

**Independent Auditors' Report to  
Accompany Philippine Income Tax Returns**

The Board of Directors and Stockholders  
**TRAVELLERS INSURANCE & SURETY (TRISCO) CORPORATION**  
10<sup>th</sup> Floor G.E. Antonino Building  
T.M. Kalaw Ermita Manila

None of the partners of the firm have any financial interest in the Parent Company or any family relationships with its principal stockholders and key management personnel.

The supplementary information on taxes and licenses is presented in Note 39 to the Parent Company financial statements.

**Diaz Murillo Dalupan and Company**

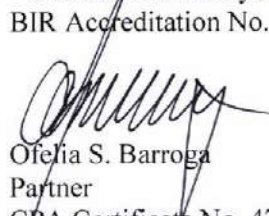
Tax Identification No. 003-294-822

BOA/PRC No. 0234, effective until August 4, 2023

SEC Accreditation No. 0234-SEC, Group A, issued on March 17, 2022

and valid for five years covering the audit of 2021 to 2025 financial statements

BIR Accreditation No. 08-001911-000-2022, effective until March 25, 2025

  
Ofelia S. Barroga

Partner

CPA Certificate No. 47189

SEC Accreditation No. 47189, Group A, issued on March 10, 2020

and valid for five years covering the audit of 2019 to 2023 financial statements

Tax Identification No. 104-576-733

PTR No. 9573296, January 8, 2023, Makati City

BIR Accreditation No. 08-001911-006-2022, effective until March 15, 2025

July 4, 2023

**Global Reach, Global Quality**

Head Office : 7th Floor, Don Jacinto Building, De la Rosa corner Salcedo Sts., Legaspi Village, Makati City 1229 Philippines • Phone: +63(2) 8694 5892 / 8844 9421 / Fax: +63(2) 8818 1872  
Cebu Office : Unit 504 Cebu Holdings Building, Cebu Business Park, Mabolo, Cebu City 6000 Philippines • Phone: +63(32) 415 8108 - 10 / Fax: +63(32) 232 8029  
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Website : [www.dmdcpa.com.ph](http://www.dmdcpa.com.ph)

***Travellers Insurance &  
Surety (TRISCO) Corporation***

***Financial Statements  
December 31, 2022 and 2021***

***and***

***Independent Auditors' Report***

## Independent Auditors' Report

The Board of Directors and Stockholders  
**TRAVELLERS INSURANCE & SURETY (TRISCO) CORPORATION**  
10<sup>th</sup> Floor G.E. Antonino Building  
T.M. Kalaw Ermita Manila

### **Report on the Audit of the Parent Company Financial Statements**

#### *Opinion*

We have audited the Parent Company financial statements of **Travellers Insurance & Surety (TRISCO) Corporation** (the "Parent Company") which comprise the Parent Company statements of financial position as at December 31, 2022 and 2021, and the Parent Company statements of comprehensive income, Parent Company statements of changes in equity and Parent Company statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying Parent Company financial statements present fairly, in all material respects, the financial position of the Parent Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards (PFRS).

#### *Basis for Opinion*

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

#### *Responsibilities of Management and Those Charged with Governance for the Parent Company Financial Statements*

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

In preparing the Parent Company financial statements, management is responsible for assessing the Parent 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 Parent Company or to cease operations, or has no realistic alternative but to do so.

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

#### **Global Reach, Global Quality**

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*Auditors' Responsibilities for the Audits of the Parent Company Financial Statements*

Our objectives are to obtain reasonable assurance about whether the Parent Company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 PSA 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 Parent Company financial statements.

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

- Identify and assess the risks of material misstatement of the Parent Company 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 Parent 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 Parent 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 auditors' report to the related disclosures in the Parent Company 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 auditors' report. However, future events or conditions may cause the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Parent Company financial statements, including the disclosures, and whether the Parent Company 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 audits.

**Report on Supplementary Information Required under Revenue Regulations 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic Parent Company financial statements taken as a whole. The supplementary information in Note 39 to the Parent Company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic Parent Company financial statements. Such information is the responsibility of **Travellers Insurance & Surety (TRISCO) Corporation**. The information has been subjected to the auditing procedures applied in our audits of the basic Parent Company financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic Parent Company financial statements taken as a whole.

**Diaz Murillo Dalupan and Company**

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July 4, 2023

**TRAVELLERS INSURANCE & SURETY (TRISCO) CORPORATION**  
**Parent Company Statements of Financial Position**

	December 31	
	2022	2021
<b>ASSETS</b>		
Cash and cash equivalents - note 4	P45,066,519	P30,313,157
Short-term investments - note 5	663,345,500	-
Insurance receivables (net) - note 6	346,538,650	475,347,850
Reinsurance assets (net) - note 7	84,166,906	48,419,502
Other receivables (net) - note 8	53,610,777	537,376,806
Assets held for sale - note 13	152,351,200	52,416,527
Deferred acquisition cost (DAC) - note 11	138,375,740	172,532,891
Prepayments - note 12	1,792,859	3,106,691
Debt instruments at amortized cost - note 9	262,881,939	149,612,479
Financial assets at fair value through other comprehensive income (FVOCI) - note 10	6,461,269	4,554,307
Property and equipment (net) - note 14	730,343,091	869,108,806
Investment properties - note 15	16,150,868	14,995,418
Reclamation project - note 16	201,809,118	201,809,118
Investment in subsidiaries and associate - note 17	658,938,814	608,429,394
Deferred tax assets - note 32	17,302,584	14,269,344
Other assets (net) - note 18	471,789,433	126,106,489
<b>TOTAL ASSETS</b>	<b>P3,850,925,267</b>	<b>P3,308,398,779</b>
<b>LIABILITIES AND EQUITY</b>		
Accounts payable and other liabilities - note 19	P449,084,862	P366,424,197
Cash collaterals - note 20	8,317,858	8,513,858
Loans payable - note 21	3,504,724	3,260,903
Insurance contract liabilities - note 22	523,343,510	517,870,138
Due to reinsurers - note 23	82,275,391	39,958,114
Lease liability - note 36	12,660,075	3,465,511
Retirement benefits obligation - note 24	29,102,500	27,498,927
Deferred tax liabilities - note 32	63,334,282	61,513,231
	<b>1,171,623,202</b>	<b>1,028,504,879</b>
<b>Equity</b>		
Capital stock - note 26	2,000,000,000	1,861,421,700
Contingency surplus	831,660	831,660
Contributed surplus	181,226,700	-
Revaluation increment on land	5,403,883	5,403,883
Revaluation reserve on financial assets at FVOCI - note 10	4,265,468	2,358,506
Remeasurement gain on retirement benefits obligation	3,509,556	1,138,571
Retained earnings	484,064,798	408,739,580
	<b>2,679,302,065</b>	<b>2,279,893,900</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P3,850,925,267</b>	<b>P3,308,398,779</b>

*(The accompanying notes are an integral part of these Parent Company financial statements.)*

**TRAVELLERS INSURANCE & SURETY (TRISCO) CORPORATION**  
**Parent Company Statements of Comprehensive Income**

	<b>Years Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
<b>UNDERWRITING INCOME</b>		
Gross premium earned	<b>₱900,267,164</b>	₱701,962,872
Premium ceded	<b>(58,399,148)</b>	(34,590,117)
Net premiums on insurance - note 27	<b>841,868,016</b>	667,372,755
Commission income - note 11	<b>15,560,383</b>	11,244,284
<b>GROSS UNDERWRITING INCOME</b>	<b>857,428,399</b>	678,617,039
<b>NET INSURANCE BENEFITS AND CLAIMS - note 29</b>	<b>122,429,675</b>	54,765,570
<b>DIRECT UNDERWRITING COSTS - note 30</b>	<b>568,056,386</b>	445,271,259
<b>TOTAL DIRECT COSTS</b>	<b>(690,486,061)</b>	(500,036,829)
<b>NET UNDERWRITING INCOME</b>	<b>166,942,338</b>	178,580,210
<b>OPERATING EXPENSES - note 31</b>	<b>(130,869,299)</b>	(105,723,344)
<b>INCOME FROM OPERATIONS</b>	<b>36,073,039</b>	72,856,866
<b>INVESTMENT AND OTHER INCOME (CHARGES) - note 28</b>	<b>62,769,488</b>	31,088,957
<b>INCOME BEFORE INCOME TAX</b>	<b>98,842,527</b>	103,945,823
<b>INCOME TAX EXPENSE - note 32</b>		
Current	<b>25,519,826</b>	21,761,745
Deferred	<b>(2,002,517)</b>	(4,619,943)
	<b>23,517,309</b>	17,141,802
<b>NET INCOME</b>	<b>75,325,218</b>	86,804,021
<b>OTHER COMPREHENSIVE INCOME</b>		
<i>Item that will not be reclassified subsequently to profit or loss:</i>		
Unrealized fair value gain on financial assets at FVOCI - note 10	<b>1,906,962</b>	844,304
Remeasurement gain on retirement benefits obligation - note 24	<b>2,370,985</b>	75,905
Revaluation increment on land	<b>-</b>	360,259
	<b>4,277,947</b>	1,280,468
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱77,232,180</b>	₱87,648,325

*(The accompanying notes are an integral part of these Parent Company financial statements.)*

**TRAVELLERS INSURANCE & SURETY (TRISCO) CORPORATION**  
Parent Company Statements of Changes in Equity

	Capital stock - note 26	Deposit for future stock subscription - note 26	Contingency surplus	Contributed surplus - note 33 - notes 15 and 16	Revaluation increment on land - note 10	Revaluation reserve on financial assets at FVOCI - note 24	Remeasurement gain on retirement benefits - note 24	Retained earnings	Total
Balance, January 1, 2021	P600,000,000	P5,900,000	P831,660	P567,530,000	P5,043,624	P1,514,202	P1,062,666	P321,935,559	P1,503,817,711
Transaction with owners									
Capital stock subscription	687,991,700	-	-	-	-	-	-	-	687,991,700
Transfer of deposit to capital stock	5,900,000	(5,900,000)	-	-	-	-	-	-	-
Transfer of contributed surplus to capital stock	567,530,000	-	-	(567,530,000)	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-	-	-	-
Net income for the year	-	-	-	-	-	-	-	86,804,021.00	86,804,021
Other comprehensive income	-	-	-	-	-	-	-	-	-
Unrealized fair value gain on financial assets at FVOCI	-	-	-	-	844,304	-	-	-	844,304
Remeasurement gain on retirement	-	-	-	-	-	-	75,905	-	75,905
Revaluation increment on land	-	-	-	-	360,259	-	-	-	360,259
Balance, December 31, 2021	1,861,421,700	-	831,660	-	5,403,883	2,358,506	1,138,571	408,739,580	2,279,893,900
Transaction with owners									
Capital stock subscription	138,578,300	-	-	-	-	-	-	-	138,578,300
Additional contribution	-	-	-	181,226,700	-	-	-	-	181,226,700
Total comprehensive income	-	-	-	-	-	-	-	-	-
Net income for the year	-	-	-	-	-	-	-	75,325,218	75,325,218
Other comprehensive loss	-	-	-	-	-	-	-	-	-
Unrealized fair value gain on financial assets at FVOCI	-	-	-	-	-	1,906,962	-	-	1,906,962
Remeasurement gain on retirement	-	-	-	-	-	-	2,370,985	-	2,370,985
Balance, December 31, 2022	P2,000,000,000	P-	P831,660	P181,226,700	P5,403,883	P4,265,468	P3,509,556	P484,064,798	P2,679,302,065

(The accompanying notes are an integral part of these Parent Company financial statements.)



**TRAVELLERS INSURANCE & SURETY (TRISCO) CORPORATION**  
**Parent Company Statements of Cash Flows**

	<b>Years Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱98,842,527</b>	₱103,945,823
Adjustments for:		
Depreciation and amortization - notes 14 and 18	36,685,111	26,171,159
Provision for ECLs - note 31	4,436,749	1,540,643
Retirement benefit costs - note 24	4,764,886	3,607,499
Interest expense - notes 19 and 34	622,757	6,887,423
Provision for IBNR losses and claims handling expenses with MfAD	1,888,014	(4,011,859)
Amortization of premium on bonds - note 9	3,974,671	900,103
Unrealized foreign exchange loss	(135,246)	(11,324)
Gain on sale of properties - note 28	(26,832,923)	-
Interest income - note 28	(5,624,041)	(2,623,005)
Equity in net earnings of an associate - note 17	(5,973,970)	(2,478,379)
Provision for catastrophic losses - note 28	699,288	131,016
Recovery of receivables provided with ECL - note 28	(2,455,538)	(184,010)
Operating income before working capital changes	<b>110,892,285</b>	133,875,089
Decrease (increase) in:		
Short-term investments	(663,345,500)	-
Insurance receivables	126,840,001	(51,369,984)
Other receivables	479,230,224	(14,327,594)
Reinsurance assets	(35,991,525)	(470,401)
Deferred acquisition costs	34,157,151	(12,712,624)
Prepayments	(1,686,116)	2,062,012
Increase (decrease) in:		
Accounts payable and other liabilities	104,798,476	38,276,523
Cash collaterals	(196,000)	-
Insurance contract liabilities	2,886,070	102,278,799
Due to reinsurers	42,317,277	(10,012,922)
Cash generated from operations	<b>199,902,343</b>	187,598,898
Interest received on cash in banks and other receivables	1,145,775	348,738
Interest paid	(343,011)	(6,189,747)
Income tax paid	(18,394,078)	(14,155,826)
Net cash provided by operating activities	<b>182,311,029</b>	167,602,063
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received on cash equivalents, short-term investments and debt instruments at amortized cost	4,478,266	2,274,267
Additional investments in:		
Debt instruments at amortized cost - note 9	(260,314,449)	(146,964,600)
Property and equipment - note 14	(9,156,087)	(218,385,635)
Investment in subsidiaries and associate - note 17	(44,535,450)	(78,970,000)
Intangible assets - note 18	340,000	
Reclamation project - note 16	-	(3,904,907)
Proceeds from:		
Sale of assets held for sale - note 13	46,466,389	-
Sale of investment properties - note 15	1,100,000	
Matured investments - note 9	143,070,318	128,395,818
Increase in other assets	(368,720,165)	(72,578,116)
Advances to a related party - note 35	4,873,101	(3,708,340)
Net cash used in investing activities	<b>(482,398,077)</b>	(393,841,513)

(Forwarded)

	<b>Years Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
<i>(Continued)</i>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of capital stock - note 26	<b>138,578,300</b>	226,100,000
Additional contributed surplus - note 33	<b>181,226,700</b>	-
Payment of lease liability	<b>(3,745,257)</b>	(3,824,595)
Payment of loans payable	<b>(1,354,579)</b>	(2,639,156)
Net cash provided by financing activities	<b>314,705,164</b>	219,636,249
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH</b>		
<b>AND CASH EQUIVALENTS</b>	<b>135,246</b>	11,324
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>14,753,362</b>	(6,591,877)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>30,313,157</b>	36,905,034
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR - note 4</b>	<b>₱45,066,519</b>	₱30,313,157

*(The accompanying notes are an integral part of these Parent Company financial statements.)*

## **TRAVELLERS INSURANCE & SURETY (TRISCO) CORPORATION**

*(Formerly known as Travellers Insurance & Surety Corporation)*

### **Notes to Parent Company Financial Statements**

As at and for the Years Ended December 31, 2022 and 2021

#### **1. CORPORATE INFORMATION**

Travellers Insurance & Surety (TRISCO) Corporation (formerly known as Travellers Insurance & Surety Corporation) [the "Parent Company"] was registered with the Securities and Exchange Commission (SEC) on June 25, 1964. On June 25, 2014, the term for which the Parent Company exists expired. The Parent Company filed with SEC an application for an amendment of its articles of incorporation extending the life of the Parent Company to another fifty (50) years. The amended Certificate of Incorporation was issued by SEC on June 19, 2014.

On April 28, 2021, the SEC approved the amendment of the Parent Company's articles of incorporation to change the name to Travellers Insurance & Surety (TRISCO) Corporation.

The Parent Company is engaged in the business of insurance, guaranty and reinsurance in any branches except life insurance, for a consideration. The Parent Company is 56.36% owned by Toptraders Import Export Corp. (TIEC or the Ultimate Parent Company), a company incorporated in the Philippines.

The Parent Company holds 60% and 75% interest in 2022 and 2021, respectively, in Southeast Asia Renewable Power Corp. (SARPC), a company incorporated in the Philippines and is engaged in the development of renewable energy like wind, hydro, solar, biomass, bio-fuel and jatropa.

The Parent Company holds 98% interest in 2022 and 2021, respectively, in Hampton Realty and Development Corp. (HRDC), a company incorporated in the Philippines and is engaged in real estate business.

The Insurance Commission (IC) granted the Parent Company a license to transact certain class of insurance such as fire, marine, casualty and surety except customs bonds, which is renewable every year.

The registered office address of the Parent Company is 10<sup>th</sup> Floor G.E. Antonino Building T.M. Kalaw Ermita, Manila.

The accompanying financial statements were approved and authorized for issue by the Board of Directors (BOD) on July 4, 2023.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Preparation

The financial statements of the Parent Company have been prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income (FVOCI) and investment properties, which are measured at fair value. The Parent Company presents its statements of financial position in the order of liquidity. An analysis regarding recovery of assets or settlement of liability within 12 months after the reporting date (current) and more than 12 months after the reporting date (noncurrent) is presented in Note 38.

The financial statements are presented in Philippine peso (₱), which is the Parent Company's functional and presentation currency. All amounts are rounded to the nearest peso unless otherwise indicated.

### Statement of Compliance

The financial statements of the Parent 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 issued by the former Standing Interpretations Committee (SIC), the Philippine Interpretations Committee (PIC) and the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

### Separate financial statements

These are the Parent Company's separate financial statements. Separate financial statements are those presented by a parent, or investor in an associate or a venture in a jointly controlled entity, in which the investments are accounted for in the basis of the direct equity interest rather than on the basis of the report results and net assets of the investees.

### Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial years except for the following new and amended PFRS that are mandatorily effective for annual periods beginning on or after January 1, 2022.

