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AIG Philippines Insurance, Inc.

Financial Statements
As at and for the years ended December 31, 2020 and 2019

Isla Lipana & Co.

Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholder of
AIG Philippines Insurance, Inc.
30th Floor Philamlife Tower
8767 Paseo de Roxas
Makati City

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of AIG Philippines Insurance, Inc. (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").

What we have audited

The financial statements of the Company comprise:

- the statements of comprehensive income for the years ended December 31, 2020 and 2019;
- the statements of financial position as at December 31, 2020 and 2019;
- the statements of changes in equity for the years ended December 31, 2020 and 2019;
- the statements of cash flows for the years ended December 31, 2020 and 2019; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independence

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.

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 Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 29 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 supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

John-John Patrick V. Lim
Partner
CPA Cert. No. 83389
P.T.R. No. 0007706, issued on January 5, 2021, Makati City
SEC A.N. (individual) as general auditors 1775 -A, Category A; effective until September 4, 2022
SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024 financial statements
TIN 112-071-386
BIR A.N. 08-000745-017-2018, issued on December 10, 2018; effective until December 9, 2021
BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
April 29, 2021

AIG Philippines Insurance, Inc.

Statements of Comprehensive Income
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2020	2019 (as restated)
Gross earned premiums on insurance contracts	8	1,908,924,042	2,202,646,692
Reinsurers' share of gross earned premiums on insurance contracts	8	1,640,504,570	1,925,121,063
NET EARNED INSURANCE PREMIUMS		268,419,472	277,525,629
Commission income		422,668,197	445,672,185
Net investment income	9	74,726,826	100,368,862
Others, net	10	50,428,688	72,592,983
OTHER INCOME		547,823,711	618,634,030
TOTAL INCOME		816,243,183	896,159,659
Gross insurance claims paid	11	577,570,651	865,170,351
Reinsurers' share of gross insurance claims paid	11	(511,546,677)	(717,311,224)
Gross change in claims liabilities	11	(156,885,540)	249,219,370
Reinsurers' share of gross change in claims liabilities	11	280,850,064	(195,308,581)
NET INSURANCE CLAIMS		189,988,498	201,769,916
Operating expenses	12	274,882,083	332,586,855
Commission expense	16	162,001,636	179,166,732
Interest expense on funds held for reinsurers	28	17,460,738	38,640,076
Provision for (reversal of) impairment loss	19	6,306,814	(122,291)
Foreign exchange loss, net		52,161,570	39,376,249
Investment expenses		1,218,094	1,399,015
OTHER EXPENSES		514,030,935	591,046,636
TOTAL INSURANCE CLAIMS AND OTHER EXPENSES		704,019,433	792,816,552
INCOME BEFORE INCOME TAX		112,223,750	103,343,107
PROVISION FOR INCOME TAX	13	33,134,027	27,968,732
NET INCOME FOR THE YEAR		79,089,723	75,374,375

(forward)

AIG Philippines Insurance, Inc.

Statements of Comprehensive Income
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

(forwarded)

	Notes	2020	2019 (as restated)
NET INCOME FOR THE YEAR		79,089,723	75,374,375
Other comprehensive (loss) income			
Item that will be reclassified subsequently to profit or loss			
Change in fair value reserve on available-for-sale financial assets	17	(4,543,237)	114,500,756
Income tax effect	21	(6,135,063)	(8,600,049)
		(10,678,300)	105,900,707
Item that will not be reclassified subsequently to profit or loss			
Remeasurement (loss) gain on defined benefit plan	22	(9,014,706)	3,371,600
Income tax effect	21	2,704,412	(1,011,480)
		(6,310,294)	2,360,120
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE YEAR, NET OF TAX		(16,988,594)	108,260,827
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		62,101,129	183,635,202

(The notes on pages 1 to 59 are integral part of these financial statements)

AIG Philippines Insurance, Inc.

Statements of Financial Position
December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2020	2019
ASSETS			
Retirement benefit asset	22	5,896,435	18,741,846
Deferred income tax assets, net	13	66,736,035	57,383,954
Property and equipment, net	14	31,869,486	55,643,865
Other assets		53,931,194	67,571,960
Insurance contracts			
Reinsurance assets	15	1,996,960,394	2,395,035,662
Deferred acquisition costs	16	42,640,927	69,555,123
Accrued income		16,139,008	21,926,052
Available-for-sale financial assets	17	1,963,179,350	2,086,738,199
Loans and receivables	18	13,603,656	23,079,072
Insurance receivables, net	19	300,227,483	602,920,191
Cash and cash equivalents	20	1,463,202,600	1,133,077,295
TOTAL ASSETS		5,954,386,568	6,531,673,219
EQUITY			
Share capital	21	935,852,400	935,852,400
Share premium		60,204,136	60,204,136
Accumulated other comprehensive income	21	100,962,535	117,951,129
Retained earnings	21	1,151,662,202	1,072,572,479
TOTAL EQUITY		2,248,681,273	2,186,580,144
LIABILITIES			
Deferred reinsurance commissions		119,376,985	151,197,144
Insurance contract liabilities	23	2,489,045,841	2,787,073,900
Insurance payables	25	745,585,456	1,142,927,033
Trade and other liabilities	26	351,697,013	263,894,998
TOTAL LIABILITIES		3,705,705,295	4,345,093,075
TOTAL EQUITY AND LIABILITIES		5,954,386,568	6,531,673,219

(The notes on pages 1 to 59 are integral part of these financial statements)

AIG Philippines Insurance, Inc.
Statements of Changes in Equity
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Share capital (Note 21)	Share premium	Accumulated other comprehensive income (Note 21)	Retained earnings (Note 21)	Total
As at January 1, 2019	935,852,400	60,204,136	9,690,302	997,198,104	2,002,944,942
Other comprehensive income					
Net income for the year	-	-	-	75,374,375	75,374,375
Other comprehensive income for the year	-	-	108,260,827	-	108,260,827
Total comprehensive income for the year	-	-	108,260,827	75,374,375	183,635,202
As at December 31, 2019	935,852,400	60,204,136	117,951,129	1,072,572,479	2,186,580,144
Other comprehensive income					
Net income for the year	-	-	-	79,089,723	79,089,723
Other comprehensive loss for the year	-	-	(16,988,594)	-	(16,988,594)
Total comprehensive income for the year	-	-	(16,988,594)	79,089,723	62,101,129
As at December 31, 2020	935,852,400	60,204,136	100,962,535	1,151,662,202	2,248,681,273

(The notes on pages 1 to 59 are integral part of these financial statements)

AIG Philippines Insurance, Inc.

Statements of Cash Flows
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		112,223,750	103,343,107
Adjustments for:			
Amortization of bond premium	9,17	3,522,131	1,712,878
Interest expense	27,28	19,089,771	41,121,553
Depreciation and amortization	12,14	20,801,709	22,682,867
Unrealized foreign exchange gain, net		(449,063)	(4,943,239)
Gain on lease termination	14,27	(324,989)	-
Loss on sale of available-for-sale financial assets	9	5,486,560	2,718,316
Write-off of available-for-sale financial asset	17	500,000	-
Changes in incurred but not reported losses, net	23	45,823,303	23,813,779
Provision for (reversal of) impairment of insurance receivable	19	6,306,814	(122,291)
Retirement expense	22	3,779,773	3,310,908
Provision for other post-employment benefits	22	252,941	377,464
Interest income	9	(79,993,261)	(100,293,307)
Dividend income	9	(3,742,256)	(4,506,749)
Operating income before changes in operating assets and liabilities		133,277,183	89,215,286
Changes in operating assets and liabilities			
(Increase) decrease in:			
Insurance receivables		296,400,077	(8,536,264)
Loans and receivable		9,215,941	36,360,157
Deferred reinsurance premiums		117,225,201	56,937,853
Reinsurance recoverable on unpaid losses		217,736,922	(21,161,793)
Deferred acquisition costs		26,914,196	(3,718,581)
Other assets		(32,275,993)	(26,597,802)
Increase (decrease) in:			
Provision for unearned premiums		(141,142,519)	(68,046,079)
Provision for claims reported and loss adjustment expenses		(139,595,699)	51,258,803
Insurance payables		(397,327,675)	(156,357,103)
Deferred reinsurance commissions		(31,820,159)	(18,239,215)
Trade and other liabilities		102,880,698	30,392,530
Cash from (used in) operations		161,488,173	(38,492,208)
Income tax paid		-	(15,694,558)
Interest paid on funds held for reinsurers	28	(17,460,738)	(38,640,076)
Employee benefit payments	22	(67,509)	(69,249)
Net cash from (used in) operating activities		143,959,926	(92,896,091)

(forward)

AIG Philippines Insurance, Inc.

Statements of Cash Flows
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

(forwarded)

	Notes	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income received		85,919,575	94,467,457
Dividends received		3,602,988	4,601,764
Proceeds from:			
Sale of available-for-sale securities	17	6,507,407	67,370,084
Maturities and sale of government securities	17	1,018,289,762	300,065,452
Collections of mortgage and guaranteed loans		260,499	373,936
Purchases of:			
Available-for-sale financial assets	17	(915,290,249)	(388,141,335)
Property and equipment	14	-	(3,745,871)
Net cash from investing activities		199,289,982	74,991,487
CASH FLOWS FROM FINANCING ACTIVITY			
Payment of lease liabilities	26	(13,531,364)	(14,053,529)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		329,718,544	(31,958,133)
CASH AND CASH EQUIVALENTS	20		
January 1		1,133,077,295	1,160,104,986
Effect of exchange rate changes on cash and cash equivalents		406,761	4,930,442
December 31		1,463,202,600	1,133,077,295

(The notes on pages 1 to 59 are integral part of these financial statements)

AIG Philippines Insurance, Inc.

Notes to financial statements
As at and for the years ended December 31, 2020 and 2019
(All amounts are shown in Philippine Peso, unless otherwise stated)

1. General information

AIG Philippines Insurance, Inc. (the “Company”) was incorporated in the Philippines and registered with the SEC on February 23, 1961 to engage in the business of non-life insurance, indemnifying others against loss, damage or liability arising from unknown or contingent events. Non-life insurance includes lines such as health, accident, fire and allied lines, motor vehicles, casualty, surety, marine cargo, comprehensive liability insurance and allied risks, and/or such other insurance coverage allied with and incident to aforementioned lines.

The Company is a wholly-owned subsidiary of AIG Asia Pacific Insurance Pte. Ltd. (the “Parent Company”), a company incorporated in Singapore. The Company’s ultimate parent is the American International Group, Inc. (“AIG”) and is incorporated in the United States of America.

The registered office address of the Company, which is also its principal place of business is 30th Floor, Philamlife Tower, 8767 Paseo de Roxas, Makati City.

The Company has a Board of Directors (“BOD”) which met nine (9) times during 2020. The directors, including certain members of senior management concurrently serving as director, only hold qualifying shares in the Company. None of these shares have been traded during the year. The Board also appoints certain members to constitute the Audit Committee which met four (4) times in 2020.

The Company has no operating subsidiary, joint venture and special purpose vehicles.

Status of consumer insurance operations

In 2016, AIG implemented a value-based geography strategy, in which the commercial and consumer businesses globally assessed the countries where superior results can be achieved. As a result, the Company formally announced that effective July 31, 2016, the Company will no longer offer consumer insurance in the Philippines, particularly: personal accident, travel, supplemental health, lifestyle and extended warranty. All existing policies under the consumer business will continue to be serviced for the remaining period of the policy.

As of December 31, 2020 and 2019, the remaining consumer business pertains to certain credit card-linked policies that the Company continues to renew from 2016 as such are related to key business relationships that the Company wants to maintain. Considering the pattern of renewal in the past years, the Company assessed that the product will reasonably continue to be renewed in the foreseeable future. Due to this, the remaining consumer business has been reported as part of continuing operations for the year ended December 31, 2020. The comparative 2019 statement of comprehensive income has also been restated to reflect such assessment. The restatement has no impact on total equity and profit or loss. Furthermore, the restatement has no impact on the statement of financial position as at December 31, 2019 and 2020; hence, the third statement of financial position is not presented.

Coronavirus pandemic

COVID-19 is adversely affecting, and is expected to continue to adversely affect, our global business, financial condition and results of operations, and its ultimate impact will depend on future developments that are uncertain and cannot be predicted, including the scope, severity and duration of the crisis, and the governmental, legislative and regulatory actions taken and court decisions rendered in response thereto. We are continually assessing the impact and, due to the evolving and disruptive nature of the COVID-19 crisis, cannot estimate its ultimate impact on our business, financial condition and results of operations. We also cannot, at this time, estimate the full extent to which the crisis has caused and will continue to cause certain risks to our global business.

Authorization of the financial statements

The accompanying financial statements of the Company were authorized for issue by the Board of Directors on April 29, 2021.

2. Changes in accounting policy and disclosures

(a) Amendments to existing standards and the revised Conceptual Framework adopted by the Company

The following amendments to existing standards and the revised Conceptual Framework have been adopted by the Company effective January 1, 2020:

- Amendments to IAS 1, 'Presentation of Financial Statements', and IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'

  The amendments clarify that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and; the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

  The adoption of the above amendments did not have a material impact to the Company financial statements as its materiality assessment is made in the context of the financial statements as a whole.

- Amendments to PFRS 16, "Leases", COVID-19 related concessions

  The amendment, effective June 1, 2020, provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

  The adoption of the above amendments did not impact the financial statements of the Company since it did not avail of any rent concessions during the year.

- Adoption of the Revised Conceptual Framework for Financial Reporting

  The revised Framework includes the following changes:
  - increasing the prominence of stewardship in the objective of financial reporting
  - reinstating prudence as a component of neutrality
  - defining a reporting entity, which may be a legal entity, or a portion of an entity
  - revising the definitions of an asset and a liability
  - removing the probability threshold for recognition and adding guidance on derecognition
  - adding guidance on different measurement basis, and
  - stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

  No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from January 1, 2020.

