delivered by the Company, with the net remaining amount to be paid or collected by the Company to/from the Surety. In lieu of the delivery of cash, the Company may also opt to deliver new loans to replace the pre-terminated amounts.

g. The Company was engaged by BancLife to service its existing clients until the expiration of the policies in 2013.

h. Sharing of common expenses pertains mainly to shared rent and legal expenses.

i. Summary of compensation to key management personnel follows:

	2020	2019
Salaries and other short-term benefits	**₱30,879,199**	₱26,752,925
Post-employment benefits	**1,543,960**	1,428,606
Government premium costs	**154,800**	102,395
	₱32,577,959	₱28,283,926

j. Car loans granted to officers amounted to nil and ₱2.94 million in 2020 and 2019, respectively. It has a term of 5 years with interest rate of 10.00% per annum and payable through salary deduction. The loans are secured by a chattel mortgage on the vehicles acquired by the officers.

Outstanding balance of due to and from related parties at year end will be settled in cash. As of December 31, 2020 and 2019, the Company has not recognized any provision for impairment loss relating to amounts owed by related parties.

Amounts from related parties that are included in the Company's statement of financial position and statement of income follow:

	2020			
Category	**Amount/ Volume**	**Outstanding balance Receivable (Payable)**	**Terms**	**Conditions**
Parent				
Maestro Holdings, Inc.				
Management fees	**₱12,000,000**	**₱–**	**Due and demandable; noninterest bearing**	–
Subsidiaries				
AAMI				
Advances	–	–	**Due and demandable; noninterest bearing**	**Unsecured**
JAE				
Advances	**383,209**	–	**Due and demandable; noninterest bearing**	**Unsecured**
Other related parties:				
PhilPlans				
Premium income	**64,801,533**	–	**30-day term; noninterest bearing**	–
Experience refund		**(28,324,754)**	**Noninterest bearing**	**Unsecured**
Shared expenses	**335,117**	**(295,999)**	**Due and demandable; noninterest bearing**	–
Premium receivables		**9,966,693**	**Due and demandable; noninterest bearing**	
Classic Finance				
Sale of salary loans	**1,091,586,620**	–	**Due and demandable; noninterest bearing**	**Unsecured; no impairment**
Gain on sale	**43,221,559**	–	–	–

(Forward)

2020

Category	**Amount/ Volume**	**Outstanding balance Receivable (Payable)**	**Terms**	**Conditions**
Shareholder				
Remittance to Funder on pre-terminated and past due salary loan accounts	**₱27,032,325**	**(₱36,570,889)**		
Guarantee fee	**4,148,029**	**–**	**0.38% loan portfolio; due and demandable**	**–**
Interest expense	**2,129,418**	**–**	**4.5% per annum; due and demandable**	**–**
Interest income	**1,313,273**	**–**	**5.5% per annum; due and demandable**	**–**
BancLife				
Advances	**27,568,119**	**–**	**Due and demandable; noninterest bearing**	**Unsecured; no impairment**
PhilCare				
Premium income	**13,687,591**	**–**	**30 to 60-day term;**	**–**
Experience refund		**(1,555,535)**	**Noninterest bearing**	**Unsecured**
Shared expenses	**518,959**	**(518,959)**	**Due and demandable; noninterest bearing**	**Unsecured**
Premium receivables	–	**299,689**	**Due and demandable; noninterest bearing**	**–**
Fund value	–	**(113,652,173)**	**Due and demandable; interest bearing**	**–**
Philsfirst				
Fund value	–	**(6,890,663)**	**Due and demandable; interest bearing**	

2019

Category	Amount/ Volume	Outstanding balance Receivable (Payable)	Terms	Conditions
Parent				
Maestro Holdings, Inc.				
Management fees	₱12,000,000	₱–	Due and demandable; noninterest bearing	Unsecured
Shared expenses			Due and demandable; noninterest bearing	
Subsidiary				
AAMI				
Advances	5,814,544	(49,300)	Due and demandable; noninterest bearing	Unsecured
JAE			Due and demandable;	Unsecured
Advances	28,130	365,008	noninterest bearing	
Other related parties:				
PhilPlans				
Sale of salary loans	150,002,286		Due and demandable; noninterest bearing	Unsecured; no impairment
Premium income	83,895,625	–	30-day term; noninterest bearing	–