*Property, Plant and Equipment before Intended Use (Amendments to PAS 16).* The amendments to PAS 16, *Property, Plant and Equipment* prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. The amendments are effective for annual periods beginning on or after January 1, 2022. The amendments have no significant impact on the Parent Company's financial statements.

*Reference to the Conceptual Framework (Amendments to PFRS 3).* Minor amendments were made to PFRS 3, *Business Combinations* to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of PAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRIC 21 *Levies*. The amendments also confirm that contingent assets should not be recognised at the acquisition date. The amendments are effective for annual periods beginning on or after January 1, 2022. The amendments have no significant impact on the Parent Company's financial statements.

*Onerous Contracts – Cost of Fulfilling a Contract (Amendments to PAS 37).* The amendment to PAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract. The amendment is effective for annual periods beginning on or after January 1, 2022. The amendments have no significant impact on the Parent Company's financial statements.

#### *Annual Improvements to PFRS Standards 2018–2020*

- PFRS 9, *Financial Instruments* – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- PFRS 16, *Leases* – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards* – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same PFRS 1 exemption.
- PAS 41, *Agriculture* – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under PAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

The amendments have no significant impact on the Parent Company's financial statements.

#### New accounting standards, interpretations and amendments to existing standards effective subsequent to January 1, 2022

Standards issued but not yet effective up to the date of the Parent Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Parent Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Parent Company intends to adopt these standards when they become effective.

*PAS 1 (Amendments) Classification of Liabilities as Current or Noncurrent.* The narrow-scope amendments to PAS 1, *Presentation of Financial Statements* clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (eg the receipt of a waiver or a breach of covenant). The amendments also clarify what PAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

The amendments will have no significant impact on the disclosures and amounts to be recognized on the financial statements.

*Disclosure of Accounting Policies (Amendments to PAS 1 and PFRS Practice Statement 2).* The narrow-scope amendments PAS 1, *Presentation of Financial Statements* require entities to disclose material accounting policy information instead of significant accounting policies. The amendments also clarify the following: (1) accounting policy information may be material because of its nature, even if the related amounts are immaterial; (2) accounting policy is material if users of an entity's financial statements would need it to understand other material information in the statements; and (3) if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. Further, the amendments provides several paragraphs to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material. In addition, PFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of 'four-step materiality process' to accounting policy information in order to support the amendments to PAS 1. The amendments are applied prospectively. The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. Once the entity applies the amendments to PAS 1, it is also permitted to apply the amendments to PFRS Practice Statement 2.

*Definition of Accounting Estimates (Amendments to PAS 8).* The amendments to PAS 8, *Accounting Policies, Changes* focus entirely on accounting estimates and clarify the following:

- The definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".
- Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
- A change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.
- A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognized as income or expense in the current period. The effect, if any, on future periods is recognized as income or expense in those future periods.

The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

PFRS 17, *Insurance Contracts*. The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, including reinsurance contracts held and investment contracts with discretionary participation features issued. The objective of the standard is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of the standard have on the entity's financial position, financial performance and cash flows.

The standard is effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. The Parent Company is currently assessing the impact of adopting this standard.

*Determination of fair value and fair value hierarchy*

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Parent Company.

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

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

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

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

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

The Parent Company determines the policies and procedures for both recurring fair value measurement, such as financial assets at fair value through profit or loss (FVPL), and for non-recurring measurement, such as investment properties.

External valuers are involved for valuation of significant assets, such as investment properties.

Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

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

Fair value measurement disclosures of financial and non-financial assets are presented in Note 34 to the financial statements.

#### *"Day 1" difference*

When the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Parent Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the statements of comprehensive income 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 the statements of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Parent Company determines the appropriate method of recognizing the "Day 1" difference amount.

#### Financial Instruments

##### *Initial recognition, subsequent measurement and classification of financial instruments*

The Parent Company recognizes financial assets and financial liabilities in the statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the timeframe established by regulation or convention in the marketplace are recognized on the settlement date.

Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments includes transaction costs, except for those financial assets and liabilities at FVPL where the transaction costs are charged to expense in the period incurred.

The Parent Company classifies its financial assets as subsequently measured at amortized cost, FVOCI and FVPL.

The classification of debt instruments at amortized cost or at FVOCI depends on the financial asset's contractual cash flow characteristics and the Parent Company's business model for managing the financial assets. The Parent Company's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Parent Company's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both.



Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets mandatorily required to be measured at FVPL. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, debt instruments may be designated at FVPL on initial recognition if doing so eliminates or significantly reduces the measurement or recognition inconsistency and produce more relevant information.

Upon initial recognition, the Parent Company may make an irrevocable election to present in other comprehensive income changes in the fair value of an equity investment that is not held for trading. The classification is determined on an instrument-by-instrument basis.

The Parent Company classifies its financial liabilities as subsequently measured at amortized cost using the effective interest method or at FVPL.

#### *Financial Assets at FVPL*

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading, unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in profit or loss under "Investment and other income (charges)".

Financial assets may be designated by management at initial recognition as at FVPL when any of the following criteria is met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise, arise from measuring the assets or liabilities, or recognizing gains or losses on them on a different basis; or
- The assets are part of a group of financial assets, which are managed, and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Parent Company has no financial assets at FVPL as at December 31, 2022 and 2021.

#### *Financial assets at amortized cost*

Financial assets are measured at amortized when both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, financial assets at amortized cost are subsequently carried at amortized cost using the effective interest method less any allowance for estimated credit losses (ECL). Amortized cost is calculated, taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in statements of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

As at December 31, 2022 and 2021, the Parent Company's financial assets at amortized costs consist of cash and cash equivalents, short-term investments, insurance receivables, portion of reinsurance assets, other receivables, claims fund, deposits and security funds presented under Other assets in the statements of financial position, and debt instruments at amortized cost (see Notes 4, 5, 6, 7, 8, 9 and 18).

#### 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 depending on the immediate cash requirements of the Parent Company and are subject to an insignificant risk of change in value.

#### Short-term Investments

Short-term investments are time deposits with maturities of more than three (3) months but within one (1) year.

#### Insurance Receivables

Insurance receivables include premium-related balances due from policy holders, ceding companies and agents for insurance policy issued in the ordinary course of business, less allowance for ECL as at reporting date.

The Parent Company applies the statutory guideline in evaluating impairment of insurance receivables wherein premiums remaining unpaid beyond a limit set by the IC are impaired. However, in recognizing impairment in the financial statements, the Parent Company considers also several factors such as indications that the contracted parties or a group of contracted parties is experiencing significant financial difficulty, unusual default or delinquency of 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.

### Debt Instruments at Amortized Cost

Quoted non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as debt instruments at amortized cost when the Parent Company's management has the positive intention and ability to hold the investment to maturity. Investments intended to be held for an undefined period are not included in this category. After initial measurement, debt instruments at amortized cost are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

Gains and losses are recognized in the statements of comprehensive income when the investments are derecognized or impaired, as well as through the amortization process.

As at December 31, 2022 and 2021, the Parent Company's debt instruments at amortized cost consist of investments in government securities and agrarian reform bonds (see Note 9).

### *Debt instruments at FVOCI*

The Parent Company measures debt instruments at FVOCI when both of the following conditions are met:

- the instrument is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Fair value gains and losses are recognized in other comprehensive income. Interest income, impairment losses or reversals, and foreign exchange gains and losses are recognized in profit or loss. Interest earned on investments is calculated using the effective interest method.

When the debt instrument is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

As at December 31, 2022 and 2021, the Parent Company has no debt instruments at FVOCI.

### *Equity instruments at FVOCI*

Upon initial recognition, the Parent Company may make an irrevocable election to present in other comprehensive income changes in the fair value of an equity investment that is not held for trading. The classification is determined on an instrument-by-instrument basis.

When the equity instrument is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is not subsequently reclassified to profit or loss, but is transferred to retained earnings. Dividends on such investments are recognized in profit or loss when the right of payment has been established, except when the dividends represent a recovery of part of the cost of the investment, in which case, such gains are recorded in other comprehensive income. Equity instruments designated at FVOCI are not subject to impairment assessment.

As at December 31, 2022 and 2021, the Parent Company elected to classify irrevocably its equity investments under this category (see Note 10). This consists of equity securities such as golf club share and publicly traded shares of stock.

#### *Financial liabilities at amortized cost*

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading, or designated as at FVPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

As at December 31, 2022 and 2021, the Parent Company's financial liabilities at amortized cost consist of accounts payable and other liabilities (excluding statutory payables and other liabilities), cash collaterals, loans payable, lease liability, portion of insurance contract liabilities, due to reinsurers and lease liability (see Notes 19, 20, 21, 22 23, and 36).

#### *Impairment of financial assets*

The Parent Company recognizes an allowance for ECLs for all debt instruments that are measured at amortized cost. ECLs are a probability-weighted estimate of credit losses over the expected life of the financial asset.

Credit losses are the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Parent Company expects to receive, discounted at the original effective interest rate. The expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Parent Company assesses at each end of the reporting period whether the credit risk on a financial asset has increased significantly since initial recognition. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is measured at an amount equal to the lifetime ECLs. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, a loss allowance is measured at an amount equal to 12-month ECLs. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within twelve (12) months after the reporting period.

For trade receivables (insurance receivables, other receivables and reinsurance assets), the Parent Company applies a simplified approach in calculating ECLs. The Parent Company recognizes a loss allowance based on lifetime ECLs at the end of each reporting period. The ECLs on these financial assets are estimated using a provision matrix based on the Parent Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment, including time value of money where appropriate.

When the credit risk on financial instruments for which lifetime ECLs have been recognized subsequently improves, and the requirement for recognizing lifetime ECLs is no longer met, the loss allowance is measured at an amount equal to 12-month ECL at the current reporting period, except for assets for which simplified approach was used.

The Parent Company recognizes credit loss (reversals) in profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

*Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Parent Company compares the risk of a default occurring on the financial instrument at the end of reporting period with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Parent Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Parent Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Parent Company's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g., the extent to which the fair value of a financial asset has been less than its amortized cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Parent Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than thirty (30) days past due, unless the Parent Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Parent Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the end of reporting period. A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default;

- the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and;
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

The Parent Company considers a financial asset to have low credit risk when the asset has external credit rating of “investment grade” in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of “performing”. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Parent Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

#### *Definition of default*

The Parent Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Parent Company, in full (without taking into account any collateral held by the Parent Company).

Irrespective of the above analysis, the Parent Company considers that default has occurred when a financial asset is more than ninety (90) days past due unless the Parent Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

#### *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lenders of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower concessions that the lenders would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

*Write-off policy*

The Parent Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g., when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of insurance receivables, when the amounts are over one (1) year past due, whichever occurs sooner.

Financial assets written off may still be subject to enforcement activities under the Parent Company recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Amortized Cost and Effective Interest Method

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Parent Company recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

For financial assets other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

Interest income is recognized under "Investment and other income (charges)" in the statements of comprehensive income.

*Derecognition of financial assets and financial liabilities*

*(a) Financial assets*

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

- The rights to receive cash flows from the asset have expired;
- The Parent 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 third party under a “pass-through” arrangement; or
- The Parent Company has transferred its rights 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 risks and rewards of the asset, but has transferred control of the asset.

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

*(b) Financial liabilities*

A financial liability is derecognized when the obligation under the liability was 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 the statements of comprehensive income.

*Offsetting of financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the statements 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.



### Insurance Contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Parent Company defines a significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 20% more than the benefits payable if the insured event did not occur. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

#### Insurance Contract Liabilities

##### i) General Insurance Contract Liabilities

Insurance contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain type of insurance claims, particularly in respect of liability business, environmental and pollution exposures, therefore the ultimate cost of which cannot be known with certainty at the reporting date. The liability is not discounted for the time value of money and includes provision for incurred but not recorded (IBNR) losses. The liability is derecognized when the contract is cancelled or has expired.

##### ii) Provision for Unearned Premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premiums. Premiums from short duration insurance contracts are recognized as revenue over the period of the contracts using 24th method. The change in the provision for unearned premiums is taken to the statements of comprehensive income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts, which may exceed the unearned premiums and the premiums due in respect of these contracts.

##### iii) Liability Adequacy Test (LAT)

At each reporting date, LAT is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition cost (DAC) asset. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the statements of comprehensive income by establishing an unexpired risk provision for losses arising from the LAT.

In 2017, the Parent Company adopted the *Valuation Standard for Nonlife Insurance Policy Reserves* issued by IC. The standard provides for (i) the determination of premium liabilities based on the higher of unearned premium reserves (UPR), net of DAC and the computed unearned risk reserve (URR); (ii) consideration of claims handling expense; and (iii) consideration of Margin for Adverse Deviation (MfAD) to allow for the inherent uncertainty of the best estimate of policy reserve.

### Reinsurance Assets

The Parent Company assumes and cedes reinsurance in the normal course of business. Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognized as revenue 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 due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

### Reinsurance

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

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence shows that the Parent Company may not recover outstanding amounts due under the terms of the contract and when the impact on the amounts that the Parent Company will receive from the reinsurers can be measured reliably. The impairment loss is recorded in the statements of comprehensive income. Ceded reinsurance arrangements do not relieve the Parent Company from its obligations to policyholders. The Parent Company also assumes reinsurance risk in the normal course of business. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies, which are included under "Insurance contract liabilities" in the statements of financial position. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

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

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

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statements of financial position. These are deposit assets or financial liabilities that are recognized based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment income on these contracts is accounted for using the effective interest method.

### Deferred Acquisition Costs (DACs)

DACs consist of commission and other acquisition costs incurred during the financial period that varies with and are related to securing new insurance contracts and or renewing existing insurance contracts, but which relates to subsequent financial periods. DACs are capitalized and amortized over the life of the contract. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, these costs are amortized on a straight-line basis using the 24th method over the life of the contract. Amortization is charged against the profit or loss. The unamortized acquisition costs are shown as DACs in the Asset section of the statements of financial position.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount. The impairment loss is charged to profit or loss. DACs are also considered in the LAT for each end of the reporting period.

#### Prepayments

Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepayments are apportioned over the period covered by the payment and charged to the appropriate account in profit or loss when incurred.

This includes the Parent Company's input value-added tax (VAT), prepaid taxes, stationeries and office supplies and prepaid rent which are stated at cost, less any impairment in value.

Input VAT is the indirect tax paid by the Parent Company on the local purchase of goods or services from a VAT-registered person. Input tax is deducted against output tax in arriving at the VAT due and payable.

#### Investment in Subsidiaries

The investment in subsidiaries is accounted for under the cost method. This is carried in the Parent Company's separate statements of financial position at cost less impairment in value.

A subsidiary is an entity in which the Parent Company, directly or indirectly, holds more than half (1/2) of the issued share capital, or controls more than half (1/2) of the voting power, or exercises control over the operation and management of the subsidiary. Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the company controls an investee if, and only if, the Parent Company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure or rights to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the company has less than a majority of the voting or similar rights of an investee, the company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Parent Company's voting rights and potential voting rights.

If there is objective evidence that the investment in subsidiary will not be recovered, an impairment loss is provided. Impairment loss is measured as the difference between the carrying amount of the investment and the present value of the estimated cash flows discounted at the current market rate of return on similar financial asset. The amount of the impairment loss is recognized in profit or loss.

#### Investment in Associate

An associate is an entity in which the Parent Company has significant influence but neither a subsidiary nor an interest in joint venture. Significant influence is the power to participate in the financial and operating policies of the investee but has no control over those policies.

The investment in associate is initially recognized at cost and subsequently accounted for using the equity method. Under the equity method, the carrying amount of the investments is adjusted to recognize the changes in the Parent Company's share of net assets of the associate since the acquisition date. Goodwill relating to the associates is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

All subsequent changes to the ownership interest in the equity of the associates are recognized in the Parent Company's carrying amount of the investments. Distributions received from the associates are accounted for as a reduction of the carrying value of the investment. Changes resulting from the profit or loss generated by the associates are credited or charged against the Equity in net earnings of associates account under "Investment and other income (charges)".

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered.

Changes resulting from other comprehensive income of the associates or items recognized directly in the associates' equity are recognized in other comprehensive income or equity of the Parent Company, as applicable. However, when the Parent Company's share of losses in an associate equals or exceeds its interest in the associate, the Parent Company does not recognize further losses, unless it has commitments, has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profit, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

#### Assets Held for Sale

The Parent Company classifies assets as held for sale when their carrying amount is to be recovered principally through a sale transaction rather than continuing use and the sale is considered highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active program to locate a buyer and to complete the plan must be initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one (1) year from the date of classification. However, events or circumstances may extend the period to complete the sale beyond one (1) year. An extension of the period required to complete a sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the control of the Parent Company and there is sufficient evidence that the Parent Company remains committed to its plan to sell the asset.

These are stated at the lower of carrying amount and fair value less cost to sell and are not subject to depreciation upon classification as held for sale. At reporting date, assessment is performed to determine if properties under this account qualify to be classified as asset held for sale.

#### Property and Equipment

Land and land improvements are measured at revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated impairment losses. All other property and equipment are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including any costs directly attributable to bringing the assets to its working condition and location for its intended use.

Expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to operations in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation of property and equipment commences once the assets are available for use. Depreciation is computed using straight-line basis over the estimated useful lives of the assets such as follows:

Category	No. of years
Building and building improvements	50
Condominium office unit	50
Transportation equipment	10
Leasehold improvement	3 or lease term, whichever is shorter
Furniture and fixtures	5
Office machine and other equipment	5

Leasehold improvements are depreciated over the expected useful lives or over the term of the lease, whichever is shorter.

The Parent Company depreciates the right-of-use assets included in the property and equipment on a straight-line basis from the lease commencement date to earlier of the end of the useful life of the right-of-use asset or end of the lease term.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is recognized in profit or loss.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

An item of property and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising on the retirement and disposal of an item of property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

For asset carried at revalued amount, the increase is recognized in other comprehensive income and accumulated in equity under "Revaluation increment on land". However, the increase is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized in profit or loss. However, the decrease is recognized in other comprehensive income to the extent of any credit balance existing in the revaluation increment in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under "Revaluation increment on land".

