

SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.

**FINANCIAL STATEMENTS
DECEMBER 31, 2021**

**STATEMENT OF MANAGEMENT RESPONSIBILITY
FOR ANNUAL INCOME TAX RETURN**

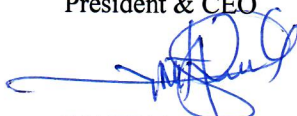
The Management of SGI Philippines General Insurance Company, Inc. is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2021. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2021 and the accompanying Annual Income Tax Return are in accordance with the books and records of SGI Philippines General Insurance Company, Inc. is complete and correct in all material respects. Management likewise affirms that:

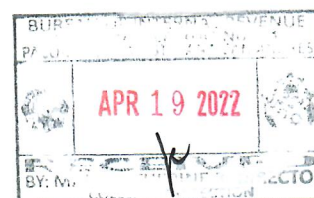
- a) The Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- b) Any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;
- c) SGI Philippines General Insurance Company, Inc. has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.



FARHAT HUSSAIN
President & CEO



MATIAS GUZMAN RUIZ
Treasurer





TEODORO SANTAMARIA AND CO.
CERTIFIED PUBLIC ACCOUNTANTS

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156 H.V. Dela Costa St. | (632) 8856-3649
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Trust Service Commitment


Report of Independent Auditor
To Accompany Income Tax Return

The Board of Directors and Stockholders
SGI Philippines General Insurance Company, Inc.
15th Floor, Citibank Tower
8741 Paseo de Roxas
Makati City, Philippines

We have audited the financial statements of **SGI Philippines General Insurance Company, Inc.** (the Company) for the year ended December 31, 2021, on which we have rendered the attached report dated April 13, 2022.

In compliance with Revenue Regulations V-1, we are stating that no partner of our Firm is related by consanguinity or affinity to the President or any principal stockholders and officers of the Company.

TEODORO SANTAMARIA AND CO.


By: Rachel Lydia T. Santamaria
Partner
CPA License No. 083524
Valid until December 9, 2023
BOA Accreditation No. 5593
Valid until September 26, 2024
SEC Accreditation No. 83524-SEC (Individual)
Valid until 2025 Financial Statements of SEC covered institutions
SEC Accreditation No. 5593-SEC (Firm)
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BIR A.N. 08-008055-001-2022 (Individual)
Valid until March 30, 2025
BIR A.N. 08-008055-000-2022 (Firm)
Valid until March 30, 2025
T.I.N. 102-921-088
PTR No.8868315 / Makati City
January 20, 2022

April 13, 2022
Makati City, Philippines



Report of Independent Auditors

The Board of Directors and Stockholders
SGI Philippines General Insurance Company, Inc.
15th Floor, Citibank Tower
8741 Paseo de Roxas
Makati City, Philippines

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of **SGI Philippines General Insurance Company, Inc.** (“the Company”), which comprise the statement of financial position as at **December 31, 2021** and 2020, and the related statements of profit, statements of comprehensive income, statements of changes in equity, and statements of cash flows for the year ended, and a summary of significant accounting policies and other explanatory information.

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

Basis for Opinion

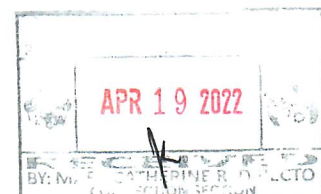
We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with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

Other Matters

The amended financial statements of the Company as at and for the year ended December 31, 2020, which are presented herein for comparative purposes, were audited by M.A. Mercado & Co. whose report thereon expressed an unqualified opinion on those statements on February 28, 2022.

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

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



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

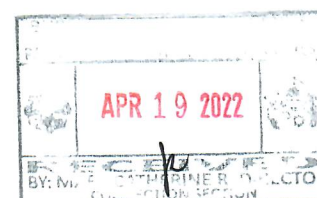
Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

Report on Other Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information disclosed in Note 29 of the Notes to financial statements is presented for the purpose of filing with the Bureau of Internal Revenue under Revenue Regulation No. 15-2010 and is not a required part of the basic financial statements. Such supplementary information is the responsibility of the management and has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

TEODORO SANTAMARIA AND CO.



By: Rachel Lydia T. Santamaria

Partner

CPA License No. 083524

Valid until December 9, 2023

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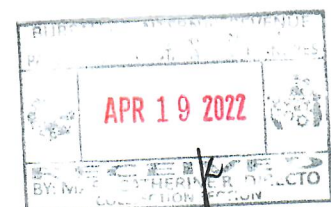
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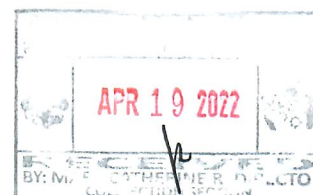


SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.
(A Non-life Insurance Company)

STATEMENTS OF FINANCIAL POSITION

	Notes	December 31	
		2021	2020
(In Philippine Peso)			
Assets			
Cash and cash equivalents	7	82,024,532	69,288,657
Insurance receivables	8	212,454,944	195,913,242
Financial asset at FVPL	9	972,506,230	972,340,807
Financial asset at FVOCI	9	1,026,266	1,143,446
Financial asset at amortized cost	9	228,818,607	229,513,674
Property and equipment - net	10	33,221,221	35,209,262
Deferred acquisition cost	11	13,467,661	11,120,367
Deferred reinsurance premium	12	32,160,342	21,522,868
Deferred tax assets	24	25,522,941	21,013,956
Other assets	13	17,233,288	17,198,547
Total Assets		1,618,436,032	1,574,264,826
LIABILITIES AND EQUITY			
Liabilities			
Insurance liabilities	14	217,346,195	183,932,170
Accounts and other payables	15	17,621,006	19,971,628
Retirement benefit liability	22	3,121,449	4,194,408
Deferred tax liability	24	3,366,915	3,336,109
Total liabilities		241,455,565	211,434,315
Equity			
Common stock	16	1,330,457,200	1,330,457,200
Share premium	16	14,912,155	14,912,155
Deposit for future subscription	16	-	3,831,396
Revaluation reserve on	9	(569,160)	(451,980)
Actuarial gains on retirement benefit liability, net	17	2,081,150	185,853
Revaluation increment in property	10	13,329,289	14,162,369
Retained earnings	16	17,227,033	190,718
Treasury shares	16	(457,200)	(457,200)
Total equity		1,376,980,467	1,362,830,511
Total Liabilities and Equity		1,618,436,032	1,574,264,826

See accompanying notes to financial statements.

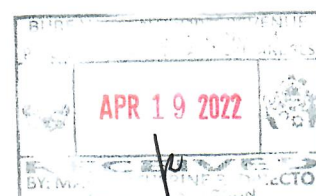


SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.
(A Non-life Insurance Company)

STATEMENTS OF PROFIT

	Notes	For the years ended December 31	
		2021	2020
(In Philippine Peso)			
Revenues			
Gross premiums written	18	150,763,407	93,189,987
Reinsurance premium ceded	18	(57,246,050)	(48,520,651)
Net premiums retained		93,517,357	44,669,336
Increase in reserve for unearned premiums	18	(13,570,516)	(26,462,135)
Premiums earned		79,946,841	18,207,201
Commissions earned	18	4,752,135	6,477,973
Gross underwriting income	18	84,698,976	24,685,174
Underwriting deductions	19	(68,740,924)	(17,535,115)
Net underwriting income		15,958,052	7,150,059
Other income	20	46,246,775	53,633,135
Gross profit		62,204,827	60,783,194
Operating expenses			
General and administrative expenses	21	(41,089,321)	(32,518,354)
Interest expense	21	(47,880)	-
Total expenses		(41,137,201)	(32,518,354)
Net income before income tax		21,067,626	28,264,840
Income tax expense			
Final	24	(8,851,317)	(8,873,554)
Deferred		8,736,224	7,040,221
		(115,093)	(1,833,333)
Net profit		20,952,533	26,431,507
Earnings	25	6.30	13.88

See accompanying notes to financial statements.

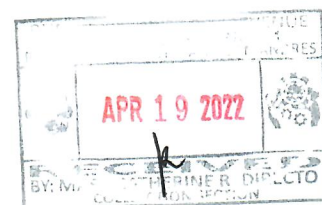


SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.
(A Non-life Insurance Company)

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	For the years ended December 31	
		2021	2020
(In Philippine Peso)			
Net profit		20,952,533	26,431,507
Other comprehensive income that recycle to profit or loss in subsequent periods:			
Reversal/Impairment loss on financial asset at FVOCI	9	(117,180)	(267,840)
Net unrealized gain/ (loss) on available for sale financial assets, net of tax			
Other comprehensive income that do not recycle to profit or loss in subsequent periods:			
Actuarial loss on retirement benefit plan	17	1,895,297	-
Total comprehensive income		22,730,650	26,163,667

See accompanying notes to financial statements.



SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.
(A Non-life Insurance Company)

STATEMENTS OF CHANGES IN EQUITY

	Common stock (Note 16)	Share premium (Note 16)	Treasury shares (Note 16)	Deposit for future subscription (Note 16)	Revaluation reserve on financial asset at FVOCI (Note 9)	Revaluation increment on property and equipments (Note 10)	Actuarial gain/(loss) on retirement benefit obligation (Note 17)	Retained Earnings (Note 16)	Total
(In Philippine Peso)									
Balance, January 1, 2020	710,457,200	22,426,225	(457,200)	-	(184,140)	14,995,451	185,853	(14,339,688)	733,083,701
Additional capital stock during the year	620,000,000	-	-	-	-	-	-	-	620,000,000
Deposits for future subscription	-	-	-	3,831,396	-	-	-	-	3,831,396
Attributable cost of issuance of stocks	-	(7,514,070)	-	-	-	-	-	-	(7,514,070)
Total comprehensive income	-	-	-	-	(267,840)	-	-	26,431,507	26,163,667
Expired excess NOLCO (Note 24)	-	-	-	-	-	-	-	(11,901,103)	(11,901,103)
Depreciation of property and equipment	-	-	-	-	-	(833,081)	-	-	(833,081)
Balances, December 31, 2020	1,330,457,200	14,912,155	(457,200)	3,831,396	(451,980)	14,162,369	185,853	190,718	1,362,830,511
Deposits for future subscription	-	-	-	(3,831,396)	-	-	-	-	(3,831,396)
Total comprehensive income	-	-	-	-	(117,180)	-	1,895,297	20,952,533	22,730,650
Expired NOLCO, MCIT (Note 17)	-	-	-	-	-	-	-	(3,916,218)	(3,916,218)
Depreciation of property and equipment	-	-	-	-	-	(833,081)	-	-	(833,081)
Balances, December 31, 2021	1,330,457,200	14,912,155	(457,200)	-	(569,160)	13,329,289	2,081,150	17,227,033	1,376,980,467

See accompanying notes to financial statements.

SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.
(A Non-life Insurance Company)

STATEMENTS OF CASH FLOWS

	Notes	For the years ended December 31	
		2021	2020
(In Philippine Peso)			
Cash flows from operating activities			
Income before income tax		21,067,626	28,264,840
Adjustments for:			
Depreciation	21	1,715,623	1,587,191
Increase in deferred acquisition costs	11	(2,347,294)	(9,742,923)
Increase in reserve for unearned premiums	18	13,570,516	26,462,135
Fair value adjustment on financial assets at FVOCI	9	(2,265,433)	(6,383,878)
Interest income	20	(43,938,788)	(51,732,243)
Retirement benefit expense	21, 22	1,436,404	1,411,340
Operating loss before working capital changes		(10,761,346)	(10,133,537)
(Increase)/decrease in insurance receivables	8	(16,541,701)	38,333,130
Increase in other assets	13	(1,007,811)	(5,368,767)
Increase/(decrease) in insurance contract liabilities	14	9,206,034	(60,455,433)
(Decrease)/increase in accounts and other payables	15	(2,350,622)	13,561,935
Net cash absorbed by operations		(21,455,445)	(24,062,673)
Income taxes paid	24	(9,123,556)	(9,388,957)
Net cash used in operating activities		(30,579,002)	(33,451,630)
Cash flows from investing activities			
Settlement/(Acquisition) of government bonds	9	2,795,076	(661,564,869)
Acquisition of property and equipment	10	(560,660)	(710,761)
Interest income earned	13, 20	44,911,858	51,732,243
Net cash provided by/ (used in) investing activities		47,146,273	(610,543,388)
Cash flows from financing activity			
Return of deposit for future subscription	16	(3,831,396)	-
Decrease in share premium	16	-	(7,514,070)
Net cash used in financing activity		(3,831,396)	(7,514,070)
Net increase/ (decrease) in cash and cash equivalents		12,735,875	(651,509,087)
Cash and cash equivalents, January 1	7	69,288,657	720,797,745
Cash and cash equivalents, December 31	7	82,024,531	69,288,657

See accompanying notes to financial statements.

SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.
(A Non-life Insurance Company)

NOTES TO FINANCIAL STATEMENTS
December 31, 2021
(Amounts in Philippine Peso Unless Otherwise Stated)

1. Corporate Information

SGI Philippines General Insurance Company, Inc. (the Company) is a domestic corporation which was incorporated in the Philippines on April 2, 1964.

The company is engaged in the business of nonlife insurance indemnifying any person against loss, damage, or liability arising from unknown or contingent events. Its current lines include all kinds of insurance (except life), reinsurance, insurance on buildings, automobiles, cars, and other motor vehicles goods and merchandise, goods in transit, goods in storage, fire insurance, earthquake, insurance against accident, and all other forms of undertakings.

As at December 31, 2021, the Company's total paid-up capital is 87.13% owned by Shriram General Insurance Co. Ltd., a corporation organized under the laws of India. The ownership of the rest of the stockholders ranges from less than 1% to 4.47%.

The registered office and principal address of the Company is at 15th Floor, Citibank Tower, 8741 Paseo De Roxas, Makati City, Philippines.

2. Summary of Significant Accounting Policies

Statement of Compliance

The accompanying financial statements were prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), Interpretation of the Philippine Interpretations Committee (PIC), Standing Interpretation Committee (SIC), and International Financial Reporting Standards Interpretations Committee (IFRS IC) which have been adopted by the Financial Reporting Standards Council (FRSC) and approved by the Board of Accountancy (BOA) and the Securities and Exchange Commission (SEC).

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost convention method, as modified for financial assets at FVPL, financial assets at FVOCI and financial assets at amortized cost. The preparation of the financial statements in accordance with PFRS requires the use of critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are discussed in Note 3.

Functional and Presentation Currency

These financial statements are presented in Philippine Peso, the Company's functional currency and all values are rounded to the nearest Peso, except when otherwise indicated.

Current Versus Non-current Classification

The Company presents assets and liabilities in the statement of financial position on current/non-current classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed within a normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled within a normal operating cycle;
- It is held primarily for trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Company adopted the following new standards and amendment to standards effective January 1, 2021 and April 1, 2021. Except as otherwise indicated, the adoption of these new standards and amendment to standards did not significantly affect the financial statements of the Company.

Interest Rate Benchmark Reform Phase 2 (Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4 and PFRS 16)

The amendments state that an entity should apply those requirements assuming that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of interest rate benchmark reform. The changes amend the hedge accounting requirements in PFRS 9 and PAS 39 for hedges of the benchmark component of interest rate risk that are not contractually specified and that are affected by interest rate benchmark reform. The amendments are effective for annual periods beginning on or after January 1, 2021, with earlier application permitted. They should be applied retrospectively, and restatement of prior periods is not required, however entities can restate prior periods, if it is possible without the use of hindsight.

The amendment did not have a significant effect on the Company's financial statements.

Amendments to PFRS 16, COVID-19-Related Rent Concessions beyond 30 June 2021

The amendments provide relief to lessees from applying the PFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the Covid-19 pandemic. The amendments apply to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2021, provided the other conditions for applying the practical expedient are met. The 2021 amendments extend the practical expedient to now apply to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022. An entity shall apply these amendments to annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted, including in financial statements not authorized for issue at 31 March 2021.

The amendment did not have a significant effect on the Company's financial statements.

Future Adoption of New or Revised and Amendments to Standards

The Company will adopt the following new standards and amendments to standards when these become effective and applicable. Except as otherwise indicated, the Company does not expect the adoption of these new standards and amendments to standards to have a significant effect on the financial statements.

Effective for annual periods beginning on or after January 1, 2022:

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

The amendments to PFRS 3 Business Combination – Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of PFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37 or IFRIC Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance on PFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

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

These amendments are not applicable and will have no significant impact on the Company.

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

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

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

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

- *Amendment to PAS 37 Onerous Contracts – Cost of Fulfilling a Contract*

The amendments specify which cost an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless there are explicitly chargeable to the counterparty under the contract.

The amendments are not applicable and will have no significant impact on the Company.

Annual Improvements to PFRS Standards 2018-2020 Cycle:

- *Amendments to PFRS 1 First-time Adoption of Philippine Financial Reporting Standards- Subsidiary as a first-time adopter*

Annual improvements to PFRS standards process, the amendment to PFRS 1 First-time Adoption of Philippine Financial Reporting Standards. The amendments permit a subsidiary that elects to apply paragraph D16 (a) of PFRS 1 to measure cumulative translation difference using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16 (a) of PFRS 1.

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

The amendments are not applicable and will have no significant impact on the Company.

- *Amendment to PFRS 9 Financial Instruments – Fee in the '10 per cent' test for derecognition of financial liabilities*

As part of its 2018-2020 annual improvements to PFRS, the amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning on the annual reporting period in which the entity first applies the amendment.

The amendment is not expected to have a material effect on the Company.

- *Illustrative Example Accompanying PFRS 16 Lease – Lease Incentives*

The improvement merely removes from the example the illustration of the reimbursement of leasehold improvements by lessor in order to resolve any potential confusion regarding the treatment of lease incentives.

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

The amendment is not expected to have a material effect on the Company.

Effective for annual periods beginning on or after January 1, 2023. The following amendments are not expected to have a material effect on the Company, unless otherwise stated:

- *Amendments to PFRS 17 Insurance Contracts*

The amendments to PFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4 Insurance Contracts (PFRS 4) that was issued in 2005. PFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous

local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

PFRS 17 is effective for reporting periods beginning on or after 1 January 2023 (amended to January 1, 2025), with comparative figures required. Early application is permitted provided the entity also applies PFRS 9 and PFRS 15 on or before the date it first applies PFRS 17.

These amendments are not applicable and have no significant impact on the Company's financial performance and financial position.

- *Amendments to PAS 1 Classification of Liabilities as Current or Non-current*
The amendments to paragraph 69 to 76 of PAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:
 - What is meant by a right to defer settlement
 - That a right to defer must exist at the end of the reporting period
 - That classification is unaffected by the likelihood that an entity will exercise its deferral right
 - That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively.

- *Amendments to PAS 1 and PFRS Practice Statement 2, Disclosure of Accounting Policies*
The amendments to PAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to PFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments to PAS 1 will be effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted.
- *Amendments to PAS 8 Definition of Accounting Estimates*
The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events. The amendments to PAS 8 will be effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted.
- *Amendments to PAS 12 Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction*
The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.

Deferred effectivity

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

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

IC Circular Letter (ICL) No. 2016-67

On December 28, 2016 the IC issued IC Circular Letter (ICL) No. 2016-67, *Valuation Standards for Non-life Insurance Policy Reserves*, which supersedes Circular Letter No. 2015-32. The following are the more significant provisions of this Circular:

A non-life insurance company shall maintain reserves for its written policies, which shall be charged as a liability in any determination of its financial condition, as required by the IC, in accordance to Sections 219 and 220 of the New Insurance Code (RA 10607), as well as this Valuation Standards for Life Insurance Policy Reserves.

Claims Liabilities

- a. Claims liabilities for both direct business and assumed treaty and facultative reinsurance business shall be calculated as the sum of outstanding claims reserve, claims handling expense and IBNR, with MfAD.
- b. Outstanding claims reserve shall be based on actual claims reported but have not been settled as of valuation date. The company shall ensure integrity of the data inputs as well as minimize uncertainties in the claims processing.
- c. The IBNR shall be calculated based on standard actuarial projection techniques or combinations of such techniques, such as but not limited to the chain ladder approach, the expected loss ratio approach, and the Bornhuetter-Ferguson (BF) method. The Actuary shall determine the appropriateness of the methodology considering the characteristics of the data, such as maturity of the business.
- d. The Claims liabilities shall include a provision for Claims handling expenses, which covers the estimated expenses of settling all claims, both reported and unreported, outstanding as of valuation date.
- e. The Actuary shall ensure the reliability of the expected loss ratio by obtaining estimates from various sources, such as underwriters, the business plan, pricing actuaries, market statistics, or from a historic view of profitability and loss ratios.
- f. In valuing Claims liabilities, the Actuary should consider other factors such as but not limited to: varying expense structure in run-off situations, large losses arising from significant past events, operational changes in claims management, underwriting changes such as business mix and premium rate changes, changes in reinsurance program and changes in claims handling process, and external conditions.
- g. To ensure sufficiency of reserves, the Actuary shall conduct a back-testing exercise of the IBNR by comparing the previous year's IBNR of expected current year claim developments, with actual current year claim developments. In cases where the IBNR

has proven insufficient to cover actual claims development, the Actuary shall revisit the assumptions for IBNR valuation and document the rationale for this deterioration.