  The adoption of the above revised standard did not have a material impact on the Company's financial statements as the accounting policies of the Company are still appropriate under the revised Framework.

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2020 are not considered relevant to the Company.

(b) New standards, amendments and interpretations not yet adopted

New standards, amendments and interpretations issued by the IASB but which are not effective for the financial year beginning on January 1, 2020 and have not been adopted early by the Company are listed below.

<u>Insurance contracts</u>

- On May 18, 2017, the IASB issued IFRS 17 'Insurance Contracts' (IFRS 17), marking the conclusion of the IASB's project to replace IAS 4 'Insurance Contracts'. IFRS 17 represents a fundamental change in the accounting framework for insurance contracts requiring liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts.

  In June 2020, the IASB issued 'Amendments to IFRS 17' which, in addition to addressing concerns and implementation challenges identified after IFRS 17 was originally published, deferred the effective date to accounting periods commencing on or after January 1, 2023. At the same time the IASB also issued 'Extension of the Temporary Exemption from Applying IFRS 9 – Amendments to IFRS 4' to align the effective date of the mandatory adoption of IFRS 9 with the revised effective date of IFRS 17. In view of the impact of the COVID-19 pandemic, the Insurance Commission issued Circular Letter 2020-62 dated May 18, 2020 to further defer the implementation of PFRS 17 for life and non-life insurance industries to January 1, 2025.

The Group's management, including the Company, is currently reviewing the impact of IFRS 17 across its entire business and has established a project team to manage the implementation program. Accounting policies have been developed which together with associated application guidance has been used to assess the insurance contracts issued and reinsurance contracts held by the Company. The Company anticipates that the majority of its insurance operations will be eligible to apply the premium allocation approach. The Company has performed an in-depth analysis of its systems, methodologies and processes to confirm that these are capable of producing data at the appropriate level of granularity to ensure compliance with the requirements of IFRS 17 and prepare remediation plans as appropriate. The Company expects to have completed the development of IFRS 17 compliant systems and processes, including testing and validation of outputs, prior to the initial application date of January 1, 2022 in anticipation of adopting IFRS 17 for the financial period commencing on January 1, 2023. Management intends to adopt IFRS 17 at the same time as the Group.

Financial Instruments

- *PFRS 9, 'Financial instruments'.* PFRS 9 deals with the classification, measurement and impairment of financial instruments, as well as hedge accounting.

  PFRS 9 replaces the multiple classification and measurement models for financial assets in PAS 39, 'Financial Instruments: Recognition and Measurement' with a single model that has three classification categories: amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. Classification under PFRS 9 is driven by the entity's business model for managing and holding the financial assets and the contractual cash flow characteristics of the financial instruments held. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. The classification and measurement of financial liabilities under PFRS 9 remains the same as in PAS 39 except where an entity has chosen to measure a financial liability at fair value through profit or loss. For such liabilities, changes in fair value arising from changes in the entity's own credit risk are excluded from recognition within income for the year.

  The impairment rules of PFRS 9 introduce an 'expected credit loss' model that replaces the 'incurred credit loss' model used in PAS 39. Such new impairment model will generally result in earlier recognition of losses compared to PAS 39.

  The hedging rules of PFRS 9 better align hedge accounting with an entity's risk management strategies. Also, some of the prohibitions and rules in PAS 39 are removed or changed, making hedge accounting easier or less costly to achieve for many hedges.

- *Deferral of PFRS 9, Financial instruments*

  The Company meets the eligibility requirements set out in 'Applying PFRS 9, *Financial Instruments* with PFRS 4, *Insurance Contracts* (Amendments to PFRS 4)'; and has elected to defer the application of PFRS 9 until the Company adopts PFRS 17.

  The Company's activities were predominantly connected with insurance activities at December 31, 2015 (which is its annual reporting date immediately preceding April 1, 2016) at which date the percentage of the total carrying amount of the Company's liabilities connected with insurance activities was more than 95%. This is greater than 90% of the total carrying amount of all of its liabilities as at December 31, 2015. There has been no significant change in the Company's activities subsequent to this date.

The following tables set out the fair value at December 31, 2020 and 2019 and the changes in fair values for the years then ended, of financial assets separately for the following groups:

- Financial assets that meet the SPPI criteria in PFRS 9, excluding those financial assets that are defined as ‘held-for-trading’ or that are managed and evaluated on a fair value basis; and
- All other financial assets, including those assets that do not meet the SPPI criteria in PFRS 9 and those financial assets that are defined as ‘held-for-trading’ or that are managed and evaluated on a fair value basis.

Financial assets that meet the SPPI criteria in PFRS 9 are those whose cash flows comprise solely payments of principal and interest (SPPI) on principal outstanding.

The fair value of financial instruments at December 31, 2020 and 2019 classified between those that meet and those that fail the SPPI criterion are described as follows:

	Financial assets that meet the SPPI criteria*		All other financial assets	
	Fair value	Fair value change during the reporting period	Fair value	Fair value change during the reporting period
December 31, 2020				
Security deposits	2,845,193	-	-	-
Accrued income	16,139,006	-	-	-
AFS financial assets	1,610,430,171	26,825,818	352,749,179	(25,885,817)
Loans and receivables				
Mortgage loans	2,154,056	-	-	-
Guaranteed loans	-	-	-	-
Intercompany accounts receivable	7,780,074	-	-	-
Miscellaneous receivables	3,669,526	-	-	-
Cash and cash equivalents	1,463,202,600	-	-	-
	3,106,220,626	26,825,818	352,749,179	(25,885,817)

	Financial assets that meet the SPPI criteria*		All other financial assets	
	Fair value	Fair value change during the reporting period	Fair value	Fair value change during the reporting period
December 31, 2019				
Security deposits	3,440,544	-	-	-
Accrued income	21,926,052	-	-	-
AFS financial assets	1,696,972,476	68,899,812	389,765,723	48,314,447
Loans and receivables				
Mortgage loans	2,244,208	-	-	-
Guaranteed loans	170,347	-	-	-
Intercompany accounts receivable	17,775,132	-	-	-
Miscellaneous receivables	2,889,385	-	-	-
Cash and cash equivalents	1,133,077,295	-	-	-
	2,878,495,439	68,899,812	389,765,723	48,314,447

**Excluding any financial assets that meet the definition of held for trading in PFRS 9, or that is managed and whose performance is evaluated on a fair value basis.*

The financial assets that meet the SPPI criteria are tagged as neither past due nor impaired and have a high credit rating.

The Company did not subsequently reassessed its eligibility for the temporary exemption from PFRS 9 as there was no change in the Company’s activities for the period ending December 31, 2020.

There are no other standards, amendments or interpretations that are not yet effective that are considered relevant and have a material impact on the financial statements of the Company.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

3.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards ("PFRS"). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards ("PAS"), and interpretations of the Philippine Interpretations Committee ("PIC"), Standing Interpretations Committee ("SIC") and International Financial Reporting Interpretations Committee ("IFRIC") which have been approved by the Financial Reporting Standards Council ("FRSC") and adopted by the SEC.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale ("AFS") financial assets and retirement plan assets.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

3.2 Foreign currency transactions and translation

3.2.1 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Philippine Peso, which is the Company's functional and presentation currency.

3.2.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Non-monetary items measured at historical cost and denominated in a foreign currency are translated at exchange rates as at the date of initial recognition. Non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value is determined.

Changes in the fair value of monetary securities denominated in foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in other comprehensive income as part of the fair value reserve.

3.3 Insurance contracts

3.3.1 Product classification

Insurance contracts are defined as those contracts under which the Company (the “insurer”) accepts significant insurance risk from another party (the “policyholder”) by agreeing to compensate the policyholder if a specified uncertain future event (the “insured event”) adversely affects the policyholder. As a general guideline, the Company defines insurance risk as significant if the insured event could cause an insurer to pay significant additional benefits even if the insured event is extremely unlikely to happen.

Insurance contract can also transfer financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable.

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

3.3.2 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Premium revenue

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 365th method. The portion of the premiums pertaining to the premiums written that relate to the unexpired periods of the policies at reporting date is accounted for as Provision for unearned premiums and presented as part of Insurance contract liabilities in the liabilities section of the statement of financial position. The related reinsurance premiums that pertain to the unexpired periods at reporting date are accounted for as Deferred reinsurance premiums as part of “Reinsurance assets” presented in the assets section of the statement of financial position. The net changes in these accounts between reporting dates are included in the determination of net insurance revenue.

Commission income

Reinsurance commissions are recognized as revenue over the period of the contracts using the 365th method. The portion of the commissions that relates to the unexpired periods of the policies at the reporting date is accounted for as “Deferred reinsurance commissions” in the liabilities section of the statement of financial position.

Other income

Fee income and other income is generated from services from a single performance obligation provided at a fixed price over time, such as administrative services to a related entity, or when a specific transaction is delivered at a point in time such as engineering and surveying services as separate service from any insurance. The revenue is based on the depiction of transfer of the service in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Revenue is determined at the gross amount of consideration receivable for the services provided.

Fee income is generally earned from short term contracts with payment terms that do not include a significant financing component.

There are no warranties and other similar obligation and refunds agreed with counterparties.

3.3.3 Insurance claims

Insurance claims consists of claims paid to policyholders, which include changes in the valuation of insurance contract liabilities, except for changes in the provision for unearned premium which are recorded in Gross earned premiums on insurance contracts. Insurance claims are recorded on the basis of notifications received.

3.3.4 Deferred acquisition costs ("DAC")

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

Subsequent to initial recognition, these costs are amortized on a straight-line basis over the life of the contract. Amortization is reported as part of Commission expense in the statement of comprehensive income. The unamortized acquisition costs are shown as "Deferred acquisition costs" in the assets section of the statement of financial position.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged to profit or loss. The deferred acquisition cost is also considered in the liability adequacy test for each reporting period.

3.3.5 Insurance contract liabilities

Insurance contract liabilities are recognized when the contracts are entered into and the premiums are charged. Insurance contract liabilities are divided into expired and unexpired portions.

The liability is derecognized when the contract has expired, is discharged or is cancelled.

Claims liabilities (Expired portion)

The expired portion, which is known as provision for claims, is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. The Company does not discount liabilities for unpaid claims.

Provision is made at the reporting date for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported ("IBNR") to the Company. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of which cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that may include a margin for adverse deviation. No provision for catastrophic reserves is recognized unless the catastrophe is sustained at reporting period.

Although the Company takes all reasonable steps to ensure that it has appropriate information regarding its claim exposures, given the uncertainty in establishing claims provisions, it is likely that the final outcome will be different from the original liability established.

The IBNR reserve is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. It includes an allowance for any consistent under or over-estimation in the case reserves. The IBNR review is conducted on a class of business basis. The in-house actuarial team conducts the assessment which is subject to an internal peer review process. Standard actuarial methodologies are used to evaluate and determine the IBNR reserves for all areas of the business including loss development methods and the analysis of individual cases in more volatile lines as appropriate. The Company's actuaries determine and select the most appropriate actuarial method to adopt for each business class. They also determine the appropriate segmentation of data from which the adequacy of the reserve can be established. A point estimate is determined from these detailed reviews and the sum of these point estimates for each class of business provides the overall actuarial point estimate for the IBNR reserve for the Company.

The ultimate process by which the actual carried reserves are determined takes into account both the actuarial point estimate and numerous other internal and external factors such as claims initiatives and economic conditions in the Philippines. To ensure local regulatory compliance, the Company engaged an external actuary to review the analysis and certify the reasonableness of the reserves.

The general insurance loss reserves can generally be categorized into two distinct groups. One group is short-tail classes of business consisting mainly of property, consumer lines, marine and energy. The other group is long-tail commercial lines of business which includes excess and primary liability, Directors and Officers (D&O), professional liability, employers' liability, general liability and related classes.

Short-tail classes do not have a significant delay from the date of accident to date of report to the Company and then settled by the Company. The estimates for these classes are more reliant on the case estimate on individual claims and utilizes loss development methodologies in the projection of the future development of these case estimates.

Long-tail classes generally relate to claims where liability has to be established or where there is an element of bodily injury. For these classes it may take some time from the date of accident for the claim to emerge and for claims to be settled from notification date due to the time taken to establish liability. Estimation of ultimate net indemnity losses and loss expenses for long-tail lines of business is a complex process and depends on a number of factors, including the class and volume of business involved as well as premium rate changes, changes in exposure and claim inflation. The actuarial methods used by the Company for most long-tail commercial lines include loss development methods and expected loss ratio methods, including the Bornhuetter-Ferguson (BF) method. Exceptional large claims or events, to the extent that these distort the historical development, are removed from the analysis and considered separately.

Premium liabilities (Unexpired portion)

The Company's premium liabilities are valued equal to the provision for unearned premiums plus the difference between the unexpired risk reserve and the provision for unearned premiums, net of DAC. The Company's outstanding premium liabilities is reported under Insurance contract liabilities.

Provision for unearned premiums

The proportion of written premiums, gross of commissions to intermediaries, attributable to subsequent periods or to unexpired risks, is deferred as provision for unearned premiums using the 365th method, except for marine cargo, where the provision for unearned premiums pertain to the premiums for the last two months of the year. The change in the provision for unearned premiums is taken to profit or loss in the order that revenue is recognized over the period of risk. Further provisions are made to cover any deficiency to the extent that the unexpired risk reserve exceeds the provision for unearned premiums (net of DAC). The unexpired risk reserve represents the premiums to match future claims and expenses in the unexpired coverage period of in-force contracts. The future claims and expenses are adjusted for potential changes or uncertainties.