The "Revaluation increment on land" included in equity in respect of the asset at revalued amount may be transferred directly to retained earnings when the asset is derecognized.

#### Investment Properties

Investment properties consist of various parcels of land, land improvement, and a condominium unit held for capital appreciation or for earning rental. Investment properties are measured initially at cost, including transaction costs and subsequently carried at fair value. Fair value of investment properties reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of investment properties are recognized in the profit or loss in the year in which they arise. Initial cost includes cost incurred initially to acquire an investment property and cost incurred subsequently to add to, replace part of, or service property. Costs of day-to-day servicing are expensed as incurred.

Investment properties are derecognized when either they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statements of comprehensive income in the year of retirement or disposal.

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

#### Reclamation Project

This pertain to land development costs which are initially recorded at acquisition cost or cost of land reclamation and related land development costs, if the land is reclaimed. The initial cost of land development costs includes costs incurred relative to: (a) site preparation and permit processing; and (b) costs incurred on initial development of the raw land in preparation for future projects.

### Intangible Assets

The Parent Company's intangible assets consist of software development cost and web design which has finite useful life. Software development cost pertains to the Parent Company's insurance system. Development costs are capitalized only after technical and commercial feasibility of the asset for sale or use have been established. This is when the Parent Company has an intention and capability to complete the intangible asset for use or sell and is able to demonstrate that the asset generates future economic benefits.

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization in the case of intangible assets with finite useful lives, and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the assets useful or economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization of intangible assets with finite lives is recognized in profit or loss consistent with the function of the intangible asset.

Intangible assets are amortized using the straight-line method over an estimated useful life of three (3) to five (5) years with no residual value.

Intangible assets are derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss.

Fully amortized intangible assets are retained in the accounts until they are no longer in use and no further amortization is charged against current operations.

### Impairment of Nonfinancial Assets

At the end of each reporting period, the Parent Company assesses whether there is any indication that any of its assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Parent Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Impairment losses recognized in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized as income in profit or loss.

### Leases

The Parent Company determines at contract inception whether a contract is, or contains, a lease by assessing whether a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### *Parent Company as lessee*

##### *Long-term leases*

For all leases with a term of more than twelve (12) months, the Parent Company recognizes a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments, unless the underlying asset is of low value.

At initial recognition, the Parent Company recognizes the right-of-use asset and lease liability at present value of all rental payments not yet paid in accordance with the long-term lease contract. Right-of-use assets are measured at cost comprising 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 Parent Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The lease payments shall be discounted using the interest rate implicit in the lease if the rate can be readily determined. If the rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

Subsequently, the right-of-use asset shall be measured at cost less accumulated depreciation less any accumulated impairment losses and adjusted for any remeasurement of the lease liability. The lease liability shall be measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

The right-of-use of land is amortized using the straight-line method over the lease term of three to five years.



*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. The lease term is reassessed if an option is actually exercised or not or the Parent Company becomes obliged to exercise or not. 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.

*Short-term leases and leases of low-value assets*

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

*Parent Company as a lessor*

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income from operating leases is recognized as income in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rent income. Contingent rents are recognized as revenue in the period in which these are earned.

Income Taxes

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

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realized, or the deferred tax liability is settled.

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

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

### Employee Benefits

#### *Short-term employee benefits*

The Parent Company recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period that are expected to be settled wholly before twelve (12) months after the end of the reporting period. Short-term benefits given by the Parent Company to its employees include salaries and wages, fringe benefits, 13th month pay, Social Security System (SSS), Philhealth and Home Development Mutual Fund (HDMF) Contribution. The Parent Company recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

#### *Retirement Benefits Obligation*

The Parent Company has an unfunded retirement benefit under defined benefit plan, which 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 asset, if any.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. The defined benefit cost comprises of the service cost, net interest on the defined benefit liability or asset and the remeasurement of net defined benefit liability or asset.

Service cost which includes current service cost, past service cost and gains or losses on non-routine settlements is recognized as expense in profit or loss. Past service cost is recognized when plan amendment or curtailment occurs. Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurement comprising actuarial gains and losses and return on plan asset are recognized immediately in other comprehensive income in the period in which they arise. Remeasurement is not reclassified to profit or loss in subsequent periods. Remeasurement recognized in other comprehensive income account "Remeasurement gain (loss) on retirement benefits obligation" is not reclassified to another equity account in subsequent periods. The difference between the interest income component of net interest and the actual return on plan asset is recognized in other comprehensive income.

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

#### Related Party Relationships and Transactions

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

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

In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely the legal form.

#### Equity

##### *a) Capital stock*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares are shown in equity as a deduction from the proceeds, net of tax. The excess of proceeds from issuance of shares over the par value is credit to share premium.

##### *b) Subscription receivable*

Subscription receivable pertains to the uncollected portion of subscribed shares and is collectible within one year.

##### *c) Retained earnings*

Retained earnings represent accumulated earnings of the Parent Company as disclosed in the statements of comprehensive income.

##### *d) Contributed surplus*

Contributed surplus represents contributions from stockholders to the Parent Company in compliance with the requirements of the Insurance Code.

*e) Contingency surplus*

Contingency surplus represents contribution of the stockholders to cover any deficiency in the Margin of Solvency as required under the Insurance Code and can be withdrawn only upon approval of the IC.

Revenue Recognition

Revenue is recognized only when (or as) the Parent Company satisfied a performance obligation by transferring control of the promised services to the customers. The Parent Company's significant revenues pertain to underwriting income and investment income which are accounted for in accordance with PFRS 4 and 9, respectively.

The Parent Company recognizes revenue from the following sources:

*a) Premium Revenue*

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relates to the unexpired periods of the policies at reporting date is accounted for as "Reserve for unearned premiums" and presented under "Insurance contract liabilities" of the statements of financial position. The related reinsurance premiums that pertain to the unexpired periods at reporting date are accounted for as "Deferred reinsurance premiums" and presented under "Reinsurance assets" in the statements of financial position. The net changes in these accounts between each end of reporting periods are recognized in profit or loss.

*b) Reinsurance Commission Income*

Commissions earned from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. Reinsurance commissions are deferred and are subject to the same amortization method as the related premiums ceded. Unamortized reinsurance commissions are shown in the statements of financial position as deferred reinsurance commission income.

*c) Interest Income*

Interest income is recognized on a time proportion basis using the effective interest method.

*d) Other Income*

Other income is recognized when earned.

Expense Recognition

Cost and expenses are recognized in the statements of comprehensive income when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

*a) Benefits and claims*

Benefits and claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. General insurance claims are recorded on the basis of notifications received.

*b) Direct underwriting cost*

Direct underwriting cost includes commission expenses and direct costs. Commission expenses represent payments to insurance intermediaries such as agents or agencies for direct business solicited by the Parent Company. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as DAC in the assets section of the statements of financial position. Direct costs include processing fees and allocated portion of common expenses.

*c) Operating expenses*

Operating expenses, which include general and administrative expenses, are recognized as expense as they are incurred.

Foreign Currency Transactions

Transactions denominated in foreign currencies are translated to Philippine peso using the exchange rate prevailing at the date of transaction. At the end of each reporting period, foreign currency monetary items are translated using the closing rate. Non-monetary assets and liabilities in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign exchange gains and losses are recognized in profit or loss.

Provision and Contingencies

Provisions are recognized when the Parent 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 with the amount of the obligation. 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, an increase in the provision due to the passage of time is recognized as an interest expense. When the Parent Company expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain, and its amount is estimable. The expense relating to any provision is presented in the statements of comprehensive income, net of any reimbursement.

Provision is reviewed at each reporting date and adjusted to reflect the current best estimate.

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. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements.

#### Events after the Reporting Date

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

### **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Future events may occur which can cause the assumptions used in arriving at those judgments and estimates to change. The effects of any changes will be reflected in the financial statements of the Parent Company as they become reasonably determinable.

#### Judgments

##### *Distinction between Investment Property and Owner-occupied Property*

In making its judgment, the Parent Company considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the Parent Company's operation. Some properties comprise a portion held to earn rentals and another portion held for use in rendering of services and for administrative purposes. If those portions held to earn rentals cannot be sold separately, the entire property is classified as investment property only if insignificant portion is held for use in the rendering of services and for administrative purposes.

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Parent Company considers each property separately in making its judgment. The Parent Company's properties were classified as property and equipment and investment properties based on the above conditions.

### *Classification of Financial Instruments*

Classification and measurement of financial assets depends on the results of the business model and solely for payments of principal and interest test. The Parent Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Parent Company monitors financial assets measured at amortized cost or FVOCI that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Parent Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

### *Impairment of Non-financial Assets*

The Parent Company assesses impairment on non-financial assets whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The factors that the Parent Company considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired asset or the strategy for overall business; and
- Significant negative industry or economic trends.

Based on management's assessment, there were no indicators of impairment on the Parent Company's non-financial assets in 2022 and 2021.

### Estimates

#### *Impairment of Financial Assets at Amortized Cost*

The Parent Company maintains allowance for ECL at a level considered by management as adequate to provide for potential uncollectible financial assets at amortized cost. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the status of the debtors' membership in the Parent Company, the customer's payment behavior and known market factors. The Parent Company reviews the age and status of financial assets and identifies accounts that are to be provided with allowance on a continuous basis.

In addition to specific impairment against individually significant loans and receivables, the Parent Company makes a collective impairment assessment against exposures, which, although not specifically identified as requiring a specific impairment, have a greater risk of default than when originally granted. This takes into consideration the Parent Company's historical collection experience.

As at December 31, 2022 and 2021, the carrying amount of financial assets at amortized cost, net of allowance for ECL of ₱12,169,257 and ₱10,188,047, amounted to ₱1,146,560,242 and ₱1,080,037,903, respectively (see Notes 4, 5, 6, 7, 8 and 18).

*Estimation of Useful Lives of Property and Equipment*

The Parent Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives are periodically reviewed and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amount of property and equipment (excluding land and land improvements), net of accumulated depreciation of ₱57,348,876 and ₱51,368,550, amounted to ₱148,745,071 and ₱143,096,186 as at December 31, 2022 and 2021, respectively (see Note 14).

*Estimation of Claims Payable Arising from Insurance Contracts*

For nonlife insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies. The primary technique adopted by management in estimating the cost of notified claims is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to provision. Nonlife insurance claims provisions are not discounted for the time value of money. In 2017, the Parent Company adopted the new valuation standards for insurance policy reserves based on the guidelines per CL 2018-08 issued by IC.

The carrying value of insurance contract liabilities amounted to ₱523,343,510 and ₱517,870,138 as of December 31, 2022 and 2021, respectively (see Note 22).

*Estimation of Retirement Benefits*

The determination of the retirement benefits cost and obligation is dependent on management's assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 24 and include, among others, discount rates and salary increase rates. Actual results that differ from the Parent Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Parent Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations.

Retirement benefits obligation as at December 31, 2022 and 2021 amounted to ₱29,102,500 and ₱27,498,927, respectively (see Note 24).

*Recognition of Deferred Tax Asset*

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



The carrying amount of deferred tax assets that are expected to be recoverable in future periods amounted to ₱17,302,584 and ₱14,269,344 as at December 31, 2022 and 2021, respectively (see Note 32).

*Estimating the Incremental Borrowing Rate*

The Parent Company cannot readily determine the interest rate implicit in the lease, therefore it uses its incremental borrowing rate to measure lease liability. This is the rate of interest that the Parent Company would have to pay to borrow over a similar term, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The weighted average incremental borrowing rate for the lease liability recognized by the Parent Company is 1.50%.

**4. CASH AND CASH EQUIVALENTS**

This account consists of:

	2022	2021
Cash on hand	<b>₱383,298</b>	₱312,000
Cash in banks	<b>41,336,073</b>	26,790,790
Cash equivalents	<b>3,347,148</b>	3,210,367
	<b>₱45,066,519</b>	₱30,313,157

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents include deposits and placements, with maturities of 30 to 90 days, which can be withdrawn anytime depending on the immediate cash requirements of the Parent Company and earn interest at effective rates ranging from 1.00% to 2.75% in 2022 and 2021.

Interest earned from cash and cash equivalents amounted to ₱52,323 and ₱94,276 in 2022 and 2021, respectively, and is included in interest income account under “Investment and other income (charges)” in the statements of comprehensive income (see Note 28).

There is no restriction in the Parent Company’s cash and cash equivalents, and these are available for general use.

**5. SHORT-TERM INVESTMENTS**

This account represents time deposits amounting to ₱663,345,500 as at December 31, 2022, with maturities of more than three months but within one year, and earns annual interest ranging from 6% to 7%.

Interest income earned from short-term investments amounted to ₱78,473 in 2022, and is included in “Interest income” presented under “Investment and other income (charges)” in the statements of comprehensive income (see Note 28).

**6. INSURANCE RECEIVABLES (NET)**

This account consists of:

	2022	2021
Premium receivables	<b>₱319,219,015</b>	₱272,111,413
Due from agents	<b>11,734,262</b>	187,829,449
Due from ceding companies	<b>26,279,744</b>	24,132,160
	<b>357,233,021</b>	484,073,022
Less: allowance for ECLs	<b>(10,694,371)</b>	(8,725,172)
	<b>₱346,538,650</b>	₱475,347,850

Due from agents pertain to the premium income collected by insurance agents/agencies on behalf of the Parent Company.

Due from ceding companies pertains to the amount due to the Parent Company as a result of facultative and treaty acceptances from authorized ceding companies.

Movements in the allowance for ECL are as follow:

	2022	2021
Balance at beginning of year	<b>₱8,725,172</b>	₱7,325,717
Provision for ECL – note 31	<b>4,087,441</b>	1,399,455
Recovery – note 28	<b>(2,118,242)</b>	-
Balance at end of year	<b>₱10,694,371</b>	₱8,725,172

The following table shows the aging information of insurance receivables:

**December 31, 2022**

	1-30 days	31-60 days	61-90 days	91-120 days	121-180 days	Over 180 days	Total
Premium receivables	₱64,621,162	₱63,292,332	₱46,517,749	₱57,915,109	₱52,123,598	₱34,749,065	<b>₱319,219,015</b>
Due from agents	7,902,568	1,141,525	1,591,287	681,979	187,141	229,762	<b>11,734,262</b>
Due from ceding companies	5,255,948	7,883,923	9,197,910	2,365,178	946,071	630,714	<b>26,279,744</b>
	<b>₱77,779,678</b>	<b>₱72,317,780</b>	<b>₱57,306,946</b>	<b>₱60,962,266</b>	<b>₱53,256,810</b>	<b>₱35,609,541</b>	<b>₱357,233,021</b>

**December 31, 2021**

	1-30 days	31-60 days	61-90 days	91-120 days	121-180 days	Over 180 days	Total
Premium receivables	₱159,421,889	₱11,866,541	₱12,717,504	₱14,608,042	₱16,550,465	₱56,946,972	₱272,111,413
Due from agents	3,191,915	22,323,461	19,076,656	5,227,556	35,052,287	102,957,574	187,829,449
Due from ceding companies	1,628,594	1,019,516	1,565,963	396,484	1,125,091	18,396,512	24,132,160
	<b>₱164,242,398</b>	<b>₱35,209,518</b>	<b>₱33,360,123</b>	<b>₱20,232,082</b>	<b>₱52,727,843</b>	<b>₱178,301,058</b>	<b>₱484,073,022</b>

Insurance receivables over 90 days amounting to ₱149,828,617 in 2022 are considered inadmissible asset in accordance with the IC Circular Letter (CL) No. 2014-17.

On May 14, 2020, the IC issued CL No. 2020-58 which provides regulatory relief on the admittance of premium receivable (direct agents, general agents and insurance brokers) due to the COVID-19 pandemic and is applied to annual and quarterly financial reports for the year 2020 unless extended or changed as deemed necessary by the IC. The basis for admitting premium receivable is adjusted from 90 days to 180 days. This was extended by IC for the year 2021 through CL No. 2021-43 dated July 11, 2021. As of December 31, 2021, insurance receivables over 180 days amounted to ₱178,301,058.

The management assessed that the insurance receivables over 180 days are fully collectible.

## 7. REINSURANCE ASSETS (NET)

This account consists of:

	2022	2021
Reinsurance recoverable on paid losses	₱19,046,401	₱17,903,131
Reinsurance recoverable on unpaid losses – note 22	3,658,597	4,176,745
Reinsurers' share on provisions of IBNR losses - note 22	5,662,000	5,248,000
Deferred reinsurance premium – note 22	56,271,850	21,387,473
Reinsurers share on MfAD – note 22	191,510	133,327
Premium reserve withheld by reinsurers	106,900	97,057
	<b>84,937,258</b>	48,945,733
Less: allowance for ECLs	(770,352)	(526,231)
	<b>₱84,166,906</b>	₱48,419,502

Reinsurance recoverable on paid losses pertains to the amount recoverable from reinsurance companies on account of claims on policies that were paid.

Deferred reinsurance premium pertains to the unexpired portion of the reinsurances premiums paid to reinsurers both under facultative and treaty acceptances.