IC Circular Letter (ICL) No. 2016-69

On December 28, 2016 the IC issued IC Circular Letter (ICL) No. 2016-69, *Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves, and Amended Risk-Based Capital (RBC2) Framework*.

The following are the more significant provisions of this Circular:

1. Financial Reporting Framework (FRF): CL No. 2016-65.
2. Valuation Standards for Life Insurance Policy Reserves: CL No. 2016-66
3. Valuation Standards for Non-Life Insurance Policy Reserves: CL No. 2016-67.

For the initial year of implementation, the requirements will be the relaxed as follows:

Premiums Liabilities

For 2017, companies shall be allowed to set up as Premium Liabilities the Unearned Premium Reserves (UPR) instead of the higher of the UPR and Unexpired Risk Reserve (URR), determined in accordance with Section 7.2 of the Circular Letter No. 2016-67.

Starting 2018, the Premium Liabilities shall be determined in accordance with the valuation standards prescribed under the Circular Letter No. 2016-67.

Claims Liabilities

Claims Liabilities shall be determined in accordance with the valuation standards prescribed under Section 8 of CL No. 2016-67.

For 2017, the companies shall be allowed to set the Margin for Adverse Deviation (MfAD) to zero (0).

IC Circular Letter (ICL) No. 2018-19

On March 9, 2018 the IC issued IC Circular Letter (ICL) No. 2018-19, *Amendment to Circular Letter No. 2016-69 "Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves, and Amended Risk-Based Capital (RBC2) Framework."*

The following are the more significant provisions of this Circular:

Margin for Adverse Deviation

MfAD shall be company-specific. The companies shall submit to the IC the documents and certification signed by an IC-accredited actuary to support the computation of their MfAD.

Companies shall be allowed to set the MfAD as follows:

Period Covered	Percentage (%) of company-specific MfAD
2017	0%
2018	50%
2019 onwards	100%

This amendatory circular shall take effect immediately. Except as amended hereby, all other provisions of CL No. 2016-69 shall remain effective.

The above ICLs become effective on January 1, 2017. The Company assesses the effect of this circular and has made disclosures in the notes to the financial statement based on its parallel run as of December 31, 2021 and 2020.

Significant Accounting Policies

Cash and Cash Equivalents

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

Foreign Currency Translation

Transactions in foreign currency are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated using the functional currency rate of exchange ruling at the reporting date. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. All foreign exchange differences are taken to profit or loss, except where it relates to equity securities where gains or losses are recognized directly in other comprehensive income, the gain or loss is then recognized net of the exchange component in other comprehensive income.

Financial Instruments

Date of Recognition

Financial instruments are recognized in the statements of financial position when the Company becomes a party to the contractual provisions of the instrument. All regular way of purchases or sales of financial assets are recognized on the trade date, which is the date the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The Company has no financial liabilities at FVPL or derivatives for the years ended December 31, 2021 and 2020.

Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described below and in the succeeding pages.

Financial Assets at Amortized Cost

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

- the asset is held within the company's business model whose objective is to hold financial assets in order to collect contractual cash flows ("held to collect"); and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

All financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Where the business model is to hold assets to collect contractual cash flows, the Company assesses whether the financial instruments' cash flows represent

SPPI. In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

The Company's financial assets at amortized cost are presented in the statement of financial position as Cash and Cash Equivalents, Loans and Other receivables, Investment securities at amortized cost and certain accounts under Other Assets account in the statement of financial position. For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, and investment securities at amortized cost with original maturities of three months or less from placement date.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the statement of income as part of Interest Income.

Financial Assets at Fair Value Through Other Comprehensive Income

The Company accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,
- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

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

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the equity account is not reclassified to profit or loss but is reclassified directly to Retained Earnings account except for those debt securities classified as FVOCI wherein fair value changes are recycled back to profit or loss.

Any dividends earned on holding equity instruments are recognized in profit or loss as part of Miscellaneous under Other Operating Income account, when the Company's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Company, and, the amount of dividend can be measured reliably, unless the dividends clearly represent recovery of a part of the cost of the investment.

Financial Assets at Fair Value Through Profit or Loss

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVPL. Also, equity securities are classified as financial assets at FVPL, unless the Company designates an

equity investment that is not held for trading as at FVOCI at initial recognition. The Company's financial assets at FVPL include equity securities which are held for trading purposes or designated as at FVPL. Financial assets at FVPL are measured at fair value with gains or losses recognized in profit or loss as part of Trading Gain – net under Other Operating Income in the statements of income. Related transaction costs are recognized directly as expense in profit or loss. The fair values of these financial assets are determined by reference to active market transactions or using valuation technique when no active market exists. Interest earned on these investments is recorded as Interest Income and dividend income is reported as part of Dividends both under Other Income account in the statements of income. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI. The Company can only reclassify financial assets if the objective of its business model for managing those financial assets changes.

Accordingly, the Company is required to reclassify financial assets:

- (i) from amortized cost to FVPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and,
- (ii) from FVPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Company's business model will take effect only at the beginning of the next reporting period following the change in the business model.

Effective Interest Rate Method and Interest Income

Interest income is recognized using the effective interest rate (EIR) method for all financial instrument measured at amortized cost and financial instrument designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI are recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset. The EIR is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of EIR. The Company recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges). If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive (negative) adjustment to the carrying amount of the asset in the balance sheet with an increase (reduction) in Interest income. The adjustment is subsequently amortized through interest and similar income in the statements of income. The Company calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Impairment of Financial Assets

The Company assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost, debt instruments measured at FVOCI and other contingent accounts. No impairment loss is recognized on equity investments. Recognition of credit losses or impairment is no longer dependent on the Company's identification of a credit loss event. Instead, the Company considers a broader range of information in assessing credit risk and

measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets. The Company measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments for which they are measured as 12-month ECL:

- debt securities that are identified to have ‘low credit risk’ at the reporting date; and,
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for impairment is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as ‘Stage 1’ financial instruments). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as ‘Stage 2’ financial instruments). ‘Stage 2’ financial instruments also include those loan accounts and facilities where the credit risk has improved and have been reclassified from ‘Stage 3’. A lifetime ECL shall be recognized for ‘Stage 3’ financial instruments, which include financial instruments that are subsequently credit-impaired, as well as purchased or originated credit impaired (POCI) assets.

Measurement of ECL The key elements used in the calculation of ECL are as follows:

- Probability of Default (PD) – it is an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.
- Loss Given Default (LGD) – it is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD), or over the remaining lifetime or lifetime LGD). It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those the Company would expect to receive, including the realization of any collateral. It is presented as a percentage loss per unit of exposure at the time of default.
- Exposure at Default (EAD) – it represents the gross carrying amount of the financial instruments subject to impairment calculation; hence, this is the amount that the Group expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the Company shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.

The measurement of the ECL reflects:

- (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (ii) the time value of money; and,
- (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Derecognition of Financial Assets

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the

transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Other Financial Receivables

Other financial receivables include “Insurance receivables” which are recorded when due and measured at the original invoice amount then subsequently carried at amortized cost less allowance from any uncollectible amount. The carrying value of insurance receivables is reviewed from impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, the impairment loss is recorded in the Statement of comprehensive income.

Impairment of Financial Assets at Amortized Cost

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in the statements of comprehensive income. The asset together with the associated allowances are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statements of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Impairment of Insurance Receivable

A provision for impairment is made when there is objective evidence (such as probability of insolvency or significant financial difficulties of the debtor) that the company will not be able to collect all the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Fair Value Measurement

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 Company.

The fair value of an asset or a liability is measured using 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 nonfinancial 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 Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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

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

Other Financial Liabilities

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

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. The amortization is included as part of interest expense in the statements of comprehensive income. Any effect of restatement of foreign currency-denominated liabilities is recognized in foreign exchange gains/ (losses) account in the statements of comprehensive income.

As at December 31, 2021 and 2020, the Company's other financial liabilities include insurance liabilities and accounts and other payables. Other financial liabilities as at December 31, 2020 also include advances from stockholders which pertain to deposit for future subscriptions as detailed in Notes 6 and 16.

Derecognition of Financial Liabilities

Financial liabilities are derecognized in the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

Derivative Financial Instruments

Derivatives are initially recognized at fair value on the date on which derivative contract is entered into and are subsequently measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The best evidence of the fair value of a derivative at initial recognition is the transaction price (the fair value of the consideration given or received) unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Company recognizes profit or loss at initial recognition. When entering into a transaction, the financial instrument is recognized initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference in fair value indicated by valuation techniques is recognized as profit or loss depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable. The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks as well as other factors.

Financial assets are no longer bifurcated; instead, the whole instrument (including the host contract) is measured at FVPL. Certain derivatives, if any, may be designated as either:

- (i) hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedge); or,
- (ii) hedges of highly probable future cash flows attributable to a recognized asset or liability, or a forecasted transaction (cash flow hedge).

Changes in the fair value of derivatives are recognized in profit or loss. The method of recognizing the resulting fair value gain or loss on derivatives that qualify as hedging instrument, if any, depends on the hedging relationship designated by the Company.

As of December 31, 2021 and 2020, the Company has no derivative financial instruments.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

Product Classification

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the

policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

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

Insurance and investment contracts are further classified as being with or without discretionary participation features (DPF). DPF is a contractual right to receive, as a supplement to guaranteed contracts, additional benefits that are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the issuer, and that are contractually based on the performance of a specified pool of contracts or a specified type of contract, realized and or unrealized investment returns on a specified pool of assets held by the issuer, or the profit or loss of the company, fund or other entity that issues the contract.

For financial options and guarantees which are not closely related to the host insurance contract and/or investment contract with DPF, bifurcation is required to measure these embedded financial derivatives separately at FVPL. Bifurcation is not required if the embedded derivative is itself an insurance contract and/or investment contract with DPF or when the host insurance contract and/or investment contract with DPF itself is measured at FVPL. The options and guarantees within the insurance contracts issued by the Company are treated as derivative financial instruments are clearly and closely related to the host insurance and therefore not bifurcated subsequently. As such, the Company does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). Likewise, the embedded derivative in unit-linked insurance contracts linking the payments on the contract to units of an interval investment fund meets the definition of an insurance contract and is therefore not accounted separately from the host insurance contract.

Insurance Contract

Non-Life insurance contract liabilities. Non-life insurance contract are recognized when the contracts are entered into and the premiums are recognized. The reserve for Non-life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing in each life operation. Assumptions and actuarial valuation methods are also subject to provisions of the Insurance Code (the Code) and guidelines set by the Insurance Commission.

Insurance contracts with fixed and guaranteed terms. The liability is determined as the expected discounted value of the benefit payments less the expected discounted value of the theoretical premiums that would be required to meet the benefits based on the valuation assumptions used. The liability is based on mortality, morbidity and investment income assumptions that are established at the time the contract is issued. The Company has different assumptions for different products. However, liabilities for contractual benefits are computed to comply with statutory requirements, which require discount rates to be not more than 6% compound interest and mortality and morbidity rates to be in accordance with the standard table of mortality and morbidity. Reserves are computed per thousand of sum insured and depend on the issue age and policy duration. The net change in legal policy reserves during the year is taken to profit or loss. This is not applicable to the Company.