Liability adequacy test

At each reporting date, liability adequacy tests are performed, to ensure the adequacy of insurance contract liabilities, net of related DAC assets. In performing the test, current best estimates of future cash flows and claims handling and policy administration expenses are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged to profit or loss by establishing an unexpired risk provision for losses arising from the liability adequacy tests. The liability adequacy test is addressed by the current premium valuation method used by the Company for its premium liabilities.

3.3.6 Reinsurance assets

The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and in accordance with the reinsurance contract.

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

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

The Company also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

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

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

3.4 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value. Property and equipment includes right-of-use asset recognized under PFRS 16 which is included in office premises.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

	Years
EDP equipment	3
Furniture and fixtures	5
Transportation equipment	5

Leasehold improvements and office premises are amortized over the estimated useful life of the assets or the term of the lease, whichever is shorter.

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

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

3.5 Impairment of non-financial assets

At each reporting date, the Company assesses whether there is any indication that its non-financial assets, mainly property and equipment, 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 the recoverable amount. Recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value and the risks specific to the asset (or cash generating unit).

For non-financial assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized.

If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years.

Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such reversal, the depreciation expense 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.

3.6 Financial instruments

3.6.1 Classification

The classification of the financial assets is as follows: financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") financial assets, held-to-maturity ("HTM") investments, and loans and receivables. Financial liabilities are either designated at FVTPL or classified as other financial liabilities. The classification depends on the purpose for which the assets and liabilities were acquired or incurred and whether they are quoted in an active market. Management determines the classification at initial recognition.

Financial assets or financial liabilities at FVTPL

This category consists of financial assets or financial liabilities that are held for trading or designated by management as at FVTPL on initial recognition. Derivative instruments, except those covered by hedge accounting relationships, are classified under this category.

In 2020 and 2019, the Company has not classified any of its financial assets or liabilities at FVTPL.

AFS financial assets

AFS financial assets are those which are designated as such or do not qualify to be classified or designated at FVTPL, held to maturity or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include government securities, equity investments, and other debt instruments.

In 2020 and 2019, the Company's AFS financial assets consist of government debt securities, listed equity securities and proprietary shares.

HTM investments

HTM investment are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity.

In 2020 and 2019, the Company has not classified any of its financial assets as HTM investments.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS or FVTPL. This accounting policy relates to the statement of financial position captions: (a) "Cash and cash equivalents" (b) "Insurance receivables", (c) "Loans and receivables", (d) "Accrued income" and (e) Security deposits within Other assets.

Other financial liabilities

Issued financial instruments or their components, which are not designated at FVTPL are classified as other financial liabilities, where the substance of the contractual arrangement results in an entity having an obligation either to deliver cash or another financial assets to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial assets for a fixed number of own equity shares.

This accounting policy applies primarily to the Company's insurance payables and trade and other liabilities that meet the above definition (other than liabilities covered by other accounting standards, such as retirement benefit obligation and income tax payable).

3.6.2 Recognition and measurement

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

Regular purchases and sales of financial assets are recognized on the trade date - the date on which the Company commits to purchase or sell the asset. Financial assets and liabilities not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs.

Subsequent measurement

AFS financial instruments

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency denominated AFS debt securities, are reported in profit or loss. Interest earned on holding AFS investments is reported as interest income under investment income using the effective interest rate. Dividends earned on holding AFS investments are recognized in the statement of comprehensive income as investment income when the right of payment has been established.

The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as part of "Accumulated other comprehensive income" in the equity section of the statement of financial position. The losses arising from impairment of such investments are recognized as "Provision for impairment loss" in the statement of comprehensive income. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as gain or loss on sale of AFS financial assets in the statement of comprehensive income.

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

Loans and receivables

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

Other financial liabilities

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

Determination of fair value

The fair value of instrument in active markets at the reporting date is based on their quoted market price or dealer price quotations, without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair values as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing model, and other relevant valuation models.

Day 1 profit

Where the transaction price in a non-active market is different from the value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" profit) in profit or loss unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is 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 amount.

3.6.3 Derecognition of financial assets and liabilities

Financial asset

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

- The right to receive cash flows from the asset has 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 reward of the asset, but has transferred control of the asset.

Where 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 original amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liability

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

3.6.4 Insurance receivables

Insurance receivables are recognized when due and measured on initial recognition at the fair value of the amount of the receivable. Subsequent to initial recognition, insurance receivables are measured at amortized cost using the effective interest method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss.

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

3.6.5 Cash and cash equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from the date of acquisition and that are subject to an insignificant risk of changes in value.

3.7 Offsetting

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

As at December 31, 2020 and 2019, there are no financial assets and liabilities that have been offset.

3.8 Investment income

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS financial assets, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The adjusted carrying amount is calculated based on the original effective interest rate. The change in carrying amount is recorded as interest income.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Dividend income

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

3.9 Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or a group of financial assets is impaired.

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

Loans and receivables

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

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from the foreclosures less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in profit or loss. Interest income continues to be accrued in the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. If in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as type of borrower, collateral type, past due status and term.

AFS financial assets

In the case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Generally, the Company treats ‘significant’ as 20% or more and ‘prolonged’ as greater than twelve months. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss of that financial asset previously recognized in the statement of comprehensive income - is removed from equity and recognized in profit or loss. Impairment losses on equity investment are not reversed through profit or loss. Increases in fair value are recognized directly in equity.

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

3.10 Leases

Assets and liabilities arising from a lease are initially measured on a present value basis. Interest expense is recognized in profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

a) Measurement of lease liabilities

Lease liabilities include the net present value of the following lease payments:
- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for the Company’s leases, the lessee’s incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:
- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held for entities which do not have recent third-party financing; and
- makes adjustments specific to the lease (i.e. term, currency and security).

Lease payments are allocated between principal and interest expense. Interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

b) Measurement of right-of-use assets

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

c) Extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is revised only if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

d) Short-term leases and leases of low-value assets

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment.

e) Lease modifications

Lease modifications are accounted either as a separate lease or not a separate lease. The Company accounts for the lease modification as a separate lease if both:

- the modification increases the scope of the lease by adding the right of use to one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For lease modification that is not accounted for a separate lease, at the effective date of lease modification, the Company:
- allocates the consideration in the modified contract on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components;
- determine the lease term of the modified lease; and
- remeasure the lease liability by discounting the revised lease payments using a revised discount rate.

The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

For a lease modification that is not accounted for as a separate lease, the Company accounts for the remeasurement of the lease liability by:

- decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease; and
- making a corresponding adjustment to the right-of-use asset for all other lease modifications.

The Company recognizes in profit or loss any gain or loss relating to the partial or full termination of the lease.

3.11 Income tax

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, carry-forward of unused tax losses (net operating loss carryover or “NOLCO”) and unused tax credits (excess minimum corporate income tax or “MCIT”). Deferred income tax is determined using the tax rate (and laws) that have been enacted or substantively enacted as at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences, NOLCO and MCIT can be utilized. Deferred income tax liabilities are recognized in full for all taxable temporary differences.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority where there is an intention to settle the balances on a net basis.

The Company reassesses at each reporting date the need to recognize previously unrecognized deferred income tax assets.

Deferred income tax expense or credit included in “Provision for income tax” is recognized for the changes during the year in the deferred income tax assets and liabilities.

3.12 Employee benefits

The Company operates various post-employment schemes, including defined benefit retirement plan and post-employment retirement life and medical plans.

3.12.1 Retirement benefit obligations

The Company has a defined benefit plan that covers substantially all of its employees. A defined benefit plan is a pension plan that defines an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

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

The net defined benefit liability or asset is calculated annually by an independent actuary using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

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 a plan amendment or curtailment occurs.

3.12.2 Other post-employment obligations

The Company provides post-retirement life and medical benefits to qualified retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and calculated by an independent actuary using the projected unit credit method. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

3.13 Expenses

General, operating and other expenses

General, operating and other expenses are recorded in the period in which they are incurred.

Provisions

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

3.14 Contingencies

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

3.15 Share capital; Share premium

Common shares are classified as share capital.

Share premium includes any premiums on consideration received in excess of par value on the issuance of share capital.

3.16 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's BOD.

The amended Insurance Code provides that no domestic insurance corporation shall declare or distribute any dividend on its outstanding stocks unless it has met the minimum paid-up capital and net worth requirements.

3.17 Related party transactions and relationships

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party, or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

3.18 Events after the reporting period

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

4. Event after the financial reporting period

Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

On March 26, 2021, (Republic Act No. 11534), otherwise known as CREATE, was signed into law by the President of the Philippines.The law seeks to lower corporate income tax rates and to rationalize fiscal incentives.

Under CREATE, effective July 1, 2020, the more significant changes are as follows:

- Reduction of corporate income tax (CIT) rate to 20% applicable to domestic corporations with total net taxable income not exceeding P5 million and with total assets not exceeding P100 million (excluding land on which the business entity's office, plant and equipment are situated);
- Reduction of CIT rate to 25% shall be applicable to all other corporations subject to regular CIT; and,
- MCIT rate shall also be amended to 1%, instead of 2%, for the period beginning July 1, 2020 until June 30, 2023.

For financial reporting purposes, the enactment of CREATE after the reporting date is deemed a non-adjusting subsequent event.

Had the law been applied as at December 31, 2020, creditable withholding taxes would have been higher by P2.63 million and the net deferred tax assets would have been lower by P12.65 million. Net income for the year would decrease by P9.40 million and other comprehensive income for the year would be lower by P0.62 million.

5. Critical accounting estimates, assumptions and judgments

The preparation of financial statements in compliance with PFRS requires the Company to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosures of contingent assets and contingent liabilities. Future effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

5.1 Critical accounting estimates and assumptions

(a) Claims liability arising from insurance contracts (Note 23)

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

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

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

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

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

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Outstanding claims are calculated gross of reinsurance. A separate estimate is made of the amounts recoverable from reinsurers and third parties under insurance contracts based on the gross outstanding claims provision. Future cash flows are not discounted for time value of money.

The carrying value of claims liabilities, gross of reinsurance, as at December 31, 2020 amounts to P2,003.14 million (2019 - P2,160.02 million).

The sensitivity analysis for claims liability is detailed in Note 24.

(b) Unexpired risk reserves (Note 23)

The Company calculates for the URR at 75th level percentile of sufficiency using the best estimate of future claims and expenses for all classes of business, including margin for adverse deviation to address uncertainty in the estimate of unexpired risks. In order to arrive at the URR, the provision for unearned premium for each class of business is multiplied by the expected loss ratio, adjusted for future expenses and margin for adverse deviation.

The expected future claims include all claims which might occur during the unexpired period including: claims which are reported after the end of the unexpired exposure period, but have occurred within the unexpired exposure period; and claims which are reopened at any date, but have occurred within the unexpired exposure period. The expected future expenses include estimates of claims expenses and general policy maintenance expenses based on actual historical experience. The claims expense ratio is being applied to the gross unexpired risk reserves while the policy maintenance expense ratio is applied on the provision for unearned premiums.

The process of establishing liability estimates is subject to considerable variability as it requires the use of informed estimates and judgments. These estimates and judgments are based on numerous factors, and may be revised as additional experience becomes available or as regulations change. The Company takes all reasonable steps to ensure that it has appropriate information regarding its unexpired risk exposures.

As at December 31, 2020 and 2019, the Company's URR did not exceed its provision for unearned premium, net of DAC.

(c) Retirement and other employee benefits (Note 22)

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

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

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

Additional information, including the related sensitivity analysis, is disclosed in Note 22.

5.2 Critical judgments

(a) Impairment of financial assets (Notes 17, 18 and 19)

The Company treats AFS equity investments as impaired where there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more and 'prolonged' as greater than twelve (12) months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be appropriate also when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, changes in technology and operational and financing cash flows. The Company reviews its insurance receivables and loans and receivables at each reporting date to assess whether an allowance for impairment should be recorded in the statement of comprehensive income. In particular, judgment by management is required in determining the amount and timing of future cash flows when determining the level of allowance required. The amount and timing of recorded expenses for any period would differ if the Company made a different judgment. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

The Company has written off certain AFS financial assets amounting to P0.50 million as at December 31, 2020 (2019 - nil).

Insurance receivables and loans and receivables, net of allowance for impairment as at December 31, 2020 amount to P300.23 million and P13.60 million (2019 - P602.92 million and P23.08 million), respectively.

(b) Deferred income tax assets (Note 13)

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

The Company's recognized deferred income tax assets as at December 31, 2020 amount to P66.74 million (2019 - P57.38 million). Unrecognized deferred income tax asset relating to MCIT is nil as at December 31, 2020 (2019 - P1.28 million).

(a) Governance framework

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

The main purpose of the Company's financial instruments is to fund its operations including its commitment to each policyholder and capital expenditures. The Company's local management team is assisted and supervised on a day-to-day basis by the management team of the ultimate parent company at the regional and corporate levels. There are established divisional and functional reporting lines to the ultimate parent company across the profit centers and service departments. The risk management function of the Company is aligned with that of its ultimate parent company. A risk oversight committee, consisting of certain members of the Company's Board of Directors, provides oversight on the risk management function of the Company. Most of the Company's policies on market (consisting of foreign currency risk, interest rate risk, and price risk), credit, liquidity, insurance and operational risks are developed at the regional and corporate levels which are implemented by the ultimate parent company across its global operations, including the Philippine operations. The policies primarily encompass underwriting, reinsurance, claims, credit control, finance, system infrastructure and business continuity and recovery and serve as minimum guidance for the Company.