The following table shows the reconciliation of changes in reinsurance recoverable:

	2022	2021
Balance at beginning of year	₱22,079,876	₱24,503,265
Reinsurers' share from losses	11,791,980	8,937,020
Collection from reinsurers	(11,166,858)	(11,360,409)
Balance at end of year	<b>₱22,704,998</b>	₱22,079,876

The following table shows the reconciliation of changes in deferred reinsurance premiums:

	2022	2021
Balance at beginning of year	₱21,387,473	₱14,605,401
Reinsurers' share from losses	93,283,525	41,372,189
Collection from reinsurers	(58,399,148)	(34,590,117)
Balance at end of year	<b>₱56,271,850</b>	₱21,387,473

Movements in the allowance for ECL are as follow:

	2022	2021
Balance at beginning of year	<b>₱526,231</b>	₱699,321
Provision – note 31	<b>244,121</b>	10,920
Recovery – note 28	-	(184,010)
Balance at end of year	<b>₱770,352</b>	₱526,231

## 8. OTHER RECEIVABLES (NET)

This account consists of:

	2022	2021
Subscription receivable	<b>₱37,300,000</b>	₱461,891,700
Rent receivable – note 35	<b>7,526,830</b>	39,570,603
Salary loan receivable – note 35	<b>4,009,145</b>	3,879,624
Advances to related parties – note 35	<b>1,772,205</b>	6,645,306
Advances to employees	<b>853,258</b>	582,760
Car loan receivable	<b>633,320</b>	633,320
Accrued interest receivable	-	2,272,842
Notes receivable	-	2,221,911
Others	<b>1,879,415</b>	20,379,433
	<b>53,974,173</b>	538,077,499
Less: allowance for ECLs	<b>(363,396)</b>	(700,693)
	<b>₱53,610,777</b>	₱537,376,806

### Subscription receivable

In 2022, stockholders subscribed additional shares of the Parent Company amounting to ₱138,578,300 divided into 13,857,830 shares at ₱100 par value. As of December 31, 2022, unpaid subscription amounted to ₱37,300,000, and is collectible within the next accounting period.

In 2021, stockholders subscribed additional shares of the Parent Company amounting to ₱687,991,700 divided into 6,879,917 shares at ₱100 par value. As of December 31, 2021, unpaid subscription amounted to ₱461,891,700, and was collected in 2022.

### Notes receivable

In May 2020, the Parent Company signed an unsecured promissory note in favor of a third party amounting to ₱3,000,000. The term of the promissory note is five years with an interest rate of 8% per annum. The notes receivable was collected in 2022.

Interest earned from notes receivable, salary, mortgage and other loans, with interest rates ranging from 8% to 12%, amounted to ₱1,105,654 and ₱287,377 in 2022 and 2021, respectively, is presented under “Investment and other income (charges)” (see Note 28).

Allowance for ECL

Movements in the allowance for ECL are as follow:

	2022	2021
Balance at beginning of year	<b>₱700,693</b>	₱580,869
Provision – note 31	-	119,824
Recovery – note 28	<b>(337,297)</b>	-
Balance at end of year	<b>₱363,396</b>	₱700,693

Others consist mainly of unliquidated advances provided to the Parent Company's branch managers for settlement of claims, advances to an agent and advances to a third party for the payment of start-up costs.

**9. DEBT INSTRUMENTS AT AMORTIZED COST**

This account consists of Philippine government securities and agrarian reform bonds. Details follow:

	2022	2021
Government securities:		
Treasury bills	<b>₱224,339,777</b>	₱139,064,497
Treasury notes	<b>32,000,000</b>	-
Agrarian reform bonds	<b>6,542,162</b>	10,547,982
	<b>₱262,881,939</b>	₱149,612,479

Government securities are deposited with the Bureau of Treasury of the Philippines as securities for the benefit of the policyholders and creditors of the Parent Company in accordance with the provisions in the Insurance Code of the Philippines. These securities bear fixed interest rates ranging from 2.14% to 10.00% in 2022 and 2021.

Interest earned from debt instruments at amortized cost amounted to ₱4,384,175 and ₱2,232,997 in 2022 and 2021, respectively, and is presented under investment and other income (charges) (see Note 28).

The following table shows the reconciliation of debt instruments at amortized cost:

	2022	2021
Balance at beginning of year	<b>₱149,612,479</b>	₱131,943,800
Acquisitions	<b>260,314,449</b>	146,964,600
Maturities	<b>(143,070,318)</b>	(128,395,818)
	<b>266,856,610</b>	150,512,582
Amortization of premium	<b>(3,974,671)</b>	(900,103)
Balance at end of year	<b>₱262,881,939</b>	₱149,612,479

**10. FINANCIAL ASSETS AT FVOCI**

Movements in financial assets at FVOCI are as follow:

	2022	2021
At acquisition cost:		
Listed shares of stock	<b>₱1,315,801</b>	₱1,315,801
Proprietary club share	<b>880,000</b>	880,000
	<b>2,195,801</b>	2,195,801
Revaluation reserve on financial assets at FVOCI		
Balance at beginning of year	<b>2,358,506</b>	1,514,202
Increase in fair value	<b>1,906,962</b>	844,304
Balance at end of year	<b>4,265,468</b>	2,358,506
	<b>₱6,461,269</b>	₱4,554,307

The fair value of financial assets at FVOCI has been determined directly by reference to the published price in an active market (i.e., stock exchange and broker's published price). As at December 31, 2022 and 2021, the Parent Company has no intention to dispose its financial assets at FVOCI.

**11. DEFERRED ACQUISITION COST**

The movement in this account is as follows:

	2022	2021
Balance at beginning of year	<b>₱172,532,891</b>	₱159,820,267
Cost deferred during the year	<b>245,879,177</b>	324,250,897
Amortization for the year	<b>(280,036,328)</b>	(311,538,273)
Balance at end of year	<b>₱138,375,740</b>	₱172,532,891

The carrying amounts are net of deferred reinsurance commission income of ₱13,131,231 and ₱6,698,175 for the years ended December 31, 2022 and 2021, respectively. The Parent Company did not provide for any impairment loss because the carrying amount of the account approximates its fair value.

Amortization for the year represents the direct commission expense of ₱295,596,711 and ₱322,782,557, net of commission income of ₱15,560,383 and ₱11,244,284, for the years ended December 31, 2022 and 2021, respectively.

**12. PREPAYMENTS**

This account consists of:

	2022	2021
Stationeries and office supplies	<b>₱1,467,462</b>	₱2,203,838
Prepaid rent	<b>325,397</b>	325,397
Prepaid tax	<b>-</b>	577,456
	<b>₱1,792,859</b>	₱3,106,691

Prepaid tax refers to advance payments of VAT related to the processing of motor vehicle insurance policies.

Stationeries and office supplies pertain to advance payments of insurance policy forms and other supplies for office use.

### 13. ASSETS HELD FOR SALE

This account consists of parcels of land acquired by the Parent Company through purchase or recovered properties from surety policies previously recorded at estimated amount as Salvage recoverable under the "Other assets" account. Management's intention is to sell the properties in the subsequent year.

Movement in this account is as follows:

	2022	2021
<b>Cost:</b>		
Balance at beginning of year	<b>₱52,181,350</b>	₱52,181,350
Transfers – note 14 and 15	<b>145,907,932</b>	-
Disposal	<b>(45,738,082)</b>	-
Balance at end of year	<b>152,351,200</b>	52,181,350
<b>Appraisal increase:</b>		
Balance at beginning of year	<b>235,177</b>	235,177
Disposal	<b>(235,177)</b>	-
Balance at end of year	<b>-</b>	235,177
	<b>₱152,351,200</b>	₱52,416,527

#### Transfers

In 2022, the Parent Company transferred the following land properties:

- Land property in Trece Martirez amounting to ₱148,087,200 was transferred from "Property and equipment" to "Assets held for sale" since Management intends to sell the properties instead of using the properties as office building (see Note 14).
- Land properties in Gen. Natividad, Nueva Ecija and Sta. Rosa, Laguna amounting to ₱4,264,000 was transferred from "Investment properties" to "Assets held for sale" since the Management intends to sell the property (see Note 15).
- Land property in Bataan amounting to ₱6,443,268 was transferred from "Assets held for sale" to "Investment properties" since the Management does not intend to sell the property in the near future (see Note 15).

The Parent Company entered into Contracts to Sell covering the following land properties:

- Contract to Sell dated December 2020, covering its land property located in Inocencio, Trece Martirez for a consideration of ₱40,000,000 which is payable in 36 monthly installments, which commenced in January 2021. Upon full payment, the property will be transferred to the buyer.

- Contract to Sell dated November 2020, covering its land property located in Gen. Natividad, Nueva Ecija for a consideration of ₱43,752,000, payable in 36 monthly installments, which commenced in December 2020. Upon full payment, the property will be transferred to the buyer.
- Contract to Sell dated December 2020, covering its land property located in Sta. Rosa, Laguna for a consideration of ₱1,600,000, payable in 107 installments, which commenced in May 2021. Upon full payment, the property will be transferred to the buyer.
- Contract to Sell dated November 2020, covering its land property located in Paco, Manila for a consideration of ₱72,730,000 payable in 36 monthly installments which commenced in December 2020.

In 2022, the consideration for the sale was fully paid and the gain on sale of ₱26,756,741 is presented under “Investment and other income (charges)” (see Note 28).

As of December 31, 2022 and 2021, payments received from the buyers amounted to ₱57,413,334 and ₱56,632,945, respectively, and is presented under “Accounts payable and other liabilities” as “Deposits from third parties” (see Note 19).



#### 14. PROPERTY AND EQUIPMENT (NET)

The reconciliation of this account is as follows:

December 31, 2022

Cost	Land and land improvements	Building and building improvements	Condominium office unit	Leasehold improvement	Transportation equipment	Furniture and fixtures	Office machine and other equipment	Right-of-use asset	Total
Balance at beginning of year	P726,012,620	P114,196,708	P14,272,121	P5,433,430	P22,792,471	P9,868,783	P19,788,472	P8,112,751	P920,477,356
Additions	3,672,600	2,822,618	-	143,385	1,998,000	482,221	1,635,663	12,660,075	23,414,562
Transfers – note 13	(148,087,200)	-	-	-	-	-	-	-	(148,087,200)
Write-off	-	-	-	-	-	-	-	(8,112,751)	(8,112,751)
<b>Balance at end of year</b>	<b>581,598,020</b>	<b>117,019,326</b>	<b>14,272,121</b>	<b>5,576,815</b>	<b>24,790,471</b>	<b>10,351,004</b>	<b>21,424,135</b>	<b>12,660,075</b>	<b>787,691,967</b>
Accumulated depreciation									
Balance at beginning of year	-	-	4,852,521	5,266,095	10,071,137	8,703,678	17,121,759	5,353,360	51,368,550
Depreciation and amortization	-	6,680,697	285,442	250,495	2,187,509	603,680	1,325,863	2,759,391	14,093,077
Write-off	-	-	-	-	-	-	-	(8,112,751)	(8,112,751)
<b>Balance at end of year</b>	<b>-</b>	<b>6,680,697</b>	<b>5,137,963</b>	<b>5,516,590</b>	<b>12,258,646</b>	<b>9,307,358</b>	<b>18,447,622</b>	<b>-</b>	<b>57,348,876</b>
<b>Carrying amount</b>	<b>P581,598,020</b>	<b>P110,338,629</b>	<b>P9,134,158</b>	<b>P60,225</b>	<b>P12,531,825</b>	<b>P1,043,646</b>	<b>P2,976,513</b>	<b>P12,660,075</b>	<b>P730,343,091</b>

December 31, 2021

Cost	Land and land improvements	Building and building improvements	Condominium office unit	Leasehold improvement	Transportation equipment	Furniture and fixtures	Office machine and other equipment	Right-of-use asset	Total
Balance at beginning of year	P509,882,620	P114,196,708	P14,272,121	P5,422,269	P19,761,220	P9,636,550	P18,305,607	P8,112,751	P699,589,846
Additions	216,130,000	-	-	11,161	3,031,251	232,233	1,482,865	-	220,887,510
Balance at end of year	726,012,620	114,196,708	14,272,121	5,433,430	22,792,471	9,868,783	19,788,472	8,112,751	920,477,356
Accumulated depreciation									
Balance at beginning of year	-	-	3,145,475	4,924,915	6,905,292	7,622,185	15,413,204	2,593,970	40,605,041
Depreciation and amortization	-	-	1,707,046	341,180	3,165,845	1,081,493	1,708,555	2,759,390	10,763,509
Balance at end of year	-	-	4,852,521	5,266,095	10,071,137	8,703,678	17,121,759	5,353,360	51,368,550
<b>Carrying amount</b>	<b>P726,012,620</b>	<b>P114,196,708</b>	<b>P9,419,600</b>	<b>P167,335</b>	<b>P12,721,334</b>	<b>P1,165,105</b>	<b>P2,666,713</b>	<b>P2,759,391</b>	<b>P869,108,806</b>

On August 20, 2018, the Parent Company acquired properties owned by Interline Realty and Dev't. (IRD) Corp. (IRDC) and is a registered enterprise at Freeport Area of Bataan (FAB), for a total consideration of P80 million. The properties are inclusive of all the existing structures and pending improvements at the Interline Compound, and the Parent Company shall be subrogated to all the rights of IRDC, such as the collection of the rental income from its existing tenants on the properties. The acquired properties consist of hotel and restaurant constructed on the land leased by IRDC from FAB.

As of December 31, 2022 and 2021, certain properties are partially used as branches' office building and for rental. These properties are classified as property and equipment since the portion being leased out to third parties is considered not significant. Details of the properties are as follow:

Land and land improvements situated at:	
Antipolo, Rizal	<b>P74,598,245</b>
Davao City	<b>67,738,583</b>
J. P. Rizal Makati, Manila	<b>58,154,662</b>
Buildings and building improvement	
Mariveles Bataan	<b>80,000,000</b>
Sta. Clara, Batangas	<b>34,196,708</b>
	<b>P314,688,198</b>

Rental income earned from these properties including those classified as Investment properties (see Note 15) amounted to P21,273,896 and P23,431,390 in 2022 and 2021, respectively and is included in rental income under the "Investment and other income (charges)" account (see Notes 28 and 36).

Depreciation and amortization expenses are recognized as follows:

	2022	2021
Direct underwriting costs – note 30	<b>P6,381,833</b>	P3,229,053
Operating expenses – note 31	<b>7,711,244</b>	7,534,456
	<b>P14,093,077</b>	P10,763,509

The carrying value of the Parent Company's transportation equipment held under chattel mortgage amounted to P8,561,029 and to P8,798,535 as at December 31, 2022 and 2021, respectively (see Note 21).

## 15. INVESTMENT PROPERTIES

The Parent Company's investment properties consist of:

	2022	2021
Land and land improvements	<b>P9,556,868</b>	P8,401,418
Condominium unit	<b>6,594,000</b>	6,594,000
	<b>P16,150,868</b>	P14,995,418

The reconciliation of investment properties is as follows:

	2022	2021
Balance at beginning of year	<b>₱14,995,418</b>	₱14,995,418
Transfers – note 13	<b>2,179,268</b>	-
Disposal	<b>(1,023,818)</b>	-
Balance at end of year	<b>₱16,150,868</b>	₱14,995,418

In 2022, the Parent Company sold its land property located in Imus, Cavite for a consideration of ₱1,100,000. The gain on sale ₱76,182 is presented under “Investment and other income (charges)” (see Note 28).

Based on the assessment performed, Management believes that investment properties approximate their fair values as at December 31, 2022 and 2021. Also, these properties are assessed as not impaired as at reporting date.

The investment properties are being leased out to third parties (see Notes 14, 28 and 36).

The Parent Company’s investment properties as at December 31, 2022 and 2021 are not held as collateral for its liabilities and are free from any encumbrances. The Parent Company did not enter into any contractual commitment for the acquisition of investment properties.

#### 16. RECLAMATION PROJECT

This account represents cash outlays by the Parent Company to its contractors for land reclamation and related land development costs for the port development project in Mariveles, Bataan. The contractors were engaged by the Parent Company for the architectural design and engineering, development of project concept, development of viable reclamation construction strategy and processing of permits and necessary documents.

In December 2017, the Parent Company entered into a contract of service with a stockholder to administer the reclamation of the 51,651 sqm for port development with total contract price of ₱1.5 billion. The contract shall be valid for the period from January 1, 2018 to December 31, 2022. The stockholder had commissioned different contractors for the project including IRDC, a related party where the stockholder is also an officer. As at December 31, 2022, the reclamation project was still in its initial stage and the Parent Company is in the process of application for Public-private partnership (PPP) with the local government.

The movement of the reclamation project account as at December 31 is as follows:

	2022	2021
Balance at beginning of year	<b>₱201,809,118</b>	₱197,904,211
Additions	-	3,904,907
Balance at end of year	<b>₱201,809,118</b>	₱201,809,118

Pursuant to IC CL No. 19-2019 issued on May 7, 2019 (amending CL No. 2018-74), IC encourages insurance and professional reinsurance companies to invest in infrastructure project under the Philippine Development Plan (PDP) in relation to their compliance with statutory net worth and risk-based capital requirements. Pursuant to Section 202 (k) of the Insurance Code of the Philippines, as amended by Republic Act (R.A.) No. 10607, investments in infrastructure projects may fall in the purview of other assets (legally or beneficially owned by insurance or professional reinsurance company), not inconsistent with the provisions in paragraphs (a) to (j) thereof, which are deemed by the Commissioner as readily realizable and available for payment of losses and claims at values to be determined by the Commissioner in a circular, rule and regulation.

The reclamation project does not fall under any of the paragraphs (a) to (j) of Section 202 of the Insurance Code, which provides that the following shall be considered as allowed and admitted assets:

- a. Cash in the possession of the insurance company or in transit under its control, and the true and duly verified balance of any deposit of such company in a financially sound bank or trust company duly authorized by the Bangko Sentral ng Pilipinas.
- b. Investments in securities, including money market instruments, and in real property acquired or held in accordance with and subject to the applicable provisions of this Code and the income realized therefrom or accrued thereon.
- c. Loans granted by the insurance company concerned to the extent of that portion thereof adequately secured by non-speculative assets with readily realizable values in accordance with and subject to the limitations imposed by applicable provisions of this Code.
- d. Policy loans and other policy assets and liens on policies, contracts or certificates of a life insurance company, in an amount not exceeding legal reserves and other policy liabilities carried on each individual life insurance policy, contract or certificate.
- e. The net amount of uncollected and deferred premiums and annuity considerations in the case of a life insurance company which carries the full mean tabular reserve liability.
- f. Reinsurance recoverable by the ceding insurer.
- g. Funds withheld by a ceding insurer under a reinsurance treaty, provided reserves for unpaid losses and unearned premiums are adequately provided.
- h. Deposits or amounts recoverable from underwriting associations, syndicates and reinsurance funds, or from any suspended banking institution to the extent deemed by the Commissioner to be available for the payment of losses and claims and values to be determined by him.
- i. Electronic data processing machines, as may be authorized by the Commissioner to be acquired by the insurance company concerned, the acquisition cost of which to be amortized in equal annual amounts within a period of five (5) years from the date of acquisition thereof.
- j. Investments in mutual funds, real estate investment trusts, salary loans, unit investment trust funds and special deposit accounts, subject to the conditions as may be provided for by the Commissioner.