Contract Classification

The company issues short-term insurance contracts categorized as:

Casualty insurance contracts protect the assured against the risk of causing them harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events.

Property insurance contracts mainly compensate the Company's assured for damages suffered to their properties or for the value of property lost.

Short-duration accident insurance protects the assured from the consequences of events such as death or disability.

An insurance contract remains in force at the inception date of policy until its maturity regardless of number of claims reported and for as long as the coverage is sufficient.

Deferred Acquisition Costs

Costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts such as commissions, certain underwriting and policy issue costs and inspection fees, are deferred and charged to expense in proportion to premium revenue recognized.

Claim Cost Recognition

Liabilities for unpaid claim costs and claim adjustment expenses relating to insurance contracts are accrued when insured events occur.

The liabilities for unpaid claims (including those for incurred but not reported) are based on the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense of the period in which the estimates are changed or payments are made.

Share in recoveries on claims are evaluated in terms of the estimated realizable values of the salvage recoverable. Recoveries on claims are recognized in the Statement of comprehensive income and expenses in the period the recoveries are determined. Recoverable amounts are presented as part of Reinsurance assets.

Estimated recoveries on settled and unsettled claims are evaluated in terms of the estimated realizable values of the salvage recoverable and deducted from the liability for unpaid claims.

Liability Adequacy Test

At each reporting date, liability adequacy test are performed to ensure the adequacy of the insurance liabilities. The test considers current best estimates of all contractual cash flows, claims and claims handling cost. If the test shows that the liability is inadequate, the entire deficiency is recognized in the statement of comprehensive income.

Reinsurance

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

Amounts recoverable from insurers that relate to paid and unpaid claims and claim adjustment expenses are classified as assets. Reinsurance receivables and the related liabilities are reported separately.

Reinsurance commissions are deferred and deducted from the applicable deferred acquisition costs, subject to the same amortization method as the related acquisition costs.

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

The Company also assumes reinsurance risk in the normal course of business. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balance due to reinsurance companies, which are included in insurance payable account in the Statement of financial position. Amounts payable are estimated in a manner consistent with the associated insurance contract.

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

Property and Equipment

Property and equipment, including owner-occupied properties, are computed at cost less accumulated depreciation, amortization and accumulated impairment in value. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

Office premises and improvements	40 years
Furnitures and office equipment	10 years
Transportation and computer equipment	5 years

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to operations as incurred. Leasehold improvements are amortized over estimated useful life of the improvements or the term of the relate lease, whichever is shorter. When assets are sold, retired or otherwise disposed of, their cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss charged to current operations.

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at each reporting period.

Derecognition of Property and Equipment

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of comprehensive income in the year the item is derecognized. This is not applicable to items that still have useful lives but are currently classified as idle. Depreciation continues for those items until fully depreciated or disposed.

Impairment of Non-financial Assets

At each reporting date, the Company assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists (or when annual impairment testing for an asset is required), the Company estimates the recoverable amount of the impaired assets. The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use is the present value of future cash flows expected to be derived

from an asset while fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties less cost of disposal. Where the carrying amount of an asset exceeds its recoverable amount, the impaired asset is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

An impairment loss is charged to profit or loss in the period when it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged directly to the revaluation increment of the said asset.

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the net recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its net recoverable amount. The reversal can be made only to the extent that the resulting carrying value does not exceed the carrying value that would have been determined, net of depreciation and amortization, had no impairment loss been recognized. Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Related Party Relationships and Transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence over the party in making financial and operating decisions. This includes: (1) individual owning, directly or indirectly through one or more intermediaries, control, or are controlled by, or under common control with, the Company; (2) associates; (3) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

Transactions between related parties are accounted for at arms' length prices or on terms similar to those offered to non-related entities in an economically comparable market.

Equity

Capital stock is determined using the nominal value of shares that have been issued. Share premium represents the excess of consideration received when the Company issues shares over its par. Incremental costs incurred directly attributable to the issuance of new shares are treated as deduction from APIC.

Treasury shares are portion of shares that a company keeps in their own treasury. Treasury stock may have come from a repurchase or buyback from shareholders; or it may have never been issued to the public in the first place. These shares don't pay dividends, have no voting rights, and should not be included in shares outstanding calculations.

Revaluation reserve on financial assets at FVOCI comprise of gains and losses due changes in fair value of financial assets at FVOCI.

Revaluation increment in property and equipment results from appraisal of property and equipment reduced by depreciation on the appraisal increment.

Retained earnings/ (deficit) include all current and prior period results as disclosed in the Statement of comprehensive income.

Revenue Recognition

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

- Premiums are recognized as revenue from short duration insurance contracts over the period of the contracts using the 24th method, except for marine cargo insurance contracts. The gross premiums written for marine cargo insurance policies for the first ten months of the year and the last two months of the preceding year are recognized as premium income in the current year. The portion of the premiums written that relate to the unexpired periods of the policies at Reporting periods and the last two months of marine cargo policies are accounted for as reserve for unearned premiums and presented in the liabilities section of the Statement of financial position, under “Reserve for unearned premiums”. The related reinsurance premiums that pertain to the unexpired periods accounted as for as deferred reinsurance premiums shown in the Statement of financial position. The net changes in these accounts between Reporting period are charged to or credited against income for the year;
- Commissions income are recognized as revenue from short duration insurance contracts over the period of the contracts using the 24th method, except for marine cargo insurance contracts where the deferred portion pertains to the commissions for the last two months of the year. The portion of the commissions that relates to the unexpired periods of the policies at the reporting period is accounted for as “Deferred reinsurance commissions” and presented in the liabilities section of the statement of financial position.
- Dividend income is recognized when the right to receive dividends is established;
- Interest income is recognized as the interest accrues (taking into account the effective yield on the interest);

Revenue is measured by reference to the fair value of consideration received or receivable by the Company for the services provided, excluding value added tax (VAT).

Expense Recognition

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease equity, other than those relating to distributions to equity participants. Expenses are recognized when the related revenue is earned or when the service is incurred.

Leases

Policy applicable upon adoption of PFRS 16

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

Short-term leases and leases of low-value assets

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

Retirement Benefit Costs

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

The cost of providing benefits under defined benefit plan is actuarially determined using the projected unit credit method. The retirement benefit costs comprise of the service cost, net interest on the net defined liability or asset and the rereasurements of net defined liability or assets.

Service costs which include service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendments or curtailments occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined liability or asset. Net interest on the net defined liability or asset is recognized as expense or income in profit or loss.

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

Income Taxes

Current tax assets or liabilities comprise those claims from, or obligation to, taxation authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting period. They are calculated according to the tax rates and tax laws applicable to the calendar periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the Statement of comprehensive income.

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

Under the balance sheet liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused net operating loss carry over (NOLCO) and unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax, if there are any, to the extent that it is probable that taxable profit will be available against deductible temporary differences.

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

The carrying amount of deferred tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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

Under the present Revenue Code, MCIT of two percent (2%) of the gross income as of the end of the taxable year is hereby imposed on a corporation beginning on the fourth year immediately following the year in which such corporation commenced its business operations, when the income tax computed based on MCIT is greater than the tax computed as normal tax under Subsection (A) of Section 27 of the Code, for the taxable year. The rate has been reduced to 1% under the CREATE Act. (See Note 24)

Under current tax laws, corporations subject to income tax are required to file quarterly returns and pay the corresponding amount of tax. Certain forms of income received by the Company such as earnings from bank deposits, interest and others have been subjected to withholding tax at various rates specified by law and remitted by payors for the account of the Company. An adjustment return is filed at the end of the taxable year at which time the balance, if any, shall be paid.

Earnings Per Share

Earnings per share is computed by dividing net profit by the weighted average number of shares subscribed and issued and outstanding at the end of the year.

Provisions and Contingencies

Provisions are recognized when present obligation will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at reporting period, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required if settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values, where time value of money is material.

Provisions are reviewed at each reporting period and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized in the financial statements, however, they are disclosed if material. In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

Events After the Reporting Period

Events after the reporting period that provide additional information about the Company's financial position at the reporting period (adjusting events) are reflected in the financial statements. Post year-end events are disclosed in the notes when material.

3. Significant Accounting Judgments and Estimates

The Company's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Actual results may ultimately differ from these estimates.

Critical Judgments in Applying Accounting Policies

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

Determination of Functional and Presentation Currency

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

Determination of Operating Lease

Company as a lessee – The Company entered into a lease agreement with a term of one (1) year and renewable upon mutual terms by the parties.

Rental expense amounted to P2,100,523 in 2021 and P1,627,506 in 2020 (Please see Note 21).

Categories of Financial Instruments

The company classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument based on the substance of the contractual arrangement and the definitions of financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification at initial recognition and re-evaluates this designation at every financial reporting date (Please see Note 5).

Impairment of Financial Assets

The Company determines when an investment is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its costs; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2 – Provisions.

Estimates

The estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances of the Company's financial statements. Actual results could differ from those estimates. The following are the relevant estimates performed by Management on its December 31, 2021 and 2020 financial statements:

Valuation of Financial Instruments

The Company carries certain financial instruments at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence from observable active markets and other valuation techniques including the use of mathematical models. However, the amount of changes in fair value would differ if the Company utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity.

Management valuation methods and assumptions in determining the fair value of the Company's financial instrument are discussed in Note 5.

Allowance for Impairment Losses of Receivables

Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Company evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Company's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

Allowance for impairment losses amounted P3,7745,805 in both 2021 and 2020. (Note 8)

Useful Life of Property and Equipment

The 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 of property and equipment are reviewed periodically and are 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 assets. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in estimated useful lives of property and equipment would increase recorded operating expenses and decrease non-current assets.

Property and equipment, net of accumulated depreciation, amounted to P33,221,221 in 2021 and P35,209,262 in 2020 (Please see Note 10).

Impairment of Non-financial Assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. The Company's policy on estimating the impairment of non-financial asset is discussed in detail in Note 2 – Impairment of non-financial assets. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations. Based on Management's assessment, there is no impairment loss on non-financial assets needed to be recognized in 2021 and 2020.

Realizable Amount of Deferred Income Tax Assets

The Company reviews its deferred income tax assets at each reporting period 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 income tax assets to be utilized.

Deferred income tax assets amounted to P25,522,941 and P21,013,956 in 2021 and 2020, respectively (Please see Note 24).