(b) Insurance risk

The risk under an insurance contract is the possibility of occurrence of an insured event and uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims will exceed the carrying amount of insurance liabilities. This could occur due to any of the following:

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

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategies and guidelines. The policies and procedures are developed internally and mandated by the regional and corporate offices of its ultimate parent company.

The business of the Company comprises primarily of short-term non-life insurance contracts. For non-life insurance contracts, claims are often affected by accidents, natural disasters, calamities and the like.

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

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

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

The Company principally underwrites the following types of general insurance contracts: commercial, liability, accident and health, personal lines and marine insurance.

2020	Note	Gross claims liabilities	Reinsurers' share of claims liabilities	Net claims liabilities
Commercial property		1,336,534,152	1,054,997,878	281,536,274
Liability		498,941,315	421,504,881	77,436,434
Accident and health		6,163,536	4,660,991	1,502,545
Marine		161,397,380	121,161,904	40,235,476
Personal line		101,144	97,816	3,328
	23	2,003,137,527	1,602,423,470	400,714,057

2019	Note	Gross claims liabilities	Reinsurers' share of claims liabilities	Net claims liabilities
Commercial property		1,489,928,723	1,300,464,257	189,464,466
Liability		531,048,839	466,336,546	64,712,293
Accident and health		9,957,940	7,454,939	2,503,001
Marine		128,211,915	108,164,094	20,047,821
Personal line		875,650	853,700	21,950
	23	2,160,023,067	1,883,273,536	276,749,531

The Company maintains sufficient assets and adequate capital to support settlement of its claims liabilities.

(c) Financial risk

The Company is exposed to financial risk through its financial assets, financial liabilities and insurance contracts. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

(c.1) Credit risk

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

The Company manages the level of risk it accepts by putting in place policies on credit terms extended to its producers and cancellation of insurance contracts with unpaid premiums beyond the agreed credit terms; limiting the list of reinsurance providers to those that are highly rated by established rating agencies and recommended by the ultimate parent company; limiting banking exposures to levels determined by the Company, taking into account overall group exposure; and limiting investment transactions with Company accredited equity brokers ensuring all contracts are subjected to legal and financial review and reviewing regularly the status of providers of reinsurance and financial service providers. When applicable, the Company enters into netting arrangements with counterparties to reduce credit exposures. Significant credit risk management expertise and resources are available at the regional and corporate offices of the ultimate parent company. The Company adopts policies and procedures developed internally and those mandated by the regional and corporate offices of its ultimate parent company.

The Company has put in place various monitoring and control measures depending on the types of financial assets for which the credit risk arises. For cash and cash equivalents, the Company monitors credit risk through the use of monthly liquidity report. Also, a quarterly recertification of all bank accounts is being prepared. For receivables, the Company prepares aging reports for each creditor type (producer, reinsurer, ceding companies and employees) which management reviews on a monthly basis. A management level receivable committee discusses monthly collection issues and major receivable balances and develops action plans to address identified issues. For receivables from foreign reinsurers, the Company reports its recoverable position to the corporate office on a monthly basis.

Specific action steps are taken as necessary to address receivables beyond the normal credit terms. For receivables from producers, amounts falling beyond the credit terms are referred to the underwriters for discussion with the brokers and agents for eventual cancellation of the policy. For premiums receivable from reinsurers, any breach in the premium payment warranty date is referred to the underwriters for discussion with the ceding company for eventual cancellation of the reinsurance cover. Any extension of premium payment warranty date requires the approval of the Company's President. For reinsurance recoveries, the corporate office provides support to recover amounts due from foreign reinsurers.

The following table provides information regarding the maximum credit risk exposure of the Company as at December 31:

	2020	2019
Security deposits	2,845,193	3,440,544
Reinsurance recoverable on unpaid losses	1,602,423,470	1,883,273,536
Accrued income	16,139,006	21,926,052
AFS financial assets		
Government debt securities	1,610,430,171	1,696,972,476
Loans and receivables		
Mortgage loans	2,154,056	2,244,208
Guaranteed loans	-	170,347
Intercompany accounts receivable	7,780,074	17,775,132
Miscellaneous receivables	3,669,526	2,889,385
Insurance receivables		
Due from brokers	88,015,824	334,632,729
Due from ceding companies	164,583,491	216,907,811
Premiums receivable	49,517,689	58,210,029
Due from agents	11,310,815	323,605
Reinsurance recoverable on paid losses	3,147,341	2,886,880
Cash and cash equivalents	1,463,202,600	1,133,077,295
	5,025,219,256	5,374,730,029

Allowance for impairment on insurance receivables as at December 31, 2020 amounts to P16.35 million (2019 - P10.04 million).

The table below provides information regarding the credit risk exposure of the Company as at December 31 by classifying assets according to the Company's assessment of credit standing of the counterparties, historical dealings and experience with the counterparties, underlying collaterals, if any and other factors.

	Neither past due nor impaired					
2020	High	Medium	Low	Past due	Impaired	Total
Security deposits	2,845,193	-	-	-	-	2,845,193
Reinsurance recoverable on unpaid losses	1,602,423,470	-	-	-	-	1,602,423,470
Accrued income	16,139,006	-	-	-	-	16,139,006
AFS financial assets						
Government debt securities	1,610,430,171			-	-	1,610,430,171
Loans and receivables		-	-			
Mortgage loans	2,154,056	-	-	-	-	2,154,056
Guaranteed loans	-					
Intercompany accounts receivable	7,780,074	-	-	-	-	7,780,074
Miscellaneous receivables	3,669,526	-	-	-	-	3,669,526
Insurance receivables						
Due from brokers	-	-	-	79,778,644	8,237,180	88,015,824
Due from ceding companies	-	97,291,260	-	60,874,045	6,418,186	164,583,491
Premiums receivable	-	-	-	47,874,112	1,643,577	49,517,689
Due from agents	-	793,964	-	10,468,117	48,734	11,310,815
Reinsurance recoverable on paid losses	-	255,511	-	2,891,830	-	3,147,341
Cash and cash equivalents	1,463,202,600	-	-	-	-	1,463,202,600
	4,708,644,096	98,340,735	-	201,886,748	16,347,677	5,025,219,256
Allowance for impairment						(16,347,677)
						5,008,871,579

2019	Neither past due nor impaired High	Medium	Low	Past due	Impaired	Total
Security deposits	3,440,544	-	-	-	-	3,440,544
Reinsurance recoverable on unpaid losses	1,883,273,536	-	-	-	-	1,883,273,536
Accrued income	21,926,052	-	-	-	-	21,926,052
AFS financial assets						
Government debt securities	1,696,972,476	-	-	-	-	1,696,972,476
Loans and receivables						
Mortgage loans	2,244,208	-	-	-	-	2,244,208
Guaranteed loans	170,347	-	-	-	-	170,347
Intercompany accounts receivable	17,775,132	-	-	-	-	17,775,132
Miscellaneous receivables	2,889,385	-	-	-	-	2,889,385
Insurance receivables						
Due from brokers	-	64,647,119	-	268,500,447	1,485,162	334,632,728
Due from ceding companies	-	180,821,624	-	30,551,242	5,534,945	216,907,811
Premiums receivable	-	-	-	56,288,763	1,921,267	58,210,030
Due from agents	-	222,307	-	-	101,298	323,605
Reinsurance recoverable on paid losses	-	12,240	-	2,874,640	-	2,886,880
Cash and cash equivalents	1,133,077,295	-	-	-	-	1,133,077,295
	4,761,768,975	245,703,290	-	358,215,092	9,042,672	5,374,730,029
Allowance for impairment						(10,040,863)
						5,364,689,166

A rating of “high” denotes that the Company's assessment of the probability of failure on the part of the counterparties to fulfill its obligation is about 5% or less, while a “medium” rating denotes a probability of more than 5% but less than 20% and a “low” rating denotes a probability of more than 20%.

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

2020	< 90 days	91 to180 days	181 to 365 days	Total
Insurance receivables				
Due from brokers	38,528,669	23,778,069	17,471,906	79,778,644
Due from ceding companies	25,681,552	13,899,516	21,292,977	60,874,045
Premiums receivable	11,978,888	16,849,640	19,045,584	47,874,112
Due from agents	5,863,965	4,188,496	415,656	10,468,117
Reinsurance recoverable on paid losses	-	4,950	2,886,880	2,891,830
	82,053,074	58,720,671	61,113,003	201,886,748

2019	< 90 days	91 to180 days	181 to 365 days	Total
Insurance receivables				
Due from brokers	44,718,994	212,266,025	11,515,428	268,500,447
Due from ceding companies	16,614,753	7,092,226	6,844,263	30,551,242
Premiums receivable	11,893,319	15,991,313	28,404,131	56,288,763
Due from agents	-	-	-	-
Reinsurance recoverable on paid losses	11,999	9,900	2,852,741	2,874,640
	73,239,065	235,359,464	49,616,563	358,215,092

The Company did not have any credit risk concentrations other than to the Philippine National Government due to its government bond investments. Reinsurance contracts of the Company and the related amounts recoverable from reinsurers on unpaid losses are substantially with related parties with no history of default.

(c.2) 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. The major liquidity risk confronting the Company is the day-to-day cash requirements for claims arising from insurance contracts. This risk is addressed by an effective cash management function and ensuring that liquidity is a major consideration for selecting long-term investment securities.

A daily cash position report is prepared and reviewed by management based on daily bank balances. The report takes into account projections for settlement of major claims and other liabilities based on the input provided by the different departments executing the transactions. The Company also ensures cash calls are sent promptly to reinsurers. A twelve month rolling cash flow forecast is prepared monthly to project major cash requirements and its impact to the Company's cash position on an ongoing basis.

The table below summarizes the maturity profile of the financial liabilities of the Company as at December 31, 2020 and 2019 based on the remaining period at the reporting date to their contractual maturities and are also presented based on contractual undiscounted repayment obligations.

2020	Within a year	2-3 years	4-5 years	Total
Insurance payables				
Premiums due to reinsurer	107,643,191	-	-	107,643,191
Funds held for reinsurers	637,942,265	-	-	637,942,265
Trade and other liabilities				
Accrued expenses (except taxes and provisions)	85,197,581	-	-	85,197,581
Intercompany payables	24,022,423	-	-	24,022,423
Other liabilities	183,044,616	10,835,332	-	193,879,948
Total financial liabilities	1,037,850,076	10,835,332	-	1,048,685,408

2019	Within a year	2-3 years	4-5 years	Total
Insurance payables				
Premiums due to reinsurer	238,248,942	-	-	238,248,942
Funds held for reinsurers	904,678,091	-	-	904,678,091
Trade and other liabilities				
Accrued expenses (except taxes and provisions)	88,518,218	-	-	88,518,218
Intercompany payables	53,758,927	-	-	53,758,927
Other liabilities	27,656,315	20,838,096	-	48,494,411
Total financial liabilities	1,312,860,493	20,838,096	-	1,333,698,589

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 using information that develops during the course of the loss adjustment process. Insurance contract liabilities are expected to be settled within one year.

The Company's financial assets which are primarily held to manage insurance contract liabilities are sufficient to finance operations, pay financial liabilities and to mitigate the effects of fluctuations in cash flows.

(c.3) Market risk

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

The market risk the Company accepts is limited by regulatory restrictions imposed by the Insurance Code by allowing only certain types of investments. Liquidity and security are primary decision criteria for investing while at the same time limiting its investments in Philippine Peso and US Dollar to minimize and efficiently manage currency risk. An effective asset-liability matching process is currently in place.

(c.3.1) Currency risk

The Company's principal transactions are carried out in Philippine Peso and its exposure to foreign exchange risk arise primarily with respect to the US Dollar, as the Company deals with foreign reinsurers in the settlement of its obligations and receipt of any claim reimbursements. The Company's financial assets are denominated in the same currencies as its insurance liabilities, which mitigate the foreign currency exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than those in which insurance liabilities are expected to be settled.

The table below summarizes the Company's main exposure to foreign currency exchange risks as at December 31:

	2020		2019	
	US$	PHP	US$	PHP
Cash and cash equivalents	14,352,219	689,016,756	17,911,122	908,271,915
Insurance receivables	3,084,467	152,042,040	4,034,503	206,329,631
Intercompany receivables	235,199	10,979,031	356,484	17,775,132
	17,671,885	852,037,827	22,302,109	1,132,376,678
Accrued expenses	(159,830)	(7,673,087)	(338,541)	(17,167,380)
Intercompany payables	(492,866)	(23,969,897)	(1,041,256)	(53,281,971)
Insurance payables	(2,381,738)	(125,071,287)	(7,997,557)	(407,391,922)
Other liabilities	(2,548,214)	(133,764,110)	-	-
	5,582,648	290,478,381	(9,377,354)	(477,841,273)
	12,089,237	561,559,446	12,924,755	654,535,405

The analysis below is performed for reasonable possible movements in key variables with all other variables held constant, showing the impact on profit after tax and equity. The fluctuation rate in 2020 of +/-P1 (2019 - +/-P1) is based on what management considers as material when assessing its exposure to US Dollar.

The correlation of variables will have a significant effect in determining the ultimate impact of market risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

2020	Impact on equity and on profit after tax		
	Change in assumption	Increase in Peso per US$ Depreciation	Decrease in Peso per US$ Appreciation
Cash and cash equivalents	+/- P 1	10,046,553	(10,046,553)
Insurance receivables	+/- P 1	2,159,127	(2,159,127)
Intercompany receivable	+/- P 1	164,639	(164,639)
Insurance payable	+/- P 1	1,667,217	(1,667,217)
Intercompany payable	+/- P 1	(345,006)	345,006
Accrued expenses	+/- P 1	111,881	(111,881)
Other liabilities	+/- P 1	(1,783,750)	1,783,750

2019	Impact on equity and on profit after tax		
	Change in assumption	Increase in Peso per US$ Depreciation	Decrease in Peso per US$ Appreciation
Cash and cash equivalents	+/- P 1	12,537,785	(12,537,785)
Insurance receivables	+/- P 1	2,824,152	(2,824,152)
Intercompany receivable	+/- P 1	249,539	(249,539)
Insurance payable	+/- P 1	(5,598,290)	5,598,290
Intercompany payable	+/- P 1	(728,879)	728,879
Accrued expenses	+/- P 1	(236,979)	236,979

(c.3.2) Interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in interest rates. The Company's AFS debt securities bear fixed interest rates and therefore the Company is exposed to fair value interest rate risk but not to cash flow interest rate risk.