As at December 31, 2022 and 2021, Management believes that there is no indication that the Parent Company's reclamation project is impaired.

17. **INVESTMENT IN SUBSIDIARIES AND ASSOCIATE**

This account represents investments in shares of stock of SARPC and HRDC, subsidiaries and Premier Insurance and Surety Corp. (PISC), an associate. Details are as follow:

	Ownership		Amount	
	2022	2021	2022	2021
<b>Subsidiaries</b>				
<b>SARPC</b>				
Balance at beginning of year			<b>₱74,570,000</b>	₱49,600,000
Additional investment			<b>44,535,450</b>	24,970,000
Balance at end year	<b>60%</b>	75%	<b>119,105,450</b>	74,570,000
<b>HRDC</b>				
Balance at beginning of year			<b>98,000,000</b>	46,000,000
Additional investment			-	52,000,000
Balance at end year	<b>98%</b>	98%	<b>98,000,000</b>	98,000,000
			<b>217,105,450</b>	172,570,000
<b>Associate</b>				
Acquisition cost				
Balance at beginning of year			<b>430,500,000</b>	428,500,000
Acquisition during the year			-	2,000,000
Balance at end of year			<b>430,500,000</b>	430,500,000
Accumulated equity in net earnings				
Balance at beginning of year			<b>5,359,394</b>	2,881,015
Equity in net earnings – note 28			<b>5,973,970</b>	2,478,379
Balance at end of year	<b>22%</b>	22%	<b>11,333,364</b>	5,359,394
			<b>441,833,364</b>	435,859,394
			<b>₱658,938,814</b>	₱608,429,394

PISC was incorporated in the Philippines and is primarily engaged in the business of insurance, guaranty and reinsurance in any branches except life insurance, for a consideration.

The financial information of the subsidiary SARPC as at December 31 is summarized below:

	2022	2021
Total assets	<b>₱214,954,337</b>	₱127,430,115
Total liabilities	<b>129,213,648</b>	36,435,858
Total equity	<b>85,740,688</b>	90,994,257
Revenue	-	-
Expenses	<b>5,253,568</b>	3,346,864
Net loss	<b>(5,253,568)</b>	(3,346,864)
<b>Cash flow information</b>		
Net cash provided by (used in) operating activities	<b>(₱12,712,230)</b>	₱29,170,845
Net cash used in investing activities	<b>(87,204,305)</b>	(42,872,751)
Net cash provided by financing activities	<b>45,400,000</b>	4,600,000

The financial information of the subsidiary HRDC as at December 31 is summarized below:

	2022	2021
Total assets	<b>₱97,914,213</b>	₱98,444,542
Total liabilities	<b>4,314</b>	27,798
Total equity	<b>97,909,899</b>	98,416,744
Revenue	<b>1,140,000</b>	760,000
Expenses	<b>1,647,085</b>	1,157,356
Net loss	<b>(507,085)</b>	(397,356)
<b>Cash flow information</b>		
Net cash provided by (used in) operating activities	<b>(₱975,511)</b>	₱9,578,193
Net cash used in investing activities	-	-
Net cash provided by financing activities	-	-

The financial information of the associate PISC as at December 31 is as follows:

	2022	2021
Total assets	<b>₱3,443,122,723</b>	₱2,501,313,604
Total liabilities	<b>493,180,657</b>	354,830,709
Total equity	<b>2,949,942,066</b>	2,146,482,895
Revenue	<b>211,060,257</b>	159,881,437
Expenses	<b>183,306,622</b>	148,367,480
Net income	<b>27,753,635</b>	11,513,957
<b>Cash flow information</b>		
Net cash provided by operating activities	<b>₱206,647,224</b>	₱66,328,930
Net cash used in investing activities	<b>(984,074,662)</b>	(530,802,646)
Net cash provided by financing activities	<b>775,805,500</b>	453,310,000

#### 18. OTHER ASSETS (NET)

This account consists of:

	2022	2021
Deposit for the acquisition of land	<b>₱455,880,000</b>	₱88,152,000
Claims fund	<b>7,030,165</b>	6,926,427
Intangible assets	<b>4,076,733</b>	26,328,767
Deposit on rent, light and water	<b>2,439,661</b>	2,210,093
Salvage recoverable	<b>1,345,661</b>	1,345,661
Escrow fund	<b>1,081,377</b>	1,077,961
Revolving fund	<b>228,535</b>	253,092
Security fund	<b>48,439</b>	48,439
	<b>472,130,571</b>	126,342,440
Less: allowance for ECLs	<b>(341,138)</b>	(235,951)
	<b>₱471,789,433</b>	₱126,106,489

Deposit for the acquisition of parcels of land pertains to the acquisition of land located in Trece Martirez, Cavite and Baylen, Cavite. The land will be transferred to the Parent Company upon full payment. As of December 31, 2022, the contract price is not yet fully paid, and the parcels of land were not yet in the possession of the Parent Company.

Claims fund represents Parent Company's cash held by third parties as collateral in the issuance of certain insurance policies and bail bond.

The reconciliation of intangible assets as at December 31 is as follows:

**December 31, 2022**

	Software development cost	Web design	Total
<u>Cost</u>			
Balance at beginning of year	P41,435,500	P345,000	P41,780,500
Additions	-	340,000	340,000
<b>Balance at end of year</b>	<b>41,435,500</b>	<b>685,000</b>	<b>42,120,500</b>
<u>Accumulated amortization</u>			
Balance at beginning of year	15,353,066	98,667	15,451,733
Amortization	22,419,034	173,000	22,592,034
<b>Balance at end of year</b>	<b>37,772,100</b>	<b>271,667</b>	<b>38,043,767</b>
<b>Carrying amount at December 31</b>	<b>P3,663,400</b>	<b>P413,333</b>	<b>P4,076,733</b>

December 31, 2021

	Software development cost	Web design	Total
<u>Cost</u>			
Balance at beginning of year	P41,435,500	P345,000	P41,780,500
<u>Accumulated amortization</u>			
Balance at beginning of year	-	44,083	44,083
Amortization	15,353,066	54,584	15,407,650
Balance at end of year	15,353,066	98,667	15,451,733
Carrying amount at December 31	P26,082,434	P246,333	P26,328,767

Software development cost represents the accumulated costs for the Parent Company's insurance system.

Amortization expense is recognized as follows:

	2022	2021
Direct underwriting costs – note 30	<b>P4,623,700</b>	P4,622,295
Operating expenses – note 31	<b>17,968,334</b>	10,785,355
	<b>P22,592,034</b>	P15,407,650

Salvage recoverable pertains to the estimated amount to be recovered by the Parent Company from paid losses on surety policies issued.

Escrow fund represents the placement in an escrow account with a bank in 2019 for ₱1 million. This serves as compliance to the accreditation requirement mandated by National Labor Relations Commission (NLRC) as a bonding company engaged in the issuance of surety bonds. The escrow fund earns interest at the respective bank deposit rates. Interest earned on escrow fund in 2022 and 2021 amounting to ₱3,416 and ₱8,355, respectively, is included under "Investment and other income (charges)" account in the statements of comprehensive income (see Note 28).

Security fund pertains to a guaranty fund deposited with the IC as required under the Insurance Code.

Other assets are considered inadmissible asset per Section 2013 of the Amended Insurance Code.

Movements in the allowance for ECL are as follow:

	2022	2021
Balance at beginning of year	₱235,951	₱225,507
Provision – note 31	105,187	10,444
Balance at end of year	<b>₱341,138</b>	₱235,951

#### 19. ACCOUNTS PAYABLE AND OTHER LIABILITIES

This account consists of:

	2022	2021
Accounts payable	₱83,205,071	₱54,236,419
Output tax payable	125,442,967	87,125,199
Commission payable	78,219,984	84,008,043
Deposit from third parties – note 13	57,413,334	56,632,945
Expanded withholding tax payable	51,179,834	55,041,077
Income tax payable	19,748,133	15,622,333
Accrued expenses	5,281,925	4,385,289
SSS, Philhealth, HDMF and EC contributions payable	579,431	501,125
Other taxes payable	28,014,183	8,871,767
	<b>₱449,084,862</b>	₱366,424,197

Accounts payable are usually due within thirty (30) days and do not bear any interest.

Commission payable consists of agents' commissions resulting from the insurance policies written under agency agreement.

Deposit from third parties pertains to installments received for the sale of land (see Note 13).

Accrued expenses consist of accruals for utilities and professional fees which are payable in the subsequent year.

Other taxes payable consists mainly of documentary stamps payable, local taxes payable, fire service tax payable and output tax payable.



**20. CASH COLLATERALS**

Cash collaterals amounting to ₱8,317,858 and ₱8,513,858 as of December 31, 2022 and 2021, respectively, pertains to the amount received by the Parent Company in relation to suretyship contracts.

Reclassification

In 2022, the Parent Company reclassified cash collaterals from “Accounts payable and other liabilities” to “Cash collaterals”. Comparative figure in 2021 was also reclassified for consistency and comparability.

**21. LOANS PAYABLE**

This account consists of:

	2022	2021
Loans payable	₱3,504,724	₱3,260,903
Less: current portion	1,440,753	1,697,102
Noncurrent portion	₱2,063,971	₱1,563,801

The Parent Company executed car loan arrangements with a local bank for a total loan amount of ₱1,598,400 and ₱2,501,875 in 2022 and 2021, respectively, with terms ranging from thirty-six (36) to sixty (60) months and average monthly interest from 0.96% to 1.49%. Total loan payments amounted to ₱1,354,579 and ₱2,639,156 in 2022 and 2021, respectively.

The carrying value of vehicles held under chattel mortgage is ₱8,561,029 and ₱8,798,535 as at December 31, 2022 and 2021, respectively (see Note 14).

Interest expense on loans amounted to ₱343,011 and ₱6,189,747 in 2022 and 2021, respectively, and is included in Interest and bank charges under “Operating expenses” (see Note 31).

**22. INSURANCE CONTRACT LIABILITIES**

The Parent Company obtained an actuarial valuation of the policy reserves from an independent actuary in 2022 and 2021, pursuant to CL No.2018-18 and consistent with the Revised Financial Reporting Framework issued by IC.

Per Valuation Standards for Nonlife Insurance Policy Reserves, MfAD is allowed to be 100% and 50% of the computed Company-specific MfAD ranging from 1% to 4% in 2022 and 2021, respectively.

This account consists of:

	2022			2021		
	Insurance contract liabilities	Reinsurers' share in liabilities – note 7	Net amount	Insurance contract liabilities	Reinsurers' share in liabilities – note 6	Net amount
Outstanding claims reserves	₱116,822,851	₱3,658,597	₱113,164,254	₱53,790,228	₱4,176,745	₱49,613,483
Provisions for IBNR losses	18,885,000	5,662,000	13,223,000	16,981,000	5,248,000	11,733,000
Provision for MfAD	521,276	191,510	329,766	704,382	133,327	571,055
Claims handling expense	292,120	-	292,120	125,000	-	125,000
Total claims and losses	136,521,247	9,512,107	127,009,140	71,600,610	9,558,072	62,042,538
Reserve for unearned premiums	385,859,771	56,271,850	329,587,921	446,006,324	21,387,473	424,618,851
Catastrophic loss reserve	962,492	-	962,492	263,204	-	263,204
Total insurance contract liabilities	₱523,343,510	₱65,783,957	₱457,559,553	₱517,870,138	₱30,945,545	₱486,924,593

Total claims and losses include claims due and unpaid, claims in the course of settlement, and those which are incurred but not reported at a designated level of confidence, as well as direct and indirect expenses related to settling of outstanding claims.

Outstanding claims reserves pertain to actual claims reported and net of expected recoveries from salvage and subrogation. The amount for salvage and subrogation claimed during the year is considered immaterial.

Provisions for IBNR losses refer to the estimated amount to be provided for claims in respect of claim events that have occurred but have not been reported as of the valuation date. IBNR losses are calculated by subtracting the incurred losses from the estimated ultimate loss by accident year for each line of business. Estimated ultimate losses were computed on weighted averages based on the following approaches: Incurred Chain Ladder/Development Approach (IDA), Paid Chain Ladder/ Development Approach (PDA), Bornhuetter-Ferguson Incurred Approach (BFIA) and the Bornhuetter-Ferguson Paid Approach (BFPA).

Under IDA and PDA, reported incurred losses by accident year are multiplied by appropriate loss development factors to estimate ultimate losses. On the other hand, the actual incurred losses are added to the expected unreported losses under BFIA.

Claims handling expense pertains to the estimated amount of expenses for settling all claims, whether reported or unreported, outstanding as of valuation date. Allocated and unallocated loss adjustment expenses (LAE) were used in estimating the claims handling expenses based on Case Reserve Development Approach (CRDA) and the Paid-to Paid Approach (PPRA). Allocated LAE (ALAE) are direct expenses incurred and paid during the processing and settlement of individual claims. Unallocated LAE (ULAE) pertains to the indirect costs of claims processing, usually defined as the portion of the general and administrative expense (GAE) allocated to the claims department.

Under CRDA, outstanding ALAE payable by accident year are multiplied by appropriate case reserve development factors to estimate the unpaid ALAE. Under PPRA, an indicated ratio of calendar year paid ALAE to paid loss and ALAE was selected. This ratio is then multiplied to the estimated IBNR losses to calculate the estimated ALAE.

To calculate the unpaid ULAE, recent calendar year indications of paid ULAE ratios to paid losses and ALAE were calculated and used to select the projected ULAE ratio. Based on the actuarial report, the ULAE is not covered by reinsurance.

The selected ratios were then multiplied to the indicated outstanding and IBNR loss and ALAE reserves to get the indicated unpaid ULAE.

Movements in insurance contract liabilities and reinsurers' share in liabilities (reinsurance assets) are as follow:

	2022			2021		
	Gross amount	Reinsurance	Net amount	Gross amount	Reinsurance	Net amount
At January 1	<b>₱71,600,610</b>	<b>₱9,558,072</b>	<b>₱62,042,538</b>	₱65,285,142	₱18,067,518	₱47,217,624
Increase in IBNR and MfAD – note 29	1,720,894	472,183	1,248,711	(4,011,859)	3,892,875	(7,904,734)
Claims during the year – note 29	121,832,493	651,529	121,180,964	62,172,429	(497,875)	62,670,304
Claims paid – note 29	(58,632,750)	(1,169,677)	(57,463,073)	(51,845,102)	(11,904,446)	(39,940,656)
At December 31	<b>₱136,521,247</b>	<b>₱9,512,107</b>	<b>₱127,009,140</b>	<b>₱71,600,610</b>	<b>₱9,558,072</b>	<b>₱62,042,538</b>

Movement in reserve for unearned premiums is as follows:

	2022			2021		
	Gross amount	Reinsurance	Net amount	Gross amount	Reinsurance	Net amount
At January 1	<b>₱446,006,324</b>	<b>₱21,387,473</b>	<b>₱424,618,851</b>	₱354,054,851	₱14,605,401	₱339,449,450
New policies during the year – note 27	840,120,611	93,283,525	746,837,086	793,914,345	41,372,189	752,542,156
Premiums earned during the year – note 27	(900,267,164)	(58,399,148)	(841,868,016)	(701,962,872)	(34,590,117)	(667,372,755)
At December 31	<b>₱385,859,771</b>	<b>₱56,271,850</b>	<b>₱329,587,921</b>	<b>₱446,006,324</b>	<b>₱21,387,473</b>	<b>₱424,618,851</b>

In performing the actuarial valuation, assumptions are intended to bring the estimated liabilities at a 75% confidence level of assurance or sufficiency, thus MfAD is applied. The purpose of the MfAD is to consider the variability of claims experience within a class of business, the diversification between classes of business and conservatism in the best estimate to allow inherent uncertainty of the best estimate of policy reserve.

Loss development factors used in the actuarial projection techniques are based on the Parent Company's historical loss experience supplemented with industry triangles.

### 23. DUE TO REINSURERS

Due to reinsurers amounting to ₱82,275,391 and ₱39,958,114 as of December 31, 2022 and 2021, respectively, pertain to amount of insurance liability assumed by the Parent Company from the reinsurers.

**24. RETIREMENT BENEFITS OBLIGATION**

The Parent Company maintains an unfunded and non-contributory retirement benefit plan covering its regular employees.

The latest actuarial valuation was December 31, 2022. The computation of retirement benefit costs is based on R.A. No. 7641, Retirement Law.

The retirement benefits cost recognized in profit or loss is as follows:

	2022	2021
Current service cost	<b>₱3,367,941</b>	₱2,392,859
Interest cost	<b>1,396,945</b>	1,214,640
	<b>₱4,764,886</b>	₱3,607,499

The retirement benefits cost is allocated as follows:

	2022	2021
Direct underwriting costs – note 30	<b>₱2,858,932</b>	₱1,443,000
Operating expenses – note 31	<b>1,905,954</b>	2,164,499
	<b>₱4,764,886</b>	₱3,607,499

The movements in retirement benefits obligation recognized in the statements of financial position are as follow:

	2022	2021
Balance at beginning of year	<b>₱27,498,927</b>	₱23,891,428
Interest cost	<b>1,396,945</b>	2,392,859
Current service cost	<b>3,367,941</b>	1,214,640
Remeasurement gain on retirement benefits	<b>(3,161,313)</b>	-
Balance at end of year	<b>₱29,102,500</b>	₱27,498,927

Remeasurement gain, net of tax, amounted to ₱2,370,985 in 2022. Remeasurement gain in 2021 amounting to ₱75,905 is due to the effect of the change in tax rate.