Liability for Insurance Claims

Estimates have been made both of expected ultimate cost of claims reported at the reporting period and for the expected ultimate cost of the claims incurred but not yet reported at the reporting period. It can take significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, unreported claims significantly comprise the claims payable presented in the Statement of financial position. At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to the Statement of comprehensive income at a non-discounted amount for the time value of money.

Insurance claims payable as of December 31, 2021 and 2020 amounted to P74,581,137 and P70,736,375, respectively. (Please see Note 14).

Employee Retirement Benefits

The determination of the Company's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by an actuary in calculating such amounts. Those assumptions are described in Note 23 and include, among others, discount rate, expected rate of return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expenses and recorded obligation in such future periods.

The estimated retirement benefits obligation amounted to P3,121,449 in 2021 and P4,194,408 in 2020. The accumulated actuarial gain, net of tax, amounted to P2,081,150 in 2021 and P185,853 in 2020. Retirement benefit expense amounted to P1,436,404 in 2021 and P1,411,340 in 2020. (Note 22)

4. Risk Management Objectives and Policies

The Company is exposed to a variety of financial risk in relation to its financial instruments. The Company's financial assets and liabilities by category are summarized in Note 5. The main types of risks are insurance risk, market, credit and liquidity.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write option. The most significant financial risks to which the Company is exposed to are described as follows.

Insurance Risk

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under the insurance contracts is that actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency of the severity of claims and benefits are greater than estimated.

Insurance events are random and then the actual number of the amount of claims and benefits will vary from year to year from the estimated established using statistical techniques. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in the subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of

risks to reduce the variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Apart from the Company's risk management function, regulators also apply a vital role in the insurance industry in ensuring that policyholders and creditors are assured of any claims that may arise within the term of the policy. The Insurance Commission (IC) imposes:

- Risk-based capital framework that will effectively manage the equity requirement of the Company
- Margin of solvency which requires an appropriate ratio of admitted assets over admitted liabilities
- A mandatory reserve of highly-liquid debt instruments to answer the claims of policyholders and creditors
- And minimum statutory net worth to streamline the operation of insurance industry.

Internally, the Company manages its risks through underwriting strategy and reinsurance arrangements.

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured events. Other reinsurance facility entered includes surplus treaties, catastrophe cover and facultative reinsurance.

The concentration of insurance claims as of December 31, 2021 and 2020 are as follows:

2021				
	Gross	RI Recoverable	Net Liability	%
Fire	52,668,314	34,378,419	18,289,895	50%
Engineering	2,491,873	2,135,674	356,199	1%
Bonds	5,000,000	-	5,000,000	14%
Motor Car	13,132,155	377,347	12,754,808	35%
Marine	851,000	690,625	160,375	0%
PA	374,719	80,440	294,279	1%
Miscellaneous	63,076	25,231	37,845	0%
	74,581,137	37,687,736	36,893,401	100%
2020				
	Gross	RI Recoverable	Net Liability	%
Fire	53,293,323	32,979,913	20,313,410	60%
Engineering	2,261,299	1,447,716	813,583	2%
Bonds	5,000,000	-	5,000,000	15%
Motor Car	7,594,454	303,068	7,291,386	22%
Marine	851,000	690,625	160,375	0%
PA	1,715,273	1,667,677	47,596	0%
Miscellaneous	21,025	21,025	-	0%
	70,736,375	37,110,024	33,626,351	100%

Financial Risk

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets may not be 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 risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risk that the Company primarily faces due to the nature of its investments and liabilities is interest rate risk.

Market Risk

The Company is exposed to market risk through its use of financial instruments and specifically to interest rate risk which result from both operating and financing activities.

Interest Rate Risk

Interest rate risk is the risk to future earnings or equity arising from the movement of interest rates. Changes in interest rates affect (1) the Company's earnings by changing its net interest income and the level of other interest rate-sensitive income and operating expenses; and (2) the underlying economic value of the Company's assets, liabilities and off-balance sheet instruments by means of reducing the present value of future cash flows (and in some cases, the cash flows themselves). The Company exposure to changes in market interest rates is only through the "Cash in bank", "Cash equivalents" and "Government bonds", which is subject to variable interest rates.

The following table demonstrates sensitivity of the Company's profit before tax and equity to reasonable possible changes in interest rate of +10/-10 and +100/-100 basis points of the Company's cash in banks and notes payable, respectively, on December 31, 2021 and December 31, 2020. These changes are considered to be reasonably possible based on observation of current market conditions. All other variables are held constant.

	Change in	Effect on		Change in	Effect on	
	basis points	Net results	Equity	basis points	Net results	Equity
2021						
Financial assets						
Cash and						
cash equivalents	+10	820,245	656,036	-10	(820,245)	(656,036)
Government bonds	+100	1,201,325	961,060	-100	(1,201,325)	(961,060)
		2,021,570	1,617,096		(2,021,570)	(1,617,096)
2020						
Financial assets						
Cash and						
cash equivalents	+10	692,687	554,149	-10	(692,687)	(554,149)
Government bonds	+100	1,201,854	961,484	-100	(1,201,854)	(961,484)
		1,894,541	1,515,633		(1,894,541)	(1,515,633)

Foreign Currency Risks

The Company has no significant exposure to foreign currency risk as most transactions are denominated in Philippine Peso, its functional currency.

Credit Risks

Credit risk refers to the potential loss arising from any failure by counterparties to fulfill their obligation, as and when they fall due.

Credit risk limit is also used to manage credit exposure which specifies exposure credit limit for each intermediary depending on the size of its portfolio and its ability to meet its obligation based on past experience.

Key areas where the Company is exposed to credit risk are:

- Reinsurer's share of insurance premiums.
- Amounts due from reinsurer's in respect of claims already paid.
- Amounts due from insurance contract holders, and insurance intermediaries.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to an annual or more frequent review.

Limits on the level of credit risk by category and territory are approved quarterly by the reinsurance department. Reinsurance is used to manage insurance risk. This does not however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to policyholder.

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

The table below shows the credit quality of financial assets as at December 31, 2021 and 2020:

2021	High Grade	Standard Grade	Low Grade	Gross impaired	Allowance for impairment	Total
Cash and cash equivalents	82,024,532	-	-	-	-	82,024,532
Insurance receivable	63,839,211	33,882,308	114,733,425	3,745,805	(3,745,805)	212,454,944
Financial asset at FVPL	972,506,230	-	-	-	-	972,506,230
Financial asset at FVOCI	-	-	1,026,266	-	-	1,026,266
Financial asset at amortized cost	228,818,607	-	-	-	-	228,818,607
	1,347,188,581	33,882,308	115,759,691	3,745,805	(3,745,805)	1,496,830,580
2020	High Grade	Standard Grade	Low Grade	Gross impaired	Allowance for impairment	Total
Cash and cash equivalents	69,288,657	-	-	-	-	69,288,657
Insurance receivable	65,953,800	17,595,867	112,363,575	3,745,805	(3,745,805)	195,913,242
Financial asset at FVPL	972,340,807	-	-	-	-	972,340,807
Financial asset at FVOCI	-	-	1,143,446	-	-	1,143,446
Financial asset at amortized cost	229,513,674	-	-	-	-	229,513,674
	1,337,096,938	17,595,867	113,507,021	3,745,805	(3,745,805)	1,468,199,826

High grade receivables pertain to receivables with high collectivity, standard and low grade receivables consists of receivable with delay in payments. High grade Financial Asset at FVPL and Financial Asset at amortized cost consist of government bonds and investment in quoted equities and low grade Financial Asset at OCI consists of investment in unquoted equity shares.

As of December 31, 2021 and 2020, the carrying amount of insurance receivables represents the maximum credit exposures, which is aged as follows:

	Premium due and uncollected	Reinsurance recoverable on losses	Due from ceding companies and reinsurer	Total
2021				
Current	11,182,640	52,415,055	241,516	63,839,211
30 days past due not over 90 days	17,241,394	-	8,744,702	25,986,096
90 days past due not over 120 days	5,466,892	-	2,429,320	7,896,212
Over 120 days	71,863,253	-	42,870,172	114,733,425
Total	105,754,179	52,415,055	54,285,709	212,454,944
2020				
Current	8,567,665	55,922,531	1,463,604	65,953,800
30 days past due not over 90 days	13,014,526	-	667,827	13,682,352
90 days past due not over 120 days	3,496,054	-	417,461	3,913,515
Over 120 days	68,280,950	-	44,082,625	112,363,575
Total	93,359,194	55,922,531	46,631,517	195,913,242

Liquidity Risks

Liquidity risks or funding risks are the risks that the Company will encounter in raising funds to meet its commitments and obligations. Liquidity risks may result from difficulty in collections or inability to generate cash inflows as anticipated.

The Company's objective in managing its profile is:

- to ensure that adequate funding is available at all times;
- to meet commitments as they arise without incurring unnecessary cost;
- to be able to access funding when needed at the least possible cost;
- to regularly monitor and evaluate its projected cash flow

The Company's financial liabilities have contractual maturities with one (1) year as follows:

	2021	2020
Insurance liabilities	217,346,195	183,932,170
Accounts and other payables	17,621,006	19,971,628
	234,967,201	203,903,798

5. Categories of Fair Values of Financial Assets and Liabilities

Comparison of Carrying Values and Fair Values

The carrying values and fair values of the categories of financial assets and liabilities presented in the statements of financial position are shown below:

	2021		2020	
	Carrying values	Fair values	Carrying values	Fair values
Financial assets				
Loans and receivables				
Cash and cash equivalents	82,024,532	82,024,532	69,288,657	69,288,657
Other assets	17,233,288	17,233,288	17,198,547	17,198,547
Financial asset at FVPL	972,506,230	972,506,230	972,340,807	972,340,807
Financial asset at FVOCI	1,026,266	1,026,266	1,143,446	1,143,446
Financial asset at amortized cost	228,818,607	228,818,607	229,513,674	229,513,674
Other financial asset				
Insurance receivable	212,454,944	212,454,944	195,913,242	195,913,242
	1,514,063,866	1,514,063,866	1,485,398,373	1,485,398,373
Other financial liabilities				
Insurance liabilities	217,346,195	217,346,195	183,932,170	183,932,170
Accounts and other payables	17,621,006	17,621,006	19,971,628	19,971,628
	234,967,201	234,967,201	203,903,798	203,903,798

Because of their short period, management considers the carrying amounts recognized in the statement of financial position to be reasonable estimates of the fair values of cash and cash equivalents, insurance receivables, other assets, insurance liabilities and accounts and other payables.

The fair values of financial asset at FVPL financial asset at amortized cost are based on the quoted market price in the PSE for quoted shares while the unquoted shares are carried at carrying amount which approximate its fair value as at December 31, 2021 and 2020.