The following table shows information relating to the Company's exposure to fair value interest rate risk as at December 31:

			Maturity		
2020	Interest Rates	Within a year	2-3 years	4-5 years	Total
AFS debt securities	2.38% - 13.00%	312,557,280	885,368,785	412,504,106	1,610,430,171

			Maturity		
2019	Interest Rates	Within a year	2-3 years	4-5 years	Total
AFS debt securities	3.375% - 13.00%	918,431,687	554,803,815	223,736,974	1,696,972,476

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

The fluctuation rate of +/-100 basis points is based on management's assessment of the most reasonable shift in interest rates.

2020	Change in Variables	Impact on Equity
Peso	+100 basis points	(79,257,371)
Peso	-100 basis points	31,245,092

2019	Change in Variables	Impact on Equity
Peso	+100 basis points	(44,905,060)
Peso	-100 basis points	47,397,245

The fluctuations in interest rates have no impact on profit or loss.

(c.3.3) Equity price risk

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

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

The Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investment, diversification plan and limits on investments. The analysis below is performed for reasonable possible movements in key variables with all other variables held constant, showing the impact on equity. The fluctuation rates used are based on the historical movements of the Philippine Stock Exchange index (PSEi) year on year. The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

2020	Change in Variables	Impact on Equity
PSEi	32.54%	80,115,330
PSEi	-32.54%	(80,115,330)

2019	Change in Variables	Impact on Equity
PSEi	14.47%	39,394,216
PSEi	-14.47%	(39,394,216)

The fluctuations in PSEi has no impact to profit or loss.

6. Capital risk management

The Company maintains a certain level of capital to ensure compliance to statute and to adequately protect the policyholders. The level of capital maintained is usually higher than the minimum capital requirements set by the regulators and the amount computed under the Risk-Based Capital ("RBC") Model.

The operations of the Company are subject to the regulatory requirements of the Insurance Code as supervised by the Insurance Commission (IC). Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., minimum capital requirements and minimum risk-based capital adequacy ratio).

Currently, management benchmarks its target capital level to the regulatory minimum, providing allowance for potential catastrophe losses, modest expansion and fluctuations in values of assets. The risk management function identifies the areas at its operations where capital can be substantially exposed. These are effectively addressed by the Company's underwriting, reinsurance and credit policies. It is the policy of the Company to distribute capital in excess of its target level to its shareholders by way of cash dividend out of its retained earnings.

Management monitors its target capital level on a quarterly basis. Management is required by internal governance standards to report any situation that may lead to a breach of minimum required capital levels to the Audit Committee and to the BOD to agree on any corrective action required to preserve the capital level.

No changes were made on the Company’s objectives, policies and processes from the previous years.

Statutory net worth

Republic Act No. 10607, the Amended Insurance Code (the “Code”), was enacted into law effective September 20, 2013. Among the more significant provisions of the Code include the requirement for domestic insurance companies to maintain a minimum statutory net worth of P250 million by June 30, 2013; P550 million by December 31, 2017; P900 million by December 31, 2019; and P1.3 billion by December 31, 2022.

The Company is compliant with the minimum statutory net worth as at December 31, 2020 and 2019.

Risk-based capital

On December 28, 2016, the IC issued CL No. 2016-68 which provides for the Amended RBC 2 Framework with effect beginning January 1, 2017. The CL provides that the RBC ratio of a non-life insurance company is calculated by dividing the total available capital by the RBC requirement. Total available capital is the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits and deductions prescribed by the IC. The non-life RBC requirement considered the following components set by the IC: (i) credit risk capital charge; (ii) insurance risk capital charge; (iii) market risk capital charge for equities; (iv) market risk capital charge for other than equities; (v) operational risk capital charge; and (vi) catastrophe risk capital charge. The minimum RBC ratio is to be established at 100%. All non-life insurance companies are required to maintain the minimum RBC ratio and not fail the trend test. Failure to meet the minimum RBC ratio will trigger regulatory intervention by the IC.

On the same date, the IC issued CL No. 2016-69 which provides that on the following year of implementation of the Amended RBC 2 Framework, the RBC requirement will be relaxed to consider the level of sufficiency to be 95th percentile for year 2017, 97.5th percentile for year 2018 and 99.5th percentile for year 2019.

The Company is compliant with the requirements of the RBC 2 framework and will not require capital call from shareholders as of December 31, 2020.

The following table shows how the RBC ratio as at December 31 was determined by the Company in 2020 and 2019 (based on Amended RBC 2 Framework):

	2020	2019
Net worth	2,040,767,440	1,944,494,221
RBC requirement	450,835,828	412,547,246
RBC ratio	453%	471%

7. Fair value estimation

The fair value of financial instruments under AFS that are actively traded in organized financial markets is determined by reference to quoted market prices, at the close of business on the reporting date. For unquoted equity instruments, reference is made to the cost which is assumed to be a reasonable approximation of fair value given the limited transactions and circumstances of the instruments. Unquoted equity instruments pertain to a portion of the Company's proprietary shares.

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: Fair value measurements that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as at the reporting date. Market price data is generally obtained from exchange or dealer markets. The Company does not adjust the quoted price for such instruments. Assets measured at fair value on a recurring basis and classified as Level 1 are actively traded listed equities. The Company considers that government debt securities issued by G7 countries (United States, Canada, France, Germany, Italy, Japan, and the United Kingdom) and traded in a dealer market to be Level 1, until they no longer trade with sufficient frequency and volume to be considered actively traded.

- Level 2: Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted prices that are observable for the asset and liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 generally include government securities issued by non-G7 countries, most investment grade corporate bonds, derivative contracts, and proprietary shares. Mortgage and guaranteed loans, with fair values disclosed, are also classified as Level 2.

- Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Unobservable inputs are only used to measure fair value to the extent that relevant observable inputs are not available, allowing for circumstances in which there is little, if any, market activity for the asset or liability. Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include private equity investments, and direct private equity investments.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, the Company considers factors specific to the asset or liability.

The following table presents the fair value hierarchy of the Company’s financial assets measured at fair value at December 31 following the fair value hierarchy definition as described above.

December 31, 2020	Level 1	Level 2	Total
Recurring measurements			
AFS financial assets			
Government debt securities	-	1,610,430,171	1,610,430,171
Listed equity securities	246,193,481	-	246,193,481
Proprietary shares	-	106,555,698	106,555,698
	246,193,481	1,716,985,869	1,963,179,350

December 31, 2019	Level 1	Level 2	Total
Recurring measurements			
AFS financial assets			
Government debt securities	-	1,696,972,476	1,696,972,476
Listed equity securities	271,400,026	-	271,400,026
Proprietary shares	-	118,365,697	118,365,697
	271,400,026	1,815,338,173	2,086,738,199

There are no financial instruments classified as Level 3. There were no transfers between Level 1 and Level 2 during the year.

The carrying values of the other financial assets and liabilities reasonably approximate their fair values due to their short-term nature.

8. Net earned insurance premiums

Gross earned premiums on insurance contracts and reinsurers' share of gross earned premiums on insurance contracts for the years ended December 31 consist of the following:

	2020	2019
Gross premiums on insurance contracts		
Direct insurance	1,216,863,217	1,519,799,520
Assumed reinsurance	550,918,306	614,801,093
Change in provision for unearned premiums	141,142,519	68,046,079
Total gross earned premiums on insurance contacts	1,908,924,042	2,202,646,692
Reinsurers' share of gross earned premiums on insurance contracts		
Direct insurance	1,109,150,271	1,406,399,917
Assumed reinsurance	414,129,098	461,783,293
Reinsurers' share of change in deferred reinsurance premiums	117,225,201	56,937,853
Total reinsurers' share of gross earned premiums on insurance contracts	1,640,504,570	1,925,121,063
Net earned insurance premiums	268,419,472	277,525,629

9. Net investment income

The account for the years ended December 31 consists of the following:

	Notes	2020	2019
Interest income on:			
AFS financial assets			
Government securities		65,429,671	69,422,342
Amortization of premium	17	(3,522,131)	(1,712,878)
Cash and cash equivalents	20	14,402,778	30,669,363
Loans and receivables			
Mortgage loans		134,873	141,316
Collateral loans		25,939	60,286
Loss on sale of available-for-sale financial assets	17	(5,486,560)	(2,718,316)
Dividend income		3,742,256	4,506,749
		74,726,826	100,368,862

10. Other income

Other income for the years ended December 31 consists of the following:

	2020	2019
Fee income	49,234,968	67,523,028
Others, net	1,193,720	5,069,955
	50,428,688	72,592,983

Fee income pertains mainly to fees for claims handling services, engineering services and other management services rendered to various third parties and entities under common control (Note 28).

Others include gain from termination of lease amounting to P324,989 (Notes 14 and 27) and income earned from related parties due to shared resources (Note 28).

11. Net insurance claims

Gross insurance claims paid for the years ended December 31 consist of the following:

	Note	2020	2019
Insurance contract claims paid			
Direct insurance		263,911,683	420,954,081
Assumed reinsurance		313,658,968	444,216,270
Total insurance contract claims paid	23	577,570,651	865,170,351

Reinsurers' share of gross insurance contract claims paid for the years ended December 31 consist of the following:

	Note	2020	2019
Reinsurers' share of insurance contract claims paid			
Direct insurance		224,367,994	331,236,001
Assumed reinsurance		287,178,683	386,075,223
Total reinsurers' share of insurance contract claims paid	23	511,546,677	717,311,224

Gross change in claims liabilities as at December 31 follows:

	2020	2019
Change in provision for claims reported		
Direct insurance	(253,780,085)	(156,551,055)
Assumed reinsurance	114,184,386	207,809,858
Change in provision for IBNR	(17,289,841)	197,960,567
Total gross change in claims liabilities	(156,885,540)	249,219,370

Reinsurers' share of gross change in claims liabilities as at December 31 follows:

	2020	2019
Reinsurers' share of gross change in claims liabilities		
Direct insurance	222,714,271	78,712,119
Assumed reinsurance	(4,977,352)	(99,873,912)
Reinsurers' share of change in provision for IBNR	63,113,145	(174,146,788)
Total reinsurers' share of gross change in claims liabilities	280,850,064	(195,308,581)

12. Operating expenses

Operating expenses for the years ended December 31 consist of:

	Notes	2020	2019
Salaries and employee benefits	22	122,142,938	146,111,722
Electronic data processing expenses		52,711,130	58,780,630
Allocated Parent Company expenses	28	47,607,248	60,840,205
Professional and other service fees		46,514,190	67,118,525
Depreciation and amortization	14	20,801,709	22,682,867
Communications, light and water		4,032,154	3,587,819
Repairs and maintenance		3,576,098	4,444,587
Rent	27	3,467,153	3,200,996
Entertainment, amusement and representation		1,303,017	2,131,728
Transportation and travel		922,127	5,309,569
Fines and penalties		751,220	726,515
Office supplies and printing cost		615,286	946,760
Sales and marketing		-	775,388
Others		7,475,254	9,903,232
Gross operating expenses		311,919,524	386,560,543
Less: cost recoveries	28	37,037,441	53,973,688
Operating expenses, net		274,882,083	332,586,855

Professional and other service fees include audit and legal fees.

Others consist of bank charges, shipping fees, taxes and licenses, insurance expense and interest on lease liabilities.

Cost recoveries pertain to expenses paid by the Company on behalf of other AIG entities. The balance for the years ended December 31 includes:

	Note	2020	2019
Salaries and employee benefits		31,415,435	46,498,815
Rent		2,749,954	3,091,872
Transportation and travel		1,452,288	2,065,777
Depreciation and amortization		795,782	802,838
Communications, light and water		108,742	337,021
Repairs and maintenance		97,207	98,738
Electronic data processing expenses		93,042	351,203
Professional and other service fees		32,208	32,885
Office supplies and printing costs		10,914	18,087
Entertainment, amusement and representation		6,954	11,962
Fines and penalties		-	152,129
Others		274,915	512,361
	28	37,037,441	53,973,688

13. Income tax

The details of provision for income tax for the years ended December 31 follow:

	2020	2019
Final tax	14,397,775	15,694,558
Regular corporate income tax	31,518,984	18,324,535
Deferred	(12,782,732)	(6,050,361)
	33,134,027	27,968,732

The reconciliation of statutory income tax rates to effective income tax rates as at December 31 is as follows:

	2020	2019
Statutory income tax rates	30.00	30.00
Tax effects of:		
Non-deductible expense	8.11	11.68
Non-taxable income	(1.01)	(1.24)
Income already subjected to final tax	(7.57)	(13.37)
Effective income tax rates	29.53	27.07

The Company's net deferred income tax assets as at December 31 consist of:

	2020	2019
Deferred income tax assets on:		
Deferred reinsurance commissions	35,813,096	45,359,143
IBNR	50,726,487	36,979,496
Accrued expenses	5,577,870	11,157,633
Excess of deferred reinsurance premiums per books over tax basis	54,176,150	94,303,590
Reserve for discretionary bonus	2,624,235	2,571,145
Reserve for contingent profit commission	1,725,096	-
Allowance for impairment - premiums receivable	4,904,303	3,012,259
Provision for service fees and legal contingencies	1,817,047	1,829,685
Lease contracts accounted under PFRS 16	23,040	1,030,072
Total deferred income tax assets	157,387,324	196,243,023
Deferred income tax liabilities on:		
Excess of provision for unearned premiums per tax over books	59,382,854	98,941,000
Retirement benefit asset	1,664,715	8,384,005
Deferred acquisition costs	12,792,278	20,866,537
Revaluation reserve on AFS financial assets	16,798,751	10,663,688
Unrealized foreign exchange gain	12,691	3,839
Total deferred income liabilities	90,651,289	138,859,069
Net deferred income tax assets	66,736,035	57,383,954

Movements in net deferred income tax assets follow:

	2020	2019
At January 1	57,383,954	60,945,122
Amounts credited to profit or loss	12,782,732	6,050,361
Amounts charged against other comprehensive income	(3,430,651)	(9,611,529)
At December 31	66,736,035	57,383,954

In compliance with the Tax Reform Act of 1997, the Company shall pay the MCIT or the normal income tax, whichever is greater. Any excess of the MCIT over the normal income tax shall be carried forward annually and credited against the normal income tax for the next three succeeding taxable years. Unrecognized deferred income tax asset relating to MCIT amounts to P1.28 million as at December 31, 2019. The unrecognized MCIT expired on December 31, 2020.