The following actuarial assumptions were used to determine retirement benefits obligation:

	2022	2021
Discount rate	<b>7.22%</b>	5.08%
Salary increase rate	<b>5.00%</b>	5.00%

The discount rate as at December 31, 2022 and 2021 was calculated as the resulting single-weighted rate determined by computing the present value of the expected future benefit cash flows across valuation years using the zero-coupon rate. The salary increase rate represents the projected increases in employee salaries.

Assumptions regarding future mortality and disability experience are based on published statistics generally used for local actuarial valuation purposes.

The Parent Company has no plan asset as at December 31, 2022 and 2021.

Risk Arising from the Retirement Plan

The defined benefit plan is unfunded by ₱29,102,500 and ₱27,498,927 as at December 31, 2022 and 2021, respectively. While there is no minimum required funding, the amount without fund may expose the Parent Company to cash flow risk for 10-15 years when a significant number of employees are expected to retire.

*Maturity Profile of Undiscounted Benefit Payments*

The maturity analysis on the Parent Company's undiscounted benefit payments as at December 31, 2022 is as follows:

**December 31, 2022**

	1 year and less	2 to 5 years	6 to 10 years	11 to 15 years	16 to 20 years	Over 21 years
Normal retirement	<b>₱16,847,054</b>	<b>₱7,031,381</b>	<b>₱6,591,990</b>	<b>₱11,194,866</b>	<b>₱13,542,388</b>	<b>₱212,934,807</b>

Discount Rate Sensitivity

The following illustrates the sensitivity to a reasonably possible change in each key assumption, with all other variable held constant, of the Parent Company's retirement benefits obligation. A +/-1% increase or decrease is used when reporting this risk internally to key management personnel and represents management's assessment of the reasonably possible change in discount rate and salary increase. The impact on the Parent Company's retirement benefit obligation as at December 31, 2022 which affects the Parent Company's cash flow is as follows:

	Increase (decrease)	Present value of obligation	Increase (decrease) on retirement benefits obligation
Discount rate	+0.5%	₱28,792,874	(₱309,626)
	-0.5%	29,463,060	360,560
Salary increase	+1%	29,868,677	766,177
	-1%	28,516,496	(586,004)

Regulatory Framework in which the Retirement Obligation Operates

In accordance with the provisions of the Labor Code, the Parent Company is required to pay eligible employees at least the minimum regulatory benefit upon retirement, subject to age and service requirements.

Plan Amendments, Curtailments or Settlements

There was no plan amendment, curtailment or settlement recognized in the years ended December 31, 2022 and 2021.

Responsibilities of Trustees

Since the Parent Company does not have a formal, trusteed retirement plan, there are no trustees yet.

**25. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES**

Terms and Conditions

The major classes of general insurance written by the Parent Company include motor, property, casualty, marine and engineering. Risks under these policies usually cover twelve-month duration.

For general insurance contracts, claims provisions (comprising provisions for claims reported by policy holders) 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 defined quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled, and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

The measurement process primarily includes projections of future claims through use of historical experience statistics. In certain cases, where there is 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 geographical area and class of business. In addition, claims are usually assessed by loss adjusters.

Assumptions

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

Other key assumption includes variation in interest and delays in settlement.

Sensitivities

The general insurance claims provision is sensitive to the above key assumptions. The sensitivity of certain variables like legislative change, uncertainty in the estimation process, etc., is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim provisions are not known with certainty at the reporting date.

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 table demonstrates the effect of change in key assumptions while other assumptions remain unchanged if these assumptions were changed in a single calendar year. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact on the claims liabilities due to changes in assumptions, these assumptions changes had to be done on an individual basis. It should also be stressed that these assumptions are nonlinear and larger or smaller impacts cannot be easily gleaned from these results.

The figures shown below demonstrate the effect of 5% upward variation in either the net premiums earned, or the loss development factor used in determining the estimated ultimate liabilities.

	2022	2021
Increase on gross liabilities	<b>₱45,013,358</b>	₱35,098,144
Increase on net liabilities	<b>42,093,401</b>	33,368,638
Decrease on income before income tax	<b>(42,093,401)</b>	(33,368,638)

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

## 26. CAPITAL STOCK

Details of this account are as follow:

	Shares		Amount	
	2022	2021	2022	2021
Common shares – ₱100 par value				
Authorized	<b>20,000,000</b>	20,000,000	<b>₱2,000,000,000</b>	₱2,000,000,000
Subscribed, issued and fully paid:				
Balance at beginning of year	<b>18,614,217</b>	6,000,000	<b>₱1,861,421,700</b>	₱600,000,000
Additional subscription	<b>1,385,783</b>	6,879,917	<b>138,578,300</b>	687,991,700
Transfer from deposit for future stock subscription	-	59,000	-	5,900,000
Transfer from contributed surplus	-	5,675,300	-	567,530,000
Balance at end of year	<b>20,000,000</b>	18,614,217	<b>₱2,000,000,000</b>	₱1,861,421,700

On August 5, 2020, the BOD approved the resolution to increase the Parent Company's authorized capital share from ₱600,000,000 to ₱2,000,000,000. In 2020, the Parent Company received ₱5,900,000 for the additional subscription of 5,000 shares at ₱100 par value. The application was approved by SEC on April 28, 2021.

**27. NET PREMIUM REVENUE**

Details of gross and net premiums earned on insurance contracts follow:

	2022	2021
<u>Gross premium earned – note 22</u>		
Insurance contract premium revenue		
Direct insurance	<b>₱796,589,293</b>	₱753,623,432
Assumed reinsurance	<b>43,531,318</b>	40,290,913
Total insurance contract premiums revenue	<b>840,120,611</b>	793,914,345
Gross change in unearned premium provision	<b>60,146,553</b>	(91,951,473)
	<b>900,267,164</b>	701,962,872
<u>Premiums ceded – note 22</u>		
Reinsurer's share of premium revenue		
Direct insurance	<b>93,283,525</b>	41,372,189
Reinsurers' share of gross change in unearned premium		
Provision	<b>(34,884,377)</b>	(6,782,072)
	<b>58,399,148</b>	34,590,117
Net premiums on insurance	<b>₱841,868,016</b>	₱667,372,755

**28. INVESTMENT AND OTHER INCOME (CHARGES)**

This account consists of:

	2022	2021
Gain on sale of properties – notes 13 and 15	<b>₱26,832,923</b>	₱-
Rental income – notes 14, 15 and 36	<b>21,273,896</b>	23,431,390
Equity in net earnings of associate – note 17	<b>5,973,970</b>	2,478,379
Interest income – notes 4, 5, 8, 9 and 18	<b>5,624,041</b>	2,623,005
Recovery of allowance for ECL – note 6, 7 and 8	<b>2,455,539</b>	184,010
Foreign exchange gain	<b>135,246</b>	11,324
Decrease in catastrophe loss	<b>(699,288)</b>	(131,016)
Other income	<b>1,173,161</b>	2,491,865
	<b>₱62,769,488</b>	₱31,088,957

Other income consists mainly of provision for catastrophe loss and other incidental income.

**29. NET INSURANCE BENEFITS AND CLAIMS**

Gross insurance contracts benefits and claims incurred consist of the following:

	2022	2021
Insurance contracts benefits and claims		
Direct insurance	<b>₱119,981,686</b>	₱54,261,267
Assumed reinsurance	<b>1,450,701</b>	1,824,864
Loss adjustment	<b>2,121,000</b>	2,074,439
Total insurance contract benefits and claims – note 22	<b>123,553,387</b>	58,160,570
Total reinsurers' share of insurance contract benefits and claims incurred – note 22	<b>(1,123,712)</b>	(3,395,000)
Net insurance benefits and claims	<b>₱122,429,675</b>	₱54,765,570



Gross insurance contracts benefits and claims paid consist of the following:

	2022	2021
Direct insurance	<b>₱55,061,049</b>	₱47,945,799
Assumed	<b>1,450,701</b>	1,824,864
Loss adjustment	<b>2,121,000</b>	2,074,439
Total insurance contract benefits and claims paid – note 22	<b>₱58,632,750</b>	₱51,845,102

Reinsurers' share of gross insurance contracts benefits and claims paid consist of direct insurance amounting to ₱1,169,677 and ₱11,904,446 in 2022 and 2021, respectively (see Note 22).

### 30. DIRECT UNDERWRITING COSTS

This account consists of:

	2022	2021
Commission – direct	<b>₱295,596,711</b>	₱209,295,940
Processing fees	<b>139,351,563</b>	115,086,760
Salaries, wages and allowances	<b>19,608,482</b>	17,242,344
Transportation and travel	<b>13,650,952</b>	10,473,101
Commission on reinsurance	<b>13,438,931</b>	10,776,310
Employee benefits	<b>13,054,776</b>	7,349,089
Underwriting expenses	<b>12,475,932</b>	29,202,857
Depreciation and amortization – notes 14 and 18	<b>11,005,533</b>	7,851,348
Stationeries and office supplies	<b>7,276,042</b>	5,617,355
Advertising and promotions	<b>6,550,221</b>	5,708,407
Representation and entertainment	<b>6,427,045</b>	4,412,007
Postage, freight and communications	<b>5,834,050</b>	5,062,083
Rent, light and water – note 36	<b>5,370,417</b>	4,611,539
Meetings and conferences	<b>3,607,391</b>	2,493,721
Retirement benefits cost – note 24	<b>2,858,932</b>	1,443,000
Dues and fees	<b>2,433,283</b>	783,264
Taxes and licenses	<b>2,150,521</b>	2,329,548
SSS, HDMF, PhilHealth and other contributions	<b>1,408,909</b>	1,239,149
Training expenses	<b>1,024,494</b>	644,466
Electronic data processing	<b>773,909</b>	498,928
Other underwriting expenses	<b>4,158,292</b>	3,150,043
	<b>₱568,056,386</b>	₱445,271,259

Other underwriting expenses consist of other benefits, marketing expenses and other miscellaneous expenses.

**31. OPERATING EXPENSES**

This account consists of:

	2022	2021
Salaries and bonuses	<b>₱29,412,723</b>	₱25,863,517
Depreciation and amortization – notes 14 and 18	<b>25,679,578</b>	18,319,811
Interest and bank charges – notes 21 and 36	<b>11,199,966</b>	6,986,348
Professional fees	<b>10,751,904</b>	9,681,562
Employee benefits	<b>8,703,184</b>	7,304,392
Transportation and travel	<b>7,350,513</b>	5,639,362
Provision for ECL – notes 6, 7, 8, and 18	<b>4,436,749</b>	1,540,643
Representation and entertainment	<b>4,284,697</b>	2,941,338
Repairs and maintenance	<b>3,119,164</b>	2,397,062
Printing and office supplies	<b>3,118,304</b>	2,407,438
Rent, light and water	<b>3,016,146</b>	2,561,275
Per diem and board meetings	<b>2,866,025</b>	2,318,737
Advertising and promotion	<b>2,807,238</b>	2,446,460
Communications	<b>2,500,307</b>	2,169,464
SSS, HDMF, PhilHealth and other contributions	<b>2,118,399</b>	1,860,452
Retirement benefits cost – note 24	<b>1,905,954</b>	2,164,499
Management fees – note 35	<b>1,800,000</b>	1,200,000
Dues and fees	<b>1,042,836</b>	1,827,617
Taxes and licenses	<b>511,751</b>	2,202,452
Training	<b>398,414</b>	250,625
Electronic data processing expenses	<b>331,675</b>	213,826
Insurance	<b>295,709</b>	604,239
Books, subscriptions and periodicals	<b>56,963</b>	30,860
Notarial fees and documentary stamps	<b>49,450</b>	391,977
Miscellaneous	<b>3,111,650</b>	2,399,388
	<b>₱130,869,299</b>	₱105,723,344

**32. INCOME TAXES**

Income tax expense consists of:

	2022	2021
Current tax	<b>₱25,519,826</b>	₱21,761,745
Deferred tax benefit	<b>(2,002,517)</b>	(4,619,943)
	<b>₱23,517,309</b>	₱17,141,802

A reconciliation of tax on pretax income computed at the applicable statutory rate to tax expense reported in the statements of comprehensive income follows:

	2022	2021
Income before income tax	<b>₱98,842,527</b>	₱103,945,823
Accounting income at 25%	<b>24,710,632</b>	25,986,456
Tax effect of:		
Interest income subjected to final tax	<b>(1,406,010)</b>	(655,751)
Equity in net earnings of associates	<b>(1,493,493)</b>	(619,595)
Non-deductible interest expense	<b>85,753</b>	1,625,775
Non-deductible depreciation on right-of-use asset	<b>759,784</b>	689,848
Other non-deductible expenses	<b>1,796,957</b>	563,116
Rent expense for long-term leases	<b>(936,314)</b>	(956,149)
Effect of change in tax rate	-	(8,280,502)
Effect of change in tax rate in 2020	-	(1,211,396)
	<b>₱23,517,309</b>	₱17,141,802

The Parent Company's deferred tax assets consist of:

	2022	2021
Retirement benefits obligation	<b>₱7,275,625</b>	₱6,874,732
Provision on IBNR losses, claims handling fee and MfAD	<b>3,461,221</b>	3,107,263
Deferred reinsurance commissions	<b>3,282,808</b>	1,674,544
Provision for ECL	<b>3,042,307</b>	2,547,004
Provision for catastrophe loss	<b>240,623</b>	65,801
	<b>₱17,302,584</b>	₱14,269,344

The Parent Company's deferred tax liabilities consist of:

	2022	2021
DAC	<b>₱37,876,743</b>	₱44,807,767
Deferred reinsurance premium	<b>14,067,963</b>	5,346,868
Revaluation increment on land	<b>11,355,765</b>	11,355,765
Unrealized foreign exchange gain	<b>33,811</b>	2,831
	<b>₱63,334,282</b>	₱61,513,231

On March 26, 2021, R.A. No. 11534, known as "The Corporate Recovery or Tax incentives for Enterprises Act" (Create Act), was passed into law. The salient provisions applicable to the Parent Company are as follow:

- Effective July 1, 2020, the RCIT is reduced from 30% to 25%;
- MCIT rate is reduced from 2% to 1% effective July 1, 2020 to June 20, 2023

### 33. MANAGEMENT OF CAPITAL, INSURANCE AND FINANCIAL RISK

#### Governance Framework

The Parent Company has established a risk management function with clear terms of reference and with the responsibility for developing group-wide policies on market, credit, liquidity, insurance and operational risk.

The policies define the Parent Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategy to the corporate goals and specify reporting requirements.

#### Capital Management Framework

The Parent Company's risk management function has developed and implemented certain minimum stress and scenario tests for identifying the risks to which each of its business units and the Parent Company as a whole is exposed, quantifying their impact on the volatility of economic capital. The results of these tests, particularly the anticipated impact on the realistic financial position and revenue account of each business unit, are reported to the Parent Company's risk management function. The risk management function then considers the aggregate impact of the overall capital requirement revealed by the stress testing to assess how much capital is needed to mitigate the risk of insolvency to a selected remote level.

Section 200 of the Amended Insurance Code provides that an insurance company doing business in the Philippines shall at all times maintain the minimum paid-up capital and net worth requirements as prescribed by the Commissioner.

#### *Risk Based Capital (RBC) Requirement*

On October 5, 2006, the IC approved the guidelines on the adoption in the Philippines of the RBC framework for all registered non-life insurance companies. This requires every insurance company to annually maintain a minimum RBC ratio of 100% and should not fail with the trend test, which shall occur in the event that:

- The RBC ratio is less than 125% but is not below 100%
- The RBC ratio has decreased over the past year, and
- The difference between RBC ratio and the decrease in the RBC ratio over the past year is less than 100%.

If the Parent Company will not be able to maintain the required minimum ratio, they may be subjected to regulatory intervention depending on the level of its RBC ratio.

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall consist of the Parent Company's paid-up capital, retained earnings and unimpaired surplus. Revaluation and fluctuation reserve shall form part of the net worth only to the extent authorized by the IC.

The following table shows how the RBC ratio as at December 31, 2022 and 2021 is determined by the Parent Company:

	2022	2021
Net worth	₱2,631,908,800	₱1,806,607,655
RBC requirement	661,647,227	502,024,728
RBC ratio	398%	360%

The final RBC ratio can be determined only after the accounts of the Parent Company have been examined by the IC.

As at December 31, 2022 and 2021, the Parent Company is in compliance with the required RBC ratio by the IC.

*Fixed Capitalization Requirement*

On January 13, 2015, the IC issued CL no. 2015-02-A presenting the minimum capitalization requirements for all new and existing insurance companies. The circular is in line with the Amended Insurance Code.

On August 15, 2013, the Amended Insurance Code (R.A. No. 10607) was approved which provides the new capitalization requirements for all existing insurance companies based on net worth on a staggered basis such as follow:

Net worth	Compliance date
₱250,000,000	June 30, 2013
550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

The minimum net worth shall remain unimpaired at all times.

The Parent Company made an additional contribution of ₱181,226,700 and nil in 2022 and 2021, respectively, to meet the capital requirements of the IC.

The Parent Company's net worth amounting to ₱2.68 billion and ₱2.28 billion in 2022 and 2021, respectively, is in compliance with the minimum requirements for those periods.

Under Sections 203 and 213 of the Amended Insurance Code and IC's CL No. 2014-17, the following assets are considered non-admitted assets in determination of the financial condition of the insurance company:

- a. Goodwill, trade names, and other like intangible assets.
- b. Prepaid or deferred charges for expenses and commissions paid by such insurance company.
- c. Advances to officers (other than policy loans), which are not adequately secured and which are not previously authorized by the Commissioner, as well as advances to employees, agents, and other persons on mere personal security.
- d. Shares of stock of such insurance company, owned by it, or any equity therein as well as loans secured thereby, or any proportionate interest in such shares of stock through the ownership by such insurance company of an interest in another corporation or business unit.

- e. Furniture, furnishing, fixtures, safes, equipment, library, stationery, literature, and supplies.
- f. Items of bank credits representing checks, drafts or notes returned unpaid after the date of statement.
- g. The amount, if any, by which the aggregate value of investments as carried in the ledger assets of such insurance company exceeds the aggregate value thereof as determined in accordance with the provisions of this Code and/or the rules of the Commissioner.