Fair Value Hierarchy Measurement

The table below presents the hierarchy of fair value measurements used by the Company:

	Level 1	Level 2	Level 3	Total
December 31, 2021				
Financial Asset at FVPL	-	972,506,230	-	972,506,230
Financial Asset at OCI	-	-	1,026,266	1,026,266
Financial Asset at amortized cost	-	228,818,607	-	228,818,607
December 31, 2020				
Financial Asset at FVPL	-	972,340,807	-	972,340,807
Financial Asset at OCI	-	-	1,143,446	1,143,446
Financial Asset at amortized cost	-	229,513,674	-	229,513,674

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (e.g. as prices) or indirectly (e.g. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable input).

There were no transfers of financial instruments between level 1, 2 and 3 during 2021 and 2020.

6. Capital Management Objectives, Policies and Procedures

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Company's activities.

Required Minimum Net Worth

Externally imposed capital requirements are set and regulated by the Insurance Commission (IC). The requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximize shareholders value.

On August 15, 2013, the IC approved the amendment of Republic Act No. 10607 known as "The Insurance Code" and was issued on August 22, 2013. The amended Insurance Code provides the required minimum Net Worth for non-life insurance companies doing business in the Philippines.

The required minimum Net Worth is as follows:

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

At the meetings held on September 4, 2018 and December 26, 2019, the Corporation's Board of Directors by majority vote and the stockholders' affirmative vote of at least two thirds (2/3) of the outstanding capital stock, respectively, approved the increase in capital stock of the Corporation from Eight Hundred Million Pesos (P800,000,000.00) divided into Two Million (2,000,000) shares with a par value of Four Hundred Pesos (P400) per share to One Billion Four Hundred Fifty Million Pesos (P1,450,000,000.00) divided into Three Million Six Hundred Twenty Five Thousand (3,625,000) shares with a par value of Four Hundred Pesos (P400) per share.

The increase in capital stock was approved by the SEC on December 4, 2020.

As of December 31, 2021 and 2020, the Company is in compliance with the required Net worth as provided in "The Insurance Code".

Inadmissible Assets

In any determination of a financial condition of any insurance company, there shall be allowed and admitted as assets only such assets legally or beneficially owned by the insurance company as determined by the Commissioner. The following assets shall in no case be allowed as admitted assets of an insurance company:

1. Goodwill, trade names, and other like intangible assets;
2. Prepaid or deferred charges for expenses and commissions paid by such insurance company;

3. Advances from officers which are not adequately secured and which are not previously allowed by the Commissioner, as well as advances to employees, agents and other persons on mere personal security;
4. Shares of stock of such insurance company, owned by it, or an equity therein; as well as loans secured thereby;
5. Furniture, furnishing, fixtures, safes, equipment, library, stationery, literature and supplies;
6. Items of bank credits representing checks, drafts, or notes returned unpaid after the date of settlement;
7. 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 Insurance Code and/or rules of the Commissioner; and
8. Any asset, as the Commissioner from time to time determine to be non-admitted assets

The inadmissible assets of the Company as at December 31, 2021 and 2020 include the following:

	Note	2021	2020
Furniture, fixtures and office equipment, net	10	1,628,543	1,628,140
Deferred acquisition costs	11	13,467,661	11,120,367
Other assets, net of accrued investment income	13	9,814,889	8,807,078
Deferred tax assets	24	25,522,941	21,013,956
		50,434,033	42,569,541

Capital Management Objectives

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company monitors capital on the basis of the carrying amount of equity as presented on the face of the Statement of financial position. Capital for the reporting periods under review is summarized as follows:

	2021	2020
Total liabilities	241,455,565	211,434,315
Total equity	1,376,980,467	1,362,830,511
Debt to equity ratio	0.18	0.16

The Company sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue new shares.

7. Cash and Cash Equivalents

This account consists of:

	2021	2020
Cash on hand	20,000	20,000
Cash in banks	14,482,670	20,647,747
Cash equivalents	67,521,862	48,620,910
Total	82,024,532	69,288,657

Cash in banks are interest bearing account balances maintained in various banks of the Company. These generally earn interest at rates based on daily bank deposit rates ranging from 0.1% to 0.15% for the year ended December 31, 2021 and 2020.

Cash equivalents are short-term special deposits which are placed for varying periods depending on the immediate requirements of the Company, earn interest at rate ranging from 1.50% to 3.60% in 2021 and 2020. Interest earned from cash and cash equivalents amounted to P171,117 in 2021 and P2,364,053 in 2020. (Note 20)

8. Insurance Receivables

This account consists of the following:

	2021	2020
Premiums due and uncollected	105,754,179	93,359,194
Due from ceding companies and reinsurers	54,349,847	50,377,322
Less: Allowance for impairment losses	3,745,805	3,745,805
	50,604,042	46,631,517
Reinsurance recoverable on losses	52,415,055	55,922,531
Funds withheld by ceding company	3,681,668	-
Total	212,454,944	195,913,242

Premiums due and uncollected is net of commission payable amounting to P19,842,757 in 2021 and P19,300,835 in 2020. The amounts due from ceding companies and reinsurers pertain to assumed premiums. No additional provision for impairment losses was recognized for 2021 and 2020.

Allowance for impairment losses includes receivable from suspended companies in 2021 and 2020.

9. Financial Assets

Financial assets with quoted prices are measured at fair value while unquoted financial assets are carried at cost. The difference between the acquisition cost and the fair value is reflected as deduction to equity. Investment in bond which management intends to hold until maturity is measured at amortized cost which approximates its fair value.

	2021	2020
Investment in stock - financial asset at FVOCI		
Quoted equity shares	1,004,400	1,121,580
Unquoted equity shares	21,866	21,866
Investment in government bonds		
Financial asset at FVPL	972,506,230	972,340,807
Financial asset at amortized cost	228,818,607	229,513,674
Balance, December 31	1,202,351,103	1,202,997,927

Investment in government bonds has a term ranging from one (1) to twenty-five (25) years earned an interest rates ranging from 2.38% to 6.38% in 2021 and 2020. Interest earned from government bonds amounted to P46,033,104 in 2021 and P49,368,190 in 2020. (Note 20).

Movement of financial assets is as follows:

	2021	2020
Investment in government bonds		
Financial asset at FVPL		
January 1	972,340,807	391,232,923
Acquired/ (Matured)	(2,795,076)	664,513,229
Amortization on discount	3,850,440	7,998,443
Amortization on premium	(889,940)	(955,428)
Reclassified as FA at amortized cost	-	(87,500,000)
Reclassified to other asset	-	(2,948,360)
December 31	972,506,230	972,340,807
Financial asset at amortized cost		
Face Value	225,000,000	137,500,000
Amortization on discount	5,035,014	6,024,560
Amortization on premium	(1,216,407)	(1,510,886)
Reclassified to other asset	-	87,500,000
December 31	228,818,607	229,513,674
Investment in stock - Financial asset at FVOCI		
January 1	1,143,446	1,411,286
Fair value adjustment	(117,180)	(267,840)
December 31	1,026,266	1,143,446
Total	1,202,351,103	1,202,997,927

The maturity profile of investment in government bonds is as follows:

	2021	2020
Financial asset at FVPL		
Due within one year	249,645,325	360,292,384
Due beyond one year	722,860,905	612,048,422
Financial asset at amortized cost		
Due within one year	20,028,097	-
Due beyond one year	208,790,509	229,513,674
Balance, December 31	1,201,324,837	1,201,854,480

The movement of revaluation reserve on financial asset at FVOCI is as follows:

	2021	2020
Balance, January 1	(451,980)	(184,140)
Fair value adjustment	(117,180)	(267,840)
Balance, December 31	(569,160)	(451,980)

10. Property and Equipment, Net

The details of this account follow:

	Office premises and improvements	Furnitures and office equipment	Transportation equipment	Total
<u>Cost</u>				
Balance, December 31, 2019	65,723,630	14,748,512	2,301,554	82,773,696
Additions	-	710,761	-	710,761
Balance, December 31, 2020	65,723,630	15,459,273	2,301,554	83,484,457
Additions	-	560,660	-	560,660
Balance, December 31, 2021	65,723,630	16,019,933	2,301,554	84,045,117
<u>Accumulated depreciation</u>				
Balance, December 31, 2019	30,242,112	13,399,305	2,213,507	45,854,924
Depreciation expense	1,970,068	431,828	18,375	2,420,271
Balance, December 31, 2020	32,212,180	13,831,133	2,231,882	48,275,195
Depreciation expense	1,970,069	560,257	18,375	2,548,701
Balance, December 31, 2021	34,182,248	14,391,391	2,250,257	50,823,896
<u>Net book value</u>				
December 31, 2021	31,541,382	1,628,542	51,297	33,221,221
December 31, 2020	33,511,450	1,628,140	69,672	35,209,262

In December 2012, the Company obtained the services of an appraisal company accredited by the Insurance Commission, to appraise the value of the office premises in 15th floor of Citibank building, Makati City, Philippines, consisting of an office condominium unit and three parking lots. The appraisal of the particular property has been coordinated with and approved for recording by the Insurance Commission. The appraisal increase was recorded at P20,827,014. The recorded cost of office premises and improvements is P44,216,286, as at December 31, 2012. Depreciation on the revaluation increment in property amounted to P833,081 both in 2021 and 2020. The balance of the revaluation increment in property amounted to P13,329,289 and P14,162,369 in 2021 and 2020, respectively.

As of December 31, 2021 and 2020, the following are fully depreciated properties that are still in use.

2021	Cost	Accumulated Depreciation
Office premises and improvements	680,330	680,330
Furnitures and office equipment	3,775,136	3,775,136
Transportation/computer equipment	11,256,241	11,256,241
Total	15,711,707	15,711,707

2020	Cost	Accumulated Depreciation
Office premises and improvements	680,330	680,330
Furnitures and office equipment	3,720,278	3,720,278
Transportation/computer equipment	11,256,241	11,256,241
Total	15,656,849	15,656,849

11. Deferred Acquisition Cost

Movement of this account is as follows:

	2021	2020
Balance, January 1	11,120,367	1,377,444
Released during the year	(11,120,367)	(1,377,444)
Deferred commission expense	19,089,728	13,604,470
Unearned commission income	(5,622,067)	(2,484,103)
Balance, December 31	13,467,661	11,120,367

12. Deferred Reinsurance Premium

Movement of this account are as follows:

	2021	2020
Balance, January 1	21,522,868	19,032,167
Ceded during the year	57,246,050	48,520,651
Amortized during the year	(46,608,576)	(46,029,950)
Balance, December 31	32,160,342	21,522,868

13. Other Assets

This account consists of:

	2021	2020
Accrued investment income	7,418,399	8,391,469
Cash/ Investment under garnishment	3,818,016	3,818,016
Advances and other assets	3,292,010	3,152,277
Utility and other deposits	2,704,863	1,836,785
Total	17,233,288	17,198,547

Cash under garnishment refers to cash on hold by the National Labor Regulations Commission (NLRC). The cash was garnished due to order issued by NLRC on alleged counterfeited bonds issued by perpetrator.