14. Property and equipment, net

The roll-forward analysis of the account for the years ended December 31 follows:

2020	EDP Equipment	Furniture and Fixtures	Leasehold Improvement	Transport Equipment	Office premises	Total
Cost						
January 1, 2020	28,827,305	13,550,236	24,781,274	5,505,356	45,485,215	118,149,386
Additions	-	-	-	-	-	-
Retirement	-	-	-	-	-	-
Termination	-	-	-	-	(8,506,409)	(8,506,409)
Reversal	-	-	-	-	-	-
	28,827,305	13,550,236	24,781,274	5,505,356	36,978,806	109,642,977
Accumulated depreciation and amortization						
January 1	25,996,331	9,894,230	10,738,550	2,936,961	12,939,449	62,505,521
Depreciation and amortization	2,163,659	1,253,497	4,956,258	540,714	11,887,581	20,801,709
Retirement	-	-	-	-	-	-
Termination	-	-	-	-	(5,533,739)	(5,533,739)
	28,159,990	11,147,727	15,694,808	3,477,675	19,293,291	77,773,491
Net book value	667,315	2,402,509	9,086,466	2,027,681	17,685,515	31,869,486

2019	EDP Equipment	Furniture and Fixtures	Leasehold Improvement	Transport Equipment	Office premises	Total
Cost						
January 1, 2019	28,774,953	13,550,236	25,870,167	4,434,625	45,485,215	118,115,196
Additions	1,042,300	-	-	2,703,571	-	3,745,871
Retirement	-	-	-	(1,632,840)	-	(1,632,840)
Termination	-	-	-	-	-	-
Reversal	(989,948)	-	(1,088,893)	-	-	(2,078,841)
	28,827,305	13,550,236	24,781,274	5,505,356	45,485,215	118,149,386
Accumulated depreciation and amortization						
January 1	22,343,740	8,640,759	6,036,372	4,434,623	-	41,455,494
Depreciation and amortization	3,652,591	1,253,471	4,702,178	135,178	12,939,449	22,682,867
Retirement	-	-	-	(1,632,840)	-	(1,632,840)
	25,996,331	9,894,230	10,738,550	2,936,961	12,939,449	62,505,521
Net book value	2,830,974	3,656,006	14,042,724	2,568,395	32,545,766	55,643,865

Reversal amounting to P2.08 million in 2019 pertains to certain fixed assets additions and the related accrual in 2018 which were not further pursued.

Depreciation and amortization as at December 31, 2020 and 2019 are included under operating expenses in the statement of comprehensive income.

The office premises above pertains to the recognized right-of-use (ROU) assets in 2019 arising from lease arrangements (Note 27).

On July 8, 2020, the lease arrangement assigned to the expatriate of the Company with original end term until July 31, 2021 was pre-terminated on September 9, 2020. As a result, the related ROU asset and lease liability with carrying amounts of P2.97 million and P3.30 million were derecognized (Note 27).

The resulting gain from the termination of lease amounting to P0.32 million were lodged under other income in the statement of total comprehensive income (Note 27).

15. Reinsurance assets

Details of the account at December 31 follow:

	Note	2020	2019
Reinsurance recoverable on unpaid losses	23	1,602,423,470	1,883,273,536
Deferred reinsurance premiums	23	394,536,924	511,762,126
		1,996,960,394	2,395,035,662

All reinsurance assets are expected to be collected within one year.

16. Deferred acquisition costs

The roll-forward analysis of deferred acquisition costs for the years ended December 31 follows:

	2020	2019
At January 1	69,555,123	65,836,542
Cost deferred during the year	135,087,440	182,885,313
Amortization charge for the year	(162,001,636)	(179,166,732)
At December 31	42,640,927	69,555,123

Deferred acquisition costs are to be amortized within one year from reporting date.

17. Available-for-sale financial assets

(a) AFS financial assets

	2020	2019
Government debt securities		
Local currency	1,610,430,171	1,696,972,476
Equity securities		
Listed shares	246,193,481	271,400,026
Proprietary shares	106,555,698	118,365,697
	1,963,179,350	2,086,738,199

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

	Note	2020	2019
At January 1		2,086,738,199	1,955,962,838
Additions		915,290,249	388,141,335
Disposals/maturities		(1,030,283,730)	(370,153,852)
Amortization of premium	9	(3,522,131)	(1,712,878)
Fair value change recycled to profit or loss		(5,483,238)	(2,713,503)
Fair value change in other comprehensive income		940,001	117,214,259
Write-off		(500,000)	-
At December 31		1,963,179,350	2,086,738,199

Write-off of certain AFS financial assets for the year ended December 31, 2020 amounts to P0.5 million (2019 - nil).

The unrealized loss in respect of change in fair value of AFS financial assets charged against equity as at December 31, 2020 amounts to P10.7 million (2019 - P105.9 million gain), net of tax effect of P6.1 million (2019 - P8.6 million).

Proceeds from disposals and maturities of AFS financial assets for the year ended December 31, 2020 amount to P1,024.80 million (2019 - P367.44 million).

Government debt securities have annual interest rates ranging from 2.38% to 13.00% in 2020 (2019 - 3.38% to 13.00%).

The maturity profile of the Company's government debt securities are as follows:

	2020	2019
Due within one year	312,557,280	918,431,687
2-3 years	885,368,785	554,803,815
4-5 years	412,504,106	223,736,974
At December 31	1,610,430,171	1,696,972,476

18. Loans and receivables

The account at December 31 consists of:

	Note	2020	2019
Intercompany accounts receivable	28	7,780,074	17,775,132
Mortgage loans		2,154,056	2,244,208
Guaranteed loans		-	170,347
Miscellaneous receivables		3,669,526	2,889,385
		13,603,656	23,079,072

Miscellaneous receivables include emergency loan program and salary advances.

The maturity profile of loans and receivables at December 31 is as follows:

	2020	2019
Due within one year	11,180,169	20,496,405
2-3 years	269,431	338,460
4-5 years	-	-
Over 5 years	2,154,056	2,244,207
	13,603,656	23,079,072

Mortgage and guaranteed loans earn interest in 2020 and 2019 ranging from 3% to 12.5% per annum (2019 - 7% to 12.5%) and with maturities ranging from 1 to 13 years (2019 - 1 to 14 years).

19. Insurance receivables, net

The account at December 31 consists of:

	2020	2019
Due from brokers	88,015,824	334,632,729
Due from ceding companies	164,583,491	216,907,811
Premiums receivable	49,517,689	58,210,029
Reinsurance recoverable on paid losses	11,310,815	2,886,880
Due from agents	3,147,341	323,605
	316,575,160	612,961,054
Allowance for impairment	(16,347,677)	(10,040,863)
	300,227,483	602,920,191

All insurance receivables are due within one year.

Movements in allowance for impairment as at December 31 follow:

	2020	2019
At January 1	10,040,863	10,163,154
Write-off of allowance for impairment	-	-
Provision for (reversal of) impairment loss	6,306,814	(122,291)
At December 31	16,347,677	10,040,863

20. Cash and cash equivalents

The account at December 31 consists of:

	2020	2019
Cash in banks	130,065,449	72,479,876
Short-term deposits	1,333,137,151	1,060,597,419
	1,463,202,600	1,133,077,295

The cash in banks and short-term deposits have annual interest rates in 2020 ranging from 0.01% to 3.10% (2019 - 0.01% to 6.75%). Short term deposits are made for varying periods of less than three months depending on the immediate cash requirements of the Company.

Interest income earned from cash in banks and short-term deposits for the year ended December 31, 2020 amounts to P14.40 million (2019 - P30.67 million) (Note 9).

21. Equity

(a) Share capital

The Company's share capital as at December 31 consists of:

	2020		2019	
	Shares	Amount	Shares	Amount
Common shares - P100 par value				
Authorized	13,000,000	1,300,000,000	13,000,000	1,300,000,000
Issued and outstanding				
At beginning of the year	9,358,524	935,852,400	9,358,524	935,852,400
Issuances during the year	-	-	-	-
At end of the year	9,358,524	935,852,400	9,358,524	935,852,400

(b) Accumulated other comprehensive income

Details of and movements in Accumulated other comprehensive income for the years ended December 31 follow:

	Notes	2020	2019
Fair value reserve on available-for-sale financial assets	17		
At January 1		137,513,808	31,613,101
Fair value change recycled to profit or loss		(32,089,935)	(2,713,503)
Fair value change on available-for-sale financial assets		27,546,698	117,214,259
Deferred income tax effect		(6,135,063)	(8,600,049)
At December 31		126,835,508	137,513,808
Remeasurement on defined benefit plan	22		
At January 1		(19,562,679)	(21,922,799)
Remeasurement (loss) gain for the year		(9,014,706)	3,371,600
Deferred income tax effect		2,704,412	(1,011,480)
At December 31		(25,872,973)	(19,562,679)
		100,962,535	117,951,129

(c) Retained earnings

As at December 31, 2020, the Company has excess retained earnings over its paid-up capital.

In 2008, the SEC issued Memorandum Circular No. 11 providing the guidelines in determining the appropriate amount of retained earnings available for dividend distribution taking into consideration the effective guidelines of the SEC. On January 24, 2013, SEC issued Financial Reporting Bulletin No. 14, *Reconciliation of Retained Earnings Available for Dividend Declaration*, which prescribed adjustments as indicated in Annex 68-C of SRC Rule 68.

Consistent with the provision of the Corporation Code of the Philippines, stock corporations are prohibited from retaining surplus profits in excess of 100% of their paid-in capital.

BIR Revenue Regulations No. 2-2001 provides that insurance companies are exempted from the 10% improperly accumulated earnings tax imposed on improperly accumulated taxable income.

The amended Insurance Code provides that no domestic insurance corporation shall declare or distribute any dividend on its outstanding stocks unless it has met the minimum paid-up capital and net worth requirements of the amended Insurance Code.

The Company plans to retain the excess retained earnings over its paid up capital as at December 31, 2020 of P155.61 million (2019 - P76.52 million) for the following:

- As additional reserve for future contingencies, including catastrophe and other losses;
- To comply with the more robust RBC and reserving requirements implemented by the IC effective January 1, 2017.

Management will continue to evaluate the plans to retain the excess retained earnings over its paid up capital after considering the amended regulatory capital requirements of the IC on fixed capitalization and RBC framework.

22. Employee benefits

The amounts recognized in the financial statements as at and for the years ended December 31 related to post-employment benefits are as follows:

	Note	2020	2019
Retirement benefit asset		(5,896,435)	(18,741,846)
Provisions for other post-employment benefits	26	5,540,308	5,405,808
		(356,127)	(13,336,038)

	2020	2019
Charged to profit or loss within salaries and employee benefits under Operating expenses:		
Retirement benefit asset	3,779,773	3,310,908
Provision for other post-employment benefits	252,941	377,464
	4,032,714	3,688,372

	2020	2019
Remeasurement loss (gain) for:		
Retirement benefit asset	9,065,638	(3,037,742)
Provisions for other post-employment benefits	(50,932)	(333,858)
	9,014,706	(3,371,600)

(a) Defined benefit retirement plans

The Company operates a defined benefit retirement plan, covering substantially all of its employees, which requires contributions to be made to an administered fund. The plan is administered by a local bank as trustee. The level of benefits provided depends on the members’ length of service and their salary in the final years leading up to retirement. Plan assets held in trusts are governed by local regulations.