All non-admitted assets and all other assets of doubtful value or character included as ledger or non-ledger assets in any statement submitted by an insurance company to the Commissioner, or in any insurance examiner's report to him, shall also be reported, to the extent of the value disallowed as deductions from the gross assets of such insurance company, except where the Commissioner permits a reserve to be carried among the liabilities of such insurance company in lieu of any such deduction. Also, any investment made in violation of the applicable provisions of this title shall be considered non-admitted assets.

In addition, premiums due from the following entities are considered non-admitted assets when the following conditions in IC's CL No. 2014-17 are not met:

- a. The Government of the Philippines, its political subdivisions or instrumentalities, including government owned or controlled corporations, whether as insured, general agent, insurance broker, mortgagee or trustee, provided that in case any of said entities assumes the role of a trustee, the insurance company concerned shall present proof that such premiums are held by such entity as trustee of the said company.
- b. Premiums Receivable Account (direct agents, general agents and insurance brokers) covering policies within 90 days from inception as of the cut-off date, provided that these receivables are supported by an aging schedule showing details per policy; and copies of policies and other pertinent documents are made available to the examiners for verification, otherwise, unverified accounts will be disallowed.
- c. Marine Hull Premiums covered by Deferred Premiums Clause "1" attached to the policy and payable in four quarterly installments provided that the installments to be considered as admitted assets are only the installments due within 90 days as of cut-off date including all installments not yet due as of the cut-off date and provided further that these receivables are supported by an aging schedule showing details per policy and copies of policies and other pertinent documents shall be made available to the examiners for verification, otherwise, those accounts not verified will be disallowed.

On May 14, 2020, IC issued CL No. 2020-58 which provides regulatory relief on the admittance of premium receivable (direct agents, general agents and insurance brokers) due to the COVID-19 pandemic and is applied to annual and quarterly financial reports for the year 2020 unless extended or changed as deemed necessary by the IC. The basis for admitting premium receivable is adjusted from 90 days to 180 days. This was extended by IC for the year 2021 through CL No. 2021-43 dated July 11, 2021

### Financial Reporting Framework

On June 10, 2015, the IC issued CL No. 2015-29 that clarifies the rules and regulations concerning Titles III and IV of Chapter III of the Amended Insurance Code and all the other accounts not discussed in the Amended Insurance Code but are used in accounting of insurance and reinsurance companies. It includes the manual of accounts, which enumerates certain admitted assets not specifically listed in Section 202, which discusses the nature, types and recognition and measurement of each account in the financial statements. This CL was fully implemented starting June 30, 2016, with transition cut-off date of January 1, 2016.

On December 28, 2016, the IC issued CL No. 2016-65 which superseded the previous circular, indicating that insurance companies are required to comply with the financial reporting framework starting January 1, 2017.

### Valuation Standards for Policy Reserves

Under sections 219 and 220 of the Insurance Code, as amended, these sections require every insurance company other than life to maintain a reserve for unearned premiums and other special reserves, IC issued CL No. 2015-32 which provides the new set of Valuation standards for Non-Life Insurance Policy Reserves. The CL sets out the valuation method to be used by insurance companies in determining the level of reserves that they should maintain. Premium reserve will be aligned with the current practice under PFRS. Claims reserve specifically on IBNR will now be actuarially computed and an actuarial report must be submitted to IC following the report format provided in the said Circular. The actuarial report must include the certification of the Actuary and Chief Executive Officer (CEO) or responsible officer and must be duly notarized.

On March 9, 2018, the Insurance Commission issued CL No. 2018-18 that requires nonlife insurance companies to implement the *Valuation Standards for Nonlife Insurance Policy Reserves* effective retroactively starting January 1, 2017. This supersedes CL No. 2016-67. The Parent Company adopted the new valuation standard in determining the premium liability and reserve beginning on January 1, 2017.

### Regulatory Framework

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

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

### Financial Risk

The Parent Company is exposed to financial risk through its financial assets, financial liabilities and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk. The risk that the Parent Company primarily faces due to the nature of its investments and liabilities is the interest rate risk.

### Market Risk

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

The Parent Company structures levels of market risk it accepts through a market risk policy that determines what constitutes market risk for the Parent Company; basis used to fair value financial assets and liabilities; asset allocation and portfolio limit structure; diversification benchmarks by type of instrument and geographical area; sets out the net exposure limits by each counterparty or group of counterparties, geographical and industry segments; control over hedging activities; reporting of market risk exposures and breaches to the monitoring authority; monitoring compliance with market risk policy and review of market risk policy for pertinence and changing environment.

The Parent Company's market risk includes equity price risk for the financial assets at FVOCI which are stated at fair value.

### *Equity Price Risk*

The Parent Company's equity price risk arises from its investments carried at fair value classified as financial assets at FVOCI. It manages its risk arising from changes in market price by monitoring the changes in the market price of the investment. The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the equity price had been 10% higher/lower, the revaluation reserve would increase/decrease by ₱646,127 and ₱455,431 in 2022 and 2021, respectively, as a result of the change in the fair value of the Parent Company's financial assets at FVOCI.

### Interest Rate Risk

As at December 31, 2022 and 2021, the Parent Company is exposed to changes in market interest rates through its cash in banks, cash equivalents, short-term investments, debt instruments at amortized cost and other receivables (salary/car loan/notes receivable), which are subject to variable interest rates (see Notes 4, 5, 8 and 9). However, for financial assets with short-term maturity, the risk is assessed by management as insignificant due to its relatively short-term nature and/or low interest rates.



The following table sets out the Parent Company's financial instruments exposed to interest rate risk by maturity:

December 31, 2022				
	Interest rate	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	0.62% to 3.00%	₱44,683,221	₱-	₱44,683,221
Short-term investments	6% to 7%	663,345,500	-	663,345,500
Other receivables	8% to 12%	4,009,145	633,320	4,642,465
Debt instruments at amortized cost	2.89% to 3.45%	256,339,777	6,542,162	262,881,939
		₱968,377,643	₱7,175,482	₱975,553,125

December 31, 2022				
	Interest rate	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	0.62% to 3.00%	₱30,001,157	₱-	₱30,001,157
Other receivables	8% to 12%	5,085,846	1,649,009	6,734,855
Debt instruments at amortized cost	2.89% to 3.45%	139,064,497	10,547,982	149,612,479
		₱174,151,500	₱12,196,991	₱186,348,491

### 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 Parent Company manages the level of credit risk it accepts through a comprehensive credit risk policy setting out the assessment and determination of what constitutes credit risk for the Parent Company; setting up of exposure limits by each counterparty or group of counterparties, geographical and industry segments; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collateral and guarantees; reporting of credit risk exposures and breaches to the monitoring authority; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

### *Credit risk exposure*

The table below shows the gross maximum exposure to credit risk of the Parent Company as at December 31.

December 31, 2022				
	Basis of ECL	Gross carrying amount	Loss allowance	Net carrying amount
Cash and cash equivalents*	(a)	₱44,683,221	₱-	₱44,683,221
Short-term investments	(a)	663,345,500	-	663,345,500
Insurance receivables (net)	(b) Lifetime	357,233,021	10,694,371	346,538,650
Other receivables (net)	(b) ECL	53,974,172	363,396	53,610,776
Reinsurance assets (net)**	(b)	28,665,408	770,352	27,895,056
Debt instruments at amortized cost	(c) 12-month ECL	262,881,939	-	262,881,939
Other assets***	(c)	10,828,177	341,138	10,487,039
		₱1,421,611,438	₱12,169,257	₱1,409,442,181

		December 31, 2021			
		Basis of ECL	Gross carrying amount	Loss allowance	Net carrying amount
Cash and cash equivalents*	(a)		₱30,001,157	₱-	₱30,001,157
Insurance receivables (net)	(b)	Lifetime	484,073,022	8,725,172	475,347,850
Other receivables (net)	(b)	ECL	538,077,499	700,693	537,376,806
Reinsurance assets (net)**	(b)		27,558,260	526,231	27,032,029
Debt instruments at amortized cost	(c)	12-month ECL	149,612,479	-	149,612,479
Other assets***	(c)	12-month ECL	10,516,012	235,951	10,280,061
			<b>₱1,239,838,429</b>	<b>₱10,188,047</b>	<b>₱1,229,650,382</b>

\*Excluding cash on hand amounting to ₱383,298 in 2022 and ₱312,000 in 2021.

\*\*Excluding deferred reinsurance premium amounting to ₱56,271,850 in 2022 and ₱21,387,473 in 2021.

\*\*\*Excluding salvage recoverable, deposit for the acquisition of land and intangible assets amounting to ₱461,302,394 in 2022 and ₱115,826,428 in 2021.

The Parent Company further restricts its credit risk exposure by entering into master netting arrangements with counterparties with which it transacts significant volumes of transactions. Although, such arrangements do not generally result in offset of assets and liabilities in the statements of financial position, as transactions are usually settled on gross basis. However, the credit risk associated with such balances is reduced in the event of a default when such balances are settled on a net basis. The situation may however change substantially within a short period following the reporting date because the exposure is affected by transactions subject to the arrangement.

Reinsurance is placed with high-rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews. At each reporting date, management performs assessment of credit worthiness of reinsurers to update reinsurance purchase strategy.

Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties. Commission due to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts. The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document or trust deed on the expiry of which the policy is either paid up or terminated.

The Parent Company did not have any significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as at December 31, 2022 and 2021, except for a significant portion of cash and equivalents that is deposited to a single counterparty.

Concentrations of risk exist when a significant proportion of the portfolio is invested in securities with similar characteristics or subject to similar economic conditions. Management believes that the concentrations described above do not represent excessive risk for the Parent Company, since the single counterparty, which is a rural bank, is one of the top rural banks in the country.

(a) Cash and cash equivalents and short-term investments are assessed to have low credit risk at each reporting period. These are held by reputable banking institutions.

- (b) For insurance receivable, other receivables and reinsurance assets, the Parent Company has applied the simplified approach to measure the loss allowance at lifetime ECLs. The Parent Company determines the ECLs based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.
- (c) Debt instruments at amortized cost and other assets are assessed to have low credit risk as the counterparties to these investments have a minimum BBB-credit rating and have an internal rating of Performing. As such, the Parent Company assumes that the credit risk on these financial assets has not increased significantly since initial recognition and recognizes 12-months ECL for these assets.

The table below provides information regarding the credit risk exposure of the Parent Company by classifying assets according to the Parent Company's credit ratings of counterparties.

December 31, 2022							
	Neither past due nor impaired			Past due but not impaired	Allowance for ECL	Total	
	High	Medium	Low				
Cash and cash equivalents	P44,683,221	P-	P-	P-	P-	P44,683,221	
Short-term investments	663,345,500	-	-	-	-	663,345,500	
<b>Insurance receivables:</b>							
Due from ceding companies	22,337,781	-	-	3,284,969	656,994	26,279,744	
Premium receivables	171,810,242	-	-	137,548,384	9,860,389	319,219,015	
Due from agents	10,481,785	-	-	1,075,489	176,988	11,734,262	
Other receivables	46,706,244	-	-	6,904,532	363,396	53,974,172	
<b>Reinsurance assets:</b>							
Reinsurance recoverable on paid losses	-	-	-	18,382,142	664,259	19,046,401	
Reinsurance recoverable on unpaid losses and IBNR	-	-	-	9,408,687	103,420	9,512,107	
Premium reserve withheld by reinsurer	104,227	-	-	-	2,673	106,900	
Debt instruments at amortized cost	262,881,939	-	-	-	-	262,881,939	
Other assets	10,487,039	-	-	-	341,138	10,828,177	
	<b>P1,232,837,978</b>	<b>P-</b>	<b>P-</b>	<b>P176,604,203</b>	<b>P12,169,257</b>	<b>P1,421,611,438</b>	
December 31, 2021							
	Neither past due nor impaired			Past due but not impaired	Allowance for ECL	Total	
	High	Medium	Low				
Cash and cash equivalents	P30,001,157	P-	P-	P-	P-	P30,001,157	
<b>Insurance receivables:</b>							
Due from ceding companies	5,132,344	-	-	18,396,512	603,304	24,132,160	
Premium receivables	209,337,802	-	-	56,946,972	5,826,639	272,111,413	
Due from agents	82,576,646	-	-	102,957,574	2,295,229	187,829,449	
Other receivables	521,141,043	-	-	16,235,763	700,693	538,077,499	
<b>Reinsurance assets:</b>							
Reinsurance recoverable on paid losses	-	-	-	17,481,661	421,470	17,903,131	
Reinsurance recoverable on unpaid losses and IBNR	-	-	-	9,455,737	102,335	9,558,072	
Premium reserve withheld by reinsurer	94,631	-	-	-	2,426	97,057	
Debt instruments at amortized cost	149,612,479	-	-	-	-	149,612,479	
Other assets	10,280,061	-	-	-	235,951	10,516,012	
	<b>P1,008,176,163</b>	<b>P-</b>	<b>P-</b>	<b>P221,474,219</b>	<b>P10,188,047</b>	<b>P1,239,838,429</b>	

*High Credit Quality*

This pertains to assets of the Parent Company that are highly convertible to cash based on the Parent Company's experience and those that are classified by the IC as readily admitted assets.

*Moderate Credit Quality*

For receivables, this covers accounts of paying insured and or remittance of agents but paid and or remitted normally beyond the credit term. This also includes receivables from insured and or agent with delayed payment and or remittance, although paid and or remitted but was only made after a demand letter was sent.

*Low Credit Quality*

For receivables, this covers accounts of slow paying insured and or remittance of agents, and those whose payments and or remittances are received upon sending a second demand letter as at financial reporting date.

Liquidity Risk

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

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

The Parent Company manages liquidity through a liquidity risk policy, which determines what constitutes liquidity risk for the Parent Company; specifies minimum proportion of funds to meet emergency calls; setting up of contingency funding plans; specifies the sources of funding and the events that would trigger the plan; concentration of funding sources; reporting of liquidity risk exposures and breaches to the monitoring authority; monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

As at December 31, the Parent Company's financial liabilities have contractual maturities such as follow:

<b>December 31, 2022</b>			
	Less than 1 year	1-5 years	Total
<b>Insurance contract liabilities</b>			
claims and losses*	₱136,521,247	₱-	₱136,521,247
Due to reinsurers	82,275,391	-	82,275,391
Cash collaterals	8,317,858	-	8,317,858
Loans payable	1,440,753	2,063,971	3,504,724
<b>Accounts payable and other liabilities**</b>			
Accounts payable	83,205,071	-	83,205,071
Commission payable	78,219,984	-	78,219,984
Accrued expenses	5,281,925	-	5,281,925
Lease liability	1,512,549	11,147,526	12,660,075
	<b>₱396,774,778</b>	<b>₱13,211,497</b>	<b>₱409,986,275</b>
<b>December 31, 2021</b>			
	Less than 1 year	1-5 years	Total
<b>Insurance contract liabilities</b>			
claims and losses*	₱71,600,610	₱-	₱71,600,610
Due to reinsurers	39,958,114	-	39,958,114
Cash collaterals	8,513,858	-	8,513,858
Loans payable	1,697,102	1,563,801	3,260,903
<b>Accounts payable and other liabilities**</b>			
Accounts payable	54,236,419	-	54,236,419
Commission payable	84,008,043	-	84,008,043
Accrued expenses	4,385,289	-	4,385,289
Lease liability	3,465,511	-	3,465,511
	<b>₱267,864,946</b>	<b>₱1,563,801</b>	<b>₱269,428,747</b>

\*excludes reserves for unearned premium

\*\*excludes statutory payables

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the reporting date.

### Insurance Risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Parent Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims actual benefits paid which are greater than originally estimated and subsequent development of long-term claims.

The Parent Company determines its concentration of insurance risk based on individual type of contract. The Parent Company principally issued the following types of general insurance contracts: motor, household insurance, commercial and business interruption.

The following table sets out the concentration of the claims liabilities by type of contract:

<b>December 31, 2022</b>	<b>Gross claim liabilities</b>	<b>Reinsurers' share of claims liabilities</b>	<b>Net claim liabilities</b>
Fire	P6,281,656	P3,462,907	P2,818,749
Motor car	13,071,135	45,689	13,025,446
Marine	5,689,060	150,000	5,539,060
Bonds	72,244,000	-	72,244,000
Others	39,235,396	5,853,511	33,381,885
<b>Total – note 22</b>	<b>P136,521,247</b>	<b>P9,512,107</b>	<b>P127,009,140</b>

<b>December 31, 2021</b>	<b>Gross claim liabilities</b>	<b>Reinsurers' share of claims liabilities</b>	<b>Net claim liabilities</b>
Fire	P1,339,911	P822,140	P517,771
Motor car	14,315,205	219,605	14,095,600
Marine	3,300,000	3,135,000	165,000
Bonds	33,238,000	-	33,238,000
Others	19,407,494	5,381,327	14,026,167
<b>Total – note 22</b>	<b>P71,600,610</b>	<b>P9,558,072</b>	<b>P62,042,538</b>

For general insurance contracts, the most significant risks arise from climate changes, natural disasters and terrorist activities. These risks vary significantly in relation to the location of the risk insured by the Parent Company, type of risks insured and in respect of commercial and business interruption insurance by industry.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts and geographical areas, as a more diversified portfolio is less likely to be affected across the board by changes in any subset of the portfolio.

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

The majority of reinsurance business ceded is placed on a quota share basis with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statements of financial position as reinsurance assets.

Although the Parent Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to the reinsurance ceded, to the extent that any reinsurers is unable to meet its obligations assumed under such reinsurance agreements.

The Parent Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Parent Company substantially dependent upon any single reinsurance contract.