Advances and other assets represent cash provided to employees, agents, brokers and third party suppliers of goods and services and prepaid taxes.

14. Insurance Liabilities

This account consists of:

	2021	2020
Reserve for unearned premiums	78,033,991	53,826,000
Claims payable	74,581,137	70,736,375
Due to reinsurers and ceding companies	63,912,011	58,550,739
Funds held for reinsurers	819,056	819,056
Total	217,346,195	183,932,170

Movement of reserve for unearned premiums is as follows:

	2021	2020
Balance, January 1	53,826,000	24,873,164
New policies written during the year	150,763,408	93,189,987
Premiums earned during the year	(126,555,417)	(64,237,151)
Balance, December 31	78,033,991	53,826,000

Claims payable consists of the estimated liability for reported claims, accrual of estimated losses incurred but not reported (IBNR).

	2021	2020
Claims reported and loss adjustment expenses	61,452,833	60,468,183
Provision for MFAD	6,953,150	6,908,192
Provision for IBNR	5,203,157	2,509,000
Provision for claims handling expense	971,997	851,000
Total	74,581,137	70,736,375

15. Accounts and Other Payables

	2021	2020
Accounts payable	15,373,803	17,071,150
Taxes payable	981,258	1,591,197
Documentary stamp tax payable	1,101,590	1,108,266
Others	164,355	201,015
Total	17,621,006	19,971,628

Accounts payable are payables to non-trade suppliers of goods and services, deferred VAT and accrued utilities.

16. Equity

The details of the Company's capital stock are shown below:

	2021	2020
Common stocks - P400 par value		
Authorized capital stock:		
3,625,000 shares	<u>P1,450,000,000</u>	
Paid up, January 1:		
3,326,143 shares ; 1,776,143 shares	1,330,457,200	710,457,200
Additional capital stock,		
1,550,000 shares	-	620,000,000
Total paid up, December 31	1,330,457,200	1,330,457,200
Less: Treasury shares, 1,143 shares	457,200	457,200
Issued and outstanding, December 31	1,330,000,000	1,330,000,000

As of December 31, 2021, the Company's total issued and outstanding share capital is owned by fifty two (52) shareholders, eighteen (18) of which own 100 or more shares each.

At the meetings held on September 4, 2018 and December 26, 2019, the Corporation's Board of Directors by majority vote and the stockholders' affirmative vote of at least two thirds (2/3) of the outstanding capital stock, respectively, approved the increase in capital stock of the Corporation from Eight Hundred Million Pesos (P800,000,000.00) divided into Two Million (2,000,000) shares with a par value of Four Hundred Pesos (P400) per share to One Billion Four Hundred Fifty Million Pesos (P1,450,000,000.00) divided into Three Million Six Hundred Twenty Five Thousand (3,625,000) shares with a par value of Four Hundred Pesos (P400) per share.

The increase of capital stock was approved by the SEC on December 4, 2020.

The deposit for the increase in capital stock, received from Shriram General Insurance Company Limited (SGICL) was made through cash amounting to Philippine Peso Six Hundred Twenty-Three Million Eight Hundred Thirty-One Thousand Three Hundred and Ninety-Five and Cents Eighty-Nine only (P623,831,395.89) and was received in December 2019.

The transaction was recognized as a liability in the statement of financial position under the account Advances from Stockholders. The amount was not treated as part of equity since the SEC in its Financial Reporting Bulletin (FRB) No. 6-2012, as amended, has detailed specific requirements for deposits for future subscriptions to be treated as equity. According to the FRB:

“...an entity shall classify a contract to deliver its own equity instruments under equity as a separate account (e.g., Deposit for Future Stock Subscription) from "Outstanding Capital Stock" if and only if, all of the following elements are present as of end of the reporting period:

- “1) The unissued authorized capital of the entity is insufficient to cover the amount of shares indicated in the contract;
- 2) There is Board of Directors' approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);
- 3) There is stockholders' approval of said proposed increase; and
- 4) The application for the approval of the proposed increase has been presented for filing or has been filed with the Commission.”

As of December 31, 2019, the proposed increase has not yet been presented for filing with the SEC, so the cash infusion from the stockholders has not qualified as an account under equity, and has been classified as a liability in that year.

The Company, in its letter dated January 10, 2020, informed the IC about the increase in Authorized Capital Stock. On February 11, 2020, the Company received a letter, dated January 24, 2020, from the IC requiring the Company to submit certain documents for which the Company subsequently submitted all requirements to the IC on February 28, 2020. On February 17, 2020, the IC published on its website a press release commending the Company for its early compliance with the P1.3 billion capital requirement which is not due until the end of 2022. The IC lauded the Company for its early compliance with the net worth requirement. In March 2020, the IC conducted a site visit of the Company to verify the capital infusion relative to the increase in authorized capital stock of the Company. Notwithstanding the requirements of the SEC for the recognition of the capital infusion as an equity account, the IC has acknowledged the Company’s compliance with the required net worth.

Share premium amounted to P14,912,155 both in 2021 and 2020.

Treasury shares amounted to P457,200 both in 2021 and 2020.

Deposits for future subscription amounted to nil in 2021 and P3,831,396 in 2020. Deposit for future subscription pertains to the payments received from stockholders. In 2021, the amount of P3,831,396 was returned to SGICL.

Adjustments to retained earnings follow:

	Notes	2021	2020
Expired NOLCO	24	3,719,988	11,901,103
Expired excess MCIT	24	196,230	-
		3,916,218	11,901,103

17. Actuarial Gains on Retirement Benefit Liability, Net

Movement of this account is as follows:

	2021	2020
Balance, January 1	185,853	185,853
Adjustment due to changes of tax rates	13,275	-
Actuarial gain during the year	1,882,022	-
Balance, December 31	2,081,150	185,853

18. Gross Underwriting Income

The account consists of:

	2021	2020
Premiums written	112,509,202	83,569,360
Premiums assumed	38,254,205	9,620,627
Gross premium written	150,763,407	93,189,987
Reinsurance premium ceded	(57,246,050)	(48,520,651)
Net premium retained	93,517,357	44,669,336
Increase in unearned premium	(13,570,516)	(26,462,135)
Commissions earned	4,752,135	6,477,973
Balance, December 31	84,698,976	24,685,174

19. Underwriting Expenses

The account consists of:

	2021	2020
Commissions	33,191,200	13,995,486
Claims and losses, net	25,791,721	1,522,825
Other underwriting expense	9,758,003	2,016,804
As of December 31	68,740,924	17,535,115

20. Other Income

The breakdown of other income is as follows:

	Notes	2021	2020
Interest income, net of amortization	7,9	46,204,221	51,732,243
Foreign exchange gain		41,053	1,897,359
Miscellaneous		1,501	3,533
Total		46,246,775	53,633,135

21. Other Expenses

The breakdown of other expenses is as follows:

	Notes	2021	2020
General and administrative expenses			
Salaries, wages and employee benefits		23,866,125	20,232,355
Association and pool dues		4,936,743	2,513,677
Rent	23	2,100,523	1,627,506
Depreciation expense	10	1,715,623	1,587,191
Taxes and licenses		1,660,932	391,430
Retirement expense	22	1,436,404	1,411,340
Travel and transportation		1,358,407	403,971
Professional fees		893,188	853,683
Utilities		857,481	758,971
Communication		631,354	553,770
Supplies		561,123	489,619
Repairs, maintenance and janitorial services		347,756	207,402
Christmas party/ Anniversary expenses		235,970	926,593
Representation		207,588	169,815
Insurance		28,204	44,376
Promotion, advertising and networking		25,245	13,500
Books and Subscription		7,156	-
Donation		5,000	20,000
Training and seminar		4,300	6,000
Miscellaneous		210,198	307,156
Total general and administrative expenses		41,089,321	32,518,354
Interest expense		47,880	-
Total expenses		41,137,201	32,518,354

Details of salaries, wages and other benefits are as follows:

	2021	2020
Salaries and wages	20,542,668	17,363,920
Employees' benefits	3,323,457	2,868,435
Total	23,866,125	20,232,355

22. Retirement Benefits Plan

The Company has a funded, non-contributory defined benefit type of retirement plan covering substantially all of its employees. The benefits normal retirement is equal to 125% of the final compensation as of the date of retirement multiplied by years of service.

Actuarial valuations are made at least every two years applying the accrued actuarial cost method (Projected Unit Credit) taking into account the factors of interest, mortality, disability and salary projection rates. The Company's annual contributions to the defined benefit plan consist principally of payments covering the current service cost for the year and the required funding relative to the guaranteed minimum benefits as applicable.

The assumptions used in determining retirement benefit liability for the Company are as follows:

	2021	2020
Present value of the obligation	3,388,289	4,472,236
Fair value of plan assets	(266,840)	(277,828)
Underfunded obligation	3,121,449	4,194,408
Liability to be recognized in the Statement of financial position	3,121,449	4,194,408

The movements of present value of the retirement benefit liability recognized in the books are as follows:

	2021	2020
Balance, January 1	4,472,236	3,047,138
Interest cost	233,003	158,756
Current service cost	1,217,876	1,266,342
Actuarial (gain)/loss on;		
Changes in financial assumptions	65,104	-
Changes in demographic assumptions	(2,714)	-
Experience	(2,597,216)	-
Balance, December 31	3,388,289	4,472,236

The movements of fair value of plan assets are as follows:

	2021	2020
Balance, January 1	277,828	264,070
Interest income	14,475	13,758
Remeasurement loss	(25,463)	-
Balance, December 31	266,840	277,828

The Company's actual return on plan assets is as follows:

	2021	2020
Interest income	14,475	13,758
Remeasurement loss	(25,463)	-
Balance, December 31	(10,988)	13,758

The amounts of retirement benefits expense recognized in the Statements of comprehensive income are as follows:

	2021	2020
Current service cost	1,217,876	1,266,342
Interest cost	233,003	158,756
Interest income on plan assets	(14,475)	(13,758)
Expense recognized during the year	1,436,404	1,411,340

Defined benefit cost recognized in other comprehensive income (OCI):

	2021	2020
Accumulated other comprehensive income, January 1	(265,504)	(265,504)
Actuarial gain - DBO	(2,534,826)	-
Remeasurement loss - plan assets	25,463	-
Remeasurement (gain)/loss - changes in the effect of the asset ceiling	-	-
Defined benefit cost in OCI - income	(2,509,363)	-
Accumulated other comprehensive income, ending	(2,774,867)	(265,504)

For the determination of the movement of the retirement benefits liability, the following actuarial assumptions were used:

	2021	2020
Discount rate	5.07%	5.21%
Salary increase rate	5.00%	5.00%

Sensitivity analysis as follows:

Decrease in DBO due to 100 bps increase in discount rate	(426,065)	; (12.6%)
Increase in DBO due to 100 bps decrease in discount rate	526,130	; 15.5%
Increase in DBO due to 100 bps increase in salary increase rate	521,001	; 15.4%
Decrease in DBO due to 100 bps decrease in salary decrease	(430,006)	; (12.7%)
Increase in DBO, no attrition rates	486,193	; 14.3%

Expected future benefit payments as follows:

Financial year	
2022	806,941
2023	27,516
2024	37,519
2025	49,832
2026	569,808
2027 - 2031	3,703,653

Allocation of plan assets as follows:

Financial year	
Cash and cash equivalents	1.74%
Unit investment trust fund	35.38%
Debt instruments - government bonds	62.18%
Other (Market gains/losses, accrued receivables, etc.)	0.70%
Total	100.00%

Weighted average duration of the retirement benefits liability is 14.1 as of December 31, 2021.