The amounts recognized in the statement of financial position are determined as follows:

	2020	2019
Present value of funded obligations	93,311,788	72,046,368
Fair value of plan assets	(99,208,223)	(90,788,214)
Asset in the statement of financial position	(5,896,435)	(18,741,846)

The movement in the retirement benefit obligation and plan assets for the years ended December 31 are as follows:

	Present value of obligation	Fair value of plan assets	Total
At January 1, 2020	72,046,368	(90,788,214)	(18,741,846)
Current service cost	4,623,156	-	4,623,156
Past service cost	-		-
Interest expense (income)	2,761,773	(3,605,156)	(843,383)
	7,384,929	(3,605,156)	3,779,773
Remeasurements			
Return on plan assets, excluding amounts included in interest expense	-	(5,037,445)	(5,037,445)
Loss from change in financial assumptions	7,801,352	-	7,801,352
Experience adjustments	6,301,731	-	6,301,731
	14,103,083	(5,037,445)	9,065,638
Benefit payments from plan	(222,592)	222,592	-
At December 31, 2020	93,311,788	(99,208,223)	(5,896,435)

	Present value of obligation	Fair value of plan assets	Total
At January 1, 2019	60,429,544	(79,444,556)	(19,015,012)
Current service cost	4,641,959	-	4,641,959
Past service cost	-	-	-
Interest expense (income)	3,836,656	(5,167,707)	(1,331,051)
	8,478,615	(5,167,707)	3,310,908
Remeasurements			
Return on plan assets, excluding amounts included in interest expense	-	(7,024,872)	(7,024,872)
Loss from change in financial assumptions	2,988,793	-	2,988,793
Experience adjustments	998,337	-	998,337
	3,987,130	(7,024,872)	(3,037,742)
Benefit payments from plan	(848,921)	848,921	-
At December 31, 2019	72,046,368	(90,788,214)	(18,741,846)

The significant actuarial assumptions for the years ended December 31 are as follows:

	2020	2019
Discount rate	3.00%	4.50%
Rate of salary increase	6.00%	6.40%

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions at December 31 follows:

	Impact on defined benefit obligation		
2020	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	Decrease by 8%	Increase by 9%
Rate of salary increase	1%	Increase by 8%	Decrease by 7%

	Impact on defined benefit obligation		
2019	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	Decrease by 7%	Increase by 8%
Rate of salary increase	1%	Increase by 8%	Decrease by 7%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement liability recognized within the statement of financial position.

There are no changes from the prior year in the methods and assumptions used in preparing the sensitivity analyses.

Plan assets comprised the following:

	2020		2019	
	Amount	%	Amount	%
Quoted				
Equity securities	7,874,605	8	8,550,527	9
Debt instruments	86,937,396	88	78,534,564	87
Unquoted				
Cash and cash equivalents	4,396,222	4	3,703,123	4
	99,208,223	100%	90,788,214	100%

The plan is being administered by a trustee-bank who is authorized to invest and manage the fund based on investment guidelines agreed under the trust agreement.

The Company has no transactions with the retirement fund. There are no contributions to the retirement fund for both 2020 and 2019.

The fair value of the plan assets approximates their carrying value as at December 31, 2020 and 2019. The defined benefit plan typically exposes the Company to a number of risks such as investment risk, interest rate risk and salary risk. The most significant of which relate to investment and interest rate risk. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement obligation. A decrease in government bond yields will increase the defined benefit obligation although this will also be partially offset by an increase in the value of the plan's fixed income holdings. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the Company. However, the Company believes that due to the long-term nature of the retirement obligation and the strength of the Company itself, the mix of debt and equity securities holdings of the plan is an appropriate element of the Company's long term strategy to manage the plan efficiently.

The Company ensures that the investment positions are managed within an asset-liability matching framework that has been developed to achieve long-term investments that are in line with the obligations under the plan. The Company's main objective is to match assets to the defined benefit obligation by investing primarily in long-term debt securities with maturities that match the benefit payments as they fall due. The asset-liability matching is being monitored on a regular basis and potential change in investment mix is being discussed with the Company, as necessary to better ensure the appropriate asset-liability matching.

The Company contributes to the plan depending on the suggested funding contribution as calculated by an independent actuary. There is no expected contribution to be made for the year ending December 31, 2020.

The expected maturity analysis of undiscounted retirement benefit payments as at December 31 is as follows:

	Less than a year	Between 1-2 years	Between 2-5 years	Over 5 years
2020	25,039,996	2,577,109	9,816,728	30,163,991
2019	21,347,273	2,293,389	7,873,906	23,493,902

(b) Other post-employment benefits (retirement life and medical)

The movements in the post-employment benefit obligation for the years ended December 31 are as follows:

	2020	2019
At January 1	5,405,808	5,431,451
Current service cost	-	-
Past service cost	-	-
Interest expense	252,941	377,464
	252,941	377,464
Remeasurements		
Income (loss) from change in financial assumptions	816,205	(226,474)
Provisions for other post-employment benefits	(867,137)	(107,384)
	(50,932)	(333,858)
Benefit payments by the Company	(67,509)	(69,249)
At December 31	5,540,308	5,405,808

The provision for other post-employment benefits is presented in trade and other liabilities (Note 26).

The significant actuarial assumption for the years ended December 31 is as follows:

	2020	2019
Discount rate	4.58%	7.00%

The sensitivity of the post-employment benefit obligation to a change in the weighted principal assumption at December 31 follows:

	Impact on other post-employment benefit obligation		
Discount rate	Change in assumption	Increase in assumption	Decrease in assumption
2020	1%	Decrease by 12%	Increase by 14%
2019	1%	Decrease by 11%	Increase by 13%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the other post-employment benefits recognized within the statement of financial position.

There are no changes from the prior year in the methods and assumptions used in preparing the sensitivity analyses. The weighted average duration of the defined benefit obligation is 8.2 years (2019 - 7.5 years) as at December 31, 2020.

The expected maturity analysis of undiscounted other post-employment benefit payments as at December 31 is as follows:

	Less than a year	Between 1-2 years	Between 2-5 years	Over 5 years
2020	183,667	201,234	724,122	1,902,311
2019	216,715	232,754	792,262	1,636,807

(c) Staff costs and other employee related costs

Staff costs and other employee related costs for the years ended December 31 consist of:

	2020	2019
Wages and salaries	89,267,469	119,244,135
Social security costs	1,337,090	1,189,527
Net benefit expense	3,779,773	3,310,908
Others	27,758,606	22,367,152
	122,142,938	146,111,722

Others pertain mainly to severance pay as a result of restructuring, vacation leave credits and other post-retirement benefits.

23. Insurance contract liabilities and reinsurance assets

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

Beginning January 1, 2017, the initial year of implementation of the New Valuation Standard on Insurance Policy Reserve, the IC through its CL 2016-69 issued on December 28, 2016, has relaxed the valuation requirements in determining the Insurance Policy Reserve to consider (i) set up of premium liabilities using UPR alone. However, if the URR is higher than the UPR (net of DAC), additional reserves will be booked amounting to the difference between the URR and UPR (net of DAC); and (ii) set up of MfAD to zero, instead of Company specific MfAD.

Beginning January 1, 2018, premium liabilities will be determined based on the higher of the UPR and URR and application of Company specific MfAD. The Company elected to apply the change in valuation methodology for the Company's premium liabilities retrospectively. The Company's UPR, (net of DAC) is higher than URR as at December 31, 2019 and 2018.

In 2019 and 2018, the Company has adopted certain provisions of the New Valuation Standard for Insurance Policy Reserve issued by the IC CL 2016-67 as its accounting policy for reserving, particularly the consideration of MfAD and CHE in determining its claims liabilities. The Company has engaged its regional actuary in determining its claims liabilities, who has considered actual historical claims data for the last 10 years, CHE of 3.5% and 100% of the Company specific MfAD (2018 - 50% MfAD) in determining its claims obligation. The 100% of the Company specific MfAD has been applied by the Company in accordance with IC CL 2018-19.

The adoption of the new reserving framework resulted to the recognition of additional claims liabilities as of December 31, 2020 of P403.40 million (2019 - P433.60 million). Such change was considered a change in accounting estimate and accounted for prospectively.

Short-term non-life insurance liabilities as at December 31 are analyzed as follows:

	2020			2019		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Provision for claims reported and loss adjustment expenses	1,295,487,026	1,063,861,260	231,625,766	1,435,082,724	1,281,598,181	153,484,543
Provision for IBNR	707,650,501	538,562,210	169,088,291	724,940,343	601,675,355	123,264,988
Total claims reported and IBNR	2,003,137,527	1,602,423,470	400,714,057	2,160,023,067	1,883,273,536	276,749,531
Provision for unearned premiums	485,908,314	394,536,924	91,371,390	627,050,833	511,762,126	115,288,707
Total insurance contract liabilities	2,489,045,841	1,996,960,394	492,085,447	2,787,073,900	2,395,035,662	392,038,238

Provision for IBNR consists of:

	2020			2019		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
IBNR best estimate	304,265,335	243,731,099	60,534,236	291,344,069	254,913,998	36,430,071
MfAD	370,064,856	294,831,111	75,233,745	398,285,284	346,761,357	51,523,927
CHE	33,320,310	-	33,320,310	35,310,990	-	35,310,990
At December 31	707,650,501	538,562,210	169,088,291	724,940,343	601,675,355	123,264,988

Provisions for claims reported by policyholders and IBNR are analyzed as follows:

	2020			2019		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
At January 1	2,160,023,067	1,883,273,536	276,749,531	1,910,803,697	1,687,964,955	222,838,742
Claims incurred during the year	437,974,953	293,809,756	144,165,197	916,429,154	738,473,017	177,956,137
Claims paid during the year - net of salvage and subrogation	(577,570,651)	(511,546,677)	(66,023,974)	(865,170,351)	(717,311,224)	(147,859,127)
Decrease in IBNR	(17,289,842)	(63,113,145)	45,823,303	197,960,567	174,146,788	23,813,779
At December 31	2,003,137,527	1,602,423,470	400,714,057	2,160,023,067	1,883,273,536	276,749,531

Provision for unearned premiums is analyzed as follows:

	2020			2019		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
At January 1	627,050,833	511,762,126	115,288,707	695,096,912	568,699,979	126,396,933
New policies written during the year	1,767,781,523	1,523,279,368	244,502,155	2,134,600,613	1,868,183,210	266,417,403
Premiums earned during the year	(1,908,924,042)	(1,640,504,570)	(268,419,472)	(2,202,646,692)	(1,925,121,063)	(277,525,629)
At December 31	485,908,314	394,536,924	91,371,390	627,050,833	511,762,126	115,288,707

All insurance liabilities are expected to be settled within one year.

24. Insurance contract liabilities and reinsurance assets - terms, assumptions and sensitivities

24.1 Terms and conditions

The major classes of general insurance written by the Company include accident and health, marine, commercial property and liability insurance. Risks under these policies usually cover 12-month duration.

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

The provisions are refined quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported.

The measurement process primarily includes projection of future claims costs through a combination of actuarial and statistical projection techniques. In certain cases, where there is a lack of reliable historical data on which to estimate claims development, relevant benchmarks of similar business are used in developing claims estimates. Claims provisions are separately analyzed by class of business. In addition, larger claims are usually either separately assessed by loss adjusters or separately projected by the actuaries. The claims projection assumptions are generally intended to provide a best estimate of the most likely or expected outcome.

24.2 Assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. Loss development factors are established by analyzing at least 10 years of claims data and deriving the claims development trend by class of business.

24.3 Sensitivities

The general insurance claims provision is sensitive to the Company’s past claims development experiences. The sensitivity of certain variables like legislative change, uncertainty in the estimation process, etc., is not possible to quantify.

Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessments of the ultimate liabilities are recognized in subsequent financial statements.

The Company's estimation of ultimate claim liabilities may be affected largely by the shift in the development trends of losses. However, the Company believes that using statistical data over 10 years minimizes the margin of error in its estimates.

The analysis below is performed for a reasonable possible movement in key assumptions with all other assumptions held constant, on income and 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. It should also be stressed that these assumptions are non-linear and larger or smaller impacts cannot easily be gleamed from these results.

The sensitivity in the key assumptions being monitored by the Company is presented as follows:

	Change in	% impact on claim liability	
2020	assumption	Gross	Net
Unallocated loss adjustment expenses (ULAE)	+/- 1.00%	+/- 0.46%	+/- 2.36%
BF Adjustment	+/- 10.00%	+/- 0.40%	+/- 0.77%

	Change in	% impact on claim liability	
2019	assumption	Gross	Net
Unallocated loss adjustment expenses (ULAE)	+/- 1.00%	+/- 0.47%	+/- 3.65%
BF Adjustment	+/- 10.00%	+/- 0.62%	+/- 0.88%

24.4 Loss development triangle

Reproduced below are the tables showing the development of claims over a period of time on a gross and net reinsurance basis:

Gross reinsurance basis

				2020			
Accident year	All years prior	2015	2016	2017	2018	2019	2020
Estimate of ultimate claims costs							
At the end of accident year	10,645,088,337	164,892,166	269,212,332	1,577,885,418	1,157,681,175	658,097,993	373,164,872
One year later	12,248,571,117	351,444,835	510,117,270	1,482,855,703	1,414,593,750	870,494,778	-
Two years later	12,596,410,970	353,995,752	527,228,582	1,480,944,665	1,367,161,313	-	-
Three years later	12,632,333,426	345,161,977	523,109,776	1,463,484,177	-	-	-
Four years later	12,602,365,422	339,084,208	453,366,960	-	-	-	-
Five years later	12,595,110,083	340,305,652	-	-	-	-	-
Six years later	12,617,484,346	-	-	-	-	-	-
Seven years later	12,484,594,569	-	-	-	-	-	-
Eight years later	12,481,678,563	-	-	-	-	-	-
Nine years later	12,397,488,207	-	-	-	-	-	-
Current estimate of cumulative claims	12,397,488,207	340,305,652	453,366,960	1,463,484,177	1,367,161,313	870,494,778	373,164,872
Cumulative payments to date	12,291,424,109	329,759,532	426,241,673	1,405,808,983	1,158,059,680	327,772,502	30,912,454
Total gross insurance liabilities included in the statement of financial position	106,064,098	10,546,120	27,125,287	57,675,194	209,101,633	542,722,276	342,252,418
Provision for claims reported and loss adjustment expenses, gross							1,295,487,026