#### Financial Assets and Financial Liabilities

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

	2022			2021		
	Due within one year	Due beyond one year	Total	Due within one year	Due beyond one year	Total
<b>Financial Assets</b>						
<b>At amortized cost</b>						
Cash and cash equivalents*	P44,683,221	P-	P44,683,221	P30,001,157	P-	P30,001,157
Short-term investments	663,345,500	-	663,345,500	-	-	-
Insurance receivables						
Due from ceding companies	26,279,744	-	26,279,744	24,132,160	-	24,132,160
Premium receivables	319,219,015	-	319,219,015	272,111,413	-	272,111,413
Due from agents	11,734,262	-	11,734,262	187,829,449	-	187,829,449
Other receivables	53,974,172	-	53,974,172	538,077,499	-	538,077,499
Reinsurance assets						
Reinsurance recoverable on paid losses	19,046,401	-	19,046,401	17,903,131	-	17,903,131
Reinsurance recoverable on unpaid and IBNR losses	9,512,107	-	9,512,107	9,558,072	-	9,558,072
Premium reserve withheld by reinsurer	106,900	-	106,900	92,057	-	92,057
Other assets**	8,388,515	2,439,661	10,828,176	8,305,051	2,210,961	10,516,012
Debt instruments at amortized cost	256,339,777	6,542,162	262,881,939	139,064,497	10,547,982	149,612,479
<b>At FVOCI</b>	-	6,461,269	6,461,269	-	4,554,307	4,554,307
	<b>P1,412,629,614</b>	<b>P15,443,092</b>	<b>P1,428,072,706</b>	<b>P1,227,074,486</b>	<b>P17,313,250</b>	<b>P1,244,387,736</b>
<b>Financial Liabilities</b>						
Insurance contract liabilities						
claims and losses	P136,521,247	P-	P136,521,247	P71,600,610	P-	P71,600,610
Due to reinsurers	82,275,391	-	82,275,391	39,958,114	-	39,958,114
Cash collaterals	8,317,858	-	8,317,858	8,513,858	-	8,513,858
Loans payable	1,440,753	2,063,971	3,504,724	1,697,102	1,563,801	3,260,903
Accounts payable and other liabilities						
Accounts payable	83,205,071	-	83,205,071	54,236,419	-	54,236,419
Commission payable	78,219,984	-	78,219,984	84,008,043	-	84,008,043
Accrued expenses	5,281,925	-	5,281,925	4,385,289	-	4,385,289
Lease liability	1,512,549	11,147,526	12,660,075	3,465,511	-	3,465,511
	<b>P396,774,778</b>	<b>P13,211,497</b>	<b>P409,986,275</b>	<b>P267,864,946</b>	<b>P1,563,801</b>	<b>P269,428,747</b>

\*Excluding cash on hand amounting to P383,298 in 2022 and P312,000 in 2021.

\*\*Excluding salvage recoverable, deposit for the acquisition of land and intangible assets amounting to P461,302,394 in 2022 and P115,826,428 in 2021.

**34. FAIR VALUE INFORMATION**

*Financial asset measured at fair value*

The fair value of financial assets at FVOCI as at December 31 is determined as follows:

	2022	2021	Fair value hierarchy
Financial assets at FVOCI	<b>₱6,461,269</b>	₱4,554,307	Level 1

Fair value of financial assets at FVOCI is based on net asset value per share as published by Philippine Stock Exchange and club share broker.

*Financial assets and liabilities not measured at fair value*

The following gives information about how the fair value of the Parent Company's financial assets and liabilities, which are not measured at fair value but the fair values, are disclosed at the end of each reporting period are determined.

*Cash and cash equivalents, short-term investments, insurance receivables, short-term other receivables, reinsurance assets, other assets (current), insurance contract liabilities, due to reinsurers, cash collaterals, accounts payable, accrued expenses and current portion of loans payable and lease liability.*

Due to the short-term nature of these financial instruments, their fair value approximates the carrying amount as at reporting date. The carrying amount and fair value of the categories of noncurrent financial assets and liabilities presented in the statements of financial position are shown below:

	2022		2021	
	Carrying values	Fair values	Carrying values	Fair values
<b>FINANCIAL ASSETS</b>				
<i>Financial assets at amortized cost (net of current portion)</i>				
Other receivables	₱4,642,465	₱4,642,465	₱6,734,855	₱6,734,855
Other assets	2,439,661	2,296,229	2,210,093	2,140,501
Debt instruments at amortized cost	262,881,939	247,939,143	149,612,479	148,105,604
	<b>₱269,964,065</b>	<b>₱254,877,837</b>	<b>₱158,557,427</b>	<b>₱156,980,960</b>
<b>NONFINANCIAL ASSET</b>				
Investment properties	₱16,150,868	₱16,150,868	₱14,995,418	₱14,995,418
<b>FINANCIAL LIABILITIES</b>				
<i>Financial liabilities at amortized cost (net of current portion)</i>				
Loans payable	₱2,063,971	₱2,063,971	₱1,563,801	₱1,563,801
Lease liability	11,147,526	11,147,526	3,465,511	3,465,511
	<b>₱13,211,497</b>	<b>₱13,211,497</b>	<b>₱5,029,312</b>	<b>₱5,029,312</b>



*Other receivables (notes receivable, salary and car loan receivables)*

The carrying amounts of these receivables and loans approximate their fair values as these are interest bearing with an annual rate ranging from 8% to 12%.

*Deposit to service providers*

Fair values are estimated using the discounted cash flow technique that makes use of risk-free interest rate of 6.25% and 3.25% in 2022 and 2021, respectively.

*Debt instruments at amortized cost*

Fair values are based on quoted rates ranging from 5.69% to 6.37% and 2.92% to 4.17% in 2022 and 2021, respectively.

The aforementioned fair values of financial assets and liability are measured using level 2 of the fair value hierarchy.

*Investment properties measured at fair value*

The fair value of the investment properties was determined by an independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The latest valuation report obtained by the Parent Company was as at December 31, 2017.

The fair value of the land properties and condominium unit under investment properties amounting to ₱16,150,868 and ₱14,995,418 as at December 31, 2022 and 2021, respectively, which equals its carrying value, was determined based on market data approach and is based on sales and listings of comparable properties registered within the vicinity. In estimating the fair value of the land, the appraisal gave due consideration to the highest and best use of the property.

The fair values of the investment properties are measured using level 2 of the fair value hierarchy.

*Loans payable and lease liability*

The fair value of the loans payable and lease liability approximates its carrying amount as it is determined based on the present value of estimated future cash flows using prevailing market rates. The discount rate used ranges from 0.96% to 2% as at December 31, 2022 and 2021.

There were no transfers between levels 1 and 2 nor changes in level 3 instruments in 2022 and 2021.

**35. RELATED PARTY TRANSACTIONS**

In the normal course of business, the Parent Company has related party transactions with stockholders, officers and related entities.

<b>Related party</b>	<b>Relationship</b>
TIEC	Ultimate parent company
IRDC	Company with common stockholders
TRISCO Infrastructure Development Corporation (TIDC)	Company with common stockholder and under common control
PISC	Associate and under common control

The details of transactions are as follow:

a) Advances

<b>Related party/relationship</b>	<b>Amount of transaction</b>		<b>Outstanding balance - note 8</b>		<b>Terms and conditions</b>
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>	
Individual stockholder	<b>₱2,762,755</b>	₱2,061,445	<b>₱1,381,411</b>	₱6,162,140	Unsecured and unguaranteed, non-interest bearing, payable in cash, no fixed payment term and no impairment
Officers	-	-	<b>79,431</b>	169,762	
PISC	-	91,642	<b>311,363</b>	313,404	
	<b>₱2,762,755</b>	<b>₱2,153,087</b>	<b>₱1,772,205</b>	<b>₱6,645,306</b>	

The Parent Company granted cash advances to an individual stockholder and officers as financial support. Outstanding balances arising from the transaction are included in the "Other receivables" account in the statements of financial position.

Advances to PISC pertain to health benefits of PISC's employees which are paid by the Parent Company. Outstanding balances arising from the transaction are included in the "Other receivables" account in the statements of financial position.

b) Loans to stockholders and officers who are individuals

<b>Related party</b>	<b>Amount of transaction</b>		<b>Outstanding balance - note 8</b>		<b>Terms and conditions</b>
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>	
Salary loans to stockholders and officers	<b>₱326,130</b>	₱-	<b>₱959,130</b>	₱633,000	Unsecured and unguaranteed, payable thru salary deduction at 12% per annum, with maximum term of 2 years and no impairment

The Parent Company granted salary loans to its stockholders and officers as financial assistance. Outstanding balances arising from the transaction are included in the "Other receivables" account in the statements of financial position.

c) Management fee

Related party	Amount of transaction		Outstanding balance		Terms and conditions
	2022	2021	2022	2021	
TIEC	<b>₱1,800,000</b>	₱1,200,000	<b>₱-</b>	₱-	Unsecured and unguaranteed, non-interest bearing, payable in cash, no fixed payment term

The Parent Company pays management fee to TIEC in connection with the services rendered such as payroll, human resource and internal audit services amounting to ₱150,000 and ₱100,000 per month in 2022 and 2021, respectively. The total management fee expense incurred by the Parent Company is presented under "Operating expenses" in the statements of comprehensive income.

d) Acquired properties and agency agreement

In 2019, the Parent Company entered into an informal agreement with IRDC wherein the latter acts as the collecting agent for the Parent Company's rental income on the acquired properties in Bataan. As at December 31, 2022 and 2021, the rent receivable from lessees that are not yet collected and remitted by IRDC amounted to ₱7,526,830 and ₱39,570,603, respectively, and is included under "Other receivables" account in the statements of financial position (see Note 8). IRDC is required to remit immediately to the Parent Company any collection received from the lessee.

e) Reclamation project

In December 2017, the Parent Company entered into a contract with a stockholder to administer the reclamation of the 51,651 sqm land for port development. That stockholder had commissioned different contractors for the project including IRDC and TIDC. The stockholder is entitled to receive ₱100,000 per month of service for the project. However, a supplemental agreement was executed postponing the start of payment to the stockholder to January 2020. Service fee paid to the stockholder in 2022 and 2021 amounting to nil and ₱1,333,331, respectively, is included in professional fees under "Operating expenses" (see Note 30).

As at December 31, 2022, the reclamation project was still in its initial stage.

Compensation of Key Management Personnel

The compensation of the Parent Company's key management personnel included as part of salaries and bonuses under operating expenses consists of the following:

	2022	2021
Bonus	<b>₱4,744,804</b>	₱3,774,750
Short-term benefits	<b>3,740,163</b>	4,310,012
Retirement benefits	<b>4,764,886</b>	3,607,499
Per diem	<b>374,750</b>	210,550
	<b>₱13,624,603</b>	₱11,902,811

**36. LEASE COMMITMENTS**

The following are the significant commitments involving the Parent Company:

*Parent Company as lessee*

Operating lease agreements represents contracts entered into by the Parent Company's head office and branch offices are as follow:

- a. The Parent Company entered into a contract of lease with G.E. Antonino, Inc. for the use of office space. The leased premise is located at 10<sup>th</sup> floor "Suite B", G.E. Antonino building, T.M. Kalaw St., Ermita, Manila. Lease term is for a period of three years, which commenced on January 1, 2017 and ended on December 31, 2019, renewable thereafter as may be agreed upon by the parties. The Parent Company shall pay a rental fee of ₱255,490 inclusive of VAT every first five days of each calendar month with an escalation rate of three percent (3%) at every year. The lease was renewed for another three years commencing on January 1, 2020 and will end on December 31, 2022. The lease was renewed for five years commencing on January 1, 2023 and will end on December 31, 2027.

The details of the lease liability as of December 31 follow:

	December 31, 2022		December 31, 2021	
	Future MLP	PV of MLP	Future MLP	PV of MLP
Not later than one year	<b>₱3,670,601</b>	<b>₱1,512,549</b>	₱3,745,257	₱3,465,511
Later than one year but not later than five years	<b>15,820,911</b>	<b>11,147,526</b>	-	-
Total	<b>19,491,512</b>	<b>12,660,075</b>	3,745,257	3,465,511
Amount representing interest expense	<b>(6,831,437)</b>	-	(279,746)	-
Present value of minimum lease payments (MLP)	<b>₱12,660,075</b>	<b>₱12,660,075</b>	₱3,465,511	₱3,465,511

The roll-forward of lease liability is as follows:

	2022	2021
Lease liability at beginning of period	<b>₱3,465,511</b>	₱6,592,430
Additions	<b>12,660,075</b>	-
Interest expense	<b>279,746</b>	697,676
Payments	<b>(3,745,257)</b>	(3,824,595)
Lease liability at end of period	<b>12,660,075</b>	3,465,511
Less: Current portion	<b>1,512,549</b>	3,465,511
Noncurrent portion	<b>₱11,147,526</b>	₱-

- b. Lease of office space of the branches have terms of one year, renewable before the expiration of the contract.

Total rent expense related to short-term leases is as follows:

	2022	2021
Direct underwriting cost – note 30	P4,119,973	P3,587,962
Operating expenses – note 31	1,765,703	1,537,698
	<b>P5,885,676</b>	<b>P5,125,660</b>

*Parent Company as lessor*

The Parent Company entered into various operating lease agreements for its Investment properties and a portion of its Building and building improvements under the Property and equipment account with a term ranging from one to five years. Rental income in 2022 and 2021 amounted to P21,273,896 and P23,431,390, respectively (see Notes 14, 15 and 28).

**37. CONTINGENCIES**

The Parent Company is a defendant in several lawsuits arising from the normal course of carrying out its insurance business. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice seriously the Parent Company's position with regard to the outcome of these claims.

Also, the related interests and penalties on certain taxes which have not yet been remitted have not been recognized in the financial statements as the amount is not yet determinable.

**38. MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

<b>December 31, 2022</b>	Less than 12 months	Over 12 months	Total
<b>Assets</b>			
Cash and cash equivalents	P45,066,519	P-	P45,066,519
Short-term investments	663,345,500	-	663,345,500
Insurance receivables (net)	346,538,650	-	346,538,650
Reinsurance assets (net)	84,166,906	-	84,166,906
Other receivables (net)	53,610,777	-	53,610,777
DAC	138,375,740	-	138,375,740
Prepayments	1,792,859	-	1,792,859
Debt instruments at amortized cost	256,339,777	6,542,162	262,881,939
Financial assets at FVOCI	-	6,461,269	6,461,269
Assets held for sale	152,351,200	-	152,351,200
Property and equipment (net)	-	730,343,091	730,343,091
Investment properties	-	16,150,868	16,150,868
Reclamation project	-	201,809,118	201,809,118
Investment in subsidiaries and associate	-	658,938,814	658,938,814
Deferred tax assets	-	17,302,584	17,302,584
Other assets (net)	463,927,378	7,862,055	471,789,433
<b>Total assets</b>	<b>P2,205,515,306</b>	<b>P1,645,409,961</b>	<b>P3,850,925,267</b>
<b>Liabilities</b>			
Accounts payable and other liabilities	P449,084,862	P-	P449,084,862
Insurance contract liabilities	136,521,247	386,822,263	523,343,510
Due to reinsurers	82,275,391	-	82,275,391
Cash collaterals	8,317,858	-	8,317,858
Loans payable	1,440,753	2,063,971	3,504,724
Lease liability	1,512,549	11,147,526	12,660,075
Retirement benefits obligation	-	29,102,500	29,102,500
Deferred tax liabilities	-	63,334,282	63,334,282
<b>Total liabilities</b>	<b>P679,152,660</b>	<b>P492,470,542</b>	<b>P1,171,623,202</b>

December 31, 2021	Less than 12 months	Over 12 months	Total
<b>Assets</b>			
Cash and cash equivalents	P30,313,157	P-	P30,313,157
Insurance receivables (net)	475,347,850	-	475,347,850
Reinsurance assets (net)	48,419,502	-	48,419,502
Other receivables (net)	537,376,806	-	537,376,806
DAC	172,532,891	-	172,532,891
Prepayments	3,106,691	-	3,106,691
Debt instruments at amortized cost	139,064,497	10,547,982	149,612,479
Financial assets at FVOCI	-	4,554,307	4,554,307
Assets held for sale	52,416,527	-	52,416,527
Property and equipment (net)	-	869,108,806	869,108,806
Investment properties	-	14,995,418	14,995,418
Reclamation project	-	201,809,118	201,809,118
Investment in subsidiaries and associate	-	608,429,394	608,429,394
Deferred tax assets	-	14,269,344	14,269,344
Other assets (net)	96,221,968	29,884,521	126,106,489
<b>Total assets</b>	<b>P1,554,799,889</b>	<b>P1,753,598,890</b>	<b>P3,308,398,779</b>
<b>Liabilities</b>			
Accounts payable and other liabilities	P366,424,197	P-	P366,424,197
Insurance contract liabilities	71,600,610	446,269,528	517,870,138
Due to reinsurers	39,958,114	-	39,958,114
Cash collaterals	8,513,858	-	8,513,858
Loans payable	1,697,102	1,563,801	3,260,903
Lease liability	3,465,511	-	3,465,511
Retirement benefits obligation	-	27,498,927	27,498,927
Deferred tax liabilities	-	61,513,231	61,513,231
<b>Total liabilities</b>	<b>P491,659,392</b>	<b>P536,845,487</b>	<b>P1,028,504,879</b>

**39. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATION (RR) 15-2010**

On December 28, 2010 the Bureau of Internal Revenue (BIR) issued RR No.15-2010, which amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21- 2002 was further amended to include in the Notes to Financial Statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by PFRS.

- a. VAT sales during the year are as follow:

	2022
Output tax declared during the year	P67,723,910
Output VAT tax base	564,365,921

b. Details of VAT input taxes during the year are as follow:

	2022
Balance at beginning of year	P577,456
Add: Purchases	2,737,430
Less: Claim for tax credit/adjustments	(3,314,886)
Balance at end of year	-

c. Documentary stamp tax paid amounted to P73,497,242 in 2022.

d. The schedule of taxes and licenses follows:

	2022
Local government clearance and registration	P2,110,602
Deficiency tax	218,498
Real estate tax	333,172
	P2,662,272

e. The amount of withholding taxes follows:

	Category	2022
Expanded withholding taxes		P13,335,144
Tax on compensation and benefits		2,548,485
		P15,883,629

f. In 2022, the Parent Company paid deficiency taxes for taxable year 2016 amounting to P218,498.

The Parent Company has no other tax cases under preliminary investigation and/or prosecution in courts or bodies outside the BIR.

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