23. Lease Commitments

The Company is a lessee under cancellable operating leases. The future minimum rentals payable under this cancellable operating lease are as follows:

	2021	2020
Within one year	668,750	700,750
More than one year but less than five years		
Total	668,750	700,750

Total rental expense charged to operations amounted to P2,100,523 in 2021 and P1,627,506 in 2020. (Note 21)

24. Income Taxes

Corporate income tax rate – 25% in 2021; 30% in 2020

The income tax expense consists of the following:

	2021	2020
Current:		
Regular corporate income tax	-	-
Final tax on interest income	8,851,317	8,873,554
Deferred:		
NOLCO	(3,107,272)	(1,601,055)
Deferred acquisition cost	586,823	2,922,877
Reserve for unearned premium	(8,077,654)	(7,938,641)
Retirement benefit expense	(359,101)	(423,402)
Adjustments due to changes in tax rates	2,220,980	-
Income tax expense	115,093	1,833,333

A reconciliation of tax on pretax income computed at the applicable statutory rates to income tax expense as reported in the income statements is as follows:

	2021	2020
Tax on pretax income at prevailing rate	5,266,907	8,479,452
Adjustments for items subject to lower tax rates:		
Interest income	(2,699,738)	(6,646,118)
Tax effect on:		
Non-deductible expenses	3,763,700	-
Non-taxable income	(586,824)	-
Deferred items	(7,849,932)	-
Adjustments due to changes in tax rates	2,220,980	-
Income tax expense	115,093	1,833,333

Deferred Income Tax Assets

Components of the Company's deferred income tax (DTA) assets account are as follows:

	2021	2020
Allowance for reinsurance receivable	936,452	1,123,741
Reserve for unearned premium	11,468,412	4,068,910
NOLCO	11,550,073	13,851,349
MCIT	787,641	711,633
Retirement benefits obligation	780,362	1,258,322
Total	25,522,941	21,013,956

Validity of NOLCO as follows:

Year incurred	Validity	Amount	Expired in the current year	Applied in the previous year	Balance
2021	2026	12,429,089	-	-	12,429,089
2020	2025	5,336,852	-	-	5,336,852
2019	2022	28,434,352	-	-	28,434,352
2018	2021	12,399,960	12,399,960	-	-
		58,600,253	12,399,960	-	46,200,293

As provided by BIR Revenue Regulations No. 25-2020 (Section 4) dated September 30, 2020, the business or enterprise which incurred net operating loss for taxable years 2020 and 2021 shall be allowed to carry over the same as a deduction from its gross income for the next five (5) consecutive taxable years immediately following the year of such loss. The net operating loss for said taxable years may be carried over as a deduction even after the expiration of RA No. 11494 provided the same are claimed within the next five (5) consecutive taxable years immediately following the year of such loss.

CREATE Act

On March 26, 2021, the Republic Act (RA) 11534, known as "The Corporate Recovery or Tax incentives for Enterprises Act" (Create Act), was passed into law. The salient provisions of the Create Act applicable to the Company are as follow:

1. Effective July 1, 2020, the corporate income tax rate is reduced from 30% to 20% for domestic corporations with net taxable income not exceeding P5,000,000 and with total assets not exceeding P100,000,000, excluding land on which the particular business entity's office, plant, and equipment are situated during the taxable year for which the tax is imposed at 20%. All other domestic corporations and resident foreign corporations will be subject to 25% income tax;
2. Minimum corporate income tax (MCIT) rate reduced from 2% to 1% effective July 1, 2020, to June 30, 2023;
3. Percentage tax reduced from 3% to 1% effective July 1, 2020, to June 30, 2023; and
4. The imposition of improperly accumulated earnings is repealed.

Using the above applicable rates, the Company used 27.5% (RCIT) and 1.5% (MCIT) in computing its income tax for tax filing purposes in 2020.

Considering that the CREATE law was not yet enacted or substantially enacted as of December 31, 2020, the same was treated in the financial statements as a non-adjusting event. Accordingly, the tax rates used in the income tax return were different from the rate used in the Company's 2020 financial statements which remained at 30%.

Validity of MCIT as follows:

Year incurred	Validity	Amount	Applied	Expired	Balance
2018	2021	196,230	-	196,230	-
2020	2023	515,403	-	-	515,403
2021	2024	272,238	-	-	272,238
		983,871	-	196,230	787,641

Deferred Income Tax Liability

Components of deferred income tax liability are as follows:

	2021	2020
Deferred acquisition cost	3,366,915	3,336,109

25. Earnings Per Common Share

	2021	2020
Profit for the year	20,952,533	26,431,507
Weighted average number of common shares	3,325,000	1,904,167
As of December 31	6.30	13.88

26. Related Party Transactions

In the ordinary course of trade or business, the Company has transaction with related parties. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influences.

Key Management Personnel Compensation

The key management compensation consists of salaries, allowances and employee benefits amounting P11,290,091 and P10,557,458 in 2021 and 2020, respectively.

Defined Benefits Plan

The Company has a significant influence over the funding and management of the Company's plan assets. The outstanding amount of the plan assets amounts to P266,840 in 2021 and P277,828 in 2020. The Company paid no benefits from plan assets both in 2021 and 2020. No contribution was made both in 2021 and 2020.

27. Effect of COVID 19 Pandemic to Operations

The Philippines is currently experiencing a pandemic due to the novel coronavirus (COVID-19). The rapid spread of the disease has forced the Philippine Government to declare a state of calamity throughout the country which resulted in the imposition of an Enhanced Community Quarantine (ECQ) throughout Luzon starting midnight of March 16, 2020 until May 15, 2020. As of December 31, 2021, the National Capital Region (NCR) is under Alert Level 2 with certain business and industry restrictions.

This event, as at December 31, 2021, has not significantly and not materially affected the Company because the operation still continued during the pandemic.

As of report date, the Covid19 pandemic continues to disrupt businesses and economic activities with continued rounds of quarantine restrictions in the NCR and other regions. This event may continue to affect Company operations and performance.

28. Approval of Financial Statements

The financial statements were approved and authorized for issuance by the Board of Directors through the Company's President, Mr. Farhat Hussain on_____.

Reissuance of 2020 Financial Statements

The Company has incurred an error in the presentation of its statements of cash flows for the year ended December 31, 2020 as approved by the Board of Directors through the Company's President, Mr. Farhat Hussain on April 12, 2021.

In its statements of cash flows for 2020, non-cash transactions were included as part of the cash flows from operating activities and cash flows from investing activities in the amount of P623,831,396. The amount represents 94.91% understatement of cash flows from operating activities and more than 100% overstatement of cash flows from investing activities, and are material in the appreciation of the financial statements as a whole. The statements of cash flows and related notes were amended to conform with the provisions of PAS 7 Statement of Cash Flows including the reclassification of decrease in share premium from investing to financing activities. The reissued financial statements removed the non-cash transactions from the statements of cash flows, corrected classifications and included relevant supplementary disclosure (Note 30). No others changes or amendments were made on the reissuance of financial statements.

The amended financial statements were approved and authorized for reissuance by the Board of Directors through the Company's President, Mr. Farhat Hussain on February 28, 2022.

29. Supplementary Information Required by the Bureau of Internal Revenue

Revenue Regulations No. 15-2010 issued by the Bureau of Internal Revenue requires, in addition to the disclosures mandated under the Philippine Financial Reporting Standards, and such other standards and/or conventions as may heretofore be adopted, the Notes to Financial Statements to include information on taxes, duties and license fees paid or accrued during the taxable year, as follows:

Output VAT

Details of the Company's output VAT declared are as follows:

	VATable	VAT - Zero-rated	VAT - exempt	2021	2020
Vatable receipts	98,725,040	3,110,953	4,984,729	106,820,722	63,220,183
Output VAT rate	12%	0%	-	12%/0%	12%/0%
Total	11,847,005	-	-	11,847,005	7,224,673

Input VAT

Details of the Company's input VAT claimed are as follows:

	2021	2020
Balance, January 1	-	-
Add: Current year's domestic purchases/payments for:		
Purchase of services	6,802,502	2,741,030
Purchase of capital goods and domestic purchases of goods other than capital goods	-	-
Total available input VAT	6,802,502	2,741,030

Documentary Stamp Tax (DST)

The DST paid/accrued during the reporting period was 13,852,401 in 2021 and P9,995,957 in 2020 for insurance of policies.

DST paid on issuance of shares amounting to P6,200,000 in 2020.

Other Taxes and Licenses

	OR No.	2021	2020
Business permits	-	263,477	72,113
Other licenses and various	various	1,397,455	308,817
Community tax	-	-	10,500
Total per Statement of Comprehensive Income		1,660,932	391,430

Withholding Taxes

The amount of withholding taxes paid/accrued for the taxable year 2021 amounted to:

	2021	2020
Tax withheld by the company on:		
Compensation	2,787,858	2,574,142
Expanded	4,072,628	2,061,073
Final	13,748	-
Total	4,086,376	4,635,215

Taxes on Importation of Goods

The Company has no importation of goods, hence, no taxes were paid during the reporting period.

Excise Tax

The Company has no excise tax paid during the reporting period.

Others

As of the year ended December 31, 2021, the Company received a Letter of Authority from the BIR covering 2018 taxes. The examination of the 2018 accounts of the Company is still ongoing as of reporting date.

30. Supplementary Disclosure Arising from Non-cash Transactions from Investing and Financing Activities

Non-cash transactions in the statements of cash flows include the transfer from the liability to the equity account broken down as follows:

	ACCOUNT	2020
Transfer from Liabilities	Advances from stockholders	(623,831,396)
Transfer to Equity	Common stock	620,000,000
	Deposit for future subscription	3,831,396
Total non-cash transfer		623,831.396

Actual cash inflow of P623,831,396 occurred in 2019 which was lodged under Advances from stockholders, a short-term liability as the purpose of which was for the capital increase of SGI Philippines, and was eventually transferred out of the liability account in 2020. (See Note 16)

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