				2019			
Accident year	All years prior	2014	2015	2016	2017	2018	2019
Estimate of ultimate claims costs							
At the end of accident year	10,153,949,227	491,139,110	164,892,166	269,212,332	1,577,885,418	1,157,681,175	658,097,993
One year later	11,785,801,884	462,769,233	351,444,835	510,117,270	1,482,855,703	1,414,593,750	-
Two years later	12,172,077,282	424,333,688	353,995,752	527,228,582	1,480,944,665	-	-
Three years later	12,211,612,321	420,721,105	345,161,977	523,109,776	-	-	-
Four years later	12,179,131,607	423,233,815	339,084,208	-	-	-	-
Five years later	12,122,866,651	472,243,432	-	-	-	-	-
Six years later	12,145,240,914	-	-	-	-	-	-
Seven years later	12,012,351,137	-	-	-	-	-	-
Eight years later	12,009,435,131	-	-	-	-	-	-
Nine years later	11,939,417,182	-	-	-	-	-	-
Current estimate of cumulative claims	11,939,417,182	472,243,432	339,084,208	523,109,776	1,480,944,665	1,414,593,750	658,097,993
Cumulative payments to date	11,876,131,174	390,095,568	329,652,076	403,430,993	1,341,652,985	991,762,752	59,682,734
Total gross insurance liabilities included in the statement of financial position	63,286,008	82,147,864	9,432,132	119,678,783	139,291,680	422,830,998	598,415,259
Provision for claims reported and loss adjustment expenses, gross							1,435,082,724

Net reinsurance basis

	2020						
Accident year	All years prior	2015	2016	2017	2018	2019	2020
Estimate of ultimate claims costs							
At the end of accident year	2,630,268,515	43,789,264	68,362,215	166,513,503	49,144,772	(10,567,627)	1,093,835
One year later	3,037,693,310	99,750,930	102,503,738	342,839,679	245,170,014	164,060,815	
Two years later	3,077,388,232	101,077,415	100,655,566	341,037,623	234,523,433	-	
Three years later	3,082,581,474	99,036,739	99,402,710	336,692,623	-	-	
Four years later	3,114,094,995	96,841,327	83,179,177	-	-	-	
Five years later	3,119,376,690	96,306,747	-	-	-	-	
Six years later	3,122,520,949	-	-	-	-	-	
Seven years later	3,121,981,424	-	-	-	-	-	
Eight years later	3,118,905,075	-	-	-	-	-	
Nine years later	3,109,758,787	-	-	-	-	-	
Current estimate of cumulative claims	3,109,758,787	96,306,747	83,179,177	336,692,623	234,523,433	164,060,815	1,093,835
Cumulative payments to date	3,103,773,777	94,959,162	78,949,422	325,516,547	204,563,425	29,631,305	(43,403,987)
Total net insurance liabilities included in the statement of financial position	5,985,010	1,347,585	4,229,755	11,176,076	29,960,008	134,429,510	44,497,822
Provision for claims reported and loss adjustment expenses, net							231,625,766

	2019						
Accident year	All years prior	2014	2015	2016	2017	2018	2019
Estimate of ultimate claims costs							
At the end of accident year	2,543,286,755	86,981,760	43,789,264	68,362,215	166,513,503	49,144,772	(10,567,627)
One year later	2,931,647,525	106,045,785	99,750,930	102,503,738	342,839,679	245,170,014	-
Two years later	2,967,967,581	109,420,651	101,077,415	100,655,566	341,037,623	-	-
Three years later	2,976,938,279	105,643,195	99,036,739	99,402,710	-	-	-
Four years later	3,008,346,725	105,748,270	96,841,327	-	-	-	-
Five years later	3,013,297,299	106,079,391	-	-	-	-	-
Six years later	3,016,441,558	-	-	-	-	-	-
Seven years later	3,015,902,033	-	-	-	-	-	-
Eight years later	3,012,825,684	-	-	-	-	-	-
Nine years later	3,003,486,781	-	-	-	-	-	-
Current estimate of cumulative claims	3,003,486,781	106,079,391	96,841,327	99,402,710	341,037,623	245,170,014	(10,567,627)
Cumulative payments to date	2,998,243,134	105,080,127	94,932,298	75,753,959	309,488,965	169,731,858	(25,264,665)
Total net insurance liabilities included in the statement of financial position	5,243,647	999,264	1,909,029	23,648,751	31,548,658	75,438,156	14,697,038
Provision for claims reported and loss adjustment expenses, net							153,484,543

25. Insurance payables

The account as at December 31 consists of:

	Note	2020	2019
Premiums due to reinsurers		107,643,191	238,248,942
Funds held for reinsurers	28	637,942,265	904,678,091
		745,585,456	1,142,927,033

The roll-forward analysis of insurance payables for the years ended December 31 follows:

	2020			2019		
	Premium due to reinsurers	Funds held for reinsurers	Total	Premium due to reinsurers	Funds held for reinsurers	Total
At January 1	238,248,942	904,678,091	1,142,927,033	407,274,382	892,009,754	1,299,284,136
Arising during the year	970,851,060	637,942,265	1,608,793,325	682,437,102	904,678,091	1,587,115,193
Utilized	(1,101,456,811)	(904,678,091)	(2,006,134,902)	(851,462,542)	(892,009,754)	(1,743,472,296)
At December 31	107,643,191	637,942,265	745,585,456	238,248,942	904,678,091	1,142,927,033

All insurance payables are expected to be settled within one year.

26. Trade and other liabilities

The account as at December 31 consists of:

	Notes	2020	2019
Accrued expenses		128,254,333	158,841,147
Intercompany payables	28	24,022,423	53,758,927
Provision for other post-employment benefits	22	5,540,308	5,405,808
Lease liability		17,762,317	32,962,307
Other liabilities		176,117,632	12,926,809
		351,697,013	263,894,998

Accrued expenses contain various accruals including accrued contingent profit commissions, provisions for employee benefits and indirect tax payables.

Movements in lease liability follow:

	2020	2019
As at January 1, 2020	32,962,307	44,534,359
Principal payments	(11,902,331)	(11,749,636)
Interest payments	(1,629,033)	(2,303,893)
Non-cash changes		
Terminated contracts during the year	(3,297,659)	-
Interest expense	1,629,033	2,481,477
As at December 31, 2020	17,762,317	32,962,307

Trade and other liabilities are expected to be settled within one year except for lease liability. A portion of lease liability amounting to P6.9 million as at December 31, 2020 is considered as non-current.

27. Leases

The Company leases various office spaces for its back office and operations.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

a) Discount rate

Payments for leases of office space are discounted using the lessee's incremental borrowing rate of 6.5%, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

On July 8, 2020, the lease arrangement assigned to the expatriate of the Company with original end term until July 31, 2021 was pre-terminated on September 9, 2020. As a result, the related ROU asset and lease liability with carrying amounts of P3.0 million and P3.3 million were derecognized (Note 14).

The resulting gain from the termination of lease amounting to P0.3 million were lodged under other income in the statement of total comprehensive income (Note 14).

The statement of comprehensive income shows the following amounts relating to leases for the period ended December 31:

	Note	2020	2019
Depreciation expense			
Office premises	14	11,887,581	12,939,449
Interest expense		1,629,033	2,481,477
Rent on short term leases		3,467,153	3,200,996
Gain from lease termination	14	(324,989)	-
		16,658,778	18,621,922

28. Related party transactions and balances

The table below summarizes the Company's significant transactions and balances with its related parties.

As at and for the year ended December 31, 2020:

	Transactions	Outstanding balances	Terms and conditions
Reinsurance transactions, excluding funds held			
Parent Company	163,098,663	(108,051,413)	The outstanding balances are due 75 days after the end of each quarter. The payable is unsecured, bear no interest and payable in cash at gross amount.
Funds held for reinsurers			
Parent Company	266,735,826	(637,942,265)	
Interest expense from funds held for reinsurers			Funds held for reinsurers are retained within one year after inception of related reinsurance policies. The outstanding balances are unsecured, bear interest based on BSP published rate on treasury bills for over 90 days and payable in cash at gross amount.
Parent Company	17,460,738		
Operating expenses			
Parent Company	47,607,248	(9,464,830)	The Company has an existing service agreement with the Parent Company for the provision of services and allocation of shared costs and are payable in cash at gross amount. The outstanding balances are unsecured, bear no interest and are payable in cash on demand.
Entities under common control	43,909,454	(14,557,593)	
Other income			
Entities under common control	52,118,119	2,877,660	These arise from claims handling and management services rendered by the Company to related parties under common control. The outstanding balances are unsecured, bear no interest and collectible in cash at gross amount on demand.
Intercompany accounts receivable under Loans and receivables			
Entities under common control	(12,872,718)	4,902,414	The outstanding balances are unsecured, bear no interest and collectible in cash at gross amount on demand.
Salaries, allowances and other short-term benefits			
Key management personnel	34,340,170	-	Bonuses are payable within the first quarter of the following calendar year.
Retirement expense			
Key management personnel	2,487,189	-	Refer to Note 22 - Employee Benefits.
Post-retirement benefit			
Key management personnel	67,609	-	Refer to Note 22 - Employee Benefits.

As at and for the year ended December 31, 2019:

	Transactions	Outstanding balances	Terms and conditions
Reinsurance transactions, excluding funds held			
Parent Company	(123,916,497)	(271,150,076)	The outstanding balances are due 75 days after the end of each quarter. The payable are unsecured, bear no interest and payable in cash at gross amount.
Funds held for reinsurers			
Parent Company	(12,668,337)	(904,678,091)	
Interest expense from funds held for reinsurers			Funds held for reinsurers are retained within one year after inception of related reinsurance policies. The outstanding balances are unsecured, bear interest based on BSP published rate on treasury bills for over 90 days and payable in cash at gross amount.
Parent Company	38,640,076		
Operating expenses			
Parent Company	60,840,205	(17,450,577)	The Company has an existing service agreement with the Parent Company for the provision of services and allocation of shared costs and are payable in cash at gross amount. The outstanding balances are unsecured, bear no interest and are payable in cash on demand.
Entities under common control	60,564,031	(36,308,350)	
Other income			
Entities under common control	60,145,541	3,792,774	These arise from claims handling and management services rendered by the Company to related parties under common control. The outstanding balances are unsecured, bear no interest and collectible in cash at gross amount on demand.
Intercompany accounts receivable under Loans and receivables			
Entities under common control	(6,004,226)	13,982,358	The outstanding balances are unsecured, bear no interest and collectible in cash at gross amount on demand.
Salaries, allowances and other short-term benefits			
Key management personnel	77,174,520	-	Bonuses are payable within the first quarter of the following calendar year.
Retirement expense			
Key management personnel	2,117,490	-	Refer to Note 22 - Employee Benefits.
Post-retirement benefit			
Key management personnel	158,763	-	Refer to Note 22 - Employee Benefits.

No provisions were recognized against related party receivables as at December 31, 2020 and 2019.

29. Supplementary information required by the Bureau of Internal Revenue ("BIR")

Below is the additional information required by Revenue Regulations No. 15-2010. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

(i) Output value-added tax (VAT)

Output VAT declared for the year ended December 31, 2020 and the revenues upon which the same was based consist of:

	Gross amount of revenues	Output VAT
Subject to 12% VAT		
Premiums (Non-life)	1,156,973,984	138,836,878
Zero-rated		
Premiums (Non-life)	753,338,486	-
VAT exempt	44,778,179	-
	1,955,090,649	138,836,878

The gross revenues shown above are based on gross receipts of the Company for VAT purposes while gross revenues in the statement of comprehensive income are measured in accordance with the policy in Note 3.3.2.

Zero-rated sales pertain to premiums on insurance policies issued to PEZA-registered entities.

VAT exempt sales pertain to premiums for accident and health policies.

(ii) Input VAT

Movements in input VAT for the year ended December 31, 2020 follow:

	Amount
Beginning balance	4,966,984
Add: Current year's domestic purchases/payments for:	36,546
Goods other than for resale or manufacture	-
Capital goods subject to amortization	-
Services lodged under cost of goods sold	9,565,807
Commissions for brokers	3,221,868
Services lodged under other accounts	178,010
Claims for tax credit/refund and other adjustments	(14,928,855)
Ending balance	3,040,360

The above input VAT are presented as part of other assets in the statement of financial position.

(iii) Documentary stamp tax

Documentary stamp taxes paid and accrued for the year ended December 31, 2020 consist of:

	Amount
Insurance policies	159,589,507
Others	426,780
	160,016,287

Accrued documentary stamp taxes of P7.4 million as at December 31, 2020 are included within Accrued expenses under Trade and other liabilities in the statement of financial position. The documentary stamp taxes are passed on to policyholders.

(iv) All other local and national taxes

All other local and national taxes for the year ended December 31, 2020 consist of:

	Amount
Fire service taxes	12,231,330
Municipal taxes	3,547,060
Premium tax	905,590
Sanitary, garbage, health fee and fire safety	15,340
Mayor's permit	5,000
	16,704,320

The above local and national taxes are lodged under Operating expenses except for premium tax, fire service taxes and municipal taxes which are passed on to policyholders.

(v) Withholding taxes

Withholding taxes paid and accrued and/or withheld for the year ended December 31 consist of:

	2020		
	Paid	Accrued	Total
Expanded withholding tax	15,177,513	1,317,893	16,495,406
Withholding tax on compensation	21,107,476	1,043,252	22,150,728
Final withholding tax	6,029,012	161,369	6,190,381
Fringe benefit tax	7,126,530	1,118,654	8,245,184
	49,440,531	3,641,168	53,081,699

Accrued withholding taxes are presented as part of Accrued expenses under Trade and other liabilities in the statement of financial position.

(vi) Tax assessments

Taxable years 2019, 2018, and 2017 are open tax years as at December 31, 2020. The Company has not received preliminary and final assessment notices on the open tax years.

(vii) Tax cases

There are no pending tax cases as at December 31, 2020.

(viii) Others

The Company did not have transactions that are subject to excise taxes, custom duties and tariff fees.