(Forward)

	2019			
Category	Amount/ Volume	Outstanding balance Receivable (Payable)	Terms	Conditions
Experience refund		(₱10,466,745)	Noninterest bearing	Unsecured
Shared expenses	₱2,166,929	2,500	Due and demandable; noninterest bearing	–
Premium Receivables		5,918,360		
Classic Finance				
Sale of salary loans	1,319,323,519	–	Due and demandable; noninterest bearing	Unsecured; no impairment
Gain on sale	44,085,201	–	–	–
Shareholder				
Remittance to Funder on past due accounts	88,285,505	–	–	–
Guarantee fee	5,013,429	–	0.38% of sold loan portfolio due and demandable	–
Proceeds from the sale of salary loans to third party	156,852,894	(68,567,388)		
Interest income	3,435,359		5.5% per annum; due and demandable	–
BancLife				
Advances	–	(27,568,119)	Due and demandable; noninterest bearing –	Unsecured; no impairment
PhilCare				
Premium income	15,869,501	–	30 to 60-day term;	–
Experience refund		(2,731,608)	Noninterest bearing	Unsecured
Shared expenses	608,026	–	Due and demandable; noninterest bearing	Unsecured; no impairment
Premium receivables	–	1,235,762	Due and demandable; noninterest bearing	–
Fund value	–	(109,533,215)	Due and demandable; interest bearing	–
Philsfirst				
Fund value	–	(6,562,390)	Due and demandable; interest bearing	

30. Events after the Reporting Date

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

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

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

- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.
- Effective January 1, 2021, income tax rate for nonresident foreign corporation is reduced from 30% to 25%.

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

Applying the provisions of the CREATE Act, the Company would have been subjected to lower regular corporate income tax rate of 25% effective July 1, 2020.

- Based on the provisions of Revenue Regulations (RR) No. 45-2021 dated April 8, 2021 issued by the BIR, the prorated CIT rate of the Company for CY2020 is 27.5%. This will result in lower provision for current income tax for the year ended December 31, 2020 and lower income tax payable as of December 31, 2020, amounting to ₱30.45 million and ₱16.18 million, respectively, or a reduction of ₱2.77 million. The reduced amounts will be reflected in the Company's 2020 annual income tax return. However, for financial reporting purposes, the changes will only be recognized in the 2021 financial statements.

- This will result in lower deferred tax assets and liabilities as of December 31, 2020 and provision for deferred tax for the year then ended by ₱16.42 million. These reductions will be recognized in the 2021 financial statements.

31. Supplementary Tax Information under Revenue Regulations 15-2010

In compliance with the requirements set forth by RR 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

Premium Tax

The Company is primarily engaged in the business of life insurance and paid the amount of ₱11,183,469 as percentage tax pursuant to the Tax Code based on the amount reflected in the premiums on insurance contracts of ₱439,828,133 and service fee income of ₱119,345,332.

Documentary Stamp Tax (DST)

The DST paid/accrued on the following transactions are:

On premiums	₱22,850
On lease contracts	92,312
On shares of stock	7,469
Others	83,056
	₱205,687

Other Taxes and Licenses

This includes all other taxes, local and national, including licenses and permit fees lodged under 'Taxes, licenses and fees' in the statement of income.

Licenses and permit fees	₱3,330,621
Filing fees	230,715
Real estate	62,418
Motor vehicle registration fees	9,507
Others	199,110
	₱3,832,371

Withholding Taxes

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

Tax on compensation and benefits	₱12,929,642
Expanded withholding taxes	13,160,001
	₱26,089,643

Tax Audit and Investigation

On September 9, 2020, the Company received from the Bureau of Internal Revenue (BIR) the Letter of Authority (LOA) No. 125-2020-00000173/eLA201700067552 dated August 3, 2020 to conduct an examination for the year 2018. On September 18, 2020, the Company submitted partial documents and requested for an extension in providing the other documents due to work-from-home arrangement and operating in a limited capacity due to pandemic. On October 23, 2020, the Company has received from BIR the Second and Final Notice for presentation of Books of Accounts and other accounting records dated October 20, 2020. On March 25, 2021, the BIR examiner requested the Company to issue a Waiver of Statue of Limitation as stated in Sections 203 and 222 of the NIRC, as amended.